LITHIA MOTORS INC

FORM 10-K
(Annual Report)

Filed 03/31/98 for the Period Ending 12/31/97

Address	150 NORTH BARTLETT STREET
	MEDFORD, OR 97501
Telephone	541-776-6401
CIK	0001023128
Symbol	LAD
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Industry	Auto Vehicles, Parts & Service Retailers
Sector	Consumer Cyclicals
Fiscal Year	12/31

LITHIA MOTORS INC

FORM 10-K
(Annual Report)

Filed 3/31/1998 For Period Ending 12/31/1997

Address	360 E JACKSON ST
	MEDFORD, Oregon 97501
Telephone	541-776-6899
CIK	0001023128
Industry	Retail (Specialty)
Sector	Services
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended: December 31, 1997
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 000-21789

LITHIA MOTORS, INC.

(Exact name of registrant as specified in its charter)

OREGON	93-0572810
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
360 E. JACKSON STREET, MEDFORD, OREGON	97501
(Address of principal executive offices)	(Zip Code)

541-776-6899
(Registrant's telephone number including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

CLASS A COMMON STOCK, WITHOUT PAR VALUE
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the Registrant is $22,921,600 as of February 27, 1998 based upon the last sales price ($16.00) as reported by the Nasdaq National Market System.

The number of shares outstanding of the Registrant's Common Stock as of February 27, 1998 was: Class A: 2,925,550 shares and Class B: 4,110,000 shares.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant has incorporated into Part III of Form 10-K, by reference, portions of its Information Statement, relating to the 1998 Annual Meeting of Shareholders.

LITHIA MOTORS, INC.
1997 FORM 10-K ANNUAL REPORT
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PART I

ITEM 1. BUSINESS

FORWARD LOOKING STATEMENTS AND RISK FACTORS

This Form 10-K contains forward-looking statements. These statements are necessarily subject to risk and uncertainty. Actual results could differ materially from those projected in these forward looking statements. These risk factors include, but are not limited to, the cyclical nature of automobile sales, the intense competition in the automobile retail industry and the Company's ability to negotiate profitable acquisitions and secure manufacturer approvals for such acquisitions.

GENERAL

Lithia Motors is a leading automotive retailer offering a total of 21 brands in 22 locations in the western United States. The Company currently operates 12 dealerships in California, 7 in Oregon and 3 in Nevada. The Company sells new and used cars and light trucks, sells replacement parts, provides vehicle maintenance, warranty, paint and repair services, and arranges related financing and insurance for its automotive customers. Since December 1996 when the Company completed its initial public offering, Lithia has acquired 17 dealerships and is actively pursuing additional acquisitions.

In 1997, the Company generated record total sales, net income and unit sales of new and used vehicles. Total sales increased to $319.8 million in 1997 from $142.8 million in 1996, an increase of 124%. For the same period, net income increased to $6.0 million from $2.6 million (pro forma), an increase of 129%. In the fourth quarter of 1997, the Company's total sales and net income were $113.1 million and $1.9 million, respectively, representing growth of 203% and 234% compared to the same period in 1996. New vehicle unit sales increased to 7,493 in 1997 from 3,274 in 1996, an increase of 129%, and retail used vehicle unit retail sales increased from 4,156 to 7,148, an increase of 72%.

Lithia was founded in 1946 and its two senior executives have managed the Company for over 27 years. Management has developed and implemented its acquisition and operating strategies which have enabled the Company to successfully identify, acquire and integrate dealerships, achieving profitability superior to industry averages. In 1997, the Company was able to achieve a gross profit margin of 16.7% and a pre-tax margin of 3.0%, versus 12.9% and 1.5%, respectively, for the industry (latest 1996 data).

The Company intends to continue to take advantage of the consolidation opportunities in the $640 billion automotive retailing industry. According to industry data, the number of franchised automobile dealerships has declined from more than 36,000 dealerships in 1960 to approximately 22,000 in 1997. Currently, the largest 100 dealer groups generate less than 10% of total industry sales and control approximately 5% of all franchised automobile dealerships. Several economic and industry factors are expected to lead to the further consolidation of the automobile retailing industry, including increasing capital requirements necessary to operate an automobile dealership, the fact that many dealerships are owned by individuals nearing retirement age who are seeking exit opportunities, and the desire of manufacturers to strengthen their dealer networks through consolidation. The Company believes that it is well positioned to continue to capitalize on the highly fragmented and consolidating automotive retail industry.

GROWTH STRATEGY

The Company has become a leading acquiror of automobile dealerships in the western United States. The Company pursues a disciplined acquisition strategy, targeting acquisitions in certain under-dealered markets where management believes the Company has the opportunity to acquire a cluster of dealerships over time and build a significant market presence. This strategy is patterned after the Company's operations in southern Oregon where, prior to two recent acquisitions, the Company operated 5 dealerships with annual revenues approximating $135 million. The Company's current core markets are South-Central Oregon, the Northeast Bay Area and South-Central Valley regions of California, and Northern Nevada. Within these markets, the Company's evaluation of potential acquisitions takes into account a dealership's size and reputation, and the brand of vehicles sold by the dealership.

Over the last 16 months, the Company has completed the purchase of 17 dealerships with pre-acquisition annual revenues of approximately $454 million for an aggregate net investment of $48.6 million (excluding real estate purchases or borrowings on credit lines to finance acquired vehicle inventories and equipment). In addition, the Company has one pending fill-in acquisition in an existing core market. The following table sets forth certain information regarding recent acquisitions:

REGION	LOCATION	BRANDS	PRIOR-YEAR ANNUAL REVENUES (1) (MILLIONS)	DATE ACQUIRED
South-Central Oregon	Eugene, OR	Dodge, Dodge Trucks	$ 32	December 1996
	Medford, OR	Nissan, BMW	15	February 1998
Northeast Bay Area, California	Vacaville, CA	Toyota	28	December 1996
	Concord, CA	Dodge, Dodge Trucks, Isuzu	39	April 1997
	Napa, CA	Ford, Lincoln-Mercury	24	July 1997
	Concord, CA	Ford	70	August 1997
	Concord, CA	Volkswagen		August 1997
South-Central Valley, California	Bakersfield, CA	Nissan	41	October 1997
	Bakersfield, CA	BMW, Acura		October 1997
	Fresno, CA	Ford	60	December 1997
	Fresno, CA	Mazda		December 1997
	Fresno, CA	Nissan	40	January 1998
	Fresno, CA	Jeep, Hyundai		January 1998
	Bakersfield, CA	Jeep	18	March 1998
Northern Nevada	Reno, NV	Isuzu, Lincoln-Mercury, Suzuki, Audi	78	October 1997
	Sparks, NV	Isuzu, Lincoln-Mercury, Suzuki		October 1997
	Reno, NV	Volkswagen	9	February 1998
			$ 454	

(1) Revenues taken from dealer statements for the year prior to acquisition.

Based upon its current dealership locations, the percentage share of the Company's total revenues from each region is approximately: South-Central Oregon - 31%; Northeast Bay Area, California - 27%; South-Central Valley, California - 27%; and Northern Nevada - 15%.

OPERATING STRATEGY

Upon completing an acquisition, the Company installs its management information systems as soon as possible and implements its operating strategy. The Company's operating strategy consists of the following elements:

VALUE PARTNERSHIP WITH MANUFACTURERS. The Company recognizes that the manufacturers are true partners through the franchise system. They are all large well-developed companies with enormous resources committed to the franchise as the method of retailing their products. They lend support in training the Company's employees, in allocating vehicles, in designing systems for operations, in selling slower-moving inventories through incentives and rebates, and in advertising through regional and national sources. The Company relies on this help and encourages their assistance as a welcome partner. The Company cooperates in facility design, in marketing efforts, and in program support.

PROVIDE A BROAD RANGE OF PRODUCTS AND SERVICES. The Company offers a broad range of products and services including a wide selection of new and used cars and light trucks, vehicle financing and insurance and replacement parts and service. At its 22 locations, the Company offers, collectively, 21 makes of new vehicles including Dodge, Dodge Trucks, Chrysler, Plymouth, Jeep, Ford, Lincoln-Mercury, Toyota, Isuzu, Nissan, Volkswagen, Audi, Honda, Acura, Suzuki, BMW, Saturn, Pontiac, Mazda and Hyundai. In addition, the Company sells a variety of used vehicles at a broad range of prices. By offering new and used vehicles and an array of complementary services at each of its locations, the Company seeks to increase customer traffic and meet specific customer needs. The Company believes that offering numerous new vehicle brands appeals to a variety of customers, minimizes dependence on any one manufacturer and reduces its exposure to supply problems and product cycles.

FOCUS ON USED VEHICLE SALES. In addition to the sale of new vehicles, a key element of the Company's operating strategy is to focus on the sale of used vehicles. The Company believes that a well-managed used vehicle operation at each location affords it an opportunity to (i) generate additional customer traffic from a wide variety of prospective buyers, (ii) increase new and used vehicle sales by aggressively pursuing customer trade-ins, (iii) generate incremental revenues from customers financially unable or unwilling to purchase a new vehicle, and (iv) increase ancillary product sales to improve overall profitability. To maintain a broad selection of high quality used vehicles and to meet local demand preferences, the Company acquires used vehicles from trade-ins and a variety of sources nationwide, including direct purchases and manufacturers' and independent auctions. The Company's goal is to sell 1.5 retail used vehicles for every new vehicle sold, compared to an industry average ratio of 0.8-to-1. The Company strives to attract customers and enhance buyer satisfaction by offering multiple financing options, a 10-day/500-mile "no questions asked" exchange program and a 60-day/3,000-mile warranty on every used vehicle sold.

EMPHASIZE SALES OF HIGHER MARGIN PRODUCTS AND SERVICES. The Company generates substantial incremental revenue and achieves higher profitability through the sale of certain ancillary products and services such as financing and insurance, extended service contracts and vehicle maintenance. Employees receive special training and are compensated on a commission basis to sell such products and services. In 1997, the Company arranged financing for 71% of its new vehicle sales and 74% of its used vehicle sales, compared to 42% and 51%, respectively, for the average automobile dealership in the United States (1996 data). Sales of these other ancillary products and services represent 14% of Lithia's total sales, compared to 12% for the average U.S. dealership. The Company also sells extended service coverage and other vehicle protection packages, which the Company believes enhances the value of the vehicle and provides a higher level of customer satisfaction.

EMPLOY PROFESSIONAL MANAGEMENT TECHNIQUES. The Company employs professional management practices in all aspects of its operations, including information technology, employee training, profit-based compensation and cash management. These efforts have been critical in managing the rapid growth in new stores over the last 16 months. Each dealership is its own profit center and is managed by a trained and experienced general manager who has primary responsibility for decisions relating to inventory, advertising, pricing and personnel. The general manager is assisted by a 5-person operations support team consisting of specialists in the areas of new vehicle sales, used vehicle sales, finance and insurance, service and parts, and back office administration (including accounting and management information systems). The Company compensates its general managers and department managers based on the profitability of their dealerships and departments, respectively. Senior management utilizes computer-based management information systems to monitor each dealership's sales, profitability and inventory on a daily basis and to identify areas requiring improvement. The Company believes the application of its professional management practices provides it with a competitive advantage over many dealerships and is critical to its ability to achieve levels of profitability superior to industry averages.

FOCUS ON CUSTOMER SATISFACTION AND LOYALTY. The Company emphasizes customer satisfaction throughout its organization and continually seeks to maintain its reputation for quality and fairness. The Company trains its sales personnel to identify an appropriate vehicle for each of its customers at an affordable price. In 1996, the Company implemented an innovative customer-oriented marketing program entitled "Priority You" which provides the Company's retail customers six value-added services which the Company believes are important to overall customer satisfaction, including a commitment to (i) provide a customer credit check within 10 minutes, (ii) complete a used vehicle appraisal within 30 minutes, (iii) complete the paper work within 90 minutes for a vehicle purchase, (iv) provide a 10-day/500-mile "no questions asked" right of exchange on any used vehicle sold, (v) provide a warranty on all used vehicles sold for 60 days/3,000 miles and (vi) make a donation to a local charity or educational organization for every vehicle sold. The Company believes "Priority You" will help differentiate it from many other dealerships, thereby increasing customer traffic and developing stronger customer loyalty.

The Company has received a number of dealer quality and customer satisfaction awards from various manufacturers. Most recently, Lithia's Medford and Grants Pass, Oregon Chrysler product dealerships achieved Chrysler's highest recognition for dealer excellence, the Five-Star Certification. The Medford location was the first to receive this certification in the Pacific Northwest.

DEALERSHIP OPERATIONS

The Company owns and operates 12 dealership locations in California, 7 in Oregon and 3 in Nevada. Each of the Company's dealerships sell new and used vehicles and related automotive parts and services. The Company's primary target market comprises middle-income customers seeking moderately-priced vehicles. The Company offers 21 makes of new vehicles, including Dodge, Dodge Trucks, Chrysler, Plymouth, Jeep, Ford, Lincoln-Mercury, Toyota, Isuzu, Nissan, Volkswagen, Audi, Honda, Acura, Suzuki, BMW, Saturn, Pontiac, Mazda and Hyundai.

The operations of each of the Company's locations are overseen by a general manager, who has primary responsibility for all aspects of the operations of the dealership, including new and used vehicle inventory, advertising and marketing, and the selection of personnel. Each location is operated as a profit center and each general manager's compensation is based on dealership profitability. Each general manager reports directly to the Company's Chief Operating Officer. In addition, each dealership's general sales manager, used vehicle manager, parts manager, service manager and F&I managers report directly to the general manager and are compensated based on the profitability of their respective departments.

NEW VEHICLE SALES. The Company sells 21 domestic and imported brands ranging from economy to luxury cars, sport utility vehicles, minivans and light trucks. In 1997, the Company sold 7,493 new vehicles generating revenues of $161.3 million, which constituted 50.4% of the Company's total revenues. The following table sets forth, by manufacturer, the percentage of new vehicle sales by the Company during the fourth quarter of 1997.

MANUFACTURER	1997 FOURTH QUARTER PERCENTAGE OF NEW VEHICLE SALES
Chrysler (Chrysler, Plymouth, Dodge, Jeep, Dodge Trucks)	32%
Ford (Ford, Lincoln, Mercury)	27%
Toyota	12%
Isuzu	8%
Nissan	5%
Volkswagen, Audi	4%
BMW	4%
Honda (Acura, Honda)	3%
General Motors (Saturn, Pontiac)	2%
Suzuki	2%
Mazda	1%
Hyundai	*
	100%

* Acquired in 1998.

The following table sets forth the Company's sales and gross profit margins for new vehicle sales for the periods presented.

(dollars in thousands)	1993	1994	1995	1996	1997
Units	2,464	2,744	2,715	3,274	7,493
Sales	$42,663	$51,154	$53,277	$65,092	$161,294
Gross profit margin	12.8%	12.5%	12.8%	13.1%	11.4%

The Company purchases substantially all of its new car inventory directly from manufacturers who allocate new vehicles to dealerships based on the amount of vehicles sold by the dealership and by the dealership's market area. The Company will also exchange vehicles with other dealers to accommodate customer demand and to balance inventory.

As required by law, the Company posts the manufacturer's suggested retail price on every new vehicle. As is customary in the automobile industry, the final sales price of a new vehicle is generally negotiated with the customer. However, at the Company's Saturn dealership the Company does not deviate from the posted price. The Company is continually evaluating its pricing practices and policies in light of changing consumer preferences and competitive factors.

USED VEHICLE SALES. The Company offers a variety of makes and models of used cars and light trucks of varying model years and prices. Used vehicle sales are an important part of the Company's overall profitability. In 1997, the Company sold 12,138 used vehicles generating revenues of $113.1 million, which constituted 35.4% of the Company's total revenue. The Company has made a strategic commitment to emphasize used vehicle sales. As part of its focus on used vehicle sales, the Company retains a full-time used vehicle manager at each of its locations and has allocated additional financing and display space to this effort.

The Company sells used vehicles to retail customers and, in the case of vehicles in poor condition or vehicles which have not sold within a specified period of time, to other dealers and to wholesalers. As the table below reflects, sales to other dealers and to wholesalers are frequently at or close to cost and, therefore, affect the Company's overall gross profit margin on used vehicle sales. Excluding wholesale transactions, the Company's gross profit margin on used vehicle sales was 11.4% in 1997, as compared to the industry average for 1996 of 11.0%. The following table reflects used vehicle sale transactions of the Company from 1993 through December 1997. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(dollars in thousands)	1993	1994	1995	1996	1997
Retail units	3,076	3,372	3,302	4,156	7,148
Retail sales	$29,680	$36,382	$36,997	$48,697	$88,571
Retail gross margin	13.9%	13.5%	13.2%	12.8%	11.4%
Wholesale units	1,642	1,834	1,842	2,348	4,990
Wholesale sales	$5,306	$5,999	$7,064	$9,914	$24,528
Wholesale gross margin	3.0%	3.0%	2.4%	1.7%	0.4%
Total units	4,718	5,206	5,144	6,504	12,138
Total sales	$34,986	$42,381	$44,061	$58,611	$113,099
Total gross margin	12.3%	12.0%	11.4%	10.9%	9.1%

The Company acquires the majority of its used vehicles through customer trade-ins. The Company also acquires its used vehicles at "closed" auctions which may be attended only by new vehicle dealers and which offer off-lease, rental and fleet vehicles, and at "open" auctions which offer repossessed vehicles and vehicles being sold by other dealers.

The Company sells the majority of its used vehicles to retail purchasers. In an effort to reach the Company's objective of 1.5 retail used vehicle sales for every new vehicle sale, the Company employs innovative marketing programs, such as "Priority You," which offers a 60-day/3,000-mile warranty and a 10-day/500-mile "no questions asked" exchange program on every used vehicle it sells in order to generate customer confidence in his or her purchasing decision. Each dealership's used vehicle manager is responsible for the purchasing and pricing of the used vehicle inventory. The Company strives to sell each of its used vehicles within 60 days of acquisition and financially motivates its used vehicle managers to effect such sales within that period.

VEHICLE FINANCING AND LEASING. The Company believes that its customers' ability to obtain financing at its dealerships is critical to its ability to sell new and used vehicles and ancillary products and services. The Company provides a variety of financing and leasing alternatives in order to meet the specific needs of each potential customer. The Company believes its ability to obtain customer-tailored financing on a "same day" basis provides it with an advantage over many of its competitors, particularly smaller competitors who lack the resources to offer vehicle financing or who do not generate sufficient volume to attract the diversity of financing sources that are available to the Company. Because of the high profit margins which are typically generated through sales of F&I products, the Company employs more than one F&I manager at its dealership locations. The Company's F&I managers have extensive knowledge regarding available financing alternatives and sources and are specially trained to determine the customer's financing needs to enable the customer to purchase or lease an automobile. The Company seeks to finance or arrange financing for every vehicle it sells and has financed or arranged financing for a larger percentage of its transactions than the industry average. During 1997, the Company financed or arranged for financing for over 71% of its new vehicle sales and 74% of its used vehicle sales, compared to an industry average of 42% and 51%, respectively (latest 1996 data).

The Company maintains close relationships with a wide variety of financing sources and arranges financing for its customers with those sources that are best suited to satisfy its customers' particular needs. The Company also utilizes financing sources, whenever possible, that maximize the Company's revenues on the sale of the loan or lease to such source. The interest rates available and the required down payment, if any, depend to a large extent, upon the bank or other institution providing the financing and the credit history of the particular customer. Currently, the Company has relationships with approximately 30 banks and other financial institutions who are in a position to provide financing for automobile purchases or leases by the Company's customers. The Company's F&I managers have close working relationships with third-party financing sources which enables them to quickly determine a customer's credit position and confirm the type and level of financing that the third party can commit to provide. A credit check generally occurs within minutes while the customer remains at the dealership, allowing the sales manager to assist the customer in making a fully informed decision regarding the terms of the transaction.

In most cases, the Company arranges financing for its customers from third party sources, which relieves the Company from any credit risk. However, in certain circumstances where the Company believes the credit risk is manageable and the risk-weighted income is expected to exceed the earnings available upon the immediate sale of the finance contract, the Company will directly finance or lease the automobile to such customer. In these cases, the Company bears the risk of default by the borrower or lessee. Historically, the Company has provided direct financing for a minimal number of its new and used vehicle sales.

ANCILLARY SERVICES AND PRODUCTS. In addition to arranging for vehicle financing, the Company's F&I managers also market a number of ancillary products and services to every purchaser of a new or used vehicle. Typically, these products and services yield high profit margins and contribute significantly to the overall profitability of the Company.

The Company offers third party extended service contracts which provide that, for a predetermined and prepaid price, all designated repairs covered by the plan during its term will be made at no additional charge above the deductible. While all new vehicles are sold with the automobile manufacturer's standard warranty, service plans provide additional coverage beyond the time frame or scope of the manufacturer's warranty. Purchasers of used vehicles are offered a similar extended service contract, even if the selected vehicle is no longer under the manufacturer's warranty.

The Company offers its customers credit life, health and accident insurance when they finance an automobile purchase. The Company receives a commission on each policy sold. The Company also offers other ancillary products such as protective coatings and automobile alarms.

The Company also owns and operates two automobile rental facilities, Avis Rent-A-Car and Discount Auto & Truck Rental, Inc., both located in Medford, Oregon.

PARTS AND SERVICE, BODY AND PAINT SHOP. The Company considers its parts and service and body and paint operations to be an integral part of its customer service program and an important element of establishing customer loyalty. The Company provides parts and service primarily for the new vehicle brands sold by the Company's dealerships but may also service other vehicles. In 1997, the Company's parts and service operations generated $29.8 million in revenues, or 9.3% of total revenues. The Company uses a variable pricing structure designed to reflect the difficulty and sophistication of different types of repairs. The mark-up on a part is based upon the cost and availability of such part.

The parts and service business is relatively stable and provides an important recurring revenue stream to the Company's dealerships. The Company markets its parts and service products by notifying the owners of vehicles purchased at its dealerships when their vehicles are due for periodic service. This practice encourages preventive maintenance rather than post-breakdown repairs. To a limited extent, revenues from the parts and service department are countercyclical to new car sales as owners repair existing vehicles rather than buy new vehicles. The Company believes this helps mitigate the affects of a downturn in the new vehicle sales cycle.

The Company has operated a full-service body and paint shop since 1970. In 1997, it completed a body and paint shop to service all of the Company's dealerships located in southwest Oregon, other dealerships in the area that do not own a body and paint shop, and a

number of major automotive casualty insurance companies that contract with the Company to perform insurance repairs.

SALES AND MARKETING

The Company places particular emphasis on customer satisfaction throughout its organization and continually seeks to maintain its reputation for quality and fairness. The Company's sales force works closely with each customer to identify an appropriate vehicle at a price affordable to that customer. The Company believes that its "counseling" approach during the sales process increases the likelihood that a customer will be satisfied with the vehicle purchased over a longer time period and enables the Company to sell more vehicles at higher gross profit margins.

The Company recently implemented a marketing program entitled "Priority You," which provides the Company's retail customers six value-added services which the Company believes are important to the overall satisfaction of the customer, including a commitment to (i) provide a customer credit check within 10 minutes,
(ii) complete a used vehicle appraisal within 30 minutes, (iii) complete the paper work within 90 minutes for a vehicle purchase, (iv) provide a 10-day/500-mile "no questions asked" right of exchange on any used vehicle sold,
(v) provide a 60-day/3,000-mile warranty on all used vehicles sold and (vi) make a donation to a local charity or educational organization for every vehicle sold. The Company believes "Priority You" will help differentiate it from traditional dealerships, and thereby increase customer traffic and develop customer loyalty.

Advertising and marketing play a significant role in the success of the Company. The competitive environment of the automobile dealership industry requires that a substantial portion of each sales dollar be allocated to advertising. However, as is the case with most franchised automobile dealerships, approximately 75% of the Company's advertising and marketing expenses are paid for by the automobile manufacturers. The manufacturers also provide the Company with market research, which assists the Company in developing its own advertising and marketing campaigns. The Company believes that it receives significant benefit from manufacturers' advertising, particularly in the medium-sized markets in which the Company has been the only representative of a manufacturer.

The Company's marketing efforts focus on a wide range of potential buyers. The Company offers a variety of new and used cars and light trucks at a wide range of prices and with various financing terms. The Company utilizes most forms of media in its advertising, including television, newspaper, radio and direct mail, including periodic mailers to previous customers. The Company primarily uses advertising that focuses on developing its image as a reputable dealer, offering quality service, affordable automobiles and financing for all potential buyers. In addition, the Company's individual dealerships periodically sponsor price discounts or other promotions designed to attract additional customers. Each dealership has substantial control over the content and timing of its promotions, although all advertising is coordinated by the Company. As the Company owns several dealerships in most of the markets it serves, it realizes cost savings on its advertising expenses from volume discounts and other media concessions. The Company also participates as a member of a number of advertising cooperatives or associations whose members, among other things, pool their resources and expertise together with that of the manufacturer to develop advertising aimed at benefiting all of their members.

MANAGEMENT INFORMATION SYSTEM

The Company's financial information, operational and accounting data and other related statistical information are consolidated, processed and maintained at its headquarters in Medford, Oregon, on a network of server computers and work stations. The flexible nature of the Company's installed network allows for accumulation, processing and distribution of information using ADP, Inc. and Reynolds & Reynolds computing programs. ADP, Inc. and Reynolds & Reynolds are national software providers for many companies including automotive dealers. All sales and expense information, and other data related to the operations of each dealership or other Company facility, are entered at each location. This system allows senior management to access detailed information on a "real time" basis from all of the Company's dealerships and other stores regarding, for example, the makes and models of automobiles in its inventory, the mix of new and used automobile sales, the number of automobiles being sold or leased, the percentage of vehicles for which the Company arranged financing or sold ancillary products and services, the profit margins being obtained on sales and the relative performances of the Company's dealerships to each other. Such information is also available to each dealership's general manager. Reports can be generated that set forth and compare revenue and expense data by department and by store, allowing management to quickly analyze the results of operations, identify trends in the business, and focus on areas that require attention or improvement. The Company believes that its management information system also allows its general managers to quickly respond to changes in consumer preferences and purchasing patterns, thereby maximizing inventory turnover.

The Company believes that its management information system is a key factor in successfully incorporating newly acquired businesses into the Company. Following each acquisition, the Company installs its management information system at the dealership location, thereby quickly making the financial, accounting and other operational data easily accessible to senior management at the Company's corporate offices. With access to such data, senior management can more efficiently execute the Company's operating strategy at the newly acquired dealership.

CASH MANAGEMENT

The Company employs a centralized cash management system designed to maximize returns and minimize interest expense. The Company's new vehicle flooring line is supplied by the Company's bank, rather than by automobile manufacturers, unlike many dealerships that do not have the financial condition or results of operations that would permit them to obtain bank financing on terms more favorable than those offered by manufacturers. As a result, the Company's interest rate for flooring financing is 150 to 200 basis points below the rates currently available to it from most manufacturers. In addition, in order to minimize the outstanding balance under the Company's Flooring Line, all available excess cash in the Company's various checking accounts is automatically transferred at the end of each weekday to a central collateral account at U.S. Bank N.A. These funds are used to pay down the balance under the Flooring Line, thereby reducing interest expense. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

RELATIONSHIPS WITH AUTOMOBILE MANUFACTURERS

The Company has, either directly or through its subsidiaries, entered into franchise or dealer sales and service agreements with each manufacturer of the new vehicles it sells. The Company currently has agreements with Chrysler Corporation (Chrysler, Plymouth, Dodge,

Dodge Trucks, Jeep), American Honda Motor Co. Inc. (Honda, Acura), American Isuzu Motors, Inc. (Isuzu), Ford Motor Company (Ford, Lincoln, Mercury), General Motors Corporation (Pontiac), Mazda Motor of America, Inc. (Mazda), Saturn Corporation (Saturn), Toyota Motor Distributors, Inc. (Toyota), Nissan Motor Corporation, U.S.A. (Nissan), American Suzuki Motor Corporation (Suzuki), Audi of America, Inc. (Audi), BMW of North America, Inc. (BMW), Hyundai Motor America (Hyundai), and Volkswagen of America (Volkswagen) (herein collectively referred to as "manufacturers").

The typical automobile franchise agreement specifies the locations at which the dealer has the right and the obligation to sell vehicles and related parts and products and to perform certain approved services in order to serve a specified market area. The designation of such areas and the allocation of new vehicles among dealerships are subject to the discretion of the manufacturer, which (except for Saturn) does not guarantee exclusivity within a specified territory. A franchise agreement may impose requirements on the dealer concerning such matters as the showroom, the facilities and equipment for servicing vehicles, the maintenance of inventories of vehicles and parts, the maintenance of minimum working capital, the training of personnel and the adherence to certain performance standards established by the manufacturer regarding sales volume and customer satisfaction. Compliance with these requirements is closely monitored by each manufacturer. In addition, manufacturers require each dealership to submit monthly and annual financial statements of operations. The franchise agreements also grant the dealer the non-exclusive right to use and display manufacturers' trademarks, service marks and designs in the form and manner approved by each manufacturer.

Most franchise agreements expire after a specified period of time, ranging from one to five years; however, some franchise agreements, including those with Chrysler, have no termination date. The typical franchise agreement provides for early termination or non-renewal by the manufacturer under certain circumstances such as change of management or ownership without manufacturer consent, insolvency or bankruptcy of the dealership, death or incapacity of the dealer manager, conviction of a dealer manager or owner of certain crimes, misrepresentation of certain information by the dealership, dealer manager or owner to the manufacturer, failure to adequately operate the dealership, failure to maintain any license, permit or authorization required for the conduct of business, or a material breach of other provisions of the franchise agreement including the dealership's poor sales performance or low customer satisfaction index ("CSI") ratings. The dealer is typically entitled to terminate the franchise agreement at any time without cause.

Each franchise agreement sets forth the name of the person approved by the manufacturer to exercise full managerial authority over the dealership's operations and the names and ownership percentages of the approved owners of the dealership, and contains provisions requiring the manufacturer's prior approval of changes in management or transfers of ownership of the dealership. Accordingly, any significant change in ownership, including the sale of shares by the Company to the public or the acquisition of a dealership from a third party, is subject to the consent of the respective manufacturer. Most manufacturers now have stated public ownership policies which the Company believes it will be able to satisfy. Some of the policies impose additional restrictions or conditions on the Company that would not exist under private ownership.

COMPETITION

The new and used automobile dealership business in which the Company operates is highly competitive. The automobile dealership industry is fragmented and characterized by a large number of independent operators, many of whom are individuals, families and small groups. In the sale of new vehicles, the Company principally competes with other new automobile dealers in the same general vicinity of the Company's dealership locations. Such competing dealerships may offer the same or different models and makes of vehicles that the Company sells. In the sale of used vehicles, the Company principally competes with other used automobile dealers and with new automobile dealers that operate used automobile lots in the same general vicinity of the Company's dealership locations. In each of its markets, the Company competes with numerous other new automobile dealers selling other brands and a large number of other used automobile stores. In addition, certain regional and national car rental companies operate retail used car lots to dispose of their used rental cars.

The Company also may face increased competition from certain automobile "superstores," such as CarMax, AutoNation USA and Driver's Mart Worldwide Inc. Such used automobile superstores have emerged recently in various areas of the United States and are beginning to expand nationally. However, the Company is not aware of any of such superstores currently located in any region where the Company operates dealerships. In addition, the Company competes to a lesser extent with an increasing number of automobile dealers that sell vehicles through nontraditional methods, such as through direct mail or via the Internet.

The Company believes it is larger and has more financial resources than the other operators with which it currently competes. However, as it enters other markets, the Company may face competitors that are more established or have access to greater financial resources. The Company, however, does not have any cost advantage in purchasing new vehicles from manufacturers and typically relies on advertising and merchandising, sales expertise, service reputation and location of its dealerships to sell new vehicles.

REGULATION

The Company's operations are subject to extensive regulation, supervision and licensing under various federal, state and local statutes, ordinances and regulations. Various state and federal regulatory agencies, such as the Occupational Safety and Health Administration and the U.S. Environmental Protection Agency, have jurisdiction over the operation of the Company's dealerships, repair shops, body shops and other operations, with respect to matters such as consumer protection, workers' safety and laws regarding clean air and water.

The relationship between a franchised automobile dealership and a manufacturer is governed by various federal and state laws established to protect dealerships from the generally unequal bargaining power between the parties. Federal laws, as well as certain state laws, prohibit a manufacturer from terminating or failing to renew a franchise without good cause. Manufacturers are also prohibited from preventing or attempting to prevent any reasonable changes in the capital structure or the manner in which a dealership is financed. Manufacturers are, however, entitled to object to a sale or change of management where such an objection is related to material reasons relating to the character, financial ability or business experience of the proposed transferee.

Automobile dealers and manufacturers are also subject to various federal and state laws established to protect consumers, including so-called "Lemon Laws" which require a manufacturer or the dealer to replace a new vehicle or accept it for a full refund within one

year after initial purchase if the vehicle does not conform to the manufacturer's express warranties and the dealer or manufacturer, after a reasonable number of attempts, is unable to correct or repair the defect. Federal laws require certain written disclosures to be provided on new vehicles, including mileage and pricing information. In addition, the financing and insurance activities of the Company are subject to certain statutes governing credit reporting, debt collection, and insurance industry regulation.

The imported automobiles purchased by the Company are subject to United States customs duties and, in the ordinary course of its business, the Company may, from time to time, be subject to claims for duties, penalties, liquidated damages, or other charges.

As with automobile dealerships generally, and parts, service and body shop operations in particular, the Company's business involves the use, handling and contracting for recycling or disposal of hazardous or toxic substances or wastes, including environmentally sensitive materials such as motor oil, waste motor oil and filters, transmission fluid, antifreeze, freon, waste paint and lacquer thinner, batteries, solvents, lubricants, degreasing agents, gasoline and diesel fuels. The Company has also been required to remove aboveground and underground storage tanks containing such substances or wastes. Accordingly, the Company is subject to regulation by federal, state and local authorities establishing health and environmental quality standards, and liability related thereto, and providing penalties for violations of those standards. The Company is also subject to laws, ordinances and regulations governing remediation of contamination at facilities it operates or to which it sends hazardous or toxic substances or wastes for treatment, recycling or disposal. The Company believes that it does not have any material environmental liabilities and that compliance with environmental laws, ordinances and regulations will not, individually or in the aggregate, have a material adverse effect on the Company's results of operations or financial condition.

EMPLOYEES

As of December 31, 1997, the Company employed approximately 1,000 persons on a full-time equivalent basis. The service department employees at Lithia Concord Dodge, Isuzu and Lithia Sun Valley Ford, Volkswagen, Hyundai are bound by collective bargaining agreements. The Company believes it has a good relationship with its employees.

ITEM 2. PROPERTIES

The Company and its various dealerships and other facilities occupy an aggregate of approximately 100 acres of land, providing approximately 700,000 square feet of building space. Such properties consist primarily of automobile showrooms, display lots, service facilities, two body and paint shops, rental agencies, supply facilities, automobile storage lots, parking lots and offices. The Company believes its facilities are currently adequate for its needs and are in good repair.

The following table sets forth each of the Company's facilities, the approximate square footage at each facility, the acreage of each location and whether the facility is owned or leased.

DEALERSHIP/FACILITY	TOTAL BUILDING / SQUARE FEET	TOTAL LAND / ACRES	FACILITY		
			OWNED BY COMPANY	LEASED FROM THIRD PARTY	LEASED FROM LITHIA PROPERTIES L.L.C. (1)
Lithia Motors, Medford, Oregon	5,255	0.51			X
Lithia Honda Pontiac Suzuki Isuzu Volkswagen, Medford, Oregon	27,114	3.30			X
Lithia Toyota Lincoln-Mercury, Medford, Oregon	56,658	5.09			X
Lithia Dodge Chrysler Plymouth Mazda Jeep, Medford, Oregon	64,962	4.35			X
Saturn of Southwest Oregon, Medford, Oregon	11,226	2.08			X
Grants Pass Auto Center, Grants Pass, Oregon	32,138	4.12			X
Lithia Toyota of Vacaville, California	22,900	4.18		X	
Lithia Dodge of Eugene, Oregon	35,706	5.58	X		
Lithia Nissan Acura BMW, Bakersfield, California	49,000	7.12		X	
Lithia Donnelly Lincoln-Mercury Audi Suzuki Isuzu, Reno, Nevada	38,373	6.00		X	
Lithia Donnelly Isuzu Lincoln-Mercury Suzuki, Sparks, Nevada	8,448	1.78		X	
Lithia Sun Valley Ford Volkswagen, Concord, California	78,240	12.60		X	
Lithia Ford, Napa, California	26,900	6.20		X	
Lithia Dodge, Concord California	21,722	4.46		X	
Lithia Isuzu, Concord, California	2,000	1.50		X	
Lithia Ford, Fresno, California	60,577	6.10		X	
Lithia Mazda, Fresno, California	27,947	5.00		X	
Lithia Body & Paint, Medford, Oregon	42,873	5.01	X		
Thrift Auto Supply, Medford, Oregon	11,230	0.46			X
Discount Auto & Truck Rental, Medford, Oregon	278	-			X
Cellular World, Medford, Oregon	1,850	-			X
Avis Rent-A-Car, Medford, Oregon	630	-		X	X
Vacant Parcel, Medford, Oregon (2)	-	5.32	X		
Lithia Nissan BMW, Medford, Oregon	22,687	4.03		X	
Lithia Nissan Jeep, Fresno, California	47,914	6.00	X		
Lithia Donnelly Volkswagen, Reno, Nevada	9,120	4.45		X	
Lithia Jeep, Bakersfield, California	12,030	2.06		X	

(1) Lithia Properties L.L.C., an Oregon limited liability company, is owned by certain affiliates of the Company.

(2) Held for future development.

ITEM 3. LEGAL PROCEEDINGS

The Company is, from time to time, a party to litigation that arises in the normal course of its business operations. The Company does not believe it is presently a party to litigation that will have a material adverse effect on its business or operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's shareholders during the quarter ended December 31, 1997.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Class A Common Stock trades on the Nasdaq National Market under the symbol LMTR. The quarterly high and low sales prices of the Company's Common Stock for the period from December 18, 1996 (the date of the Company's initial public offering) through December 31, 1997 were as follows:

1996	High	Low
Quarter 4 (from December 18, 1996)	$ 11.50	$ 10.94
1997		
Quarter 1	13.13	10.50
Quarter 2	12.38	9.50
Quarter 3	14.25	10.50
Quarter 4	19.00	13.63

The number of shareholders of record and approximate number of beneficial holders of the Company's Class A Common Stock at February 27, 1998 was 27 and 628, respectively. All shares of the Company's Class B Common Stock are held by Lithia Holding Company LLC. There were no cash dividends declared or paid subsequent to the Company's initial public offering in December 1996. The Company does not intend to declare or pay cash dividends. The Company intends to retain any earnings that it may realize in the future to finance its acquisitions and operations. The payment of any future dividends will be subject to the discretion of the Board of Directors of the Company and will depend upon the Company's results of operations, financial position and capital requirements, general business conditions, restrictions imposed by financing arrangements, if any, legal restrictions on the payment of dividends and other factors the Board of Directors deems relevant.

ITEM 6. SELECTED FINANCIAL DATA

	YEAR ENDED DECEMBER 31,				
(in thousands except per share amounts)	1993 (1)	1994 (1)	1995 (1)	1996 (1)	1997
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Sales:					
New vehicles	$42,663	$ 51,154	$ 53,277	$ 65,092	$161,294
Used vehicles	34,986	42,381	44,061	58,611	113,099
Other	14,590	15,888	16,858	19,141	45,402
Total sales	92,239	109,423	114,196	142,844	319,795
Cost of sales	74,224	89,709	93,559	118,333	266,363
Gross profit	18,015	19,714	20,637	24,511	53,432
Selling, general and administrative (2)	14,721	14,781	16,333	19,830	40,625
Depreciation and amortization (3)	401	393	402	448	1,169
Operating income	2,893	4,540	3,902	4,233	11,638
Interest income	216	99	179	193	138
Interest expense	(1,374)	(954)	(1,390)	(1,353)	(3,004)
Other income, net	607	902	1,036	1,156	725
Income before minority interest and income taxes	2,342	4,587	3,727	4,229	9,497
Minority interest	(233)	(458)	(778)	(687)	-
Income before income taxes (1) (2)	$ 2,109	$ 4,129	$ 2,949	3,542	9,497
Income tax (expense) benefit				813	(3,538)
Net income				$ 4,355	$ 5,959
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Income before taxes, and minority interest, as reported	$ 2,342	$ 4,587	$ 3,727	$ 4,229	
Pro forma provision for taxes (4)	(890)	(1,743)	(1,430)	(1,623)	
Pro forma net income	$ 1,452	$ 2,844	$ 2,297	$ 2,606	
Basic net income per share (5)			$ 0.50	$ 0.56	$ 0.85
Diluted net income per share (5)			$ 0.47	$ 0.52	$ 0.82

	As of December 31,				
(in thousands)	1993 (1)	1994 (1)	1995 (1)	1996 (1)	1997
CONSOLIDATED BALANCE SHEET DATA:					
Working capital	$ 2,903	$ 9,325	$10,626	$25,431	$ 23,870
Total assets	38,088	41,981	44,117	68,964	166,526
Short-term debt	24,380	23,511	22,300	22,000	85,385
Long-term debt, less current maturities	3,789	6,748	10,743	6,160	26,558
Total shareholders' equity	4,074	6,094	3,716	27,914	37,877

(1) Effective January 1, 1997, the Company converted from the LIFO method of accounting for inventories to the FIFO method. Accordingly, the 1993, 1994, 1995 and 1996 data has been restated to reflect this change. See Note 1 of Notes to Consolidated Financial Statements.

(2) Prior to 1994, the Company and its affiliated entities paid cash bonuses to their shareholders and members in amounts approximating their respective income tax liability on their undistributed earnings ($532,000 in 1991, $640,000 in 1992, and $1.0 million in 1993), in addition to their normal salaries. These cash bonuses are reflected in the selling, general and administrative expense above. In 1994 and subsequent periods, cash to meet the shareholders' and members' tax liabilities was distributed to the shareholders and members as dividends. The Company believes that for a fair evaluation of its historical performance, results for 1991, 1992 and 1993 should be adjusted to eliminate such bonus payments.

(3) Does not include depreciation included in cost of sales related to vehicles leased to others. See "Consolidated Statements of Cash Flows" for total depreciation and amortization.

(4) The Company was an S Corporation and accordingly was not subject to federal and state income taxes during the periods indicated. Pro forma net income reflects federal and state income taxes as if the Company had been a C Corporation, based on the effective tax rates that would have been in effect during these periods. See "Company Restructuring and Prior S Corporation Status" and Notes 1 and 8 to the Company's Consolidated Financial Statements.

(5) The per share amounts are pro forma for 1995 and 1996 and actual for 1997.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Lithia Motors is a leading retailer of new and used vehicles in the western United States, offering 21 domestic and imported makes of new automobiles and light trucks at 22 locations: 12 in California, 7 in Oregon and 3 in Nevada. The Company sells new and used cars and light trucks, sells replacement parts, provides vehicle maintenance, warranty, paint and repair services, and arranges related financing and insurance for its automotive customers. The Company has grown primarily by successfully acquiring and integrating dealerships and by obtaining new dealer franchises. The Company's strategy is to continue as a leading acquirer and operator of dealerships in the western United States.

The following table sets forth selected condensed financial data expressed as a percentage of total sales for the periods indicated for the average automotive dealer in the United States (1997 data is not yet available).

AVERAGE U.S. DEALERSHIP

	YEAR ENDED DECEMBER 31,	
	1995	1996
Sales:		
New vehicles	58.6%	57.7%
Used vehicles	29.0%	30.4%
Parts, service and other	12.4%	11.9%
Total sales	100.0%	100.0%
Gross profit	12.9%	12.9%
Income before taxes	1.4%	1.5%

Source: NADA Industry Analysis Division (latest information available).

The following table sets forth selected condensed financial data for the Company expressed as a percentage of total sales for the periods indicated below.

LITHIA MOTORS, INC.

	YEAR ENDED DECEMBER 31,		
	1995 (1)	1996 (1)	1997
Sales:			
New vehicles	46.6%	45.6%	50.4%
Used vehicles	38.6%	41.0%	35.4%
Parts, service and other	14.8%	13.4%	14.2%
Total sales	100.0%	100.0%	100.0%
Gross profit	18.1%	17.2%	16.7%
Income before taxes	3.2%	3.0%	3.0%

(1) Restated to reflect FIFO method of accounting.

Prior to January 1, 1997, the Company utilized the LIFO (Last In-First Out) method of accounting for inventory ("LIFO Method"). Industry standard is to use the specific identification method of accounting for vehicles and the FIFO (First In-First Out) method of accounting for parts (herein collectively referred to as the "FIFO Method"). Beginning January 1, 1997, the Company began using the FIFO Method. Prior period statements have been restated to be consistent with the current year presentation on the FIFO Method.

RECENT ACQUISITIONS

Since December 1996, the Company has completed the acquisition of 17 dealerships representing 16 makes of new automobiles and light trucks. An additional acquisition is pending. The Company has accounted for each of its acquisitions by the purchase method of accounting, and the results of operations of these dealerships have not been included in the Company's results of operations prior to the date they were acquired by the Company.

1997 COMPARED TO 1996

SALES. Sales for the Company increased $177.0 million, or 123.9% to $319.8 million for the year ended December 31, 1997 from $142.8 million in 1996. Total vehicles sold during 1997 increased by 9,853, or 100.8%, to 19,631 from 9,778 during 1996. Dealerships acquired in late 1996 and 1997 accounted for 9,836 of the total vehicles sold in 1997. Same dealership sales growth was 4.8%, due to a 3.1% increase in vehicle sales, and a 20.7% increase in other operating sales.

NEW VEHICLES. The Company sells 21 domestic and imported brands ranging from economy to luxury cars, as well as sport utility vehicles, minivans and light trucks. In 1997 and 1996, the Company sold 7,493 and 3,274 new vehicles, generating revenues of $161.3 million and $65.1 million, which constituted 50.4% and 45.6% of the Company's total sales, respectively.

The Company purchases substantially all of its new car inventory directly from manufacturers who allocate new vehicles to dealerships based on the amount of vehicles sold by the dealership and by the dealership's market area. The Company will also exchange vehicles with other dealers to accommodate customer demand and to balance inventory.

USED VEHICLES. The Company offers a variety of makes and models of used cars and light trucks of varying model years and prices. Used vehicle sales are an important part of the Company's overall profitability. In 1997 and 1996, the Company sold 12,138 and 6,504 used vehicles, respectively, generating revenues of $113.1 million and $58.6 million, which constituted 35.4% and 41.0% of the Company's total revenue, respectively.

OTHER. The Company derives additional revenue from the sale of parts and accessories, maintenance and repair services, auto body work, and financing and insurance ("F&I") transactions. Other operating revenue increased 137.7% to $45.4 million during 1997, from $19.1 million during 1996, due to an increased number of F&I transactions and, to a lesser extent, an increase in revenues derived from service department maintenance and repairs. To a limited extent, revenues from the parts and service department are counter-cyclical to new car sales as owners repair existing vehicles rather than buy new vehicles. The Company believes this helps mitigate the effects of a downturn in the new vehicle sales cycle.

GROSS PROFIT. Gross profit increased 118.0% during 1997 to $53.4 million, compared with $24.5 million for 1996, primarily because of the increase in new and used vehicle unit sales during the period. The gross profit margin achieved by the Company on new vehicle sales during 1997 and 1996 was 11.4% and 13.1%, respectively. This compares favorably with the average gross profit margin of 6.5% realized by franchised automobile dealers in the United States on sales of new vehicles in 1996. The Company sells used vehicles to retail customers and, in the case of vehicles in poor condition or vehicles which have not sold within a specified period of time, to other dealers and to wholesalers. Sales to other dealers and to wholesalers are frequently at, or close to, cost and therefore affect the Company's overall gross profit margin on used vehicle sales. Excluding wholesale transactions, the Company's gross profit margin on used vehicle sales was 11.4% in 1997 and 12.8% in 1996, as compared to the industry average for 1996 of 11.0%. Total gross profit margin decreased to 16.7% for 1997 from 17.2% for 1996. The decrease in gross profit margins was primarily a result of the acquisition of several new dealerships during 1997 which were generating gross margins lower than those of the Company. The Company's gross profit margin continues to exceed the average U.S. dealership gross profit margin of 12.9% for 1996.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. The Company's selling, general and administrative ("SG&A") expense increased $20.8 million, or 104.9%, to $40.6 million for 1997 compared to $19.8 million for 1996. SG&A as a percentage of sales decreased to 12.7% for 1997 from 13.9% for 1996. The increase in SG&A was due primarily to increased selling, or variable, expense related to the increase in sales resulting from the acquisition of additional dealerships, and increased costs associated with being a public company. The decrease in SG&A as a percent of total sales is a result of economies of scale gained as the fixed expenses are spread over a larger revenue base.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense increased $721,000 or 160.9% to $1.2 million for the year ended December 31, 1997 compared to $448,000 for 1996 primarily as a result of increased property and equipment and goodwill related to acquisitions in 1997. Depreciation and amortization was 0.4% of sales in 1997 compared to 0.3% in 1996. These figures exclude depreciation related to leased vehicles included in cost of sales.

INTEREST EXPENSE. Interest expense increased $1.6 million or 122.0% to $3.0 million for the year ended December 31, 1997 compared to $1.4 million for 1996, primarily as a result of increased debt in 1997 related to acquisitions, partly offset by increased cash balances for a majority of the year related to the Company's initial public offering.

OTHER INCOME, NET. Other income, net, consisting primarily of management fees from Lithia Properties, equity in the income of Lithia Properties and other non-dealer service income, decreased 37.3% to $725,000 for 1997 from $1.2 million for 1996. This decrease was primarily due to the one-time benefit of insurance proceeds received in 1996 related to damage caused by a hail storm.

INCOME TAX EXPENSE. Prior to December 18, 1996, the Company and its affiliated entities were treated as S Corporations or as partnerships under the Internal Revenue Code for federal income tax purposes since their inception and, as a result, have not been subject to federal or certain state income taxes. Immediately before the completion of the Company's initial public offering on December 18, 1996, and in connection with its restructuring, the Company and its affiliated entities that were S Corporations terminated their status as S Corporations and became subject to federal and state income tax at applicable C Corporation rates.

The Company's effective tax rate for 1997 was 37.3% compared to 38.4% (on a pro forma basis) for 1996. The Company's effective tax rate may be affected by the purchase of new dealerships in jurisdictions with tax rates either higher or lower than the current estimated rate.

NET INCOME. Net income rose 128.7% to $6.0 million (1.9% of total sales) for the year ended December 31, 1997 compared to $2.6 million (1.87% of total sales), on a pro forma basis, for 1996, as a result of the individual line item changes discussed above.

1996 COMPARED TO 1995

SALES. Sales for the Company increased $28.6 million, or 25% from $114.2 million for 1995, to $142.8 million for the year ended December 31, 1996. Total vehicles sold increased by 1,919, or 24.4%, from 7,859 during 1995 to 9,778 in 1996. The increase in sales was primarily from increased new and used vehicle unit sales as a result of increased levels of promotional activity for certain popular brands, increased availability of late model used vehicles (both retail and wholesale) which were in high demand and, to a lesser extent, from increased average per unit sales prices on both new and used vehicles. Sales in the third and fourth quarters of 1996 were also slightly higher due to a hail storm in July that mildly damaged vehicles in the Company's lots in and around Medford, Oregon. Such vehicles were sold at reduced prices, increasing unit sales, and increasing the gross profit margin due to the receipt of insurance proceeds applied to increase the gross profit rather than repair the vehicles. Sales in the fourth quarter of 1996 also increased as a result of the acquisition of two dealerships late in the quarter.

NEW VEHICLES. In 1996 and 1995, the Company sold 3,274 and 2,715 new vehicles, respectively, generating revenues of $65.1 million and $53.2 million, which constituted 45.6% and 46.7% of the Company's total revenues, respectively.

USED VEHICLES. In 1996 and 1995, the Company sold 6,504 and 5,144 used vehicles, respectively, generating revenues of $58.6 million and $44.1 million, constituting 41.0% and 38.6%, respectively, of the Company's total revenue.

OTHER. Revenue from maintenance and repair service, parts and other operating revenue increased 13.5% to $19.1 million during 1996, from $16.9 million during 1995, due to an increased number of F&I transactions and to a lesser extent, an increase in revenues derived from service department maintenance and repairs.

GROSS PROFIT. Gross profit increased 18.8% during 1996 to $24.5 million, compared with $20.6 million for 1995, primarily because of the increase in new and used vehicle unit sales during the period. The gross profit margin achieved by the Company on new vehicle sales during 1996 and 1995 was 13.1% and 12.8%, respectively, compared to the average gross profit margin obtained by franchised automobile dealers in the United States on sales of new vehicles of 6.5% in 1996. Excluding wholesale transactions, the Company's gross profit margin on used vehicle sales was 12.8% in 1996 and 13.2% in 1995, as compared to the industry average for 1995 of 11.5%. Gross profit margin decreased to 17.2% for 1996 from 18.1% for 1995. The decrease in gross profit margins is primarily due to a reduction in gross profit margins on used vehicle sales caused by an increase in wholesale sales of used vehicles, which typically provide negligible profit margins.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. The Company's SG&A expense increased $3.5 million, or 21.4%, to $19.8 million for 1996 compared to $16.3 million for 1995. SG&A as a percentage of sales decreased to 13.9% for 1996 from 14.3% for 1995. The increase in SG&A expense was due primarily to increased selling, or variable, expense related to the increase in sales, and to a lesser extent, an increase in compensation for additional personnel and management in preparation for acquisitions.

INTEREST EXPENSE. In connection with the reorganization of the Company prior to its initial public offering, and the termination of the Company's status as an S Corporation, the Company distributed to the shareholders promissory notes ("Dividend Notes") in the aggregate amount of $3.9 million, representing approximately all of the previously taxed undistributed earnings of the Company through December 31, 1995. The Company's interest expense remained stable at $1.4 million for 1996 and 1995 because the increase in total debt outstanding for 1996 caused by the distribution of the Dividend Notes was offset by a decrease in interest rates during 1996.

OTHER INCOME, NET. Other income, net, consisting primarily of management fees from Lithia Properties, equity in the income of Lithia Properties and other non-dealer service income, increased 11.6% to $1.2 million for 1996 from $1.0 million for 1995. This increase was primarily due to insurance proceeds received in 1996 related to damage caused by a hail storm.

INCOME TAX BENEFIT. The Company and its affiliated entities have been treated for federal income tax purposes as S Corporations or as partnerships under the Internal Revenue Code since their inception and, as a result, have not been subject to federal or certain state income taxes. Immediately before the completion of the Company's initial public offering on December 18, 1996 and in connection with its restructuring, the Company and its affiliated entities that were S Corporations terminated their status as S Corporations and became subject to federal and state income tax at applicable C Corporation rates. As a result of the

conversion from S Corporation status to C Corporation status in December 1996, the Company recorded a deferred tax asset of $906,000 and a corresponding benefit of $906,000 to income taxes in the fourth quarter of 1996.

Prior to 1994, the shareholders and members of the Company and the affiliated entities each received substantial year-end tax payment bonuses to provide the cash to pay income taxes on the Company's and affiliated entities income which was taxable to the principals. Such payments were reflected in SG&A expense.

NET INCOME. Net income was $2.6 million (1.8% of total sales) for the year ended December 31, 1996, on a pro forma basis, compared to $2.3 million (2.0% of total sales), on a pro forma basis, for 1995, as a result of the individual line item changes discussed above.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal needs for capital resources are to finance acquisitions, capital expenditures and increased working capital requirements. Historically, the Company has relied primarily upon internally generated cash flows from operations, borrowings under its credit facility and the proceeds from its initial public offering to finance its operations and expansion.

The Company's credit facility with a syndicate of banks, with U.S. Bank N.A. as agent, provides for aggregate borrowings of $175 million (the "Credit Facility"). The Credit Facility consists of (i) a $110 million revolving line of credit to finance new and used vehicle inventory (the "Flooring Line"),
(ii) a $30 million revolving line of credit for acquisitions (the "Acquisition Line"), (iii) a $10 million revolving line of credit for leased vehicles (the "Lease Line"), (iv) a $10 million revolving line of credit for equipment (the "Equipment Line"), and (v) a $15 million commitment for real estate acquisitions (the "Real Estate Line").

The Credit Facility has a maturity date of October 1, 1998. At that time, the Company has the right to elect to convert outstanding loans under the Acquisition Line and the Equipment Line to a term loan payable over 5 years.

Amounts outstanding at December 31, 1997 were as follows (in thousands):

Flooring Line	$82,598
Acquisition Line	5,000
Lease Line	5,211
Equipment and Real Estate Lines	4,827
Total	$97,636

Loans under the Credit Facility bear interest at LIBOR (London Interbank Offered Rate) plus 150 to 275 basis points, equivalent to 7.625% to 8.75% at December 31, 1997.

The Credit Facility contains financial covenants requiring the Company to maintain compliance with, among other things, specified ratios of (i) minimum net worth; (ii) total liabilities to net worth; (iii) funded debt to cash flow; (iv) fixed charge coverage; and (v) maximum allowable capital expenditures. The Company is currently in compliance with all such financial covenants.

Since December 1996 when the Company completed its initial public offering, the Company has acquired 17 dealerships. The aggregate net investment by the Company was approximately $48.6 million (excluding borrowings on its credit lines to finance acquired vehicle inventories and equipment and the purchase of any real estate).

The Company anticipates that it will be able to satisfy its cash requirements at least through December 31, 1998, including its currently anticipated growth, primarily with cash flow from operations, borrowings under the Flooring Line and the Company's other lines of credit, cash currently available, and the proceeds from its pending secondary offering of its Class A Common Stock. In addition, the Company is exploring various alternative financing arrangements with respect to its real estate, the result of which would be to provide additional available cash. No specific plans have been made in that regard as of the date of this Form 10-K.

SEASONALITY AND QUARTERLY FLUCTUATIONS

Historically, the Company's sales have been lower in the first and fourth quarters of each year largely due to consumer purchasing patterns during the holiday season, inclement weather and the reduced number of business days during the holiday season. As a result, financial performance for the Company is generally lower during the first and fourth quarters than during the other quarters of each fiscal year; however, this did not hold true for the fourth quarters of 1996 and 1995. Management believes that interest rates, levels of consumer debt, consumer buying patterns and confidence, as well as general economic conditions, also contribute to fluctuations in sales and operating results. The timing of acquisitions may cause substantial fluctuations of operating results from quarter to quarter.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued Statement of Financial Accounting Standard No. 130, "Reporting Comprehensive Income" ("SFAS 130"). This statement establishes standards for reporting and displaying comprehensive income and its components in a full set of general purpose financial statements. The objective of SFAS 130 is to report a measure of all changes in equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. The Company expects to adopt SFAS 130 in the first quarter of 1998 and does not expect comprehensive income to be materially different from currently reported net income.

In June 1997, the FASB issued Statement of Financial Accounting Standard No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). This statement establishes standards for the way that public business enterprises report information about operating segments in interim and annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company expects to adopt SFAS 131 for its fiscal year beginning January 1, 1998.

INFLATION

The Company believes that the relatively moderate rate of inflation over the past few years has not had a significant impact on the Company's revenues or profitability. In the past, the Company has been able to maintain its profit margins during inflationary periods.

YEAR 2000

The Company has assessed the implications of the Year 2000 issue and has determined that the cost of making its information systems Year 2000 compliant will not be material.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

No disclosure is required under this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL DATA

The financial statements and notes thereto required by this item begin on page F-1 as listed in Item 14 of Part IV of this document.

Quarterly financial data, pro forma for income taxes in 1996, for each of the eight quarters in the two-year period ended December 31, 1997 is as follows:

IN THOUSANDS, EXCEPT PER SHARE DATA	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
1997				
Net sales	$ 54,704	$ 66,422	$ 85,573	$ 113,096
Gross profit	8,949	10,716	14,185	19,582
Income before income taxes	1,864	2,227	2,573	2,833
Income taxes	720	859	994	965
Net income	1,144	1,368	1,579	1,868
Basic net income per share	0.17	0.20	0.23	0.27
Diluted net income per share	0.16	0.19	0.22	0.25
1996 (1)				
Net sales	$ 32,446	$ 36,597	$ 36,523	$ 37,278
Gross profit	5,599	6,009	6,566	6,337
Income before minority interest and taxes as reported (2)	937	1,203	1,205	884
Pro forma income taxes	360	477	462	324
Pro forma net income before minority interest (2)	577	726	743	560
Pro forma basic net income per share (2)	0.13	0.16	0.16	0.12
Pro forma diluted net income per share (2)	0.12	0.15	0.15	0.11

(1) The quarterly data for 1996 has been restated to give effect for the conversion from the LIFO method of accounting for inventory to the FIFO method, which was effective January 1, 1997.

(2) The quarterly data for 1996 is pro forma in order to be comparable to 1997 data due to S Corporation status in 1996 and C Corporation status in 1997, as well as the elimination of minority interest pursuant to the restructuring at the time of the initial public offering.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this item is included under the captions ELECTION OF DIRECTORS, EXECUTIVE OFFICERS and SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE, respectively, in the Company's Information Statement for its 1998 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is included under the caption EXECUTIVE COMPENSATION in the Company's Information Statement for its 1998 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is included under the caption SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT in the Company's Information Statement for its 1998 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is included under the caption CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS in the Company's Information Statement for its 1998 Annual Meeting of Shareholders and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) FINANCIAL STATEMENTS AND SCHEDULES The Consolidated Financial Statements, together with the report thereon of KPMG Peat Marwick LLP, are included on the pages indicated below:

There are no schedules required to be filed herewith.

(b) REPORTS ON FORM 8-K The Company filed the following reports on Form 8-K during the quarter ended December 31, 1997:

1. Form 8-K/A dated August 8, 1997 under Items 2 and 7, as filed with the Securities and Exchange Commission on October 14, 1997.
2. Form 8-K dated October 1, 1997 under Items 2 and 7, as filed with the Securities and Exchange Commission on October 14, 1997.
3. Form 8-K/A dated October 1, 1997 under Items 2 and 7, as filed with the Securities and Exchange Commission on December 12, 1997.
4. Form 8-K dated December 16, 1997 under Items 2 and 7, as filed with the Securities and Exchange Commission on December 30, 1997.

(c) EXHIBITS The following exhibits are filed herewith and this list is intended to constitute the exhibit index:

EXHIBITS		DESCRIPTION
3.1	(a)	Restated Articles of Incorporation of Lithia Motors, Inc.
3.2	(a)	Bylaws of Lithia Motors, Inc.
4.1	(a)	Specimen Common Stock certificate
10.1.1	(a)	1996 Stock Incentive Plan
10.1.2	(a)	Form of Incentive Stock Option Agreement
10.1.3	(a)	Form of Non-Qualified Stock Option Agreement
10.1.4	(a)	Form of Incentive Stock Option Agreement
10.2.1	(b)	1997 Non-Discretionary Stock Option Plan for Non-Employee Directors
10.3.1		Employee Stock Purchase Plan
10.4.1	(a)	Chrysler Corporation Chrysler Sales and Service Agreement, dated January 10, 1994, between Chrysler Corporation and Lithia Chrysler Plymouth Jeep Eagle, Inc. (Additional Terms and Provisions to the Sales and Service Agreements are in Exhibit 10.4.2 hereto) (1)
10.4.2	(a)	Chrysler Corporation Dealer Agreement Additional Terms and Provisions
10.5.1		Honda Automobile Dealer Sales and Service Agreement dated October 14, 1997, between American Honda Motor Company, Inc. and Lithia HPI, Inc. dba Lithia Honda (standard provisions are in Exhibit 10.5.3 hereto).
10.5.2		Acura Automobile Dealer Sales and Service Agreement dated October 2, 1997, between American Honda Motor Company, Inc. and Lithia BB, Inc. dba Lithia Acura of Bakersfield (standard provisions are in Exhibit 10.5.3 hereto).
10.5.3		American Honda Automobile Dealer Sales and Service Agreement Standard Provisions.
10.5.4		Agreement between American Honda Motor Company, Inc. and Lithia Motors, Inc. et al. dated December 17, 1996.
10.5.5		Amendment dated October 2, 1997, to Agreement between American Honda Motor Company, Inc. and Lithia Motors, Inc. et al. dated December 17, 1996.
10.6.1	(a)	Isuzu Dealer Sales and Service Agreement, dated June 5, 1996 between American Isuzu Motors, Inc. and Lithia Motors, Inc. (Additional Provisions to Dealer Sales and Service Agreements are in Exhibit 10.6.2 hereto) (2)
10.6.2	(a)	Isuzu Dealer Sales and Service Agreement Additional Provisions
10.6.3	(c)	Supplemental Agreement, dated December 27, 1996 to Isuzu Dealer Sales and Service Agreement (3)
10.7.1		Mercury Sales and Service Agreement, dated June 1, 1997, between Ford Motor Company and Lithia TLM, LLC dba Lithia Lincoln Mercury (general provisions are in Exhibit 10.7.3 hereto) (4)
10.7.2		Supplemental Terms and Conditions agreement between Ford Motor Company and Lithia Motors, Inc. dated June 12, 1997.
10.7.3	(a)	Mercury Sales and Service Agreement General Provisions
10.8.1		Supplemental Agreement dated January 16, 1998, to General Motors Corporation Dealer Sales and Service Agreement between General Motors Corporation and Lithia Motors, Inc.
10.8.2	(a)	General Motors Corporation Dealer Sales and Service Agreement, dated March 12, 1993, between General Motors Corporation Pontiac Division and Lithia Motors, Inc. dba Lithia Pontiac

EXHIBITS	DESCRIPTION
10.8.3 (a)	General Motors Dealer Sales and Service Agreement Standard Provisions
10.9.1 (a)	Mazda Dealer Agreement, dated April 11, 1994 between Mazda Motor of America, Inc. and Lithia Dodge, L.L.C. dba Lithia Mazda
10.10.1	Saturn Distribution Corporation Retailer Agreement, dated June 16, 1997, between Saturn Distribution Corporation and Saturn of Southwest Oregon, Inc.
10.10.2	Supplemental Agreement to Saturn Retailer Agreement, dated August 26, 1997, between Saturn of Southwest Oregon, Inc., Lithia Motors, Inc., Sidney B. DeBoer, Lithia Holding, LLC, and Saturn Distribution Corporation.
10.11.1 (a)	Toyota Dealer Agreement, dated January 30, 1990, between Toyota Motor Distributors, Inc. and Lithia Motors, Inc. dba Medford Toyota (5)
10.11.2 (a)	Toyota Dealer Agreement Standard Provisions
10.11.3 (a)	Agreement, dated September 30, 1996, between Toyota Motor Sales, U.S.A., Inc. and Lithia Motors, Inc.
10.11.4 (c)	Addendum dated December 26, 1996, to Section X - additional provisions to Toyota Dealer Agreement, dated November 15, 1996 between Toyota Motor Sales, USA, Inc. and Lithia TKV, Inc.
10.12.1	Suzuki Term Dealer Sales and Service Agreement, dated May 14, 1997, between American Suzuki Motor Corporation and Lithia HPI, Inc. dba Lithia Suzuki (standard provisions are in Exhibit 10.12.2 hereto) (6)
10.12.2	Suzuki Dealer Sales and Service Agreement Standard Provisions.
10.13.1	BMW Dealer Agreement, dated October 3, 1997, between BMW of North America, Inc. and Lithia BB, Inc.
10.14.1	Hyundai Motor America Dealer Sales and Service Agreement, dated January 26, 1998, between Hyundai Motor America and Lithia JEF, Inc.
10.15.1	Nissan Dealer Term Sales and Service Agreement between Lithia Motors, Inc., Lithia NF, Inc., and the Nissan Division of Nissan Motor Corporation In USA dated January 2, 1998. (standard provisions are in Exhibit 10.15.2 hereto) (7)
10.15.2	Nissan Standard Provisions
10.16.1	Volkswagen Dealer Agreement dated April 5, 1996, between Volkswagen United States, Inc. and Lithia Motors, Inc. dba Lithia Volkswagen. (standard provisions are in Exhibit 10.16.2 hereto)
10.16.2	Volkswagen Dealer Agreement Standard Provisions *
10.17.1 (a)	Commercial Lease, dated September 20, 1996, between Lithia Properties, L.L.C. and Lithia Motors, Inc. (8)
10.17.2 (a)	Form of Commercial Lease, effective January 1, 1997, between Lithia Properties, L.L.C. and Lithia Motors, Inc. (9)
10.18.1 (a)	Asset Purchase Agreement, dated August 2, 1996, between Lithia Motors, Inc. and Roberts Dodge, Inc.
10.18.2 (a)	Land Sale Contract, dated August 2, 1996, between Lithia Properties, L.L.C. and Milford G. Roberts, Sr. and Sandra L. Roberts
10.18.3 (a)	Assignment of Land Sale Contract, dated November 5, 1996, between Lithia Properties, LLC and Lithia Motors, Inc.
10.19.1 (a)	Commercial Lease, dated April 1, 1992, between Billy J. Wilson et al and Wilson/Malasoma, Inc. relating to facility in Vacaville, California.
10.20.1 (d)	Agreement for Purchase and Sale of Business Assets between Magnussen Dodge, Inc. and Lithia Motors, Inc. dated January 21, 1997
10.20.2 (d)	Lease between Solano Way Partnership and Lithia Real Estate, Inc. dated February 14, 1997

EXHIBITS	DESCRIPTION
10.21.1 (c)	Agreement for Purchase and Sale of Business Assets between Magnussen-Barbee Ford, Lincoln-Mercury, Inc. and Lithia Motors, Inc. dated February 21, 1997
10.21.2 (e)	Lease between John Ferrogiaro and Bernard L. Magnussen et al., as amended by Second Amendment to Lease, dated December 12, 1996, and Consent to Assignment and Third Amendment to Lease, by and among John Ferrogiaro, Magnussen Dealership Group and Lithia Real Estate, Inc.
10.22.1 (f)	Agreement for Purchase and Sale of Business Assets between Sun Valley Ford, Inc. and Lithia Motors, Inc. dated April 2, 1997
10.22.2 (g)	Promissory Note for Leasehold Improvements issued by Lithia Motors, Inc. to Sun Valley Ford, Inc. dated August 8, 1997.
10.22.3 (g)	Promissory Note for Intangible Assets issued by Lithia Motors, Inc. to Sun Valley Ford, Inc. dated August 8, 1997.
10.22.4 (h)	Standard Industrial Lease, as amended and assignment thereof, among Edmund C. Bartlett, Jr., Anna Bartlett, Sun Valley Ford, Inc. and Lithia Motors, Inc. dated July 16, 1997
10.22.5 (h)	Lease Agreement and assignment thereof, among George Valente and Lena E. Valente as trustees of the George and Lena E. Valente Trust, Sun Valley Ford, Inc. and Lithia Motors, Inc. dated August 4, 1997.
10.23.1 (f)	Agreement for Purchase and Sale of Business Assets between Dick Donnelly Automotive Enterprises, Inc. dba Dick Donnelly Lincoln-Mercury, Audi, Suzuki, Isuzu and Lithia Motors, Inc. dated April 2, 1997
10.23.2	Lease Agreement among Paul H. Snider and Dick Donnelly Automotive Enterprises, Inc. dated October 17, 1989
10.23.3	Lease Agreement among Richard M. Donnelly and Susan K. Donnelly and Lithia Real Estate, Inc. dated October 1, 1997
10.24.1 (f)	Agreement for Purchase and Sale of Business Assets between Nissan BMW, Inc. dba Bakersfield Nissan, Acura, BMW and Lithia Motors, Inc. dated June 26, 1997
10.24.2	Real Propertyt Lease Agreement among Eloy C. Renfrow and Lithia Real Estate, Inc. dated October 2, 1997
10.25.1 (i)	Agreement for Purchase and Sale of Business Assets between Century Ford, Inc. and Lithia Motors, Inc. dated September 1, 1997
10.25.2	Lease Agreement among BR Enterprise and Lithia Motors, Inc. dated September 3, 1997
10.26.1 (j)	Agreement for Purchase and Sale of Business Assets between Daniel A. Haus Group, Inc. dba Quality Nissan and Quality Jeep/Eagle Hyundai and Lithia Motors, Inc. dated October 10, 1997
10.27.1	Agreement for Purchase and Sale of Business Assets between Medford Nissan, Inc. dba "Medford Nissan BMW Kia", Lithia Motors, Inc, or its nominee, and James D. Plummer, dated September 8, 1997.
10.27.2	Real Property Lease Agreement among James D. Plummer and Lithia Real Estate, Inc. dated October 14, 1997
10.28.1	Agreement for Purchase and Sale of Business Assets between United American Funding, Inc. dba "Reno Volkswagen" and Lithia Motors, Inc., or its nominee, dated December 31, 1997.
10.28.2	Lease Agreement among Teddy Bear Havas Motors, Inc., and United American Funding, Inc. dated July 28, 1992
10.29.1 (a)	Reorganization Agreement, dated as of October 10, 1996, by and among Lithia Motors, Inc., LGPAC, Inc., Lithia DM, Inc., Lithia MTLM, Inc., Lithia HPI, Inc., Lithia SSO, Inc., Lithia Rentals, Inc., Discount Auto & Truck Rental, Inc., Lithia Auto Services, Inc., Lithia Holding Company L.L.C., Sidney B. DeBoer, M.L. Dick Heimann, R. Bradford Gray, and Steve R. Philips
10.30.1	Credit Agreement among U.S. Bank National Association, as Agent and Lender, and Lithia Motors, Inc. and its Affiliates and Subsidiaries dated December 22, 1997.
10.30.2	Security Agreement among U.S. Bank National Association, as Agent and Lender, and Lithia Motors, Inc. and its Affiliates and Subsidiaries dated December 22, 1997.

EXHIBITS	DESCRIPTION
10.30.3	Guaranty among U.S. Bank National Association, as Agent and Lender, and Lithia Motors, Inc. and its Affiliates and Subsidiaries dated December 22, 1997.
10.31.1 (a)	Management Contract between Lithia Leasing, Inc. and Lithia Properties LLC.
10.32.1 (a)	Purchase and Sale Agreement, dated December 13, 1996, between Lithia Properties and Lithia Real Estate, Inc.
10.33.1	Agreement for Purchase and Sale of Business Assets between E.W.H. Group, Inc. d/b/a Haddad Jeep/Eagle and Lithia Motors, Inc. dated October 14, 1997 and Addendum to such agreement.
21.1	Subsidiaries of Lithia Motors, Inc.
23.1	Consent of KPMG Peat Marwick LLP
27.1	Financial Data Schedule
27.2	Financial Data Schedule
27.3	Financial Data Schedule

(a) Incorporated by reference from the Company's Registration Statement on Form S-1, Registration Statement No. 333-14031, as declared effective by the Securities Exchange Commission on December 18, 1996.

(b) Incorporated by reference from the Company's Registration Statement on Form S-8, Registration Statement No. 333-45553, as filed with the Securities Exchange Commission on February 4, 1998.

(c) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1996, as filed with the Securities Exchange Commission on March 31, 1997.

(d) Incorporated by reference from the Company's Form 8-K as filed with the Securities Exchange Commission on June 6, 1997.

(e) Incorporated by reference from the Company's Form 8-K as filed with the Securities Exchange Commission on July 16, 1997.

(f) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, as filed with the Securities Exchange Commission on August 12, 1997.

(g) Incorporated by reference from the Company's Form 8-K as filed with the Securities Exchange Commission on August 21, 1997.

(h) Incorporated by reference from the Company's Form 8-K/A as filed with the Securities Exchange Commission on October 14, 1997.

(i) Incorporated by reference from the Company's Form 8-K as filed with the Securities Exchange Commission on December 30, 1997.

(j) Incorporated by reference from the Company's Form 8-K as filed with the Securities Exchange Commission on January 30, 1998.

(1) Substantially identical agreements exist between Chrysler Corporation and Lithia Chrysler Plymouth Jeep Eagle, Inc., with respect to Jeep, Eagle, and Plymouth sales and service; between Chrysler Corporation and Lithia's Grants Pass Auto Mart, with respect to Jeep, Eagle, Dodge and Plymouth sales and service; between Chrysler Corporation and Medford Dodge with respect to Dodge sales and service; and between Chrysler Corporation and Lithia DC, Inc., with respect to Dodge sales and service.

(2) A substantially identical agreement exists between American Isuzu Motors, Inc and Lithia SALMIR, Inc. with respect to Isuzu sales and service.

(3) Substantially identical agreements exist between American Isuzu Motors, Inc., Lithia Motors, Inc. and Lithia DC, Inc. and between American Isuzu Motors, Inc., Lithia Motors, Inc. and Lithia SALMIR, Inc.

(4) A substantially identical agreement exists between the same parties with respect to Lincoln Sales and Services; between Ford Motor Company and Lithia FN, Inc. with respect to Lincoln and Mercury sales and service; and between Ford Motor Company and Lithia FVHC with respect to Ford sales and service.

(5) A substantially identical agreement exists between Toyota Motor Sales, USA, Inc. and Lithia TKV, Inc. dba Lithia Toyota Vacaville dated November 15, 1996 with respect to Toyota Sales and Service.

(6) A substantially identical agreement exists between American Suzuki Motor Corporation and Lithia SALMIR, Inc., dated October 6, 1997, with respect to Suzuki sales and service.

(7) A substantially identical agreement exists between Nissan Motor Corporation and Lithia NB, Inc., dated October 2, 1997, with respect to Nissan sales and service.

(8) Substantially identical leases of the same date exist between Lithia Properties L.L.C. and (i) Lithia TLM, L.L.C. and Lithia MTLM, Inc., relating to the properties located in Medford, Oregon at 360 E. Jackson St., 400 N. Central Ave., 325 E. Jackson St., 343-345 Apple St., 440-448 Front St., 3rd & Front St. and 344 Bartlett, collectively at a lease rate of $42,828 per month; (ii) Lithia Motors, Inc. dba Lithia Body and Paint, relating to the properties in Medford, Oregon, located at 4th & Bartlett, 235 Bartlett, 220 N. Bartlett, and 275 E. 5th; and in Grants Pass, Oregon, at 1470 N.E. 7th, collectively at a lease rate of $16,890 per month; (iii) Discount Auto and Truck Rental, Inc., relating to properties located in Medford, Oregon, at 326 N. Bartlett, 315 & 321 Apple St., and in Grants Pass, Oregon, at 1470 N.E. 7th, collectively at a lease rate of $2,609 per month;
(iv) Lithia Dodge, L.L.C. and Lithia DM, Inc., relating to properties located in Medford, Oregon, at 322 E. 4th, 315 & 324 E. 5th St., 225, 319 & 323 E. 6th, Riverside & 4th, Riverside & 6th, and 129 N. Riverside, collectively at a lease rate of $53,490 per month;
(v) Lithia Grants Pass Auto Center and L.L.C., LGPAC, Inc., relating to the property located in Grants Pass, Oregon, at 1421 N.E. 6th at a lease rate of $25,625 per month; (vi) Lithia Motors, Inc. and Lithia SSO, Inc., relating to properties located in Medford, Oregon, at 400, 705-717 N. Riverside Ave., 712 and 716 Pine St., and 502 Maple St., collectively at a lease rate of $20,048 per month; (vii) Lithia Motors, Inc. dba Thrift Auto Supply, relating to the properties located in Medford, Oregon, at 801 N. Riverside Ave, and 503 Maple St., collectively at a lease rate of $6,265 per month; and
(viii) Lithia Motors, Inc. and Lithia HPI, Inc., relating to properties located in Medford, Oregon, at 700 and 800 N. Central Ave, 217 and 220 N. Beatty St., 710 and 815-817 Niantic St., and 311 & 313 Maple St., collectively at a lease rate of $30,350 per month.

(9) Substantially identical lease will exist between Lithia Properties L.L.C. and (i) Lithia MTLM, Inc., relating to the properties located in Medford, Oregon at 360 E. Jackson St., 400 N. Central Ave., 325 E. Jackson St., 343-345 Apple St., 440-448 Front St., 3rd & Front St. and 344 Bartlett, 315 & 321 Apple St., and 401 E. 4th St., collectively at a lease rate of $33,728 per month; (ii) Lithia Auto Services, Inc. dba Lithia Body and Paint, relating to the properties in Medford, Oregon, located at 401 E. 4th St., 4th & Bartlett, 235 Bartlett, 220 N. Bartlett, and 275 E. 5th; and in Grants Pass, Oregon, at 1470 N.E. 7th, and 801 N. Riverside Ave, collectively at a lease rate of $17,439 per month; (iii) Lithia Rentals, Inc., dba Discount Auto and Truck Rental, relating to properties located in Medford, Oregon, at 971 Gilman Rd., and in Grants Pass, Oregon, at 1470 N.E. 7th, collectively at a lease rate of $962 per month; (iv) Lithia Dodge, L.L.C. and Lithia DM, Inc., relating to properties located in Medford, Oregon, at 322 E. 4th, 315 & 324 E. 5th St., 225, 319 & 323 E. 6th, Riverside & 4th, Riverside & 6th, and 129 N. Riverside, collectively at a lease rate of $53,490 per month; (v) LGPAC, Inc., relating to the property located in Grants Pass, Oregon, at 1421 N.E. 6th and 1470 N.E. 7th, collectively at a lease rate of $18,023 per month; (vi) Lithia SSO, Inc., relating to properties located in Medford, Oregon, at 400, 705-717 N. Riverside Ave., collectively at a lease rate of $16,364 per month; (vii) Lithia DM, Inc., relating to properties located in Medford, Oregon, at 324 E. 5th, 319 & 323 E. 6th St., 6th & Riverside, 129 N. Riverside, 4th & Riverside, 225 E. 6th, 315 E. 5th, 322 E. 4th, 201 N. Riverside, 309, 315, 333, and 329 N. Riverside, 334 & 346 Apple St. and 401 E. 4th, collectively at a lease rate of $30,557 per month; and (viii) Lithia Motors, Inc., relating to properties located in Medford, Oregon, at 360 E. Jackson, 325 E. Jackson, 345 B. Bartlett, and 401 E. 4th St., collectively at a lease rate of $5,309 per month. Substantially identical lease agreements also exist between Lithia Real Estate, Inc., and (i) Lithia FVHC, Inc. relating to the properties in Concord, California, located at 1260 Diamond Way and 2285 Diamond Way;

(ii) Lithia BB, Inc., relating to the property in Bakersfield, California, located at 3201 Cattle Drive; (iii) Lithia DE, Inc., relating to the properties in Eugene, Oregon, located at 2121 Centennial Boulevard and 80 Centennial Loop; (iv) Lithia TKV, Inc. relating to the property in Vacaville, California, located at 100 Auto Center Drive;
(v) Lithia Auto Services, Inc. relating to the property in Medford, Oregon, located at 2665 Bullock Road; (vi) Lithia FN, Inc. relating to the property in Napa, California, located at 300 Sascol Avenue;
(vii) Lithia NB, Inc. relating to the properties in Bakersfield, California, located at 3101 and 3201 Cattle Drive and 2800 and 2808 Pacheco Road; (viii) Lithia MMF, Inc. relating to the properties in Fresno, California, located and 155 and 165 East Auto Center Drive;
(ix) Lithia FMF, Inc. relating to the properties in Fresno, California, located at 175 and 195 East Auto Center Drive; (x) Lithia DC, Inc. relating to the property in Concord, California, located at 4901 Marsh Drive; (xi) Lithia SALMIR, Inc. relating to the properties in Reno, Nevada, located at 7063 and 7175 South Virginia Street and the property in Sparks, Nevada, located at 40 Victorian Avenue; and (xii) Lithia NF, Inc., relating to the property in Fresno, California, located at 5580 North Blackstone Avenue.

(10) A substantially indentical agreement (except for the price paid and the purchase rather than lease of the business property) exists between Rodway Chevrolet Co., and Lithia Motors, Inc. dated March 19, 1998, with respect to the purchase and sale of business assets of Rodway Chevrolet located in Redding, California.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 20, 1998 *LITHIA MOTORS, INC.*

By /s/ SIDNEY B. DEBOER
Sidney B. DeBoer
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 20, 1998:

SIGNATURE	TITLE
/s/ SIDNEY B. DEBOER Sidney B. DeBoer	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ BRIAN R. NEILL Brian R. Neill	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ M. L. DICK HEIMANN M. L. Dick Heimann	Director, President and Chief Operating Officer
/s/ R. BRADFORD GRAY R. Bradford Gray	Director and Executive Vice President
/s/ THOMAS BECKER Director	Director
/s/ WILLIAM J. YOUNG William J. Young	Director

Independent Auditors' Report

The Board of Directors and Shareholders
Lithia Motors, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Lithia Motors, Inc. and Subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lithia Motors, Inc. and Subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for inventories, effective January 1, 1997.

KPMG PEAT MARWICK LLP

Portland, Oregon
February 6, 1998

LITHIA MOTORS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)	DECEMBER 31, 1997	DECEMBER 31, 1996 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,454	$ 15,413
Trade receivables	7,655	2,260
Notes receivable, current portion	427	414
Notes receivable, related party	-	308
Inventories, net	89,845	33,362
Vehicles leased to others, current portion	738	524
Prepaid expenses and other	913	372
Deferred income taxes	1,855	1,646
Total current assets	119,887	54,299
Property and equipment, net of accumulated depreciation of $2,822 and $2,073	16,265	4,616
Vehicles leased to others, less current portion	4,588	4,500
Notes receivable, less current portion	309	377
Goodwill, net of accumulated amortization of $293 and $0	24,062	4,101
Other non-current assets, net	1,415	1,071
Total assets	$ 166,526	$68,964
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ -	$500
Flooring notes payable	82,598	19,645
Current maturities of long-term debt	2,688	1,855
Current portion of capital leases	99	-
Trade payables	3,874	2,434
Accrued liabilities	6,758	2,482
Payable to related parties	-	1,952
Total current liabilities	96,017	28,868
Long-term debt, less current maturities	24,242	6,160
Long-term capital leases, less current portion	2,316	-
Deferred revenue	2,519	3,250
Other long-term liabilities	447	-
Deferred income taxes	3,108	2,772
Total liabilities	128,649	41,050
SHAREHOLDERS' EQUITY		
Preferred stock, no par value; authorized 15,000 shares; issued and outstanding none	-	-
Class A Common Stock, no par value; authorized 100,000 shares; issued and outstanding 2926 and 2,500	28,117	24,172
Class B Common Stock, no par value; authorized 25,000 shares; issued and outstanding 4,110 and 4,110	511	511
Additional paid-in capital	59	-
Retained earnings	9,190	3,231
Total shareholders' equity	37,877	27,914
Total liabilities and shareholders' equity	$166,526	$68,964

(1) Restated, see Note 1 of Notes to Consolidated Financial Statements.

The accompanying notes are an integral part of these consolidated statements.

LITHIA MOTORS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS oF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	1997	1996(1)	1995(1)
(in thousands, except per share amounts)			
Sales:			
Vehicles	$274,393	$123,703	$ 97,338
Service, body, parts and other	45,402	19,141	16,858
Total sales	319,795	142,844	114,196
Cost of sales			
Vehicles	245,812	108,743	85,381
Service, body, parts and other	20,551	9,590	8,178
Cost of sales	266,363	118,333	93,559
Gross profit	53,432	24,511	20,637
Selling, general and administrative	40,625	19,830	16,333
Depreciation and amortization	1,169	448	402
Operating income	11,638	4,233	3,902
Other income (expense)			
Equity in income of affiliate	102	44	67
Interest income	138	193	179
Interest expense	(3,004)	(1,353)	(1,390)
Other, net	623	1,112	969
	(2,141)	(4)	(175)
Income before minority interest and income taxes	9,497	4,229	3,727
Minority interest	-	(687)	(778)
Income before income taxes	9,497	3,542	2,949
Income tax (expense) benefit	(3,538)	813	-
Net income	$ 5,959	$ 4,355	$ 2,949
Basic net income per share	$0.85	$0.94(2)	$0.64(2)
Diluted net income per share	$0.82	$0.88(2)	$0.60(2)
PRO FORMA NET INCOME DATA (UNAUDITED)			
Income before minority interest and income taxes, as reported		$ 4,229	$ 3,727
Pro forma income taxes		(1,623)	(1,430)
Pro forma net income		$2,606	$2,297
Pro forma basic net income per share		$0.56	$0.50
Pro forma diluted net income per share		$0.52	$0.47

(1) Restated, see Note 1 of Notes to Consolidated Financial Statements.
(2) Not comparable to 1997 data due to S Corporation status in 1996; therefore, this is a pre-tax earnings per share amount. See Note 8 of Notes to Consolidated Financial Statements.

The accompanying notes are an integral part of these consolidated statements.

LITHIA MOTORS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

(in thousands)	COMMON STOCK				ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS(1)	TOTAL SHAREHOLDERS' EQUITY(1)
	CLASS A		CLASS B				
	SHARES	AMOUNT	SHARES	AMOUNT			
BALANCE, DECEMBER 31, 1994	-	$ -	3,017	$ 751	$ -	$ 5,343	$ 6,094
Net income	-	-	-	-	-	2,949	2,949
Issuance of Class B Common Stock	-	-	1,093	50	-	-	50
Dividends	-	-	-	-	-	(5,377)	(5,377)
BALANCE, DECEMBER 31, 1995	-	-	4,110	801	-	2,915	3,716
Net income	-	-	-	-	-	4,355	4,355
Dividends	-	-	-	-	-	(4,460)	(4,460)
Contribution of minority interest to Class B Common Stock pursuant to restructuring	-	-	-	131	-	-	131
Restructuring in connection with initial public offering	-	-	-	(421)	-	421	-
Issuance of Class A Common Stock, net of offering expenses of $3,328	2,500	24,172	-	-	-	-	24,172
BALANCE, DECEMBER 31, 1996	2,500	24,172	4,110	511	-	3,231	27,914
Net income	-	-	-	-	-	5,959	5,959
Underwriters' over-allotment option	375	3,783	-	-	-	-	3,783
Compensation for stock option issuances	-	-	-	-	59	-	59
Exercise of stock options	51	162	-	-	-	-	162
BALANCE, DECEMBER 31, 1997	2,926	$28,117	4,110	$ 511	$59	$ 9,190	$37,877

(1) Restated, see Note 1 of Notes to Consolidated Financial Statements.

The accompanying notes are an integral part of these consolidated statements.

LITHIA MOTORS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

(in thousands)	YEAR ENDED DECEMBER 31, 1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 5,959	$ 4,355	$ 2,949
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:			
Depreciation and amortization	2,483	1,756	1,907
Compensation related to stock option issuances	59	-	-
(Gain) loss on sale of assets	(1)	(239)	(305)
Gain on sale of vehicles leased to others	(286)	-	-
Deferred income taxes	336	(906)	-
Minority interest in income	-	687	778
Equity in income of affiliate	(102)	(44)	(67)
(Increase) decrease in operating assets:			
Trade and installment contract receivables, net	(5,087)	(852)	(692)
Inventories	(9,009)	(7,120)	1,858
Prepaid expenses and other	(678)	(19)	30
Other noncurrent assets	(486)	(196)	(277)
Increase (decrease) in operating liabilities:			
Flooring notes payable	24,622	(3,283)	(1,628)
Trade payables	1,440	979	609
Accrued liabilities	4,252	797	306
Other liabilities	(2,274)	3,095	677
Proceeds from sale of vehicles leased to others	5,330	5,760	4,757
Expenditures for vehicles leased to others	(6,750)	(6,537)	(6,308)
Net cash provided by (used in) operating activities	19,808	(1,767)	4,594
CASH FLOWS FROM INVESTING ACTIVITIES:			
Notes receivable issued	(249)	(540)	(190)
Principal payments received on notes receivable	304	500	83
Capital expenditures	(8,801)	(395)	(524)
Proceeds from sale of assets	16	765	10
Cash paid for acquisitions	(25,220)	(6,937)	-
Distribution from affiliate	204	-	-
Net cash used in investing activities	(33,746)	(6,607)	(621)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings (repayments) on notes payable	-	(625)	235
Principal payments on long-term debt	(15,917)	(25,336)	(8,070)
Proceeds from issuance of long-term debt	28,951	21,635	12,529
Proceeds from issuance of common stock	3,945	24,172	50
Proceeds from minority interest share receivable	-	676	142
Dividends and distributions	-	(6,441)	(6,105)
Net cash provided by (used in) financing activities	16,979	14,081	(1,219)
Increase in cash and cash equivalents	3,041	5,707	2,754
CASH AND CASH EQUIVALENTS:			
Beginning of period	15,413	9,706	6,952
End of period	$ 18,454	$ 15,413	$ 9,706
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for interest	$ 3,206	$ 1,823	$ 1,828
Cash paid during the period for income taxes	3,011	-	-
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Issuance of notes receivable - minority interest	$ -	$ -	$ 678
Debt extinguishment upon transfer of property	-	1,112	-
Contribution of minority interest in S Corporation earnings upon Restructing to Class B Common Stock	-	131	-
Contribution of excess S Corporation retained earnings upon Restructuring to Class B Common Stock	-	421	-

The accompanying notes are an integral part of these consolidated statements.

LITHIA MOTORS, INC.

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollar and share amounts in thousands, except per share amounts)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND BUSINESS

Lithia Motors is one of the larger retailers of new and used vehicles in the western United States, offering 21 domestic and imported makes of new automobiles and light trucks at 22 locations, 12 in California, seven in Oregon and three in Nevada. As an integral part of its operations, the Company arranges related financing (non-recourse) and insurance and sells parts, service and ancillary products. The Company's headquarters are currently located in Medford, Oregon, where it has a market share of over 40%. The Company has grown primarily by successfully acquiring and integrating dealerships and by obtaining new dealer franchises. The Company's strategy is to become a leading acquirer and operator of dealerships in the western United States.

At its 22 locations, the Company offers, collectively, 21 makes of new vehicles including Dodge, Dodge Trucks, Chrysler, Plymouth, Jeep, Ford, Lincoln-Mercury, Toyota, Isuzu, Nissan, Volkswagen, Audi, Honda, Acura, Suzuki, BMW, Saturn, Pontiac, Mazda and Hyundai.

PRINCIPLES OF CONSOLIDATION

The accompanying financial statements reflect the results of operations, the financial position, and the cash flows for Lithia Motors, Inc. and its directly and indirectly wholly-owned subsidiaries. All significant intercompany accounts and transactions, consisting principally of intercompany sales, have been eliminated upon consolidation.

The financial results presented for periods prior to the Restructuring (see note 11) have been restated to reflect the consolidated results of operations, financial position and cash flows of the Company's dealerships and those of its affiliated entities under common control whose operations were combined under the Restructuring, using "as if" pooling of interest basis of accounting.

Lithia TLM LLC, Lithia Dodge LLC and Lithia Grants Pass Auto Center LLC were limited liability corporations majority owned by Lithia Motors, Inc. The 20%, 25% and 25% minority interests in Lithia TLM LLC, Lithia Dodge LLC and Lithia Grants Pass Auto Center LLC, respectively, have been recorded in the accompanying financial statements to the date of Restructuring.

CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, the Company considers contracts in transit and all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

INVENTORIES

Effective January 1, 1997, the Company changed its method of accounting for inventories from the last-in first-out (LIFO) method to the specific identification method for vehicles and the first-in first-out (FIFO) method of accounting for parts (collectively, the FIFO method). Management believes the FIFO method is preferable because the FIFO method of valuing inventories more accurately presents the Company's financial position as it reflects more recent costs at the balance sheet date, more accurately matches revenues with costs reported during the period presented and provides comparability to industry information. The financial statements of prior periods have been restated to apply the new method of accounting for inventories retroactively. The effect of this restatement was to increase retained earnings as of January 1, 1996 by $4,896. The restatement increased (decreased) net income by $314, or $0.06 per diluted share and $(426), or $(0.09) per diluted share, for the years ended December 31, 1995 and 1996, respectively.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost and being depreciated over their estimated useful lives, principally on the straight-line basis. The range of estimated useful lives are as follows:

Building and improvements	40 years
Service equipment	5 to 10 years
Furniture, signs and fixtures	5 to 10 years

The cost for maintenance, repairs and minor renewals is expensed as incurred, while significant renewals and betterments are capitalized. When an asset is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to income.

INVESTMENT IN AFFILIATE

The Company has a 20% interest in Lithia Properties, LLC, of which the other members are Sidney DeBoer (35%), M. L. Dick Heimann (30%) and three of Mr. DeBoer's children (5% each). The investment is accounted for using the equity method, with a carrying value of $571 and $468 at December 31, 1996 and 1997, respectively.

INCOME TAXES

Prior to the Company's initial public offering of its Common Stock in December 1996 (see note 11), the Company was an S Corporation for federal and state income tax reporting purposes. Federal and state income taxes on the income of an S Corporation were payable by the individual stockholders rather than the corporation.

The Company's S Corporation status terminated immediately prior to the effectiveness of the Company's initial public offering. At that time, the Company established a net deferred tax asset and recorded an accompanying credit to income tax expense. The accompanying statements of operations for the years ended December 31, 1995 and 1996, reflect provisions for income taxes on an unaudited pro forma basis, using the asset and liability method, as if the Company had been a C Corporation, fully subject to federal and state income taxes for those periods.

Under the asset and liability method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of changes in tax rates is recognized in income in the period that includes the enactment date.

ENVIRONMENTAL LIABILITIES AND EXPENDITURES

Accruals for environmental matters, if any, are recorded in operating expenses when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Accrued liabilities are exclusive of claims against third parties and are not discounted.

In general, costs related to environmental remediation are charged to expense. Environmental costs are capitalized if the costs increase the value of the property and/or mitigate or prevent contamination from future operations.

COMPUTATION OF PER SHARE AMOUNTS

Beginning December 31, 1997, basic earnings per share (EPS) and diluted EPS are computed using the methods prescribed by Statement of Financial Accounting Standard No. 128, EARNINGS PER SHARE (SFAS 128). Basic EPS is calculated using the weighted average number of common shares outstanding for the period and diluted EPS is computed using the weighted average number of common shares and dilutive common equivalent shares outstanding. Prior period amounts have been restated to conform with the presentation requirements of SFAS 128. Following is a reconciliation of basic EPS and diluted EPS:

	YEAR ENDED DECEMBER 31,								
	1997			1996			1995		
BASIC EPS	INCOME	SHARES	PER SHARE AMOUNT	INCOME	SHARES	PER SHARE AMOUNT	INCOME	SHARES	PER SHARE AMOUNT
Common Sharholders	$5,959	6,988	$0.85	$4,355	4,657	$0.94	$2,949	4,577	$0.64
EFFECT OF DILUTIVE SECURITIES									
Stock Options	-	315		-	316		-	316	
DILUTED EPS									
Income available to Common Shareholders	$5,959	7,303	$0.82	$4,355	4,973	$0.88	$2,949	4,893	$0.60

In accordance with certain Securities and Exchange Commission (SEC) Staff Accounting Bulletins, the above computations include all common and common equivalent shares issued within 12 months of the offering date as if they were outstanding for all periods presented using the treasury stock method.

FINANCIAL INSTRUMENTS

The carrying amount of cash equivalents, trade receivables, trade payables, accrued liabilities and short term borrowings approximate fair value because of the short-term nature of these instruments. The fair value of long-term debt was estimated by discounting the future cash flows using market interest rates and does not differ significantly from that reflected in the financial statements.

Fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

ADVERTISING

The Company expenses production and other costs of advertising as incurred. Advertising expense was $2,678, $1,297 and $1,136 for the years ended December 31, 1997, 1996 and 1995, respectively.

INTANGIBLE ASSETS AND GOODWILL

Intangible assets of $136 and $176, net of accumulated amortization of $63 and $23, at December 31, 1997 and 1996, respectively, represents a non-compete agreement being amortized on a straight-line basis over 5 years. This intangible asset is included in other non-current assets and is evaluated for impairment each period by determining its net realizable value.

Goodwill, which represents the excess purchase price over fair value of net assets acquired, is amortized on the straight-line basis over the expected period to be benefited of forty years. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

CONCENTRATIONS OF CREDIT RISK

Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base.

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash deposits. The Company generally is exposed to credit risk from balances on deposit in financial institutions in excess of the FDIC-insured limit.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes to financial statements. Changes in such estimates may affect amounts reported in future periods.

REVENUE RECOGNITION

Finance fees represent revenue earned by the Company for notes placed with financial institutions in connection with customer vehicle financing. Finance fees are recognized in income upon acceptance of the credit by the financial institution. Insurance income represents commissions earned on credit life, accident and disability insurance sold in connection with the vehicle on behalf of third party insurance companies. Commissions from third party service contracts are recognized upon sale. Insurance commissions are recognized in income upon customer acceptance of the insurance terms as evidenced by contract execution. Finance fees and insurance commissions, net of charge-backs, are classified as other operating revenue in the accompanying consolidated statements of operations.

Revenue from the sale of vehicles is recognized upon delivery, when the sales contract is signed and down payment has been received. Fleet sales of vehicles whereby the Company does not take title are shown on a net basis in other revenue.

MAJOR SUPPLIER AND DEALER AGREEMENTS

The Company purchases substantially all of its new vehicles and inventory from various manufacturers at the prevailing prices charged by the auto maker to all franchised dealers. The Company's overall sales could be impacted by the auto maker's inability or unwillingness to supply the dealership with an adequate supply of popular models.

The Company enters into agreements (Dealer Agreements) with the manufacturer. The Dealer Agreements generally limit the location of the dealership and retain auto maker approval rights over changes in dealership management and ownership. The auto makers are also entitled to terminate the Dealer Agreements if the dealership is in material breach of the terms.

The Company's ability to expand operations depends, in part, on obtaining consents of the manufacturers for the acquisition of additional dealerships.

STOCK-BASED COMPENSATION PLANS

The Company accounts for its stock-based compensation plan under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). Effective January 1, 1996, the Company adopted the disclosure option of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). SFAS 123 requires that companies which do not choose to account for stock-based compensation as prescribed by this statement shall disclose the pro forma effects on earnings and earnings per share as if SFAS 123 had been adopted. Additionally, certain other disclosures are required with respect to stock compensation and the assumptions used to determine the pro forma effects of SFAS 123.

RECLASSIFICATIONS

Certain items previously reported in specific financial statement captions have been reclassified to conform with the 1997 presentation.

(2) INVENTORIES AND RELATED NOTES PAYABLE

Inventories are valued at cost, using the specific identification method for vehicles and the first-in first-out (FIFO) method of accounting for parts (collectively, the FIFO method).

The new and used vehicle inventory, collateralizing related notes payable, and other inventory were as follows:

	DECEMBER 31,			
	1997		1996	
	INVENTORY COST	NOTES PAYABLE	INVENTORY COST	NOTES PAYABLE
New and demonstrator vehicles	$63,457	$67,098	$19,402	$19,645
Used vehicles	21,524	15,500	12,199	-
Parts and accessories	4,864	-	1,761	-
Total inventories	$89,845	$82,598	$33,362	$19,645

Flooring notes payable consist of flooring notes from a bank secured by new and used vehicles. The flooring arrangements permit the Company to borrow up to $27.9 million in 1996 and $110 million in 1997, restricted by new and used vehicle levels. The notes are due within 5 days of the vehicle being sold or after the vehicle has been in inventory for 1 year for new vehicles, 6 months for program vehicles, and on a revolving basis for used vehicles.

(3) PROPERTY, PLANT AND EQUIPMENT

	DECEMBER 31,	
	1997	1996
Buildings and improvements	$7,449	$1,131
Service equipment	3,992	1,641
Furniture, signs and fixtures	4,340	2,545
	15,781	5,317
Less accumulated depreciation	(2,822)	(2,073)
	12,959	3,244
Land	2,924	1,272
Construction in progress	382	100
	$16,265	$4,616

(4) VEHICLES LEASED TO OTHERS AND RELATED LEASE RECEIVABLES

	DECEMBER 31,	
	1997	1996
Vehicles leased to others	$6,531	$6,378
Less accumulated depreciation	(1,205)	(1,354)
	5,326	5,024
Less current portion	(738)	(524)
	$4,588	$4,500

Vehicles leased to others are stated at cost and depreciated over their estimated useful lives (5 years) on a straight-line basis. Lease receivables result from customer, employee and fleet leases of vehicles under agreements which qualify as operating leases. Leases are cancelable at the option of the lessee after providing 30 days written notice.

(5) NOTES PAYABLE

Notes payable at December 31, 1996 consisted of an 8.5% note payable in connection with the Robert's Dodge acquisition.

(6) LINES OF CREDIT AND LONG-TERM DEBT

In September 1997, the Company announced an agreement with U.S. Bank N.A. for $175 million in credit lines, including $110 million in new, used and program flooring lines, $30 million in acquisition capital and $35 million for other corporate purposes. The lines bear interest at LIBOR plus 150 to 275 basis points, 7.625% to 8.75% at December 31, 1997. The limits and interest rates associated with the lines are reviewed annually, with the current term expiring on October 1, 1998. Upon expiring on October 1, 1998, the acquisition line and the equipment line convert to 5-year term notes.

Long-term debt consists of the following:

	DECEMBER 31,	
	1997	1996
Lease Line	$ 5,211	$ 5,196
Acquisition Line	5,000	-
Equipment and Real Estate Lines	4,827	1,019
Notes payable in monthly installments of $35, including interest between 8.27% and 10.63%, maturing fully December 2009; secured by land and buildings	11,892	1,800
	26,930	8,015
Less current maturities	(2,688)	(1,855)
	$ 24,242	$ 6,160

The schedule of future principal payments on long-term debt after December 31, 1997 is as follows:

YEAR ENDING DECEMBER 31,	
1998	$ 2,688
1999	8,531
2000	3,905
2001	3,160
2002	3,471
Thereafter	5,175
Total principal payments	$26,930

(7) SHAREHOLDERS' EQUITY

The shares of Class A common stock are not convertible into any other series or class of the Company's securities. However, each share of Class B common stock is freely convertible into one share of Class A common stock at the option of the holder of the Class B common stock. All shares of Class B common stock shall automatically convert to shares of Class A common stock (on a share-for-share basis, subject to the adjustments) on the earliest record date for an annual meeting of the Company shareholders on which the number of shares of Class B common stock outstanding is less than 1% of the total number of shares of common stock outstanding. Shares of Class B common stock may not be transferred to third parties, except for transfers to certain family members and in other limited circumstances.

Holders of Class A common stock are entitled to one vote for each share held of record, and holders of Class B common stock are entitled to ten votes for each share held of record. The Class A common stock and Class B common stock vote together as a single class on all matters submitted to a vote of shareholders.

(8) INCOME TAXES

At the date of the Company's restructuring (see note 11), the Company terminated its S Corporation election and is now taxed as a C Corporation in accordance with SFAS 109, ACCOUNTING FOR INCOME TAXES. Income taxes for 1997 and pro forma income taxes on the Company's earnings for 1996 (unaudited) and 1995 (unaudited) are as follows:

	FOR THE YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Current:			
Federal	$2,967	$1,860	$1,487
State	444	387	309
	3,411	2,247	1,796
Deferred:			
Federal	114	(517)	(303)
State	13	(107)	(63)
	127	(624)	(366)
Total	$3,538	$1,623	$1,430

Individually significant components of the deferred tax assets and liabilities are presented below:

	DECEMBER 31,	
	1997	1996
Deferred tax assets:		
Allowance and accruals	$ 470	$ 277
Deferred revenue	1,126	1,244
Total deferred tax assets	1,596	1,521
Deferred tax liabilities:		
LIFO recapture	(1,841)	(2,032)
Property and equipment, principally due to differences in depreciation	(1,008)	(615)
Total deferred tax liabilities	(2,849)	(2,647)
Total	$(1,253)	$(1,126)

The reconciliation between the statutory federal income tax expense at 34% and the Company's income tax expense for 1997 is shown in the following tabulation. The following tabulation also reconciles the expected corporate federal income tax expense for 1995 and 1996 (computed by multiplying the Company's income before minority interest by 34%) with the Company's unaudited pro forma income tax expense:

	FOR THE YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Statutory federal taxes at 34%	$3,229	$1,438	$1,267
State taxes, net of federal income tax benefit	278	184	162
Other	31	1	1
Income tax expense	$3,538	$1,623	$1,430

(9) COMMITMENTS AND CONTINGENCIES

RECOURSE PAPER

The Company is contingently liable to banks for recourse paper from the financing of vehicle sales. The contingent liability at December 31, 1997, 1996 and 1995 was approximately $64, $88 and $206, respectively.

OPERATING LEASES

Substantially all of the Company's operations are conducted in leased facilities under noncancelable operating leases. These leases expire at various dates through 2012. Beginning in 1998, certain lease commitments are subject to escalation clauses of an amount equal to the cost of living based on the "Consumer Price Index - U.S. Cities Average - All stems for all Urban Consumers" published by the U.S. Department of Labor.

The minimum rental commitments under operating leases after December 31, 1997 are as follows:

YEAR ENDING DECEMBER 31,	
1998	$ 4,815
1999	4,753
2000	4,449
2001	4,447
2002	4,012
Thereafter	34,378
Total principal payments	$56,854

Rental expense for all operating leases was $2,764, $2,353 and $1,993 for the years ended December 31, 1997, 1996 and 1995, respectively.

LITIGATION

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

(10) PROFIT SHARING PLAN

The Company has a defined contribution plan and trust covering substantially all full-time employees. The annual contribution to the plan is at the discretion of the Board of Directors of Lithia Motors, Inc. Contributions of $138, $100 and $84 were recognized for the years ended December 31, 1997, 1996 and 1995, respectively. Employees may contribute to the plan under certain circumstances.

(11) RESTRUCTURING AND OFFERING

On December 18, 1996, the Company offered 2,500 shares of its Class A common stock to the public (the "Offering"). Prior to the Offering, the Company consummated a restructuring (the Restructuring) which resulted in each of the Company's dealerships and operating divisions becoming direct or indirect wholly-owned subsidiaries of the Company with Lithia Holding Company, LLC owning all the outstanding Class B common stock of the Company. All shareholders prior to the Restructuring exchanged their interests in the Company and its affiliated entities for shares of Lithia Holding Company, LLC with the

exception of (i) one shareholder who exchanged his interest in one entity for cancellation of a note due to Lithia TLM, LLC and cash and (ii) Lithia TKV, Inc. whose stock was purchased by the Company from the Company's principals subsequent to the Offering.

(12) STOCK INCENTIVE PLANS

In April 1996, the Board of Directors (the Board) and the Company's shareholders adopted the Company's 1996 Stock Incentive Plan for the granting of up to 670 incentive and nonqualified stock options to officers, key employees and consultants of the Company and its subsidiaries, and in 1997, the Board adopted a Non-Discretionary Stock Option Plan for Non-Employee Directors and reserved 15 shares under that plan (collectively, the "Plan"). The Plan is administered by the Board or by a Compensation Committee of the Board and permits accelerated vesting of outstanding options upon the occurrence of certain changes in control of the Company. Options become exercisable over a period of up to ten years from the date of grant as determined by the Board, at prices generally not less than the fair market value at the date of grant. At December 31, 1997, 634 shares of Class A common stock were reserved for issuance under the Plan and 201 shares were available for future grant.

Activity under the Plan is as follows:

	SHARES AVAILABLE FOR GRANT	SHARES SUBJECT TO OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balances, December 31, 1995	-	-	$ -
Shares reserved	685		
Options granted	(439)	439	3.11
Options canceled	-	-	-
Options exercised	-	-	-
Balances, December 31, 1996	246	439	3.11
Options granted	(45)	45	6.05
Options canceled	-	-	-
Options exercised	-	(51)	3.20
Balances, December 31, 1997	201	433	$ 3.41

The Company issued non-qualified options during 1997 to certain members of management at an exercise price of $1.00 per share. Compensation expense is recognized ratably in accordance with the 5-year vesting schedule.

During 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 ACCOUNTING FOR STOCK-BASED COMPENSATION (SFAS 123), which defines a fair value based method of accounting for employee stock options and similar equity instruments. As permitted under SFAS 123, the Company has elected to continue to account for its stock-based compensation plan under Accounting Principal Board Opinion No. 25 ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES (APB 25), and related interpretations. Accordingly, no compensation expense has been recognized for the Plan.

The Company has computed, for pro forma disclosure purposes, the value of options granted under the Plan, using the Black-Scholes option pricing model as prescribed by SFAS 123, using the weighted average assumptions for grants as follows:

	FOR THE YEAR ENDED DECEMBER 31,	
	1997	1996
Risk-free interest rate	6.25%	6.50%
Expected dividend yield	0.0%	0.0%
Expected lives	6.8 years	6.5 years
Expected volatility	45.5%	60.0%

Using the Black-Scholes methodology, the total value of options granted during 1996 and 1997 was $709 and $320, respectively, which would be amortized on a pro forma basis over the vesting period of the options, typically five years. The weighted average fair value of options granted during 1996 and 1997 was $1.62 per share and $7.20 per share, respectively. If the Company had accounted for its stock-based compensation plan in accordance with SFAS 123, the Company's net income and net income per share would approximate the pro forma disclosures below:

	FOR THE YEAR ENDED DECEMBER 31,			
	1997		1996	
	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA
Net income	$5,959	$5,723	$4,355	$3,612
Basic net income per share	$0.85	$0.82	$0.94	$0.78
Diluted net income per share	$0.82	$0.79	$0.88	$0.73

The following table summarizes stock options outstanding at December 31, 1997:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$ 1.00	21	8.0	$1.00	4	$1.00
3.02	282	6.3	3.02	64	3.02
3.32	107	3.3	3.32	80	3.32
10.75	20	7.2	10.75	-	-
10.88	3	9.2	10.88	3	10.88
$1.00-10.88	433	5.6	$3.41	151	$3.28

At December 31, 1996, 167 shares were exercisable at a weighted average exercise price of $3.27.

(13) RELATED PARTY TRANSACTIONS

Certain of the real property on which the Company's business is located is owned by Lithia Properties, LLC. The Company leases such facilities under various lease agreements from Lithia Properties, LLC (Note 9). Selling, general and administrative expense includes rental expense of $1,442, $2,132 and $1,929 for the years ended December 31, 1997, 1996 and 1995, respectively relating to these properties.

The Company provides management services to Lithia Properties, LLC. Other income includes management fees of $12, $477 and $288 for the years ended December 31, 1997, 1996 and 1995, respectively.

The Company has guaranteed certain indebtedness of Lithia Properties, LLC incurred in connection with purchases of real property which secures the loan. This indebtedness amounts to approximately $9,266 at December 31, 1997.

Through December 1996, the Company and Lithia Properties, LLC share a "pooled" cash account in the Company's name. At December 31, 1996, amounts due to Lithia Properties, LLC related to this arrangement amounted to $1,703, and are included in payable to related parties. Also included in payable to related parties at December 31, 1996 is $249 due to former S Corporation minority interest shareholders for distributions of their investment in the Company prior to the Restructuring. There were no amounts due to related parties at December 31, 1997.

Receivable from related parties at December 31, 1996 represents amounts due to the Company for overpayments on distributions to shareholders in connection with the Restructuring.

(14) ACQUISITIONS

During the fourth quarter of 1996, the Company acquired two new and used car dealerships, Roberts Dodge, Inc. and Melody Vacaville, Inc., now Lithia TKV and Lithia DE, respectively.

In April 1997, the Company closed its acquisition of Magnussen Dodge and Magnussen Isuzu in Concord, California. The Company invested $3.8 million to acquire this store, which includes goodwill, working capital, notes issued to seller and other initial investments.

In July 1997, the Company closed its acquisition of Magnussen-Barbee Ford of Napa, California. The Company invested $3.7 million to acquire this store, which includes goodwill, working capital, notes issued to seller and other initial investments.

In August 1997, the Company closed its acquisition of Sun Valley Ford, a California corporation, dba "Sun Valley Ford Volkswagen Hyundai", located in Concord, California. The Company invested $7.6 million to acquire the two stores, which includes goodwill, working capital, notes issued to seller and other initial investments.

On October 1, 1997, the Company closed its acquisition of Dick Donnelly Automotive Enterprises, Inc., dba Dick Donnelly Lincoln, Mercury, Audi, Suzuki, Isuzu, located in Reno and Sparks, Nevada. The Company invested $5.8 million to acquire the two stores, which includes goodwill, working capital, notes issued to seller and other initial investments.

On October 3, 1997, the Company closed its acquisition of Nissan-BMW, Inc., dba Bakersfield Nissan, Acura, BMW ("Bakersfield Nissan-BMW"), located in Bakersfield, California. The Company invested $6.7 million to acquire this store, which includes goodwill, working capital, notes issued to seller and other initial investments. The Company is leasing the land and facilities from the sellers of Bakersfield Nissan-BMW.

On December 16, 1997 the Company closed its acquisition of Century Ford and Century Mazda in Fresno, California. The Company invested $4.1 million to acquire the two stores, which includes goodwill, working capital, notes issued to seller and other initial investments. The Company is leasing the land and facilities from the sellers of Century Ford and Century Mazda.

All of the above acquisitions were accounted for as purchase transactions. The aggregate purchase price of the dealerships acquired in the respective periods has been allocated to the assets and liabilities acquired at their estimated fair market value at the acquisition dates as follows:

	1997	1996
Assets acquired	$ 51,953	$ 9,542
Good will	19,944	4,101
Less liabilities assumed or incurred	(46,190)	(6,206)
Total consideration	$ 25,707	$ 7,437

The unaudited pro forma results of operations including Roberts Dodge, Inc., Melody Vacaville, Inc., Sun Valley Ford, Inc. and Dick Donnelly Automotive Enterprises, Inc., are as follows. The results of operations for the remaining acquisitions are not included in the unaudited pro forma information as they are not materially different from actual results of the Company.

	FOR THE YEAR ENDED DECEMBER 31,	
	1997	1996
Total revenues	$419,675	$361,195
Net income	6,919	3,429
Basic earnings per share	0.99	0.74
Diluted earnings per share	0.95	0.69

The unaudited pro forma results are not necessarily indicative of what actually would have occurred had the acquisitions been in effect for the entire periods presented. In addition, they are not intended to be a projection of future results that may be achieved from the combined operations.

(15) OTHER INCOME

	FOR THE YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Management fees	$ 12	$ 477	$288
Hail damage settlement	281	206	-
Lawsuit settlement	-	-	160
Miscellaneous, net	330	429	521
Other income, net	$623	$1,112	$969

(16) SUBSEQUENT EVENTS

On January 20, 1998, the Company closed its acquisition of Quality Jeep in Fresno, California. The Company invested $4,400 to acquire the two stores, which includes goodwill, working capital, notes issued to seller and other initial investments.

On February 4, 1998 and February 10, 1998, the Company closed its acquisitions of Reno Volkswagen and Medford Nissan, respectively. The Company invested $3,100 to acquire the two stores, which includes goodwill, working capital, notes issued to seller and other initial investments.

In February 1998, subject to shareholder approval, the Board of Directors approved the reservation of 250 shares of Class A Common Stock for issuance under an employee stock purchase plan.

In March 1998, subject to shareholder approval, the Board of Directors of the Company approved the reservation of an additional 415 shares of Class A Common Stock under its 1996 Stock Incentive Plan.

Also in March 1998, the Company filed a registration statement on Form S-1 with the Securities and Exchange Commission for the sale of 3,000 shares (3,450 shares with the Underwriters' over-allotment option) of Class A Common Stock.

Also in March 1998, the Company closed its acquisition of Haddad Jeep/Eagle in Bakersfield, California. The Company invested $2,020 to acquire the store, which includes goodwill, working capital and other initial investments.

EXHIBIT 10.3.1

LITHIA MOTORS, INC.

EMPLOYEE STOCK PURCHASE PLAN

1. PURPOSE. The Lithia Motors, Inc. Employee Stock Purchase Plan (the "Plan") is intended to provide an incentive for employees of Lithia Motors, Inc. (the "Company") and its participating Subsidiaries to acquire or increase their proprietary interests in the Company through the purchase of shares of Common Stock of the Company. The Plan is intended to qualify as an "Employee Stock Purchase Plan" under Sections 421 and 423 of the Internal Revenue Code of 1986, as amended (the "Code"). The provisions of the Plan will be construed in a manner consistent with the requirements of such sections of the Code and the regulations issued thereunder.

2. DEFINITIONS. As used in this Plan:

2.1. "Account" means the account recorded in the records of the Company established on behalf of a Participant to which the amount of the Participant's payroll deductions authorized under Section 6 and purchases of Common Stock under Section 8 shall be credited, and any distributions of shares of Common Stock under Section 9 and withdrawals under Section 10 shall be charged.

2.2. "Benefits Representative" means the employee benefits department of the Company or any such other person, regardless of whether employed by an Employer, who has been formally, or by operation or practice, designated by the Committee to assist the Committee with the day-to-day administration of the Plan.

2.3. "Board" means the Board of Directors of the Company.

2.4. "Code" means the Internal Revenue Code of 1986, or any successor thereto, as amended and in effect from time to time. Reference in the Plan to any Section of the Code shall be deemed to include any amendments or successor provisions to any Section and any treasury regulations thereunder.

2.5. "Committee" means the Compensation Committee of the Board. The Board shall have the power to fill vacancies on the Committee arising by resignation, death, removal or otherwise. The Board, in its sole discretion, may split the powers and duties of the Committee among one or more separate Committees, or retain all powers and duties of the Committee in a single Committee. The members of the Committee shall serve at the discretion of the Board.

2.6. "Common Stock" or "Stock" means the Class A Common Stock, without par value, of the Company.

2.7. "Company" means Lithia Motors, Inc. an Oregon corporation, and any successor thereto.

2.8. "Disability" means any complete and permanent disability as defined in Section 22(e)(3) of the Code.

2.9. "Effective Date" means the date on which this Plan is approved by the shareholders of the Company which date shall be, the inception date of the Plan.

2.10. "Employee" means any person who, at such time, is in the Employment of and Employer.

2.11. "Employer" means the Company, its successors, any future parent (as defined in Section 424(e) of the Code) and each current or future Subsidiary which has been designated by the Board or the Committee as a participating employer in the Plan.

2.12. "Employment" means Employment as an employee or officer by the Company or a Subsidiary as designated in such entity's payroll records, or by any corporation issuing or assuming rights or obligations under the Plan in any transaction described in Section 424(a) of the Code or by a parent corporation or a subsidiary corporation of such corporation. In this regard, neither the transfer of a Participant from Employment by the Company to Employment by a Subsidiary nor the transfer of a Participant from Employment by a Subsidiary to Employment by either the Company or any by any other Subsidiary shall be deemed to be a termination of Employment of the Participant. Moreover, the Employment of a Participant shall not be deemed to have been terminated because of absence from active Employment on account of temporary illness or during authorized vacation, temporary leaves of absence from active Employment granted by Company or any Subsidiary for reasons of professional advancement, education, health, or government service, or during military leave for any period if the Participant returns to active Employment within 90 days after the termination of military leave, or during any period required to be treated as a leave of absence which, by virtue of any valid law or agreement, does not result in a termination of Employment. Any worker treated as an independent contractor by the Company or any Subsidiary who is later reclassified as a common-law employee shall not be in Employment during any period in which such worker was treated by the Company or a Subsidiary as an independent contractor. Any "leased employee", as described in Section 414(n) of the Code, shall not be deemed an Employee hereunder.

2.13. "Entry Date" means the first day of each Fiscal Quarter.

2.14. "Fiscal Quarter" means a three consecutive month period beginning on each January 1, April 1, July 1 and October 1, commencing with the first such date following the Effective Date and continuing until the Plan is terminated.

2.15. "Market Price" means, subject to the next paragraph, the market value of a share of Stock on any date, which shall be determined as (i) the closing sales price on the immediately preceding business day of a share of Stock as reported on the New York Stock Exchange or other principal securities exchange on which shares of Stock are then listed or admitted to trading or (ii) if not so reported, the average of the closing bid and asked prices for a share of Stock on the immediately preceding business day as quoted on the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), or (iii) if not quoted on NASDAQ, the average of the closing bid and asked prices for a share of Stock as quoted by the National Quotation Bureau's "Pink Sheets" or the National Association of Securities Dealers' OTC Bulletin Board System. If the price of a share of Stock shall not be so reported pursuant to the previous sentence, the fair market value of a share of Stock shall be determined by the Committee in its discretion provided that such method is appropriate for purposes of an employee stock purchase plan under Section 423 of the Code.

Notwithstanding the previous paragraph of this definition, the Market Price of a share of Stock solely for purposes of determining the

option price on the first or last day of the Fiscal Quarter in accordance with Section 7.2 shall be based on the Market Price on the first or last day of the Fiscal Quarter, as applicable, and not on the immediately preceding business day.

2.16. "Participant" means any Employee who meets the eligibility requirements of Section 3 and who has elected to and is participating in the Plan.

2.17. "Plan" means the Lithia Motors, Inc. Employee Stock Purchase Plan, as set forth herein, and all amendments hereto.

2.18. "Stock" means the Common Stock (as defined above).

2.19. "Subsidiary" means any domestic or foreign corporation, limited liability company, partnership or other form of business entity (other than the Company) (i) which, pursuant to Section 424(f) of the Code, is included in an unbroken chain of entities beginning with the Company if, at the time of the granting of the option, each of the entities other than the last entity in the unbroken chain owns at least a majority of the total combined voting power of all interests in one of the other entities in such chain and (ii) which has been designated by the Board or the Committee as a entity whose Employees are eligible to participate in the Plan.

2.20. "Total Pay" means regular straight-time earnings or base salary, plus payments for overtime, shift differentials, incentive compensation, bonuses, and other special payments, fees, allowances or extraordinary compensation.

3. ELIGIBILITY.

3.1. Eligibility Requirements. Participation in the Plan is voluntary. Each Employee who has completed at least six (6) consecutive months of continuous Employment with an Employer (calculated from his last date of hire to the termination of his Employment for any reason), is regularly scheduled to work at least 20 hours per week and has reached the age of majority in the jurisdiction of his legal residency, will be eligible to participate in the Plan on the first day of the payroll period commencing on or after the earlier of (i) the Effective Date or (ii) the Entry Date on which the Employee satisfies the aforementioned eligibility requirements. Each Employee whose Employment terminates and who is rehired by an Employer shall be treated as a new Employee for eligibility purposes under the Plan.

3.2. Limitations on Eligibility. Notwithstanding any provision of this Plan to the contrary, no Employee will be granted an option under the Plan:

3.2.1. if, immediately after the grant, the Employee would own stock, and/or hold outstanding options to purchase stock, possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Subsidiary; or

3.2.2. which permits the Employee's rights to purchase stock under this Plan and all other employee stock purchase plans (within the meaning of Section 423 of the Code) of the Company and its Subsidiaries to accrue at a rate which exceeds $25,000 of the fair market value of the stock (determined at the time such option is granted) for each Fiscal year in which such option is outstanding at any time, all as determined in accordance with Section 423(b)(8) of the Code.

For purposes of Section 3.2.1 above, pursuant to Section 424(d) of the Code, (i) the Employee with respect to whom such limitation is being determined shall be considered as owning the stock owned, directly or indirectly, by or for his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants; and (ii) stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust, shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries. In addition, for purposes of Section 3.2.2 above, pursuant to Section 423(b)(8) of the Code, (i) the right to purchase stock under an option accrues when the option (or any portion thereof) first becomes exercisable during the calendar year, (ii) the right to purchase stock under an option accrues at the rate provided in the option but in no case may such rate exceed $25,000 of fair market value of such stock (determined at the time such option is granted) for any one calendar year, and (iii) a right to purchase stock which has accrued under one option granted pursuant to the Plan may not be carried over to any other option.

4. SHARES SUBJECT TO THE PLAN. The total number of shares of Common Stock that upon the exercise of options granted under the Plan will not exceed 250,000 shares (subject to adjustment as provided in Section 16), and such shares may be originally issued shares, treasury shares, reacquired shares, shares bought in the market, or any combination of the foregoing. If any option which has been granted expires or terminates for any reason without having been exercised in full, the unpurchased shares will again become available for purposes of the Plan. Any shares which are not subject to outstanding options upon the termination of the Plan shall cease to be subject to the Plan.

5. PARTICIPATION.

5.1. Payroll Deduction Authorization. An Employee shall be eligible to participate in the Plan as of the first Entry Date following such Employee's satisfaction of the eligibility requirements of Section 3, or, if later, the first Entry Date following the date on which the Employee's Employer adopted the Plan. At least 10 days (or such other period as may be prescribed by the Committee or a Benefits Representative) prior to the first Entry Date as of which an Employee is eligible to participate in the Plan, the Employee shall execute and deliver to the Benefits Representative, on the form prescribed for such purpose, an authorization for payroll deductions which specifies his chosen rate of payroll deduction contributions pursuant to Section 6, and such other information as is required to be provided by the Employee on such enrollment form. The enrollment form shall authorize the Employer to reduce the Employee's Base Pay by the amount of such authorized contributions. To the extent provided by the Committee or a Benefits Representative, each Participant shall also be required to open a stock brokerage account with a brokerage firm which has been engaged to administer the purchase, holding and sale of Common Stock for Accounts under the Plan and, as a condition of participation hereunder, the Participant shall be required to execute any form required by the brokerage firm to open and maintain such brokerage account.

5.2. Continuing Effect of Payroll Deduction Authorization. Payroll deductions for a Participant will commence with the first payroll period beginning after the Participant's authorization for payroll deductions becomes effective, and will end with the payroll period that ends when terminated by the Participant in accordance with Section 6.3 or due to his termination of Employment in accordance with Section 11. Payroll deductions will also cease when the Participant is suspended from participation due to a withdrawal of payroll deductions in accordance with Section 10. When applicable with respect to Employees who are paid on a hourly wage basis, the authorized payroll deductions shall be withheld from wages when actually paid following the period in which the compensatory services were rendered. Only payroll deductions that are credited to the

Participant's Account during the Fiscal Quarter will be used to purchase Common Stock pursuant to Section 8 regardless of when the work was performed.

5.3. Employment and Shareholders Rights. Nothing in this Plan will confer on a Participant the right to continue in the employ of the Employer or will limit or restrict the right of the Employer to terminate the Employment of a Participant at any time with or without cause. A Participant will have no interest in any Common Stock to be purchased under the Plan or any rights as a shareholder with respect to such Stock until the Stock has been purchased and credited to the Participant's Account.

6. PAYROLL DEDUCTIONS.

6.1. Participant Contributions by Payroll Deductions. At the time a Participant files his payroll deduction authorization form, the Participant will elect to have deductions made from the Participant's Base Pay for each payroll period such authorization is in effect in whole percentages at the rate of not less than 1% nor more than 10% of the Participant's Base Pay.

6.2. No Other Participant Contributions Permitted. All payroll deductions made for a Participant will be credited to the Participant's Account under the Plan. A Participant may not make any separate cash payment into such Account.

6.3. Changes in Participant Contributions. Subject to Sections 10 and 21, a Participant may increase, decrease, suspend, or resume payroll deductions under the Plan by giving written notice to a designated Benefits Representative at such time and in such form as the Committee or Benefits Representative may prescribe from time to time. Such increase, decrease, suspension or resumption will be effective as of the first day of the payroll period as soon as administratively practicable after receipt of the Participant's written notice, but not earlier than the first day of the payroll period of the Fiscal Quarter next following receipt and acceptance of such form. Notwithstanding the previous sentence, a Participant may completely discontinue contributions at any time during a Fiscal Quarter, effective as of the first day of the payroll period as soon as administratively practicable following receipt of a written discontinuance notice from the Participant on a form provided by a designated Benefits Representative. Following a discontinuance of contributions, a Participant cannot authorize any payroll contributions to his Account for the remainder of the Fiscal Quarter in which the discontinuance was effective.

7. GRANTING OF OPTION TO PURCHASE STOCK.

7.1. Quarterly Grant of Options. For each Fiscal Quarter, a Participant will be deemed to have been granted an option to purchase, on the first day of the Fiscal Quarter, as many whole and fractional shares as may be purchased with the payroll deductions (and any cash dividends as provided in Section 8) credited to the Participant's Account during the Fiscal Quarter.

7.2. Option Price. The option price of the Common Stock purchased with the amount credited to the Participant's Account during each Fiscal Quarter will be the lower of:

7.2.1. 85% of the Market Price of a share of Stock on the first day of the Fiscal Quarter; or

7.2.2. 85% of the Market Price of a share of Stock on the last day of the Fiscal Quarter.

Only the Market Price as of the first day of the Fiscal Quarter and the last day of the Fiscal Quarter shall be considered for purposes of determining the option purchase price; interim fluctuations during the Fiscal Quarter shall not be considered.

8. EXERCISE OF OPTION.

8.1. Automatic Exercise of Options. Unless a Participant has elected to withdraw payroll deductions in accordance with Section 10, the Participant's option for the purchase of Common Stock will be deemed to have been exercised automatically as of the last day of the Fiscal Quarter for the purchase of the number of whole and fractional shares of Common Stock which the accumulated payroll deductions (and cash dividends on the Common Stock as provided in Section 8.2) in the Participant's Account at that time will purchase at the applicable option price. Fractional shares may be issued under the Plan. As of the last day of each Fiscal Quarter, the balance of each Participant's Account shall be applied to purchase the number of whole and fractional shares of Stock as determined by dividing the balance of such Participant's Account as of such date by the option price determined pursuant to Section 7.2. The Participant's Account shall be debited accordingly. The Committee or its delegate shall make all determinations with respect to applicable currency exchange rates when applicable.

8.2. Dividends Generally. Cash dividends paid on shares of Common Stock which have not been delivered to the Participant pending the Participant's request for delivery pursuant to Section 9.3, will be combined with the Participant's payroll deductions and applied to the purchase of Common Stock at the end of the Fiscal Quarter in which the cash dividends are received, subject to the Participant's withdrawal rights set forth in Section
10. Dividends paid in the form of shares of Common Stock or other securities with respect to shares that have been purchased under the Plan, but which have not been delivered to the Participant, will be credited to the shares that are credited to the Participant's Account.

8.3. Pro-rata Allocation of Available Shares. If the total number of shares to be purchased under option by all Participants exceeds the number of shares authorized under Section 4, a pro-rata allocation of the available shares will be made among all Participants authorizing such payroll deductions based on the amount of their respective payroll deductions through the last day of the Fiscal Quarter.

9. OWNERSHIP AND DELIVERY OF SHARES.

9.1. Beneficial Ownership. A Participant will be the beneficial owner of the shares of Common Stock purchased under the Plan on exercise of his option and will have all rights of beneficial ownership in such shares. Any dividends paid with respect to such shares will be credited to the Participant's Account and applied as provided in Section 8 until the shares are delivered to the Participant.

9.2. Registration of Stock. Stock to be delivered to a Participant under the Plan will be registered on the books and records of the Company in the name of the Participant, or if the Participant so directs by written notice to the designated Benefits Representative or brokerage firm, if any, prior to the purchase of Stock hereunder, in the names of the Participant and one such other person as may be designated by the

Participant, as joint tenants with rights of survivorship or as tenants by the entireties, to the extent permitted by applicable law. Any such designation shall not apply to shares purchased after a Participant's death by the Participant's beneficiary or estate, as the case may be, pursuant to
Section 11.2. If a brokerage firm is engaged by the Company to administer Accounts under the Plan, such firm shall provide such account registration forms as are necessary for each Participant to open and maintain a brokerage account with such firm.

9.3. Delivery of Stock Certificates. The Company, or a brokerage firm or other entity selected by the Company, shall deliver to each Participant a certificate for the number of shares of Common Stock purchased by the Participant hereunder as soon as practicable after the close of each Fiscal Quarter. Alternatively, in the discretion of the Committee, the stock certificate may be delivered to a designated stock brokerage account maintained for the Participant and held in "street name" in order to facilitate the subsequent sale of the purchased shares.

9.4. Regulatory Approval. In the event the Company is required to obtain from any commission or agency the authority to issue any stock certificate hereunder, the Company shall seek to obtain such authority. The inability of the Company to obtain from any such commission or agency the authority which counsel for the Company deems necessary for the lawful issuance of any such certificate shall relieve the Company from liability to any Participant, except to return to the Participant the amount of his Account balance used to exercise the option to purchase the affected shares.

10. WITHDRAWAL OF PAYROLL DEDUCTIONS. At any time during a Fiscal Quarter, but in no event later than 15 days (or such shorter prescribed by the Committee or a Benefits Representative) prior to the last day of the Fiscal Quarter, a Participant may elect to abandon his election to purchase Common Stock under the Plan. By written notice to the designated Benefits Representative on a form provided for such purpose, the Participant may thus elect to withdraw all of the accumulated balance in his Account being held for the purchase of Common Stock in accordance with Section 8.2. Partial withdrawals will not be permitted. All such amounts will be paid to the Participant as soon as administratively practical after receipt of his notice of withdrawal. After receipt and acceptance of such withdrawal notice, no further payroll deductions will be made from the Participant's Base Pay beginning as of the next payroll period during the Fiscal Quarter in which the withdrawal notice is received. The Committee, in its discretion, may determine that amounts otherwise withdrawable hereunder by Participants shall be offset by an amount that the Committee, in its discretion, determines to be reasonable to help defray the administrative costs of effecting the withdrawal, including, without limitation, fees imposed by any brokerage firm which administers such Participant's Account. After a withdrawal, an otherwise eligible Participant may resume participation in the Plan as of the first day of the Fiscal Quarter next following his delivery of a payroll deduction authorization pursuant to the procedures prescribed in
Section 5.1.

11. TERMINATION OF EMPLOYMENT.

11.1. General Rule. Upon termination of a Participant's Employment for any reason, his participation in the Plan will immediately terminate.

11.2. Termination Due to Retirement, Death or Disability. If the Participant's termination of Employment is due to (i) retirement from Employment on or after his attainment of age 65, (ii) death or (iii) Disability, the Participant (or the Participant's personal representative or legal guardian in the event of Disability, or the Participant's beneficiary (as defined in Section 12) or the administrator of his will or executor of his estate in the event of death), will have the right to elect, either to:

11.2.1. Withdraw all of the cash and shares of Common Stock credited to the Participant's Account as of his termination date; or

11.2.2. Exercise the Participant's option for the purchase of Common Stock on the last day of the Fiscal Quarter (in which termination of Employment occurs) for the purchase of the number of shares of Common Stock which the cash balance credited to the Participant's Account as of the date of the Participant's termination of Employment will purchase at the applicable option price.

The Participant (or, if applicable, such other person designated in the first paragraph of this Section 11.2) must make such election by giving written notice to the Benefits Representative at such time and in such manner as prescribed from time to time by the Committee or Benefits Representative. In the event that no such written notice of election is received by the Benefits Representative within 30 days of the Participant's termination of Employment date, the Participant (or such other designated person) will automatically be deemed to have elected to withdraw the balance in the Participant's Account as of his termination date. Thereafter, any accumulated cash and shares of Common Stock credited to the Participant's Account as of his termination of Employment date will be delivered to or on behalf of the Participant as soon as administratively practicable.

11.3. Termination Other Than for Retirement, Death or Disability. Upon termination of a Participant's Employment for any reason other than retirement, death, or Disability pursuant to Section 11.2, the participation of the Participant in the Plan will immediately terminate. Thereafter, any accumulated cash and shares of Common Stock credited to the Participant's Account as of his termination of Employment date will be delivered to the Participant as soon as administratively practicable.

11.4. Rehired Employees. Any Employee whose Employment terminates and who is subsequently rehired by an Employer shall be treated as a new Employee for purposes of eligibility to participate in the Plan.

12. ADMINISTRATION OF THE PLAN.

12.1. No Participation in Plan by Committee Members. No options may be granted under the Plan to any member of the Committee during the term of his membership on the Committee.

12.2. Authority of the Committee. Subject to the provisions of the Plan, the Committee shall have the plenary authority to (i) interpret the Plan and all options granted under the Plan, (ii) make such rules as it deems necessary for the proper administration of the Plan, (iii) make all other determinations necessary or advisable for the administration of the Plan, and (iv) correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any option granted under the Plan in the manner and to the extent that the Committee deems advisable. Any action taken or determination made by the Committee pursuant to this and the other provisions of the Plan shall be conclusive on all parties. The act or determination of a majority of the Committee shall be deemed to be the act or determination of the Committee. By express written direction, or by the day-to-day operation of Plan administration, the Committee may delegate the authority and responsibility for the day-to-day administrative or ministerial tasks of the Plan to a Benefits Representative, including a brokerage firm or other third party engaged for such purpose.

12.3. Meetings. The Committee shall designate a chairman from among its members to preside at its meetings, and may designate a secretary, without regard to whether that person is a member of the Committee, who shall keep the minutes of the proceedings. Meetings shall be

held at such times and places as shall be determined by the Committee, and the Committee may hold telephonic meetings. The Committee may take any action otherwise proper under the Plan by the affirmative vote of a majority of its members, taken at a meeting, or by the affirmative vote of all of its members taken without a meeting. The Committee may authorize any one or more of their members or any officer of the Company to execute and deliver documents on behalf of the Committee.

12.4. Decisions Binding. All determinations and decisions made by the Committee shall be made in its discretion pursuant to the provisions of the Plan, and shall be final, conclusive and binding on all persons including the Company, Participants, and their estates and beneficiaries.

12.5. Expenses of Committee. The Committee may employ legal counsel, including, without limitation, independent legal counsel and counsel regularly employed by the Company, consultants and agents as the Committee may deem appropriate for the administration of the Plan. The Committee may rely upon any opinion or computation received from any such counsel, consultant or agent. All expenses incurred by the Committee in interpreting and administering the Plan, including, without limitation, meeting expenses and professional fees, shall be paid by the Company.

12.6. Indemnification. Each person who is or was a member of the Committee shall be indemnified by the Company against and from any damage, loss, liability, cost and expense that may be imposed upon or reasonably incurred by him in connection with or resulting from any claim, action, suit, or proceeding to which he may be a party or in which he may be involved by reason of any action taken or failure to act under the Plan, except for any such act or omission constituting willful misconduct or gross negligence. Such person shall be indemnified by the Company for all amounts paid by him in settlement thereof, with the Company's approval, or paid by him in satisfaction of any judgment in any such action, suit, or proceeding against him, provided he shall give the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Articles of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

13. DESIGNATION OF BENEFICIARY. At such time, in such manner, and using such form as shall be prescribed from time to time by the Committee or a Benefits Representative, a Participant may file a written designation of a beneficiary who is to receive any Common Stock and/or cash credited to the Participant's Account at the Participant's death. Such designation of beneficiary may be changed by the Participant at any time by giving written notice to the Benefits Representative at such time and in such form as prescribed. Upon the death of a Participant, and receipt by the Benefits Representative of proof of the identity at the Participant's death of a beneficiary validly designated under the Plan, the Benefits Representative will take appropriate action to ensure delivery of such Common Stock and/or cash to such beneficiary. In the event of the death of a Participant and the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Benefits Representative will take appropriate action to ensure delivery of such Common Stock and/or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Benefits Representative), the Committee, in its discretion, may direct delivery of such Common Stock and/or cash to the spouse or to any one or more dependents of the Participant as the Committee may designate in its discretion. No beneficiary will, prior to the death of the Participant, acquire any interest in any Common Stock or cash credited to the Participant's Account.

14. TRANSFERABILITY. No amounts credited to a Participant's Account, whether cash or Common Stock, nor any rights with regard to the exercise of an option or to receive Common Stock under the Plan, may be assigned, transferred, pledged, or otherwise disposed of in any way by the Participant other than by will or the laws of descent and distribution. Any such attempted assignment, transfer, pledge, or other disposition will be void and without effect. Each option shall be exercisable, during the Participant's lifetime, only by the Employee to whom the option was granted. The Company shall not recognize, and shall be under no duty to recognize, any assignment or purported assignment by an Employee of his option or of any rights under his option.

15. NO RIGHTS AS A SHAREHOLDER UNTIL CERTIFICATE ISSUED. With respect to shares of Stock subject to an option, an optionee shall not be deemed to be a shareholder, and the optionee shall not have any of the rights or privileges of a shareholder. An optionee shall have the rights and privileges of a shareholder when, but not until, a certificate for shares has been issued to the optionee following exercise of his option.

16. CHANGES IN THE COMPANY'S CAPITAL STRUCTURE. The Board shall make or provide for such adjustments in the maximum number of shares specified in Section 4 and the number and option price of shares subject to options outstanding under the Plan as the Board shall determine is appropriate to prevent dilution or enlargement of the rights of Participants that otherwise would result from any stock dividend, stock split, stock exchange, combination of shares, or other change in the capital structure of the Company, merger, consolidation, spin-off of assets, reorganization, partial or complete liquidation, issuance of rights or warrants to purchase securities, any other corporate transaction or event having an effect similar to any of the foregoing.

In the event of a merger of one or more corporations into the Company, or a consolidation of the Company and one or more other corporations in which the Company is the surviving corporation, each Participant, at no additional cost, shall be entitled, upon his payment for all or part of the Common Stock purchasable by him under the Plan, to receive (subject to any required action by shareholders) in lieu of the number of shares of Common Stock which he was entitled to purchase, the number and class of shares of stock or other securities to which such holder would have been entitled pursuant to the terms of the agreement of merger or consolidation if, immediately prior to such merger or consolidation, such holder had been the holder of record of the number of shares of Common Stock equal to the number of shares purchasable by the Participant hereunder.

If the Company is not the surviving corporation in any reorganization, merger or consolidation (or survives only as a subsidiary of an entity other than a previously wholly-owned subsidiary of the Company), or if the Company is to be dissolved or liquidated or sell substantially all of its assets or stock to another corporation or other entity, then, unless a surviving corporation assumes or substitutes new options (within the meaning of Section 424(a) of the Code) for all options then outstanding, (i) the date of exercise for all options then outstanding shall be accelerated to dates fixed by the Committee prior to the effective date of such corporate event,
(ii) a Participant may, at his election by written notice to the Company, either (x) withdraw from the Plan pursuant to Section 10 and receive a refund from the Company in the amount of the accumulated cash and Stock balance in the Participant's Account, (y) exercise a portion of his outstanding options as of such exercise date to purchase shares of Stock, at the option price, to the extent of the balance in the Participant's Account, or (z) exercise in full his outstanding options as of such exercise date to purchase shares of Stock, at the option price, which exercise shall require such Participant to pay the related option price, and (iii) after such effective date any unexercised option shall expire. The date the Committee selects for the exercise date under the preceding sentence shall be deemed to be the exercise

date for purposes of computing the option price per share of Stock. If the Participant elects to exercise all or any portion of the options, the Company shall deliver to such Participant a stock certificate issued pursuant to
Section 9.4 for the number of shares of Stock with respect to which such options were exercised and for which such Participant has paid the option price. If the Participant fails to provide the notice set forth above within three days after the exercise date selected by the Committee under this
Section 16, the Participant shall be conclusively presumed to have requested to withdraw from the Plan and receive payment of the accumulated balance of his Account. The Committee shall take such steps in connection with such transactions as the Committee shall deem necessary or appropriate to assure that the provisions of this Section 16 are effectuated for the benefit of the Participants.

Except as expressly provided in this Section 16, the issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Stock then available for purchase under the Plan.

17. PLAN EXPENSES; USE OF FUNDS; NO INTEREST PAID. The expenses of the Plan shall be paid by the Company except as otherwise provided herein or under the terms and conditions of any agreement entered into between the Participant and any brokerage firm engaged to administer Accounts. All funds received or held by the Company under the Plan shall be included in the general funds of the Company free of any trust or other restriction, and may be used for any corporate purpose. No interest shall be paid to any Participant or credited to his Account under the Plan.

18. TERM OF THE PLAN. The Plan shall become effective upon the approval of the Plan by the holders of the majority of the Common Stock present and represented at a special or annual meeting of the Company's shareholders held on or before 12 months from December 18, 1997. Except with respect to options then outstanding, if not terminated sooner under the provisions of Section 19, no further options shall be granted under the Plan at the earlier of (i) December 31, 2007, or (ii) the point in time when no shares of Stock reserved for issuance under Section 4 are available.

19. AMENDMENT OR TERMINATION OF THE PLAN. The Board shall have the plenary authority to terminate or amend the Plan; provided, however, that the Board shall not, without the approval of the shareholders of the Company,
(i) increase the maximum number of shares which may be issued under the Plan pursuant to Section 4, (ii) materially amend the requirements as to the class of employees eligible to purchase Stock under the Plan, or (iii) permit the members of the Committee to purchase Stock under the Plan. No termination, modification, or amendment of the Plan shall adversely affect the rights of a Participant with respect to an option previously granted to him under such option without his written consent.

In addition, to the extent that the Committee determines that, in the opinion of counsel, (i) the listing for qualification requirements of any national securities exchange or quotation system on which the Company's Common Stock is then listed or quoted, or (ii) the Code or Treasury regulations issued thereunder, require shareholder approval in order to maintain compliance with such listing or qualification requirements or to

maintain any favorable tax advantages or qualifications, then the Plan shall not be amended by the Board in such respect without first obtaining such required approval of the Company's shareholders.

20. SECURITIES LAWS RESTRICTIONS ON EXERCISE. The Committee may, in its discretion, require as conditions to the exercise of any option that the shares of Common Stock reserved for issuance upon the exercise of the option shall have been duly listed, upon official notice of issuance, upon a stock exchange, and that either (i) a Registration Statement under the Securities Act of 1933, as amended, with respect to said shares shall be effective; or (ii) the Participant shall have represented at the time of purchase, in form and substance satisfactory to the Company, that it is his intention to purchase the Stock for investment and not for resale or distribution.

21. SECTION 16 COMPLIANCE. The Plan, and transactions hereunder by persons subject to Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are intended to comply with all applicable conditions of Rule 16b-3 or any successor exemption provision promulgated under the Exchange Act. To the extent that any provision of the Plan or any action by the Committee or the Board fails, or is deemed to fail, to so comply, such provision or action shall be null and void but only to the extent permitted by law and deemed advisable by the Committee in its discretion.

22. WITHHOLDING TAXES FOR DISQUALIFYING DISPOSITION. Whenever shares of Stock that were received upon the exercise of an option granted under the Plan are disposed of within two years after the date of grant of such option or one year from the date of exercise of such option (within the meaning of Section 423(a)(1)), the Company shall have the right to require the participant to remit to the Company in cash an amount sufficient to satisfy federal, state and local withholding and payroll tax requirements, if any, attributable to such disposition prior to authorizing such disposition or permitting the delivery of any certificate or certificates with respect thereto.

23. NO RESTRICTION ON CORPORATE ACTION. Subject to Section 19, nothing contained in the Plan shall be construed to prevent the Board or any Employer from taking any corporate action which is deemed by the Employer to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan or any option granted under the Plan. No Employee, beneficiary or other person shall have any claim against any Employer as a result of any such action.

24. USE OF FUNDS. The Employers shall promptly transfer all amounts withheld under Section 6 to the Company or to any brokerage firm engaged to administer Accounts, as directed by the Company. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company will not be obligated to segregate such payroll deductions.

25. MISCELLANEOUS.

25.1. Options Carry Same Rights and Privileges. To the extent required to comply with the requirements of Section 423 of the Code, all Employees granted options under the Plan to purchase Common Stock shall have the same rights and privileges hereunder.

25.2. Headings. Any headings or subheadings in this Plan are inserted for convenience of reference only and are to be ignored in the construction or interpretation of any provisions hereof.

25.3. Gender and Tense. Any words herein used in the masculine shall be read and construed in the feminine when appropriate. Words in the singular shall be read and construed as though in the plural, and vice-versa, when appropriate.

25.4. Governing Law. This Plan shall be governed and construed in accordance with the laws of the State of Oregon to the extent not preempted by federal law.

25.5. Regulatory Approvals and Compliance. The Company's obligation to sell and deliver Common Stock under the Plan is at all times subject to all approvals of and compliance with the (i) regulations of any applicable stock exchanges (including NASDAQ) and (ii) any governmental authorities required in connection with the authorization, issuance, sale or delivery of such Stock, as well as federal, state and foreign securities laws.

25.6. Severability. In the event that any provision of this Plan shall be held illegal, invalid, or unenforceable for any reason, such provision shall be fully severable, but shall not affect the remaining provisions of the Plan, and the Plan shall be construed and enforced as if the illegal, invalid, or unenforceable provision had not been included herein.

25.7. Refund of Contributions on Noncompliance with Tax Law. In the event the Company should receive notice that this Plan fails to qualify as an "employee stock purchase plan" under Section 423 of the Code, all then existing Account balances will be paid to the Participants and the Plan shall immediately terminate.

25.8. No Guarantee of Tax Consequences. The Company, Board, and the Committee do not make any commitment or guarantee that any tax treatment will apply or be available to any person participating or eligible to participate in the Plan, including, without limitation, any tax imposed by the United States or any state thereof, any estate tax, or any tax imposed by a foreign government.

25.9. Company as Agent for the Employers. Each Employer, by adopting the Plan, appoints the Company and the Board as its agents to exercise on its behalf all of the powers and authorities hereby conferred upon the Company and the Board by the terms of the Plan, including, but not by way of limitation, the power to amend and terminate the Plan.

IN WITNESS WHEREOF, this Plan is hereby executed by a duly authorized officer of the Company.

As approved by the Board of Directors of Lithia Motors, Inc on December 18, 1997.

/s/ Sidney B. DeBoer
Sidney B. DeBoer, Secretary

As approved by the Shareholders of Lithia Motors, Inc on May __, 1998.

Sidney B. DeBoer, Secretary

EXHIBIT 10.5.1

HONDA

AUTOMOBILE DEALER

SALES AND SERVICE AGREEMENT

A

This is an agreement between the Honda Automobile Division, American Honda Motor Co., Inc. (American Honda) and Lithia HPI, Inc. (Dealer), a(n) Oregon corporation doing business as Lithia Honda. By this agreement, which is made and entered into at Torrance, California, effective the 14th day of October, 1997, American Honda gives to Dealer the nonexclusive right to sell and service Honda Products at the Dealership Location. It is the purpose of this Agreement, including the Honda Automobile Dealer Sales and Service Agreement Standard Provisions (Standard Provisions), which are incorporated herein by reference, to set forth the rights and obligations which Dealer will have as a retail seller of Honda Products. Achievement of the purposes of this Agreement is premised upon the mutual understanding and cooperation between American Honda and Dealer. American Honda and Dealer have each entered into this Agreement in reliance on the integrity and ability and expressed intention of each to deal fairly with the consuming public and with each other.

For consistency and clarity, terms which are used frequently in this Agreement have been defined in Article 12 of the Standard Provisions.

B

American Honda grants to Dealer the nonexclusive right to buy Honda Products and to identify itself as a Honda dealer at the Dealership Location. Dealer assumes the obligations specified in this Agreement and agrees to sell and service effectively Honda Products within Dealer's Primary Market Area and to maintain premises satisfactory to American Honda.

C

Dealer covenants and agrees that this Agreement is personal to Dealer, to the Dealer Owner, and to the Dealer Manager, and American Honda has entered into this Agreement based upon their particular qualifications and attributes and their continued ownership or participation in Dealership Operations. The parties therefore recognize that the ability of Dealer to perform this Agreement satisfactorily and the Agreement itself are both conditioned upon the continued active involvement in or ownership of Dealer by either:

(1.) the following person(s) in the percentage(s) shown:

NAME ADDRESS TITLE	PERCENT OF OWNERSHIP
Lithia Motors, Inc. which is owned by Lithia Holding, LLC minimum 53.585% and through publicly traded shares maximum 46.415%	100%

Lithia Holding, LLC
which is owned by
Sidney B. DeBoer 58.125%
Manfred L. Heimann 34.875%
Bradford Gray 7.00%

(2.) _____, an individual personally owning an interest in Dealer of at least 25% and who has presented to American Honda a firm and binding contract giving to him the right and obligation of acquiring an ownership interest in Dealer in excess of 50% within five years of the commencement of Dealership Operations and being designated in that contract as Dealer operator.

D

Dealer represents, and American Honda enters into this Agreement in reliance upon the representation, that Bryan DeBoer exercises the functions of Dealer Manager and is in complete charge of Dealership Operations with authority to make all decisions on behalf of dealer with respect to Dealership Operations. Dealer agrees that there will be no change in Dealer Manager without the prior written approval of American Honda.

E

American Honda has approved the following premises as the location(s) for the display of Honda Trademarks and for Dealership Operations.

HONDA NEW VEHICLE
SALES SHOWROOM
700 North Central
Medford, Oregon

SALES AND GENERAL OFFICES
360 E. Jackson
Medford, Oregon

PARTS AND SERVICE FACILITY
700 North Central
Medford, Oregon

USED VEHICLE DISPLAY
AND SALES FACILITY
700 North Central
Medford, Oregon

F

There shall be no voluntary or involuntary change, direct or indirect, in the legal or beneficial ownership or executive power or responsibility of Dealer for the dealership Operations, specified in Paragraphs C and D hereof, without the prior written approval of American Honda.

G

Dealer agrees to maintain, solely with respect to the Dealership Operations, minimum net working capital of $1,162,800.00, minimum owner's equity of $ * , and flooring and a line or lines of credit in the aggregate amount of $1,325,000.00 with banks or financial institutions approved by American Honda for use in connection with Dealer's purchases of and carrying of inventory of Honda Products, all of which American Honda and

Dealer agree are required to enable Dealer to perform its obligations pursuant to this Agreement. If Dealer also carries on another business or sells other products, Dealer's total net working capital, owner's equity and lines of credit shall be increased by an appropriate amount.

* Long Term Debt, less Real Estate Mortgages, shall not exceed a ratio of 1:1 when compared to Effective Net Worth which is defined as Total Net Worthless Total Other Assets.

H

This Agreement is made for the period beginning October 14, 1997 and ending October 31, 1998, unless sooner terminated. Continued dealings between American Honda and dealer after the expiration of this Agreement shall not constitute a renewal of this Agreement for a term, but rather shall be on a day-to-day basis, unless a new agreement or a renewal of this Agreement is fully executed by both parties.

I

This Agreement may not be varied, modified or amended except by an instrument in writing, signed by duly authorized officers of the parties, referring specifically to this agreement and the provision being modified, varied or amended.

J

Neither this Agreement, nor any part thereof or interest therein, may be transferred or assigned by Dealer, directly or indirectly, voluntarily or by operation of law, without the prior written consent of American Honda.

Lithia HPI, Inc. dba
LITHIA HONDA #207171 *By: /s/Sidney B. DeBoer*
(Corporate or Firm Name) *(Dealer)*

AMERICAN HONDA MOTOR CO., INC.
HONDA AUTOMOBILE DIVISION

BY: /s/Richard Colliver
Richard Colliver

ADDENDUM TO HONDA AUTOMOBILE DEALER

SALES AND SERVICE AGREEMENT

This Addendum (the "Addendum") dated October 14, 1997, is entered into between Lithia HPI, Inc. ("Dealer"), an Oregon corporation, with its principal place of business at 700 North Central, Medford Oregon 97501, and American Honda Motor Co., Inc.. ("American Honda"), a California corporation, with its principal place of business at 1919 Torrance Boulevard, Torrance, California 90501.

WHEREAS, Dealer and American Honda are entering into the Honda Automobile Dealer Sales and Service Agreement including the Standard Provisions (the "Dealer Agreement"), a copy of which is attached hereto, as of the date hereof; and

WHEREAS, Dealer and American Honda are entering into the "Agreement Between

American Honda Motor Co., Inc. and Lithia Motors, Inc. et al." effective as of December 17, 1996 (the "Lithia Agreement"); and

WHEREAS, Dealer and American Honda desire that this Addendum and the Lithia Agreement be incorporated into and become part of the Dealer Agreement;

NOW THEREFORE, in consideration of the mutual covenants set forth herein and in the Dealer Agreement and other good and valuable consideration the sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Status of the Addendum. This Addendum is hereby incorporated into and is made part of the Dealer Agreement. The Dealer Agreement and this Addendum shall, when possible, be read as an integrated document; however, if there is any conflict between the terms of this Addendum and the Dealer Agreement, this Addendum shall govern.

2. Incorporation of the Applicable Terms of the Lithia Agreement. Attached hereto as Schedule A is the Lithia Agreement. Dealer represents and warrants that it has read the Lithia Agreement and acknowledges that the Lithia Agreement includes provisions that pertain to Lithia's management, ownership, and right to acquire and transfer Honda dealerships and other matters. Dealer has executed the Lithia Agreement and agrees to be bound by all provisions of the Lithia Agreement that are applicable to or affect it and/or the actions of any Honda and Acura dealership owned by Dealer. Dealer and American Honda agree that the terms and conditions of the Lithia Agreement are hereby incorporated into and made part of the Dealer Agreement.

3. Additional Terms. Dealer shall satisfy the following terms on a continuing basis during the term of the Dealer Agreement, as well as during any periods following any renewal or extension of the Dealer Agreement:

a. Exclusive Facilities. As provided in Paragraph 3.1 of the Lithia Agreement, Dealers non-exclusive Honda Dealership Operations will by no later than December 31, 1997, be conducting all business in a separate, freestanding, exclusive new facility built and maintained in full compliance and conformity with Honda's designs and specifications, including Honda's minimum land and building requirements, as detailed within the Honda Image Program. Such new, exclusive Honda dealership facility will be located on a site acceptable to AHM. Thereafter, Dealer shall maintain separate, exclusive, freestanding Honda Dealership Operations that are in full and timely compliance with American Honda standards and guidelines relating to Honda Dealership Operations, facility design, functionality and capacity, and enhancements to American Honda's brand image, which standards and

guidelines American Honda may reasonably modify from time to time, shall exclusively offer a full range of Honda Products and services and shall not offer competing products or services from its Dealership Premises. In addition, Dealer agrees that even though the facilities may exceed AHM's minimum requirements now or in the future, the separate, exclusive, freestanding Honda Dealership Operations will remain separate, exclusive and freestanding for Honda Products and Honda Dealership Operations.

b. Honda Exclusive Minimum Facility Requirements. The Dealership Premises shall provide the following Honda exclusive minimum square footage requirements, arranged in a manner conducive to the reasonable sales and service of Honda Automobiles, Honda Parts and accessories:

Building

Honda New Vehicle Sales Showroom Display	1,200 Sq. Ft.
Sales Office	928 Sq. Ft.
General Office	1,619 Sq. Ft.
Honda Service Workshop and Support	2,985 Sq. Ft.
Stall/Lifts	6/4
Honda Parts and Accessories Department	1,965 Sq. Ft.
Total Building	8,697 Sq. Ft.

Land

New Vehicle Display and Storage	10,667 Sq. Ft.
Used Car Display	8,333 Sq. Ft.
Customer and Employee Parking	5,700 Sq. Ft.
Honda Service Parking	1,600 Sq. Ft.
Circulation and Landscaping	19,000 Sq. Ft.
Total Land	45,360 Sq. Ft.
Total Land and Building	54,057 Sq. Ft.

c. Minimum Capital Requirements. Dealer agrees that the Honda Dealership Operations shall meet American Honda's minimum capital requirements at all times. The minimum capital requirements shall be determined by American Honda from time to time and, as of the date hereof, shall be the amounts specified below:

o American Honda's current minimum working capital requirement is $1,162,800 for the Honda dealership at the Dealership Premises. The Honda dealership entity will be capitalized with not less than $2,597,682 in equity of which $2,597,682 will be in the form of common stock.

o Dealer's Long Term Debt (excluding Real Estate Mortgages and the current portion of Long Term Debt) shall not exceed a ratio of 1:1 when compared to Effective Net Worth (Total Net Worth less Total Other Assets) of Dealer.

o A wholesale line of credit is to be established and maintained by Dealer with a financial institution approved by American Honda for the exclusive purpose of purchasing and maintaining a representative inventory of new Honda Automobiles. The current minimum amount of such line is $1,325,000.

e. Financial Statement Submission. Dealer agrees to continue to comply with American Honda's dealer financial requirements as specified in the Dealer Agreement. These specifically provide that Dealer will furnish a complete, timely and accurate financial statement on a monthly basis, electronically, on the form required by American Honda.

f. Personnel Minimum Requirements. Dealer agrees to employ Honda service and parts staff which meets at all times the minimum service and parts training standards specified by American Honda for its authorized dealers and whose members are properly licensed.

g. Communications Equipment. Dealer agrees to provide appropriate data communications equipment, compatible with American Honda's specifications, which currently must accommodate HondaNet 2000.

4. No Guarantee of Financial Success. Dealer recognizes and acknowledges that American Honda's approval of Dealer's application and Dealership Premises does not in any way constitute a representation, assurance, or guarantee by American Honda that Dealer will achieve any particular level of sales, operate at a profit, or realize any return on Dealers investment.

5. Automobile Availability. Dealer recognizes and acknowledges that American Honda cannot and does not guarantee a specific number of new Honda Automobiles to be made available for resale by the Dealer. American Honda assumes no liability in the event of losses incurred during periods of unavailability, nor does unavailability excuse Dealers performance.

6. Compliance with and Impact of Applicable Laws. Dealer shall comply at Dealers own expense with all applicable state and federal laws including those pertaining to vehicle dealerships. Dealer shall secure all licenses and permissions in accordance with such laws and bear all the cost related thereto.

7. Assumption of Costs. Dealer will complete the above actions solely at Dealers own expense and without responsibility on the part of American Honda.

8. Severability. If any provision of this Addendum should be held invalid or unenforceable for any reason whatsoever, or conflicts with any applicable law, this Addendum will be considered divisible as to such provision(s), and such provision(s) will be deemed amended to comply with such law, or if it (they) cannot be so amended without materially affecting the tenor of the Dealer Agreement, then it (they) will be deemed deleted from the Dealer Agreement in such jurisdiction, and in either case, the remainder of the Dealer Agreement will be valid and binding. notwithstanding the foregoing, if, as a result of any provision of the Dealer Agreement (including this Addendum) being held invalid or unenforceable, American Honda's ability to control the selection of the Dealer Owner, Executive Manager, or the Dealer Manager or to otherwise maintain its ability to exercise reasonable discretion over the selection of the actual individual who is managing Dealer is materially restricted beyond the terms of the Dealer Agreement or the Lithia Agreement, American Honda shall be permitted to invoke the repurchase provisions of Section 9.3 of the Lithia Agreement.

IN WITNESS WHEREOF, the parties have executed this Addendum as of the date first above written.

LITHIA HPI, INC.

By: /s/Sidney B. DeBoer

AMERICAN HONDA MOTOR CO., INC.

By: /s/Richard Colliver

EXHIBIT 10.5.2

ACURA

AUTOMOBILE DEALER

SALES AND SERVICE AGREEMENT

PARAGRAPH A

This is an agreement between the Acura Division, American Honda Motor Co., Inc. (American Honda) and Lithia BB, Inc. (Dealer) a(n) California Corporation doing business as Lithia Acura of Bakersfield. By this agreement, which is made and entered into at Torrance, California, effective the 2nd day of October, 1997. American Honda gives to Dealer the nonexclusive right to sell and service Acura Products at the Dealership Location. It is the purpose of this Agreement, including the Acura Automobile Dealer Sales and Service Agreement Standard Provisions (Standard Provisions), which are incorporated herein by reference, to set forth the rights and obligations which Dealer will have as a retail seller of Acura Products. Achievement of the purposes of this Agreement is premised upon the mutual and continuing understanding and cooperation between American Honda and Dealer and the expressed intention of each to deal fairly with the consuming public.

For consistency and clarity, terms which are used frequently in this Agreement have been defined in Article 12 of the Standard Provisions.

PARAGRAPH B

American Honda grants to Dealer the nonexclusive right to buy Acura Products and to identify itself as an Acura dealer at the Dealership Location. Dealer assumes the obligations specified in this Agreement and agrees to sell and service effectively Acura Products within Dealer's Primary Market Area and to maintain premises satisfactory to American Honda.

PARAGRAPH C

Dealer covenants and agrees that this Agreement is personal to Dealer, to the Dealer Owner, and to the Dealer Manager, and American Honda has entered into this Agreement based upon their particular qualifications and attributes and their continued ownership or participation in Dealership Operations. The parties therefore recognize that the ability of Dealer to perform this Agreement satisfactorily and the Agreement itself are both conditioned upon the continued active involvement in or ownership of Dealer by either:

(1.) the following person(s) in the percentage(s) shown:

NAME	ADDRESS	TITLE	PERCENT OF OWNERSHIP
Lithia Motors, Inc.		Holding Company	100%
Sidney B. DeBoer	234 Vista Ashland, OR 97520	President/Secretary/Treasurer	
M.L. Dick Heimann	426 Roundelay Circle Medford, OR 97504	Vice President	

(2.) _____, an individual personally owning an interest in Dealer of at least 25% and who has presented to American Honda a firm and binding contract giving to him the right and obligation of acquiring an ownership interest in Dealer in excess of 50% within five years of the commencement of Dealership Operations and being designated in that contract as Dealer operator.

PARAGRAPH D

Dealer represents, and American Honda enters into this Agreement in reliance upon the representation, that Sidney B. DeBoer exercises the functions of Dealer Manager and is in complete charge of Dealership Operations with authority to make all decisions on behalf of Dealer with respect to Dealership Operations. Dealer agrees that there will be no change in Dealer Manager without the prior written approval of American Honda.

PARAGRAPH E

American Honda has approved the following premise as the location(s) for the display of Acura Trademarks and for dealership Operations.

New Car Showroom	3201 Cattle Drive, Bakersfield, California 93313
Used Car Showroom	3201 Cattle Drive, Bakersfield, California 93313
Sales and General Offices	3201 Cattle Drive, Bakersfield, California 93313

Parts and Service Facilities 3201 Cattle Drive, Bakersfield, California 93313

PARAGRAPH F

There shall be no voluntary change or involuntary change, direct or indirect, in the legal or beneficial ownership or executive power or responsibility of Dealer for the Dealership Operations, specified in Paragraphs C and D hereof, without the prior written approval of American Honda.

PARAGRAPH G

Dealer agrees to maintain, solely with respect to the Dealership Operations, minimum net working capital of $228,242, minimum owner's equity of $270,482, and a line or lines of credit in the aggregate amount of $566.400 with banks or financial institutions approved by American Honda for use in connection with Dealer's purchases of and carrying of inventory of Acura Products, all or which American Honda and Dealer agree are required to enable Dealer to perform its obligations pursuant to this Agreement. If Dealer also carries on another business or sells other products, Dealer's total net working capital, owner's equity and lines of credit shall be increased by an appropriate amount.

PARAGRAPH H

This Agreement is made for the period beginning October 2, 1997 and ending November 30, 1997 unless sooner terminated. Continued dealings between American Honda and Dealer after the expiration of this Agreement

shall not constitute a renewal of this Agreement for a term, but rather shall be on a day-to-day basis, unless a new agreement or a renewal of this Agreement is fully executed by both parties.

PARAGRAPH I

This Agreement may not be varied, modified or amended except by an instrument in writing, signed by duly authorized officers of the parties, referring specifically to this Agreement and the provision being modified, varied or amended.

PARAGRAPH J

Neither this Agreement, nor any part thereof or interest therein, may be transferred or assigned by Dealer, directly or indirectly, voluntarily or by operation of law, without the prior written consent of American Honda.

Lithia BB, Inc.
dba LITHIA ACURA OF BAKERSFIELD *By /s/Sidney B. DeBoer*
---------- ----------
(Corporate or Firm Name) *(Dealer)*

ACURA DIVISION
AMERICAN HONDA MOTOR CO., INC. *(Corporate Seal)*

By /s/Richard B. Thomas

Richard B. Thomas, Executive Vice President

ADDENDUM TO ACURA AUTOMOBILE DEALER

SALES AND SERVICE AGREEMENT

This Addendum (the "Addendum") dated October 2, 1997, is entered between Lithia BB, Inc. ("Dealer), a California corporation, with its principal place of business at 3201 Cattle Drive, Bakersfield, California 93313, and American Honda Motor Co., Inc. ("American Honda"), a California corporation, with its principal place of business at 1919 Torrance Boulevard, Torrance, California 90501.

WHEREAS, Dealer and American Honda are entering into the Acura Automobile Dealer Sales and Service Agreement including the Standard Provisions (the "Dealer Agreement"), a copy of which is attached hereto, as of the date hereof; and

WHEREAS, Dealer and American Honda have entered into the "Agreement between American Honda Motor Co., Inc. and Lithia Motors, Inc. et al." dated December 17, 1996 as amended by that certain "Amendment to Agreement between American Honda Motor Co., Inc. and Lithia Motors, Inc. et al.0 dated October 2, 1997 (collectively, the "Lithia Agreement); and

WHEREAS, Dealer and American Honda desire that this Addendum and the Lithia Agreement be incorporated into and become part of the Dealer Agreement;

NOW THEREFORE, in consideration of the mutual convenience set forth herein and in the Dealer Agreement and other good and valuable consideration the sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Status of the Addendum. This Addendum is hereby incorporated into and is made part of the Dealer Agreement. The Dealer Agreement and this Addendum shall, when possible, be read as an integrated document; however, if there is any conflict between the terms of this Addendum and the Dealer Agreement, this Addendum shall govern.

2. Incorporation of the Applicable Terms of the Lithia Agreement. Attached hereto as Schedule A is the Lithia Agreement. Dealer represents and warrants that it has read the Lithia Agreement and acknowledges that the Lithia Agreement includes provisions that pertain to Lithia's management, ownership, and right to acquire and transfer Acura dealerships and other matters. Dealer has executed the Lithia Agreement and agrees to be bound by all provisions of the Lithia- Agreement that are applicable to or affect it and/or the actions of a Honda and Acura dealership. Dealer and American Honda agree that the terms and conditions of the Lithia Agreement are hereby incorporated into and made part of the Dealer Agreement.

3. Additional Terms. Dealer shall satisfy the following terms on a continuing basis during the term of the Dealer Agreement, as well as during any periods following any renewal or extension of the Dealer Agreement:

a. Separate Legal Entity. Dealer shall be a separate legal entity, shall maintain and be subject to a separate motor vehicle license and shall maintain separate financial statements from any and all other dealerships, whether or not commonly owned. Consistent with American Honda policy, the name "Honda" or "Acura", as applicable, shall appear in the d/b/a of Dealer but not in the corporate name. Dealer agrees to provide a separate legal entity by October 1, 1998 and to bring the d/b/a name into compliance within 60 days from October 1, 1997.

b. Public Ownership Policy. Dealer hereby agrees to be bound by the terms of the American Honda Motor Co., Inc. Policy on the Public Ownership of Honda and Acura Dealerships (the "Policy"), a copy of which is appended to the Lithia Agreement as Schedule C.

c. Transfers of Ownership Interests. Dealer hereby agrees that all transfers of ownership interests in Dealer, all limitations on who may own Dealer, any obligation to identify the ownership interests in Dealer, and any issues pertaining to future acquisitions of dealers by Dealer's owner shall be governed by the applicable provisions of the Lithia Agreement, including, without limitation, Article 2 and Schedule D, and Articles 1 and 8 and Schedule E, as amended, and that Dealer shall not object to American Honda's enforcement of any of the provisions thereof.

d. Exclusive Facilities. As provided in Paragraph 3.1 of the Lithia Agreement, as amended, Dealer shall maintain separate, exclusive, freestanding Acura Dealership Operations that are in full and timely compliance with American Honda standards and guidelines relating to Acura Dealership Operations, facility design, functionality and capacity, and enhancements to American Honda's brand image, which standards and guidelines American Honda may reasonably modify from time to time, shall exclusively offer a full range of Acura Products and services and shall not offer competing products or services from its Dealership Premises. Dealer agrees to bring the currently non-exclusive Acura Dealership Operations in Bakersfield, California into compliance on or before October 1, 1998.

e. Acura Exclusive Minimum Facility Requirements. The Dealership Premises shall provide the following Acura exclusive minimum square footage requirements, arranged in a manner conducive to the reasonable sales and service of Acura Automobiles, Acura Parts and accessories:

Building	Facility Guide
Acura New Vehicle Sales Showroom and Sales Office	1,738 Sq. Ft.
General Office	1,067 Sq. Ft.
Acura Service Department	6,255 Sq. Ft.
Stall/Lifts	10/2
Acura Parts and Accessories Department	3,375 Sq. Ft.
Total Building	12,435 Sq. Ft.
Land	
New Vehicle Display and Storage	11,756 Sq. Ft.
Used Car Display and Storage	6,520 Sq. Ft.
Customer, Employee and Service Parking	9,328 Sq. Ft.
Circulation and Landscaping	12,002 Sq. Ft.
Total Land	39,606 Sq. Ft.
Total Land and Building	52,041 Sq. Ft.

Dealer agrees to bring Dealership Premises into compliance with these facility requirements on or before October 1, 1998.

f. Dealer Manager. Dealer agrees to be bound by the provisions of Articles 4, 5, and 6 of the Lithia Agreement governing, by way of example, American Honda's right of approval of the Dealer Manager, the authority of the Dealer Manager, Dealer's representation in dealer organizations, and dealership personnel training, and to not object to enforcement of any of the provisions thereof or take actions contrary to the letter or spirit of these provisions.

g. Enforcement of Rights. Dealer agrees that, in addition to the rights and remedies available to American Honda under the Dealer Agreement and this Addendum, American Honda may enforce its rights under the Lithia Agreement, as amended, against Dealer as if Dealer were a signatory thereto.

h. American Honda Policies. American Honda has adopted certain policies which are attached to the Lithia Agreement as Schedule G. Dealer hereby agrees t o abide by these policies as attached thereto and as reasonably amended by American Honda from time to time, and other policies promulgated in the future by American Honda. In addition, American Honda has expressed a commitment to diversity in management and among employees. Dealer hereby agrees to adhere to that commitment by seeking to achieve diversity among its management personnel and employees.

i. Minimum Capital Requirements. Dealer agrees that the Acura Dealership Operations shall meet American Honda's minimum capital requirements at all times. The minimum capital requirements shall be determined by American Honda from time to time and, as of the date hereof, shall be the amounts specified below:

o American Honda's current minimum working capital requirement is $228,242 for the Acura dealership at the Dealership Premises. The Acura dealership entity will be capitalized with not less than $270,482 in effective net worth.

o A wholesale line of credit is to be established and maintained by Dealer with a financial institution approved by American Honda for the exclusive purpose of purchasing and maintaining a representative inventory of new Acura Automobiles. The current minimum amount of such line is $566,400.

j. Financial Statement Submission. Dealer agrees to continue to comply with American Honda's dealer financial requirements as specified in the Dealer Agreement. These specifically provide that Dealer will furnish a complete, timely and accurate financial statement on a monthly basis, electronically, on the form required by American Honda.

k. Personnel Minimum Requirements. Dealer agrees to employ Acura service and parts staff which meets at all times the minimum service and parts training standards specified by American Honda for its authorized dealers and whose members are properly licensed.

l. Communications Equipment. Dealer agrees to provide appropriate data communications equipment, compatible with American Honda's specifications, which currently must accommodate AcuraLink 2000.

4. No Guarantee of Financial Success. Dealer recognizes and acknowledges that American Honda's approval of Dealer's application and Dealership Premises does not in any way constitute a representation, assurance, or guarantee by American Honda that Dealer w@ill achieve any particular level of sales, operate at a profit, or realize any return on Dealer's investment.

5. Automobile Availability. Dealer recognizes and acknowledges that American Honda cannot and does not guarantee a specific number of new Acura Automobiles to be made available for resale by the Dealer. American Honda assumes no liability in the event of losses incurred during periods of unavailability, nor does unavailability excuse Dealer's performance.

6. Compliance with and Impact of Applicable Laws. Dealer shall comply at Dealer's own expense with all applicable state and federal laws including those pertaining to vehicle dealerships. Dealer shall secure all licenses and permissions in accordance with such laws and bear all the cost related thereto.

7. Assumption of Costs. Dealer will complete the above actions solely at Dealers own expense and without responsibility on the part of American Honda.

8. Severability. If any provision of this Addendum should be held invalid or unenforceable for any reason whatsoever, or conflicts with any applicable law, this Addendum will be considered divisible as to such provision(s), and such provision(s) will be deemed amended to comply with such law, or if it (they) cannot be so amended without materially affecting the tenor of the Dealer Agreement, then it (they) will be deemed deleted from the Dealer Agreement in such jurisdiction, and in either case, the remainder of the Dealer Agreement will be valid and binding. Notwithstanding the foregoing, if, as a result of any provision of the Dealer Agreement (including this Addendum) being held invalid or unenforceable, American Honda's ability to control the selection of the Dealer Owner, Executive Manager, or the Dealer Manager or to otherwise maintain its ability to exercise reasonable discretion over the selection of the actual individual who is managing Dealer is materially restricted beyond the terms of the Dealer Agreement or the Lithia Agreement, American Honda shall be permitted to invoke the repurchase provisions of Section 9.3 of the Lithia Agreement.

IN WITNESS WHEREOF, the parties have executed this Addendum as of the date first above written.

LITHIA BB, INC.

BY /s/Sidney B. DeBoer
AMERICAN HONDA MOTOR CO., INC.

BY /s/Richard B. Thomas
Richard B. Thomas, Executive Vice President

SCHEDULE A

"Agreement between

American Honda Motor Co., Inc.

and

Lithia Motors, Inc. et al."

dated December 17, 1996

and

"Amendment to Agreement between

American Honda Motor Co., Inc.

and

Lithia Motors, Inc. et al."

dated October 2, 1997

EXHIBIT 10.5.3

HONDA AUTOMOBILE DEALER SALES AND SERVICE AGREEMENT

STANDARD PROVISIONS

The following Standard Provisions are, by reference, incorporated in and made a part of the Honda Automobile Dealer's Sales and Service Agreement. These Standard Provisions accompany the Honda Dealer's Sales and Service Agreement which has been executed on behalf of both American Honda and Dealer.

1. THE OBLIGATIONS OF AMERICAN HONDA

1.1. It is the obligation of American Honda to supply to Dealer, and to all authorized dealers, Honda Products in a fair and reasonable manner in order that Dealer may conduct Dealership Operations in a businesslike manner. In fulfilling this obligation, Honda Products may be supplied either on the basis of dealer order or on the basis of allocation, depending on market conditions and availability. There are numerous factors which affect the availability of Honda Products. Among those factors are component availability and production capacity, consumer demand, strikes and other labor troubles, weather and transportation conditions, and government regulations. Because such factors affect individual dealer supply, American Honda necessarily reserves discretion in accepting orders and allocating and distributing Honda Products, and its judgment and decision in such matters will be final.

1.2. To assist Dealer in the fulfillment of its obligations under the Agreement, which it has as a retail seller of Honda Products, American Honda agrees to provide Dealer sales, service and parts support.

1.2.A. To assist Dealer in fulfilling its sales responsibility, American Honda agrees to offer general and specialized product information and to provide field sales personnel to advise and counsel Dealer's sales organization on sales-related subjects such as merchandising, training and sales management.

1.2.B. To assist Dealer in fulfilling its service and parts responsibilities, American Honda agrees to offer, or cause to be offered, general and specialized service and parts training courses. Based on the service training needs of Dealer's service personnel, to be determined by American Honda with the assistance of Dealer, Dealer agrees to have members of Dealer's service organization attend such courses. Further, American Honda agrees to make available to Dealer field service personnel capable of advising and counseling Dealer's service personnel on service-related subjects, including product quality, technical adjustments, repairs and replacement of product components, recall, product improvement or product update campaigns which American Honda may conduct, owner complaints, warranty administration, service and parts merchandising, and training and service management.

1.3. To assist Dealer in planning, establishing and maintaining the Dealership Premises, American Honda will, at its sole option, make available to Dealer, upon request, sample copies of building layout plans or facility planning recommendations, including sales, service and parts space and the placement, installation and maintenance of recommended signs. In addition, representatives of American Honda will be available to Dealer from time to time to counsel and advise Dealer and its personnel in connection with Dealer's planning and equipping the Dealership Premises.

1.4. American Honda agrees to make available to Dealer, at reasonable cost, such sales, service and parts manuals, brochures, special service tools and equipment and other data for Honda Products as American Honda deems necessary for Dealership Operations.

1.5. American Honda agrees to maintain a nationwide system of authorized dealers of Honda Products. In order that those authorized dealers may be assured of the benefits of comprehensive advertising of Honda Products, American Honda agrees to establish and maintain general advertising programs in such manner and amount as it may deem appropriate and will make sales promotion and campaign materials available to Dealer.

1.6. American Honda agrees to compensate Dealer for the labor and parts used by Dealer in performing its obligations under any American Honda warranty and in connection with any recall, product improvement or product update campaign which American Honda may undertake and require Dealer to perform. Such compensation will be in such reasonable amounts, and pursuant to such requirements and instructions, as American Honda shall establish from time to time, and such compensation shall constitute full and complete payment by American Honda to Dealer for such work.

1.7. American Honda agrees to assume the defense of Dealer and to indemnify Dealer against any money judgment, less any off set recovered by Dealer, in any lawsuit naming Dealer as a defendant, where such lawsuit relates to: (a) an alleged breach of any Honda warranty relating to Honda Products; (b) bodily injury or property damage claimed to have been caused by a defect in the design, manufacture or assembly of a Honda Product prior to delivery thereof to Dealer (other than a defect which could have been detected by Dealer in a reasonable inspection); or (c) a misrepresentation or misleading statement of American Honda; provided, however, that if any information discloses the possibility of Dealer error or omission in servicing or otherwise (including but not limited to Dealer not having performed all recalls of which Dealer has notice on the Honda Product involved in the lawsuit if the defect subject to the recall is alleged or contended to be a contributing cause of the breach of warranty, injury or damage which is the subject matter of the lawsuit), or should it appear that the Honda Product involved in such lawsuit had been altered by or for Dealer, or if Dealer has violated any of the provisions of this Paragraph 1.7, then Dealer will immediately obtain its own counsel and defend itself, and American Honda will not be obligated to defend or indemnify Dealer further. Dealer will promptly notify American Honda of any claim which Dealer will assert American Honda might be obligated to defend under this Paragraph 1.7. American Honda will have not less than thirty (30) days to conduct a reasonable investigation to initially determine whether or not American Honda is obligated to defend under this Paragraph 1.7. Dealer will take the steps necessary to protect its own interests involved in the lawsuit until American Honda assumes the active defense of Dealer. American Honda will, upon assuming the defense of Dealer, reimburse Dealer for all attorneys' fees or court costs incurred by Dealer from the date of the tender. American Honda, upon assuming Dealer's defense, will have the right to retain and direct

counsel of its own choosing, and Dealer will cooperate in all matters during the course of defending the lawsuit. If, upon final judgment in a lawsuit, it is determined that American Honda wrongfully failed or refused to defend Dealer, American Honda will reimburse Dealer for all costs and attorneys' fees incurred by Dealer from the date of the tender of defense.

2. SALE OF HONDA PRODUCTS TO DEALER.

2.1. To the extent that Honda Products are the subject of dealer order, such orders will be submitted and processed in accordance with procedures established by American Honda. No order will be binding on American Honda, as evidenced by either the issuance of an invoice or shipment of the ordered Honda Products, and any such order may be accepted in whole or in part. All orders by Dealer will be deemed firm orders and binding upon the Dealer, except that at any time prior to acceptance, an order may be canceled by Dealer by giving actual notice to American Honda in writing of the desire by Dealer to cancel such order.

2.2. While it is the intent of American Honda to provide Honda Automobiles to Dealer in such quantities and types as are ordered by Dealer, American Honda and Dealer recognize that Honda Automobiles may not always be available in desired quantities. It is therefore understood and agreed that American Honda, at its sole election, will have the right to allocate Honda Automobiles among authorized dealers of Honda Products in a fair and reasonable manner. American Honda will provide to Dealer an explanation, in writing, of any allocation system it may adopt.

2.3. American Honda will have the right at anytime and from time to time to establish and revise prices and other terms, including payment by Dealer, for its sales of Honda Products to Dealer. Revised prices, terms or provisions will apply to the sale of any Honda Products as of the effective date of the revised prices, terms or provisions, even though a different price or different terms may have been in effect at the time such Honda Products were allocated to or ordered by Dealer.

2.4. American Honda will have the right to select the distribution points and the mode of transportation and may pay carriers for all charges in effecting delivery of Honda Products to Dealer. Dealer agrees to pay to American Honda such charges for delivery as American Honda may assess. Subject to the terms of sale which may be established from time to time by American Honda, risk of loss to Honda Products will pass to Dealer upon tender of the Honda Products to Dealer or its authorized agent, and title will pass to Dealer upon receipt by American Honda of payment.

2.5. If Dealer should fail or refuse or for any reason be unable to accept delivery of any Honda Products ordered by Dealer, or if Dealer should request diversion of a shipment from American Honda,, Dealer will be responsible for and pay to American Honda, promptly on demand, all costs and expenses incurred by American Honda in filling and shipping Dealer's order and by reason of such diversion, including costs of demurrage and storage, plus restocking charges as determined by American Honda. American Honda may direct that such returned Honda Products be delivered to another destination, but the amount charged Dealer for return to such other destination will not be greater than the costs and expenses of returning such Honda Products to their original place of shipment plus any demurrage, storage and restocking charges.

2.6. As between American Honda and Dealer, American Honda assumes responsibility for damage to Honda Products caused prior to delivery to Dealer or its authorized agent.

2.7. American Honda will not be liable in any manner for delay or failure in supplying any Honda Products where such delay or failure is the result of any event beyond the control of American Honda. Such event may include, but is not limited to, any law or regulation or any acts of God, foreign or civil wars, riots, interruptions of navigation, shipwrecks, fires, strikes, lockouts, or other labor troubles, embargoes, blockades, demand for, or delay or failure of any supplier to deliver or in making delivery, of Honda Products.

2.8. American Honda reserves the right at any time to change or modify, without notice, any specification, design or model of Honda Products. In the event of any change or modification with respect to any Honda Products, Dealer will not be entitled to have such or similar change or modification made with respect to any other Honda Products, except as may be required by applicable law. American Honda may, however, in its sole discretion, make such changes or modifications to all Honda Products in its inventory or control, whether or not invoiced to Dealer. No such change will be considered a model year change unless specified by American Honda

2.9. American Honda may at any time discontinue, without obligation to Dealer or Dealer's customers, the sale of any Honda Products, or models or lines thereof or any other items, goods or services. Further, American Honda will have no obligation, under any circumstances, to accept orders for any Honda Products which are not in current inventory.

3. THE OBLIGATIONS OF DEALER.

3.1. It is the obligation of Dealer to promote and sell, at retail, Honda Products, and to promote and render service, whether or not under warranty, for those products within the Dealer's Primary Market Area.

3.2. Dealer's performance of its sales obligations for Honda Products will be evaluated by American Honda on the basis of such reasonable criteria as American Honda may develop from time to time, including, but not limited to, such reasonable sales objectives as American Honda may establish and a comparison of Dealer's sales performance with other authorized dealers of Honda Products.

3.3. To enable Dealer to fulfill its obligations satisfactorily, Dealer agrees to establish and maintain an adequate and trained sales and customer relations organization. Dealer further agrees to establish and maintain a complete service and parts organization, including a qualified service manager and a qualified parts manager and a number of competent service and parts personnel adequate to care for the service obligations to be performed by Dealer under the Agreement.

3.4. Dealer agrees to acknowledge, investigate and resolve satisfactorily all complaints received from owners of Honda Products in a businesslike manner in order to secure and maintain the goodwill of the public. Any complaint received by Dealer which, in the opinion of Dealer, cannot be readily remedied, shall be promptly reported to American Honda by Dealer.

3.5. Dealer agrees that it will not make any misrepresentations or misleading statements regarding the items making up the total selling price of Honda Products or as to the prices or charges relating to such item& With the understanding that Dealer is the sole judge of the price at which it sells Honda Products, dealer recognizes that a retail customer has the right to purchase Honda Automobiles without being required to purchase any optional equipment or accessories which the purchaser does not want or order unless such equipment or accessories are required under applicable laws or regulations.

3.6. Dealer agrees to make certain that all Honda Products sold by it have received predelivery services and inspection in accordance with applicable procedures and directives issued by American Honda. Dealer further agrees that all Honda Products sold by it will be in proper operating condition prior to delivery to any customer. To enable Dealer to fulfill its obligations in this regard, Dealer agrees that an appropriate number of its service personnel will be fully qualified to perform all necessary predelivery service and inspection.

3.7. Dealer agrees to comply with, and operate consistent with, all applicable provisions of the National Traffic and Motor Vehicle Safety Act of 1966 and the Federal Clean Air Act, as amended, including such applicable rules and regulations as may be issued thereunder, and all other applicable federal, state and local motor vehicle safety and emission control requirements. In the interests of motor vehicle safety and emission control, American Honda agrees to provide to Dealer, and Dealer to American Honda, such information and assistance as may reasonably be requested by the other in connection with the performance of obligations imposed on either party by the National Traffic and Motor Vehicle Safety Act of 1966 and the Federal Clean Air Act, as amended, and the rules and regulations issued thereunder, and all other applicable federal, state and local motor vehicle safety and emission control requirements.

3.8. Dealer agrees to conduct a used vehicle operation at or in connection with the Dealership Premises, to the extent reasonably required to enhance the opportunity for sales of Honda Automobiles.

3.9. American Honda and Dealer recognize that it may be necessary for American Honda to formulate new or different policies or directives to meet new or changing technology, laws or circumstances. In the operation of Dealers business and in the sale and promotion of Honda Products, in rendering service and in all other activities of the Dealership Operations, Dealer will follow all reasonable directives, suggestions and policies of American Honda. All written directives, suggestions and policies of American Honda contained in any of its bulletins or manuals, which are in effect as of the date of the Agreement or are issued thereafter, will be deemed a part of the Agreement.

3.10. Dealer agrees that it will, at all times, maintain in effect all licenses required for Dealership Operations and for the Dealership Premises.

3.11. Dealer agrees that it will comply with all laws, rules, regulations and guides relating to the conduct of its business.

3.12. Dealer agrees that it will perform any and all warranty, recall, product improvement or product update service in compliance with instructions and directives issued by American Honda, regardless of where the Honda Product involved was purchased. To protect and maintain the goodwill and reputation of Honda Products and the Honda Trademarks, Dealer agrees that it will not charge any customer for warranty service or any work done in connection with such warranty, recall, product improvement or update or any other service as to which Dealer is reimbursed by American Honda.

3.13. Dealer fully understands that the success of its Dealership Operations depends to a great extend upon the amount of net working capital, owners equity, flooring and lines of credit which Dealer maintains. Accordingly, for the benefit of both American Honda and Dealer, Dealer agrees that it will, at all times, pay for Honda Products promptly and, to do so, maintain its minimum net working capital, owners equity, flooring and lines of credit in the amounts specified in Paragraph G of the Agreement. American Honda will have the right, reasonably, to specify an increased amount of minimum net working capital, owners equity, flooring, or lines of credit to be used in Dealership Operations and Dealer agrees promptly to establish and maintain the increased amount. Dealer and American Honda agree to execute such new documents as American Honda may reasonably require to evidence revised capital requirements.

3.14. Dealer agrees to assume the defense of American Honda and to indemnify American Honda against any money judgment less any offset recovered by American Honda, in any lawsuit naming American Honda as a defendant where such lawsuit relates to: (a) an alleged failure by Dealer to comply, in whole or in part, with any obligation assumed by Dealer pursuant to the Agreement, (b) Dealer's alleged negligent or improper repairing or servicing of Honda Products, or such other motor vehicles or equipment as may be sold or serviced by Dealer, (c) Dealer's alleged breach of any contract between Dealer and Dealer's customer, or (d) Dealer's alleged misrepresentation or misleading statement, either direct or indirect, to any customer of Dealer. American Honda may, at its sole option and at its expense, participate in defending any such lawsuit.

4. WARRANTY.

4.1. Dealer understands and agrees that the only warranties that will be applicable to Honda Products will be such written warranty or warranties as may be furnished by American Honda. Except for its express liability under such written warranties, American Honda neither assumes nor authorizes any other person or party to assume for it any other obligation or liability in connection with any Honda Product or component thereof.

4.2. Dealer agrees that it will expressly incorporate any warranty furnished by American Honda with a Honda Automobile as a part of each order form or other contract for the sale of such Honda Automobile by Dealer to any buyer. Dealer further agrees that it will deliver to the buyer of all Honda Products, at the time of delivery of such Honda Products, copies of such applicable warranties as may be furnished by American Honda. Dealer agrees to abide by and implement in all other respects American Honda's warranty procedures in effect at the time of Dealers sale.

5. ADVERTISING AND PROMOTIONAL PROGRAMS.

5.1. Dealer agrees to develop and actively utilize programs for the advertisement and promotion of Honda Products and its servicing of such products. Such programs will include the prominent display and use or demonstration of Honda Automobiles. Dealer further agrees to cooperate with all reasonable promotional programs developed by American Honda.

5.2. Dealer agrees that it will not advertise, promote or trade in Honda Products or the servicing thereof in such a manner as to injure or be detrimental to the goodwill and reputation of American Honda and the Honda Trademarks. Dealer further agrees that it will not publish or otherwise disseminate any advertisement or announcement or use any form or media of advertising which is objectionable to American Honda. Dealer agrees to discontinue immediately any advertisement or form of advertising deemed objectionable upon request of American Honda.

5.3. Subject to applicable federal, state or local ordinances, regulations and statutes, Dealer agrees to erect and maintain, at the Dealership Location, at Dealer's expense, authorized product and service signs of types required by American Honda, as well as such other authorized signs as are necessary to advertise the Dealership Operations effectively and as are required by American Honda.

8. TRADEMARKS AND SERVICE MARKS.

6.1. Dealer agrees that American Honda has the exclusive right to use and to control the use of the Honda Trademarks and but for the right and license granted by Paragraph 6.2 hereof to use and display the Honda Trademarks, Dealer would have no right to use the same.

6.2. Dealer is hereby granted the nonexclusive right and license to use and display the Honda Trademarks at the Dealership Premises. Such use or display is limited to that which is necessary in connection with the sale, offering for sale and servicing of Honda Products at retail at the Dealership Location. Dealer agrees that it will promptly discontinue the use of any of the Honda Trademarks or change the manner in which any of the Honda Trademarks is used when requested to do so by American Honda.

6.3. American Honda and Dealer recognize that Dealer is free to sell Honda Products to customers wherever they may be located. However, in order that American Honda may establish and maintain an effective network of authorized dealers for the sale and service of Honda Products, Dealer specifically agrees that it will not display Honda Trademarks, or, either directly or indirectly, establish any place or places of business for the conduct of any of its Dealership Operations except at the locations and for the purpose described in Paragraph E of the Agreement without the prior written approval of American Honda. Dealer further agrees that the rights and license granted by Paragraph 6.2 hereof will be automatically canceled upon a change in the location of the Dealership Location unless such change in location was previously approved in writing by American Honda. Dealer further agrees that such right and license terminates with the termination of the Agreement.

6.4. If Dealer refuses or neglects to keep and perform its obligations assumed under this Article 6 or under paragraph 10.3 hereof, Dealer will reimburse American Honda for all costs, attorneys' fees and other expenses incurred by American Honda in connection with any action to require Dealer to comply therewith.

7. GENERAL BUSINESS REQUIREMENTS.

7.1. It is to the mutual benefit of Dealer and American Honda that uniform accounting systems and practices be maintained by authorized dealers. Accordingly, Dealer agrees to maintain such systems and practices as are required by American Honda. In the event Dealer engages in the sale of any other product, Dealer agrees to maintain and keep separate records and books relating to the sale and servicing of Honda Products.

7.2. Dealer agrees to furnish monthly to American Honda, on or before the times designated by American Honda, on forms prescribed by American Honda, a complete and accurate financial and operating statement covering the preceding month and calendar-year-to-date operations and showing the true and accurate condition of Dealership Operations. Financial statements and other business information furnished to American Honda will not be submitted to any third party unless authorized by Dealer or required by law, or the information is pertinent to a proceeding in which American Honda and Dealer are parties.

7.3. Dealer agrees to keep complete and current records regarding the sale and servicing of Honda Products and to prepare for American Honda such reports, based on those records, as American Honda may reasonably request. In order that policies and procedures relating to the applications for reimbursement for warranty and other applicable work and for other credits or reimbursements may be applied uniformly to all authorized dealers, Dealer agrees to prepare, keep current and retain records in support of requests for reimbursement or credit in accordance with policies and procedures designated by American Honda.

7.4. Dealer agrees to permit, during reasonable business hours, American Honda, or its designee, to examine, audit, reproduce and take copies of all reports, accounts and records pertaining to the sale, servicing and inventorying of Honda Products, including, but not limited to, records in support of claims for reimbursement or credit from American Honda, and with the prior approval of Dealer, which approval will not be unreasonably withheld, to interview Dealer employees with respect thereto.

7.5. Dealer agrees that Dealership Operations will be conducted in the normal course of business during and for not less than the days of the week and hours of the day customary for automobile dealerships in the Primary Market Area.

7.6. Dealer agrees and understands that any retail price which may be suggested by American Honda is merely a suggested price, and Dealer has no obligation to sell any Honda Products at such price. Dealer further understands and agrees that it is the sole judge of the price at which it sells Honda Products and the price it charges others for service, subject only to applicable local, state and federal laws, rules and regulations.

7.7. Dealer understands and agrees that it will be responsible for and will pay any and all taxes, whether sales, use or excise, and all other governmental or municipal charges imposed upon the sale of Honda Products by American Honda to Dealer and will maintain accurate records of the same, which record's will be available to American Honda, or its designee, during regular business hours for inspection.

7.8. Dealer understands and agrees that, while it has responsibility for the promotion and retail sale and servicing of Honda Products within the Primary Market Area, it has no territorial exclusivity. Further, American Honda reserves the right, based upon reasonable criteria, to appoint other authorized dealers of Honda Products in the Primary Market Area.

8. APPOINTMENT OF SUCCESSOR AND REPLACEMENT DEALERS.

8.1. The parties recognize that Honda Products are marketed through a system of authorized dealers developed by American Honda and that customers and American Honda have a vital interest in the preservation and efficient operation of the system. American Honda has the responsibility of continuing to administer the system and of selecting the most suitable dealer candidate in each circumstance. Accordingly, Dealer agrees that American Honda has the right to select each successor and replacement dealer and to approve its owners and principal management and the location of dealership facilities. Further, Dealer agrees to provide written notice to American Honda of any potential change in the involvement, ownership or management specified in Paragraphs C and D of the Agreement. No change affecting such involvement, ownership or management will be made without the prior written approval of American Honda, which approval will not be unreasonably withheld.

8.2. Upon Dealer's request, American Honda will execute with Dealer a Successor Addendum designating proposed Dealer operators or owners of a successor dealer to be established if the Agreement expires or is terminated because of death or incapacity. The request must be executed by all persons identified in Paragraph C of the Agreement and all proposed dealer operators or owners and be submitted to American Honda prior to such death or incapacity, provided that such proposed dealer operators or owners must be acceptable to American Honda.

8.3. Dealer, but not American Honda, may cancel any executed Successor Addendum. If American Honda notifies Dealer that it does not plan to permit Dealership Operations to continue at the Dealership Location, American Honda shall have no obligation to execute a new Successor Addendum.

8.4. If the Agreement expires or is terminated because of death or incapacity and Dealer and American Honda have not executed a Successor Addendum, the remaining owners, successors or heirs may propose a successor dealer entity to continue Dealership Operations at the Dealership Location. Such proposal must be made within thirty days of the event causing expiration or termination by submitting a written proposal to American Honda. Such proposal will be accepted by American Honda if it does not introduce new owners or if the proposed new owners are acceptable to American Honda.

8.5. Any successor dealer entity approved by American Honda pursuant to this Article 8 must establish that it can conduct Dealership Operations in an efficient and businesslike manner. Such successor dealer entity will have one year to meet reasonable performance criteria established from time to time by American Honda. In the event such successor dealer entity fails to meet those criteria, such failure will be separate grounds for termination of the Agreement.

9. TERMINATION OF AGREEMENT.

9.1. The Agreement may be terminated, at any time, by mutual agreement of American Honda and Dealer.

9.2. Dealer may terminate the Agreement, at any time, by giving American Honda notice of such termination. Such termination shall be effective upon the date specified by Dealer, or if no date is specified, then upon receipt by American Honda of such notice.

9.3. American Honda may terminate the Agreement, at any time, by serving on Dealer a written notice of such termination by certified or registered mail to Dealer at the Dealership Premises. Subject to other provisions of the Agreement, termination will be effective ninety (90) days after mailing of such notice to dealer or such longer period as American Honda may specify, provided, however, that termination will be effective ten
(10) days after mailing if for an occurrence of any circumstance referred to in Paragraphs 9.4.A, 9.4.B, 9.4.J or 9.4.M hereof.

9.4. It is recognized that each of the following grounds is within control of Dealer or originates from action taken by Dealer or its employee(s) and is contrary to the spirit and objectives of the Agreement. Therefore, American Honda may terminate the Agreement upon the occurrence of any of the following:

9.4.A. Failure by Dealer to secure and continuously maintain any license necessary for the conduct by Dealer of its business pursuant to the Agreement or the termination or expiration without renewal, or suspension or revocation of any such license for any reason whatsoever, whether or not license is reinstated.

9.4.B. Any change, transfer or attempted transfer by Dealer or any Dealer owner, voluntarily or by operation of law, of the whole or any part of the Agreement or any interest or legal or beneficial ownership therein or any right or obligation thereunder, directly or indirectly, such as, for example only, by way of a sale of an underlying ownership interest in Dealer or the Dealership Premises or a change in the persons having control or managerial authority, without prior written consent of American Honda. Any purported change, transfer or assignment shall be null and void and not binding on American Honda.

9.4.C. Any dispute, disagreement, controversy or personal difficulty between or among Dealer Owners or in the management of Dealer which, in American Honda's opinion, may adversely affect the conduct of Dealer's business, or the presence in the management of Dealer of any person who, in American Honda's opinion, does not have or no longer has requisite qualifications for his position.

9.4.D. Impairment of the reputation or the financial standing of Dealer or of any Dealer Owner subsequent to the execution of the Agreement; or the ascertainment by American Honda of any facts existing at or prior to execution of the Agreement which tend to impair such reputation or financial standings; or the failure of Dealer continuously to meet American Honda's minimum requirements of net working capital, owner's equity or line(s) of credit.

9.4.E. Failure by Dealer to pay, within ten (10) days after written demand from American Honda, any delinquent accounts or other monies due to American Honda from Dealer.

9.4.F. Submission or participation in the submission to American Honda of any false or fraudulent statement, application, report, request for issuance of reimbursement, compensation, refund or credit, including but not limited to any false or fraudulent claim for warranty work, labor rate, set-up reimbursement or warranty coverage.

9.4.G. Use by Dealer of any deceptive or fraudulent practice, whether willful, negligent or otherwise, in the sale of any Honda Product

9.4.H. Any conviction in any court of original jurisdiction of Dealer or any Dealer Owner or any employee of the Dealership Operations for any crime or violation of any law if, in the opinion of American Honda, such conviction or violation may adversely affect the conduct of the Dealership Operations or tend to be harmful to the goodwill of American Honda or to the reputation of Honda Products or the Honda Trademarks, or the violation or refusal or neglect of Dealer to comply with the provisions of the National Traffic and Motor Vehicle Safety Act of 1966, as amended, or the Clean Air Act, or any rules, regulations or standards under either of said Acts, including but not limited to performance of any product update or recall operation as directed by American Honda.

9.4.l. Dealer's entering into any agreement, combination, understanding or contract, oral or written, with any other corporation, person, firm or other legal entity for the purpose of fixing prices of Honda products or otherwise violating any law.

9.4.J. Dealer's abandonment of Dealership Premises or failure to maintain Dealership Operations as a going business, open during customary business hours for the days and hours as are customary for automobile dealerships in the Primary Market Area, provided such failure is not due to causes beyond Dealer's control. Failure of the Dealership Premises to remain open for seven (7) consecutive days will constitute, without more, such abandonment.

9.4.K Death or incapacity of any Dealer Owner or Dealer Manager, subject to the provisions of Article S.

9.4.L. Failure of Dealer to make improvements, alterations or modifications of its Dealership Premises which are required to meet reasonable facility requirements of American Honda or which Dealer has agreed or represented to American Honda that Dealer will make or do.

9.4.M. The movement of Dealership Premises to a new location or the establishment of an additional location for the sale or service of any Honda Products without the prior written approval of American Honda.

9.4.N. The failure of Dealer to provide adequate representation, promotion, sales or service, including warranty work, of any Honda Products.

9.4.O. Dealer's breach of any provision of the Agreement or Dealers failure to comply with any contained in the Agreement.

9.5. The Agreement will also be terminated upon written notice by American Honda in the event:

9.5.A Of termination of American Honda's distribution agreement as a Honda Automobile distributor.

9.5.B. Of withdrawal by American Honda from the market in which Dealer is located.

9.5.C. American Honda will, for any reason, discontinue the distribution of Honda Automobiles.

9.6. Upon the occurrence of any of the following facts or circumstances, the Agreement will terminate automatically, without notice or other action by American Honda or Dealer, and upon such termination, any dealings between American Honda and dealer will be on a day-to-day basis at the sole option of American Honda and may be discontinued at any time by American Honda:

9.6.A Insolvency by any definition of Dealer, or

9.6.B. The existence of facts or circumstances which would allow the voluntary commencement by Dealer, or the involuntary commencement against Dealer, of any proceedings under any bankruptcy act or law or under any state insolvency law, or

9.6.C. The appointment of a receiver or other officer having similar powers for Dealer or the Dealership Premises; or

9.6.D. Any levy against Dealer under attachment, garnishment or execution or similar process which is not within ten (10) days vacated or removed by payment or bonding.

9.7. American Honda may select any applicable provision under which it elects to terminate the Agreement and give notice thereunder, notwithstanding the existence of any other grounds for termination or the failure to refer to such other grounds in the notice of termination. The failure by American Honda to specify additional ground(s) for cancellation in its notice will not preclude American Honda from later establishing that termination is also supported by such additional ground(s).

9.8. The acceptance by American Honda of orders from Dealer or the continued sale of Honda Products to Dealer or any other act or course of dealing of American Honda after termination of the Agreement will not be construed as or deemed to be a renewal of the Agreement for any further term or a waiver of such termination. Any dealings after termination will be on a day-to-day basis.

9.9. In all cases, Dealer agrees to conduct itself and Dealership Operations until the effective date of termination and after termination or expiration of the Agreement, so as not to injure the reputation or goodwill of the Honda Trademarks or American Honda.

10. RIGHTS, OBLIGATIONS AND DEALINGS UPON TERMINATION.

10.1. Upon the mailing of a written notice of termination or after date of the expiration of the Agreement without renewal, American Honda will have the right to cancel all pending orders of Dealer for Honda Products, special tools and equipment, whether previously accepted by American Honda or not, except as specifically otherwise provided in this
Section 10. Notwithstanding the foregoing, if American Honda chooses to fill any orders, it will not be obligated to fill any other orders and will not be precluded from changing the terms of any sale.

10.2. Not later than the effective date of the termination or expiration of the Agreement, Dealer will cease to hold itself out as being authorized to sell Honda Products and will discontinue selling Honda Products or performing service as an authorized dealer.

10.3. In addition to the requirements of Section 10.2, not later than the effective date of the termination or expiration of the Agreement, Dealer will, at its sole expense, discontinue any and all uses of any Honda Trademarks and any words, symbols and marks which are confusingly similar thereto; will remove all signs bearing any Honda Trademark and will destroy all stationery, repair orders, advertising and solicitation materials, and all other printed matter bearing any Honda Trademark or referring directly or indirectly to American Honda or Honda Products in any way which might make it appear to members of the public that Dealer is still an authorized dealer. The foregoing will include, but not be limited to, discontinuing the use of a Honda Trademark as part of Dealer's business and corporate name. Dealer will also deliver to American Honda, at American Honda's place of business, or to a person designated by American Honda, or will destroy the same upon request by American Honda, any and all technical or service literature, advertising and other printed material then in Dealer's possession which relates to Honda Products and which was acquired or obtained by Dealer f rom American Honda. Dealer will destroy any sign bearing a Honda Trademark which has not been repurchased by American Honda.

10.4. In the event the Agreement is terminated pursuant to the provisions of paragraph 9.3 hereof, upon request of American Honda for copying Dealer's records of predelivery service, warranty service, recall or update service or other service of Honda Products. In the event the Agreement is terminated pursuant to the provisions of paragraphs 9.1 or 9.2 hereof, upon the request of American Honda, Dealer will deliver to American Honda copies of such Dealer records.

10.5. Dealer may, at any time within five (5) days after the effective date of termination or expiration of the Agreement, notify American Honda in writing of Dealer's desire to have American Honda repurchase from Dealer Honda Products in Dealer's inventory which were purchased from American Honda and which, when American Honda accepts sole possession:

10.5.A. In the case of Honda Automobiles, are new and of the then current model year, as designated by American Honda, unused, undamaged and in first-class resalable condition, regardless of whether or not American Honda has exercised its right of inspection; and

10.5.B. In the case of Honda Parts are new, listed as current in the Parts Price BooK unused, undamaged, in their original package and in first-class resalable condition.

10.6. Upon termination or expiration without renewal, upon request of Dealer given no later than five (5) days after the effective date of termination or expiration, American Honda will repurchase all signs which use a Honda Trademark as were authorized in advance by American Honda and all service information and materials, special tools and equipment designed specifically for service of Honda Automobiles and which were purchased from American Honda and are usable on current Honda Products, provided that such signs, information, materials, tools and equipment are less than five (5) years old and are in good working order.

10.7. American Honda will repurchase from Dealer Honda Products and signs, information, materials, tools and equipment as aforesaid on the condition that Dealer furnishes an inventory to American Honda within thirty
(30) days after the termination or expiration without renewal of the Agreement and complies strictly with all procedures and conditions of repurchase issued by American Honda at the time of repurchase. American Honda Will have the right and option to assign to another person or entity the right to purchase such Honda Products.

10.7.A. The price for Honda Products, other than tools, equipment, information, materials and signs, will be the price at which they were originally purchased by Dealer from American Honda or the price last established by American Honda for the sale of identical Honda Products, whichever may be lower, and in either case will be less all prior refunds and allowances made by American Honda with respect thereto, if any. The price for tools, equipment, information, materials and signs will be the price paid by Dealer reduced by straight-line depreciation on the basis of a useful life of five (5) years. In all cases, the price will be reduced by any applicable restocking charge which may be in effect at the time American Honda's receipt of goods to be repurchased.

10.7.B. Dealer agrees to store Honda Products and other items which American Honda desires or is obligated to repurchase until receipt from American Honda of rejection of repurchase or instructions for shipping and return to American Honda. Dealer agrees to strictly follow and abide by all instructions for return as may be issued from time to time by American Honda. All Honda Products will be properly and suitably packaged and containered for safe transportation to American Honda. All damage, regardless of nature or cause, will be the responsibility of Dealer until the Honda Products are inspected and accepted by American Honda for repurchase. Storage of such Honda Products and other items will be at Dealer's expense for a period of ninety (90) days after Dealer requests repurchase and provides an inventory as provided by paragraphs 10.6 and 10.7 hereof. Thereafter, Dealer will be entitled to charge American Honda a reasonable storage charge.

10.7.C. American Honda, or its designee, at such reasonable time and for such a reasonable period of time as American Honda may determine, will have the right to enter the premises where items for repurchase are being held for the purpose of checking the inventory submitted by Dealer or examining, inspecting and inventorying any and all Honda Products. If American Honda agrees to repurchase and Dealer fails to furnish an inventory, Dealer will reimburse American Honda for all costs of American Honda taking an inventory.

10.7.D. Only those Honda Products meeting the requirements of Paragraphs 10.5 and 10.6 hereof are or will be eligible for return to American Honda. American Honda will not be obligated to give Dealer credit for any Honda Products which do not meet those requirements.

10.7.E. Dealer warrants and represents that all Honda Products tendered to American Honda for repurchase will be free of all liens, encumbrances, security interests or attachments at the time repurchase is requested by Dealer. Clear title will be vested in American Honda upon receipt of goods. Dealer will execute and deliver any documents necessary to vest clear title in American Honda, and Dealer will be responsible for complying with all applicable procedures, including but not limited to those relating to bulk transfers.

10.7.F. Dealer will pay all freight and insurance charges from Dealer to the place of delivery designated by American Honda, provided that Dealer will not be liable for any amount greater than the freight and insurance charges from Dealer to American Honda's closest automobile warehouse or parts center as American Honda may designate. Claims for damage or allegedly caused by any carrier will be the sole responsibility of Dealer, and in no event will American Honda be obligated to make a claim against a carrier or be liable to Dealer for damage.

10.7.G. As a condition of repurchase and notwithstanding any other agreement or offer to repurchase, payment for repurchase will first be applied against any obligations or money owed by Dealer to American Honda. All payment due from American Honda to Dealer pursuant to any provisions of the Agreement or in connection with the termination of the Agreement or in connection with the termination of the Agreement will be made by American Honda after receipt of the goods to be repurchased and after all debits and credits have been ascertained and applied to Dealer's accounts, and Dealer has delivered to American Honda the manufacturer's certificate of origin or other document of title for Honda Automobiles tendered to American Honda for repurchase. In the event it be found that a balance is due from Dealer to American Honda, Dealer will pay such sum to American Honda within ten (10) days of written notice of such balance.

11. GENERAL PROVISIONS.

11.1. Dealer acknowledges that only the President or a designated Vice President, Secretary or Assistant Secretary of American Honda is authorized to execute the Agreement, agree to any variation, modification or amendment of any of the provisions thereof, including authorized location, or to make commitments for or on behalf of American Honda. No other employee of American Honda may make any promise or commitment on behalf of American Honda or in any way bind American Honda. Dealer agrees that it will not rely on any statements or purported statements except from personnel as authorized hereinabove.

11.2. The Agreement contains the entire agreement between Dealer and American Honda. Dealer acknowledges that no representations or statements other than those expressly set forth therein were made by American Honda or any officer, employee, agent or representative thereof, or were relied upon by Dealer in entering into the Agreement. The Agreement terminates and supersedes, as of the execution thereof, all prior agreements relating to Honda Products, if any.

11.3. Dealer hereby waives, abandons and relinquishes any and all claims of any kind and nature whatsoever arising from or out of or in connection with any prior agreement entered into between Dealer and American Honda; provided, however, that nothing herein contained shall be deemed a release or waiver of any claim arising out of prior sales of Honda Products by American Honda to Dealer.

11.4. The Agreement is personal to the individuals identified as principals, owner(s), partners or shareholder(s) in Paragraph C. Neither the Agreement, nor any part hereof or any interest therein, may be transferred or assigned by Dealer, in whole or in part, directly or indirectly, voluntarily or by operation of law, without the prior written approval of American Honda. Any attempted transfer or assignment will be void and not binding upon American Honda.

11.5. All notices, notifications or requests under or pursuant to the provisions of the Agreement will be directed to the address of the principal places of business of the respective parties to the Agreement. If either party cannot effect notice at the place of business of the other because a party has abandoned its place of business or refuses to accept notice, then, and only in such case, notice may be served on American Honda through its designated agent for service of process and upon Dealer through the Department of Motor Vehicles (or its equivalent) in the state where the Dealership Location is authorized by American Honda.

11.6. The waiver by either party of any breach or violation of or default under any provision of the Agreement will not be a waiver by such party of any other provision or of any subsequent breach or violation thereof or default thereunder. The failure or delay of either party to take prompt action upon any breach or violation of the Agreement will not be deemed a waiver of the right to take action for such breach, default or violation at any time in the future.

11.7. Dealer agrees to keep confidential and not disclose, directly or indirectly, any information which American Honda designates as confidential.

11.8. The Agreement is and shall be deemed to have been entered into in California and shall be governed by and construed in accordance with the laws of the State of California.

11.9. If any provision of this Agreement should be held invalid or unenforceable for any reason whatsoever or to conflict with any applicable law, the Agreement will be considered divisible as to such provisions, and such provisions will be deemed amended to comply with such law, or if it cannot be so amended without materially altering the tenor of the Agreement, then it will be deemed deleted from the Agreement in such jurisdiction, and in either case, the remainder of the Agreement will be valid and binding.

11.10. The terms of the Agreement may not be modified except in writing signed by an authorized officer of the parties. Without limiting the generality of the foregoing, no course of dealing will serve to modify or alter the terms of the Agreement.

11.11. Dealer is an independent business. The Agreement does not constitute Dealer the agent or legal representative of American Honda for any purpose whatsoever. Dealer is not granted any expressed or implied right or authority to assume or create any obligation on behalf of or in the name of American Honda or to bind American Honda in any manner or thing whatsoever. Dealer has paid no consideration for the Agreement. Neither the Agreement nor any right granted under it is a property right.

11.12. The expiration or termination of the Agreement will not extinguish any claims American Honda may have for the collection of money or the enforcement of any obligations which may be in the nature of continuing obligations.

12. DEFINITIONS.

12.1. American Honda means American Honda Motor Co., Inc. a California corporation, and the Honda Automobile Division that markets Honda Automobiles.

12.2. Dealer means the person, firm, corporation, partnership or other legal entity that signs the Agreement and each of the persons identified in Paragraph C.

12.3. Dealer Manager means the principal manager of Dealer identified in Paragraph D upon whose personal service American Honda relies in entering into the Agreement.

12.4. Dealer Owner means the owner(s) of Dealer identified in Paragraph C upon whose personal service American Honda relies in entering into the Agreement.

12.5. Dealership Location means the location approved by American Honda for the purpose of conducting Dealership Operations.

12.6. Dealership Operations means all operations contemplated by the Agreement. These operations include the sale and service of Honda Products, and any other activities undertaken by Dealer related to Honda Products, including rental and leasing operations, used car sales and body shop operations, and finance and insurance operations, whether conducted directly or indirectly by Dealer.

12.7. Dealership Premises means the facilities provided by Dealer at its Dealership Location for the conduct of Dealership Operations as approved by American Honda.

12.8. Honda Automobiles means such new passenger cars as are from time to time offered for sale by American Honda to Dealer for resale as part of the Honda automobile line as defined by American Honda.

12.9. Honda Parts means parts, accessories and optional equipment marketed by American Honda for use with Honda Automobiles.

12.10. Honda Products means Honda Automobiles and Honda Parts.

12.11. Honda Trademarks means the various trademarks, service marks, names and designs which American Honda uses or is authorized to use in connection with Honda Products or services relating thereto.

12.12. Primary Market Area means the geographical area designated for Dealer by American Honda from time to time.

12.13. The Agreement means the Honda Automobile Dealer's Sales and Service Agreement and these Standard Provisions which are incorporated therein by reference.

EXHIBIT 10.5.4

AGREEMENT BETWEEN

AMERICAN HONDA MOTOR COMPANY, INC.

AND

LITHIA MOTORS, INC. ET AL.

This Agreement, effective as of December 17, 1996, is entered into between Lithia Motors, Inc., an Oregon corporation, with its principal place of business at 360 East Jackson, Medford, Oregon 97501 ("Lithia Motors"), Lithia HPI, Inc., an Oregon corporation, with its principal place of business at 700 North Central, Medford, Oregon 97501 ("BPI"), Lithia HS, Inc., a California corporation, intending to establish a place of business at 333 North Main Street, Salinas, California 93901 ("HS"), Lithia Holding, LLC, an Oregon limited liability company, with its principal place of business at 360 East Jackson, Medford, Oregon 97501 ("Holding"), Sidney B. DeBoer, an individual residing at 234 Vista, Ashland, Oregon 97520 ("DeBoer"), M.L. Dick Heimann, an individual residing at 426 Roundelay, Medford, Oregon 97504 ("Heimann"), and R. Bradford Gray, an individual residing at 6764 Laurel Crest Drive, Medford, Oregon 97504 ("Gray") (the above-listed parties being referred to collectively as the "Lithia Parties"), and American Honda Motor Co., Inc. ("AHM"), a California corporation, with its principal place of business at 1919 Torrance Boulevard, Torrance, California 90501.

WHEREAS, Lithia Motors currently owns and operates an authorized Honda automobile dealership in Medford, Oregon and intends to acquire an authorized Honda automobile dealership in Salinas, California; and

WHEREAS, Lithia Motors wants to issue stock in a public offering of securities anticipated to be traded on the NASDAQ National Market; and

WHEREAS, AHM has formulated the American Honda Motor Co., Inc. Policy on the Public Ownership of Honda and Acura Dealerships (the "Policy"), a copy of which was forwarded to and subsequently reviewed by DeBoer and Heimann in 1996; and

WHEREAS, in order for Lithia Motors to make the aforementioned public offering and, at the same time, adhere to the Policy, Lithia Motors desires to transfer at least 53.585% of its common stock to Holding, offer no more than 46.415% of its common stock to the public, transfer its Medford, Oregon Honda dealership to HPI (which will at all times remain a wholly-owned subsidiary of Lithia Motors), acquire and transfer the Salinas, California Honda dealership to HS (which will at all times remain a wholly-owned subsidiary of Lithia Motors), all of the foregoing subject to the restrictions set forth in this Agreement and the Schedules hereto; and

WHEREAS, AHM is willing to permit Lithia Motors (as an entity of which a minority portion is publicly owned and of which the majority portion is owned by persons approved by to own Honda and Acura dealerships, provided that Lithia adheres to the Policy and the terms and conditions set forth in this Agreement; and

WHEREAS, the Lithia Parties are willing to adhere to the Policy and the terms set forth herein;

NOW THEREFORE, in consideration of the mutual covenants set forth herein and other good and valuable consideration the sufficiency of which is hereby acknowledged, the parties agree as follows:

1. STRUCTURE OF RELATIONSHIP

1.1 Dealerships Are Separate Legal Entities. Lithia Motors shall establish and maintain a separate legal entity to own each Honda and Acura dealership which it owns or controls, directly or through an Affiliate, shall obtain a separate motor vehicle license for each dealership, and shall maintain separate financial statements for each such dealership. Consistent with AHM policy, the name "Honda" or "Acura," as applicable, shall appear in the d/b/a of each dealership. The Honda dealership(s) currently owned by Lithia Motors or approved by AHM for acquisition by Lithia Motors are listed in Schedule A, appended hereto. As used herein, "Affiliate" of, or a person or entity "affiliated" with, a specified person or entity, means a person or entity that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the person or entity specified. For the purpose of this definition, the term "control" (including the terms "controlling," "controlled by" and "under common control with") means the possession, directly or indirectly, or the power to direct or cause the direction of or influence the management and policies of a person or entity, whether through the ownership of securities, by contract or otherwise.

1.2 Agreement to Automobile Dealer Sales and Service Agreement. Lithia Motors and, to the extent applicable, the other Lithia Parties hereby agree to be bound by the terms of Honda Automobile Dealer Sales and Service Agreement(s) and Acura Automobile Dealer Sales and Service Agreement(s) including any addenda thereto (the "Dealer Agreements"), copies of which are appended hereto as Schedule B. The Lithia Parties further agree that each individual Honda and Acura dealership that Lithia Motors owns, in whole or in part, shall execute and be bound by the applicable Dealer Agreement.

1.3 Adherence to the Policy. Each of the Lithia Parties hereby agree to be bound by the terms of the Policy, a copy of which is appended hereto as Schedule C.

1.4 Transfer of Ownership of Honda Dealerships upon Occurrence of the Initial Public Offering. Each of the Lithia Parties understands and agrees that the public offering (the "Offering") of certain shares of the capital stock of Lithia Motors (all such stock being referred to herein as the "Lithia Stock") will constitute a change of ownership of the Honda dealerships that, pursuant to the Dealer Agreement, requires AHM's prior written approval. Provided that the representations and warranties in this
Section are accurate and that each of the Lithia Parties adhere to the terms and conditions of this Agreement, the Policy, and the applicable Dealer Agreements, AHM hereby agrees to the transfer of Lithia Stock pursuant to the Offering as described herein. Each of the Lithia Parties hereby represent and wan-ant that AHM has been provided with all documentation pertaining to the public offering of Lithia: Stock, including but not limited to all filings with the SEC and other federal and state regulatory agencies (including, but not limited to, quarterly and annual financial statement filings, prospectuses and other materials related to Lithia Motors), all agreements between or among any of the Lithia Parties and financial institutions and underwriters, all agreements between or among any of the Lithia Parties, and all agreements between or among any of the Lithia Parties, on the one hand, and other shareholders of Lithia Motors, on the other hand. One copy of this documentation has been filed with AHM and labeled Schedule X. Notwithstanding any statements in any of the documentation provided by the Lithia Parties to AHM to the contrary (including but not limited to any statements in prospectuses), the Lithia Parties hereby further represent, warrant and covenant as follows:

1.4.1 At least 53.585% of the Lithia Stock shall be transferred to Holding, shall be denominated Class B Common Stock, and shall be restricted as more fully described in Section 1.5 below.

1.4.2 The Lithia Stock offered in the Offering is referred to as Class A Common Stock. The percentage of Class A Common Stock and any other Lithia Stock not subject to the restrictions set forth in Section 1.5 below, whether pursuant to a future offering, conversion of Class B Common Stock or creation of new classes of voting stock, may not exceed 46.415% of the Lithia Stock.

1.4.3 At no time will owners of Lithia Class B Common Stock have less than 92% of the total aggregate voting power of Lithia Motors.

1.4.4 At no time will the owners of Lithia Stock that is not subject to the restrictions set forth in Section 1.5 below (including but not limited to Class A Common Stock) have more than 8% of the total aggregate voting power of Lithia Motors.

1.4.5 Schedule D, appended hereto, is an accurate list of
(1) all individuals and entities that own Lithia Stock as of the date hereof, the number of shares held by each, and the percentage ownership of Lithia Motors held by each and (2) all individuals and entities that will own any interest in Holding after completion of the transfer described in this Agreement and the percentage of ownership interest in Holding that will be held by each.

1.5 Restrictions on Transfer of Class B Common Stock by Stockholders. Each of the Lithia Parties hereby agree that the holders of Lithia Class B Common Stock (the "Class B Stockholders") shall not, at any time, without the prior written approval of AHM sell, offer or in any manner encumber any Class B Common Stock or enter into any agreement providing for the voting of Class B Common Stock as directed by any person or entity, or in a I specified manner or pursuant to a specified procedure or grant any voting proxy or otherwise enter into any arrangement the purpose or effect of which is to vest in any other person or entity the voting rights of any Class B Common Stock. AHM will not approve any transfers of Class B Common Stock that it reasonably deems detrimental to AHM's interests as provided in Section 1.8 below, and any approved offer may only be made on the condition that the transferee agrees in writing to be bound by the terms of this Agreement to the same extent as if it had executed this Agreement as a Class B Stockholder. Each certificate representing Class B Common Stock held by a Stockholder or any securities issued in respect of such Class B Common Stock shall be stamped or otherwise imprinted with a legend substantially in the following form:

The shares represented by this certificate are subject to restrictions on transfer set forth in an Agreement between American Honda Motor Company, Inc. and the Corporation effective as of December 17, 1996, as amended, a copy of which will be furnished by the Corporation without charge upon written request.

Without limiting the generality of the foregoing restrictions, the Lithia Parties specifically agree that transfers of shares of Class B Common Stock are subject to AHM's prior written approval even if transfer is permitted pursuant to Lithia Motors Articles of Incorporation or by an act of the board of directors or the shareholders or by any other means. In the event that any Class B Common Stock is transferred without the prior written approval of AHM, including, but not limited to, transfer by operation of law (e.g., upon the death of a Class B Stockholder to an heir), Lithia Motors shall inform AHM of such transfer and either (a) request approval of such

offer, (b) reacquire the shares or (c) arrange for the retransfer of the shares to a previously approved Class B Stockholder. In the event that Lithia Motors selects (a) above and AHM refuses to approve the transfer, then Lithia Motors must make its best efforts to effectuate (b) or (c). If AHM refuses to approve the transfer and Lithia Motors cannot effectuate (b) or
(c), then AHM may invoke the purchase procedures set forth in Section 9.3, as though Lithia Motors had breached this Agreement.

1.6 Restrictions on Transfer of the Ownership Interests in Holding. Each of the Lithia Parties hereby agree that the holders of any ownership interest in Holding (a "Holding Interest") shall not, at any time, without the prior written approval of AHM sell, transfer or in any manner encumber any Holding Interest or enter into any agreement providing for the voting or control of any Holding Interest as directed by any person or entity, or in a specified mariner or pursuant to a specified procedure or grant any voting proxy or otherwise enter into any arrangement the purpose or effect of which is to vest in any other person or entity the voting rights of any Holding Interest. AHM will not approve any transfers of any Holding Interest that it reasonably deems detrimental to AHM's interests as provided in Section 1.8 below, and any approved transfer may only be made on the condition that the transferee agrees in writing to be bound by the terms of this Agreement to the same extent as if it had executed this Agreement as an owner of the Holding Interest on the effective date hereof. Each certificate representing any Holding Interest, if any, or any securities issued in respect of such Holding Interest shall be stamped or otherwise imprinted with a legend substantially in the following form:

The shares represented by this certificate are subject to restrictions on transfer set forth in an Agreement between American Honda Motor Company, Inc. and the Corporation effective as of December 17, 1996, as amended, a copy of which will be furnished by the Corporation without charge upon written request.

Without limiting the generality of the foregoing restrictions, the Lithia Parties specifically agree that transfers of Holding Interests are subject to AHM's prior written approval even if transfer is permitted pursuant to Holding's Articles of Organization or by an act of owners of Holding or by any other means. In the event that any Holding Interest is transferred without the prior written approval of AHM, including, but not limited to, transfer by operation of law (e.g., upon the death of an owner of a Holding Interest to an heir), Holding shall inform AHM of such transfer and either (a) request approval of such transfer, (b) reacquire the Holding Interest or (c) arrange for the retransfer of the Holding Interest to a previously approved owner of a Holding Interest. In the event that Holding selects (a) above and AHM refuses to approve the transfer, then Holding must make its best efforts to effectuate (b) or (c). If AHM refuses to approve the transfer and Holding cannot effectuate (b) or (c), then AHM may invoke the purchase procedures set forth in Section 9.3, as though Lithia Motors had breached this Agreement.

1.7 Identification of Owners of Lithia Motors. Schedule E, appended hereto, includes accurate documentation and information pertaining to each individual or entity that owns or controls 5% or more of the Lithia Stock, whether such stock is freely tradeable or restricted. In the event of any change of ownership that results in an individual or entity not listed on Schedule E obtaining ownership or control of 5% or more of Lithia Stock, Lithia Motors shall provide AHM with the documentation and information required by Schedule E with respect to such person or entity to the extent it is publicly available. Lithia Motors will provide AHM with copies of all filings made with the SEC and comparable filings made with state agencies by persons or entities that own more than 5% of Lithia Motors and/or any of its Affiliates. Without limiting the foregoing, Lithia Motors will use its best efforts to provide such information regarding such stockholders as AHM may from time to time request.

1.8 Right of AHM to Disapprove Acquisitions of Lithia Stock. Without limiting the restrictions set forth in Sections 1.5 and 1.6 above, AHM shall have the irrevocable right to disapprove of the acquisition of more than 5% of Lithia Stock by any individual or entity if such acquisition is reasonably deemed detrimental to AHM's interests. Without limiting the foregoing, the parties agree that such acquisition or attempted acquisition may reasonably be deemed to be detrimental to AHM's interests if the acquiring individual or entity (a) competes with American Honda or its parent, subsidiaries or Affiliates in manufacturing, marketing, or selling automotive products or services or is owned or controlled by or has a substantial economic interest in an entity that competes with AHM or its parent, subsidiaries or Affiliates in manufacturing, marketing, or selling automotive products or services (not including an interest in a dealership selling products manufactured by a competing automobile manufacturer); (b) has c affiliations or a criminal record; (c) has inadequate experience in the automotive sales and service business; (d) has less than an excellent credit rating or credit history; (e) has demonstrated unacceptable customer satisfaction index performance; or (f) has had a prior relationship with AHM which AHM deems to have been unsatisfactory. Unless AHM objects in writing to such acquisition within 180 days of receiving completed documentation and information from Lithia Motors pertaining thereto, AHM shall be deemed to have approved such acquisition. In the event AHM disapproves of such acquisition, Lithia Motors and its then current shareholders shall make their best efforts to prevent such acquisition or, if it has already taken place, to reacquire the shares so transferred. In the event that Lithia Motors is unable to prevent such acquisition or reacquire the shares, AHM may invoke the purchase provisions of Section 9.3 hereof.

1.9 Designation of Lithia Motors' Executive Manager. Lithia Motors shall designate DeBoer as its Executive Manager. The Executive Manager shall have operational control of Lithia Motors and shall have final authority to decide any dealership matters not within the authority of the Dealer Manager. Lithia Motors agrees not to change its Executive Manager without the prior written approval of AHM, which approval shall not be unreasonably withheld.

1.10 No Further Public Offerings of Stock Without AHM's Prior Written Approval. Lithia Motors shall not make any further public offerings of Lithia Stock without AHM's prior written approval. Lithia shall submit any proposals to make other public offerings of Lithia Stock to AHM in the manner set forth in the Policy and AHM shall evaluate such proposal in accordance therewith. The Lithia Parties understand and agree that AHM will not approve of any public offering of Lithia Stock that increases the number of shares of freely tradeable, unrestricted shares to fifty percent or more of the total shares of Lithia Stock then outstanding.

1.11 No Public Ownership of Individual Dealerships. No Honda and/or Acura dealership(s) that Lithia Motors owns or acquires shall be held or owned by an entity required to file reports under Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934.

1.12 Change of Control of Lithia Motors. The Lithia Parties acknowledge and agree that AHM has the right to ensure that its dealerships remain under the control of persons and/or entities with a full-time commitment to the sales and service of Honda Products or Acura Products (as the case may be). The Lithia Parties recognize the legitimacy of AHM's concern (as more fully set forth in the Policy) that public ownership of dealerships, if unrestricted, could lead to the loss of AHM's control over the selection of the individuals who sell and service AHM's products. Therefore, in the event that a controlling interest in Lithia Motors, Holding, HS, BPI, or any of their Affiliates that own Honda or Acura dealers is acquired or threatened to be acquired by an individual or entity not specifically approved by AHM, the Lithia Parties agree that AHM may exercise the right of purchase set forth in Section 9.3. As used herein, "controlling interest" means (a) ownership or practical control of shares of Lithia Motors or its Affiliates sufficient to appoint or control either the management or the board of directors thereof or (b) the practical ability to make the day-to-day and/or policy decisions of a Honda or Acura dealership.

2. FUTURE ACQUISITIONS BY THE LITHIA PARTIES OF HONDA AND ACURA DEALERSHIPS.

2.1 Right of Approval by AHM. The Lithia Parties agree that neither any of them or any of their Affiliates (as defined above) shall acquire any interest in any Honda or Acura dealership not listed on Schedule A without AHM's prior written approval. Approval shall be at AHM's sole discretion and will be evaluated in light of the then-current Policy and AHM's then current business interests. Without limiting the foregoing, in no event will AHM approve any such acquisition unless all Honda and Acura dealerships owned or controlled by any of the Lithia Parties and/or their Affiliates are (a) in full compliance with all of the terms of the respective Dealer Agreement(s) and this Agreement; and (b), meet all of the applicable Honda or Acura policies and performance expectations.

2.2 Ownership of Contiguous Dealerships. Lithia Motors and/or its Affiliates shall not own contiguous Honda dealerships or contiguous Acura dealerships.

2.3 Ownership of Multiple Dealerships. The Lithia Parties cumulatively or individually shall not own or control, directly or through an Affiliate, Honda or Acura dealerships in excess of the numbers set forth below:

2.3.1 Honda. The Lithia Parties shall not hold an ownership interest, directly or through an Affiliate, in a multiple number of Honda dealerships as provided below: (a) in a "Metro" market (a "Metro" market is a metropolitan market area represented by two or more Honda dealer points) with two (2) to ten (10) Honda dealership points (inclusive), no Dealer Owner may own, operate or a have a dealer interest in more than one (1) Honda dealership; (b) in a Metro market with eleven (11) to twenty (20) Honda dealership points (inclusive), no Dealer Owner may own, operate or have an interest in more than two (2) Honda dealerships; (c) in a Metro market with twenty-one (21) or more Honda dealership points (inclusive), no Dealer Owner may own, operate or have an interest in more than three (3) Honda dealerships; (d) 4% of the Honda dealerships in any one of the ten Honda Zones; and (e) seven (7) Honda dealerships nationally.

2.3.2 Acura. The Lithia Parties shall not hold an ownership interest, directly or through an Affiliate, in more than: (a) one (1) Acura dealership in a Metro market (as used herein, "Metro market" is a Metropolitan market area represented by two or more Acura dealer points); (b) two (2) Acura dealerships in any one of the six Acura Zones; and (c) three (3) Acura dealerships nationally.

2.4 Proposed Acquisition in Excess of Limits. If the purchase of any Honda or Acura dealership would result in exceeding the limits set forth in this Section 2, AHM will reject the application for approval of the ownership transfer until such time as the applicable Lithia Party shall divest itself of the appropriate number of dealerships to bring it into compliance with the requirements of this Agreement at which time AHM will reconsider the proposal in light of the Policy. In case of such divestiture, AHM may invoke the right of first refusal/purchase option provisions of Section 8.2 hereof.

3. SEPARATE, FREESTANDING, EXCLUSIVE DEALERSHIPS

3.1 Maintenance of Exclusive Dealership Premises. Each Honda or Acura dealership owned by Lithia Motors or its Affiliates shall be maintained as separate, freestanding Dealership Operations that completely and timely comply with facility design and image enhancements to AHM's brand image, functionality and capacity standards and guidelines, which standards and guidelines AHM may reasonably modify from time to time, and shall exclusively offer a full range of Honda Products and services or Acura Products and services and shall not offer competing products or services from its Dealership Premises. Lithia BPI, Inc.'s currently nonexclusive Honda

Dealership Operations in Medford, Oregon, will by no later am December 3 1, 1997, be conducting all business in a separate, freestanding, exclusive new facility built and maintained in full compliance and conformity with Honda's designs and specifications, including Honda's minimum land and building requirements, as detailed within the Honda Image Program. Such new, exclusive Honda dealership facility will be located on a site acceptable to AHM. By no later than December 31, 1997, the aforementioned Honda Dealership Operations in Medford will also be under, and will continuously remain under, a separate corporation formed exclusively for said dealership.

3.2 Full Line of Products and Services. Lithia Motors shall make available to the customers at each of its Honda dealerships all Honda Products and services, including, but not limited to, vehicles, Genuine Parts and Accessories, American Honda Finance Corporation retail financing services (whether for purchases or leases), Honda Vehicle Service Contracts, and Honda Certified Used Car Program. Lithia Motors shall make available to the customers at any Acura dealership which it acquires all Acura Products and services, including vehicles, Genuine Parts and Accessories, American Honda Finance Corporation retail financing services (whether for purchases or leases), Acura Vehicle Service Contracts, and Acura Preferred Pre-Owned Program.

3.3 Treatment as Independent Dealers. For allocation and other purposes, transfer of Honda or Acura Automobiles from one dealership to another dealership owned by the same entity will be treated the same as a transfer between separately-owned dealers.

3.4 Independent Reporting Requirements. Each Honda and Acura dealership that Lithia Motors owns or acquires shall have the same reporting requirements as all other Honda and Acura dealerships, including fully audited dealership-specific financial information. Each individual dealership must meet the capitalization requirements and other requirements set forth in its individual Dealer Agreement including any addenda thereto. The corporate by-laws of the individual corporation that actually owns the Honda or Acura dealership must restrict it from engaging in any activity other than the ownership and maintenance of a Honda or Acura dealership, as the case may be.

4. DEALER MANAGERS

4.1 Approval by AHM. Each Honda and Acura dealership owned or controlled by Lithia Motors shall have a qualified Dealer Manager, approved by AHM (subject to the exception noted in Section 4.2 below). Each Dealer Manager shall work at the Honda or Acura Dealership Premises, shall devote all efforts to the management of the dealership and shall have no other significant business interests or management responsibilities.

4.2 Trial Period. Whenever Lithia Motors nominates a new Dealer Manager candidate for a Honda or Acura dealership, AHM shall have the right to withhold a decision concerning approval or rejection of the candidate for a trial period of up to one year, at its sole discretion; provided, however, that the candidate may operate in the capacity of Dealer Manager until AHM has approved or rejected the candidate.

4.3 Authority of Dealer Manager. Lithia Motors shall advise AHM in writing of the limitations, by category and, where applicable, by specific action, on the authority of the Dealer Manager regarding the operation of the dealership. Without limiting the foregoing, the Dealer Manager must have the authority to run the day-to-day operations of the dealership and the capacity to enter into substantial transactions (e.g., the placement of orders for Honda or Acura Automobiles and Genuine Parts and Accessories) on behalf of the dealership.

5. REPRESENTATION ON HONDA AND ACURA DEALER ORGANIZATIONS

No more than one representative each from the Honda, and separately, Acura dealerships owned, directly or through an Affiliate, by any of the Lithia Parties, may serve on the Honda National Dealer Advisory Board, the Acura National Dealer Council or any future Honda or Acura national board(s) which may be established, and no more than one representative each may serve on either a Honda or Acura Zone Advisory Board/Council, or Honda Advertising Triad or Acura advertising council (should one be established in the future). Such representative must be involved on a full-time basis in the day-to-day operation of the dealership which it is appointed to represent and must otherwise comply with the bylaws of the applicable organization.

6. DEALERSHIP TRAINING PERSONNEL

No Lithia Party shall substitute training courses of its own for those provided or sponsored by AHM without the prior written approval of AHM, which approval shall be in AHM's sole discretion. In no event will AHM approve training courses unless the trainers are certified pursuant to Honda's or Acura's certification programs, as applicable.

7. PROSPECTUS DISCLAIMER AND INDEMNIFICATION AND HOLD HARMLESS AGREEMENT

Lithia Motors shall place in its registration statement and its prospectus, as well as in any other document offering Lithia Stock to public or private investors, the following disclaimer:

No Manufacturer (as defined in this Prospectus) has been involved, directly or indirectly, in the preparation of this Prospectus or in the offering being made hereby. No Manufacturer has made any statements or representations in connection with the offering or has provided any information or materials that were used in connection with the Offering, and no Manufacturer has any responsibility for the accuracy or completeness of this Prospectus.

The Lithia Parties shall, jointly and severally, indemnity and hold harmless AHM pursuant to the terms of the Indemnification Agreement set forth in Schedule F to this Agreement.

8. TRANSFER OF DEALERSHIPS BY LITHIA MOTORS

8.1 Sale of Ownership Interest in Dealership. This is a personal services Agreement based upon personal skills, service, qualifications and commitment of Lithia Motors, its Executive Manager, and its Dealer Managers. For this reason, and because AHM has entered into this Agreement in reliance upon Lithia Motors's, its Executive Manager's, and its Dealer Managers' qualifications, without limiting any of the other restrictions on transfer of ownership set forth in this Agreement, Lithia Motors agrees to obtain AHM's prior written approval of any proposed transfer of control or of any ownership interest in a Honda or Acura dealership owned by Lithia Motors.

Without limiting the foregoing, in the event of such proposed transfer, AHM shall not be obligated to renew the applicable Dealer Agreement or to execute a new Dealer Agreement with Lithia Motors or the proposed transferee unless (a) Lithia Motors first makes arrangements acceptable to AHM to satisfy any outstanding indebtedness to AHM; (b) the proposed transfer conforms to this Agreement and the Policy; and (c) the transferee agrees to the terms and conditions of this Agreement and the Policy.

8.2 Right of First Refusal or Option to Purchase

8.2.1 Rights. If a proposal to sell a dealership's assets or transfer its ownership is submitted by Lithia Motors to AHM, AHM has a right of first refusal or option to purchase the dealership assets or stock, including any leasehold interest or realty. AHM's exercise of its right or option under this Section supersedes Lithia Motors's right to transfer its interest in, or ownership of, the dealership. AHM's right or option may be assigned by it to any third party and AHM hereby guarantees the full payment to Lithia Motors of the purchase price by such assignee. AHM may disclose the terms of any pending ownership transfer agreement and any other relevant dealership performance information to any potential assignee. AHM's rights under this Section will be binding on and enforceable against any assignee or successor in interest of Lithia Motors or purchaser of Lithia Motors's assets.

8.2.2 Exercise of AHM's. AHM shall have 180 days from AHM's receipt of all completed documentation and information customarily required by it to evaluate a proposed transfer of ownership in which to exercise its option to purchase or right of first refusal. AHM's exercise of its right of first refusal under this Section neither shall be dependent upon nor require its prior refusal to approve the proposed transfer.

8.2.3 Right of First Refusal. If Lithia Motors has entered into a bona fide written ownership transfer agreement for its dealership business or assets, AHM's right under this Section is a right of first refusal, enabling AHM to assume the buyer's rights and obligations under such ownership transfer agreement, and to cancel this Agreement and all rights granted Lithia Motors. Upon AHM's request, Lithia Motors agrees to provide other documents relating to the proposed transfer and any other information which AHM deems appropriate, including, but not limited to, those reflecting other agreements or understandings between the parties to the ownership transfer agreement. Refusal to provide such documentation or to state that no such documents exist shall create the presumption that the ownership transfer agreement is not a bona fide agreement.

8.2.4 Option to Purchase. If Lithia Motors submits a proposal which AHM determines is not bona fide or in good faith, AHM has the option to purchase the principal assets of Lithia Motors utilizing the dealership business, including real estate and leasehold interest, and to cancel this Agreement and the rights granted Lithia Motors. The purchase price of the dealership assets will be determined by good faith negotiations between the parties. If an agreement cannot be reached, the purchase price will be exclusively determined as set forth in Section 9.3 of this Agreement.

8.2.5 Lithia Motors's Obligations. Upon AHM's exercise of its right or option and tender of performance under the ownership transfer agreement or upon whatever terms may be expressed in the ownership transfer agreement, Lithia Motors shall forthwith transfer the affected real property by warranty deed conveying marketable title free and clear of all liens, claims, mortgages, encumbrances, tenancies and occupancies. The warranty deed shall be in proper form for recording, and Lithia Motors shall deliver complete possession of the property and deed at the time of closing. Lithia Motors shall also furnish to AHM all copies of any easements, licenses or other documents affecting the property or dealership operations and shall assign any permits or licenses that are necessary or desirable for the use of or appurtenant to the property or the conduct of such Dealer Operations. Lithia Motors also agrees to execute and deliver to AHM instruments satisfactory to AHM conveying title to all personal property, including leasehold interests, involved in the transfer or sale to AHM. If any personal property is subject to any lien or charge of any kind, Lithia Motors agrees to procure the discharge and satisfaction thereof prior to the closing of sale of such property to AHM.

8.3. Transfer Provisions Fair and Reasonable. In entering into this Agreement, each of the Lithia Parties understands that AHM would not consent to the transfer of Honda or Acura dealerships to an entity that is owned in part by a publicly-held corporation without the restrictions on subsequent transfer set forth in this Agreement. The Lithia Parties have entered into this Agreement to induce AHM to consent to such transfer to an entity that is owned in part by a publicly-held corporation and hereby acknowledge and agree that the restrictions on subsequent transfer set forth herein are "fair" and "reasonable" as those terms are used under state and federal laws governing the relationship between automobile manufacturers and automobile dealers.

9. REMEDIES OF AHM.

9.1 Cumulative Remedies. All of AHM's remedies set forth herein are cumulative. No explicit listing of any remedy shall foreclose AHM from seeking any remedy at law or in equity, including injunctive relief, that would otherwise be available to it.

9.2 Injunctive Relief. Lithia Motors agrees that any breach by any of the Lithia Parties or their Affiliates of the covenants set forth in this Agreement that pertain to the ownership, control, transfer, and/or operation of Honda or Acura dealerships would result in irreparable harm to AHM and therefore agrees that AHM shall be entitled to emergency, pre and permanent injunctive relief to prevent such breaches.

9.3 Right to Purchase. The Lithia Parties understand and acknowledge that AHM has the right to maintain a personal relationship with its dealers and a healthy and competitive dealer network and that the Policy and this Agreement are designed to ensure the protection of that right. and the integrity of the dealer network while at the same time enabling Lithia Motors to raise capital through the public offering of stock. Therefore, in the event that any of the Lithia Parties materially breach the Policy or this Agreement or any Dealer Agreement, in addition to any other remedies that AHM might have, upon notice from AHM, the Lithia Parties agree that they will sell to AHM all assets of the Honda and Acura dealerships that they own or control at their then current fair market value and on the terms set forth in Section 8.2.5 and that the applicable Dealer Agreements will terminate upon such sale. Any dispute as to the fair market value of such dealerships will be resolved by arbitration as described in Section 10 hereof. In such arbitration, the Arbitrator shall be empowered only to determine (1) whether a material breach took place; and, (2) if so, the fair market value of the dealerships at issue. The arbitrator in such proceeding shall not have the power to award any other damages or other relief. If the arbitrator finds a material breach, Lithia Motors shall transfer the dealerships to AHM or its designee at the fair market value de ed by the arbitrator without the necessity of further legal action by AHM. The arbitrator's decision shall be unappealable and unreviewable. If, in violation of the terms hereof, any of the Lithia Parties require AHM to obtain a court judgment to enforce the arbitrator's decision, the arbitrator's decision shall be enforceable in any court of competent jurisdiction and Lithia Motors agrees to pay the costs and attorneys' fees expended in connection therewith. The foregoing arbitration shall not, without the consent of both parties, be consolidated with any other arbitration initiated by a party pursuant to Section 10 hereof.

9.4 Indemnification for Claims by Disappointed Buyer. The Lithia Parties, jointly and severally, hereby agree to indemnity and hold harmless AHM and its affiliates from and against any and all losses, liabilities, judgments, amounts paid in settlement, claims, damages and expenses whatsoever (collectively a "Claim"), including, but not limited to, any and all expenses whatsoever (including reasonable attorneys' fees) incurred in investigating, preparing or defending against any litigation, commenced or threatened, to which AHM may become subject as a result of AHM's exercise of the rights set forth in Sections 8.2 and 9.3 of this Agreement. Without limiting the generality of the immediately preceding sentence, this indemnification covers any Claim brought against AHM by an individual or entity that alleges that the individual or entity would have purchased an interest in a Honda or Acura dealership but for AHM's interference with such proposed purchase.

10. DISPUTE RESOLUTION

Except as modified in Section 9.3 above, any controversy or claim arising out of or relating to the Agreement, or the breach thereof, or any failure to agree where agreement of the parties is necessary pursuant hereto, including the determination of the scope of this agreement to arbitrate, shall be resolved by the following procedures:

10.1 Attempt to Resolve Dispute. The parties shall use all reasonable efforts to amicably resolve the dispute through direct discussions. The senior management of each party commits itself to respond promptly to any such dispute. Any party may send written notice to the other parties identifying the matter in dispute and invoking the procedures of this article. Within ten (10) days after such written notice is received, unless a delay is agreed to by both parties to the dispute or the parties agree to confer by telephone, one or more senior management of each party shall meet in Los Angeles, California to attempt to amicably resolve the dispute by written agreement. If said dispute cannot be settled through direct discussions, the parties agree to first endeavor to settle the dispute in an amicable manner by mediation in Los Angeles and administered by the American Arbitration Association ("AAA"), pursuant to the Commercial Mediation Rules of the AAA at the time of submission prior to resorting to binding arbitration.

10.2 Application to Binding Arbitration. If after forty-five
(45) days from the first written notice of dispute, the parties fail to resolve the dispute by written agreement or mediation, either party may submit the dispute to final and binding arbitration administered by the AAA, pursuant to the Commercial Arbitration Rules of the AAA at the time of submission. The arbitration shall be held in Los Angeles before a single neutral, independent, and impartial arbitrator (the "Arbitrator").

10.3 Binding Arbitration Procedure. Unless the parties have agreed upon the selection of the Arbitrator before then, the AAA shall appoint the Arbitrator as soon as practicable, but in any event within thirty
(30) days after the submission to AAA for binding arbitration. The arbitration hearings shall commence within forty-five (45) days after the selection of the Arbitrator. Unless the Arbitrator otherwise directs, each party shall be limited to three pre-hearing depositions lasting no longer than 6 hours each. The parties shall exchange documents to be used at the hearing no later than ten (10) days prior to the hearing date. Unless the Arbitrator otherwise directs, each party shall have no longer than three days to present its position, the entire proceedings before the Arbitrator shall be on no more than eight hearing days within a three week period. The Arbitrator's award shall be made no more than thirty (30) days following the close of the proceeding. The Arbitrator's award may not include consequential, exemplary, or punitive damages. The Arbitrator's award shall be a final and binding determination of the dispute and shall be fully enforceable in any court of competent jurisdiction. The prevailing party shall be entitled to recover its reasonable attorneys' fees and expenses, including arbitration administration fees, incurred in connection with such proceeding. Except in a proceeding to enforce the results of the arbitration, neither party nor the Arbitrator may disclose the existence, content, or results of any arbitration hereunder without the prior written consent of both parties.

10.4 Exceptions. Notwithstanding the foregoing, either party may, without recourse to arbitration, assert against the other party a third-party claim, cross-claim or like claim in any action brought by a Third Party to which this Agreement or the obligations of the parties hereunder may pertain. Nothing herein shall prevent a party from seeking injunctive relief, where appropriate, from a court of competent jurisdiction pending the outcome of any arbitration concerning the subject of such arbitration or when authorized by an arbitrator's award or when emergency relief is required.

11. ENTIRE AGREEMENT OF THE PARTIES

There are no prior agreements or understandings, either oral or written, between the parties affecting this Agreement, except as otherwise specified or referred to in this Agreement (including the Schedules hereto). No change or addition to, or deletion of any portion of this Agreement shall be valid or binding upon the parties hereto unless approved in writing signed by an officer of each of the parties hereto. The parties acknowledge that each of them have been represented by counsel and are substantial entities with considerable resources. This Agreement has been fully negotiated. No provision of this Agreement shall be construed against a party on the ground that the party or its attorneys drafted it.

12. SEVERABILITY

If any provision of this Agreement should be held invalid or unenforceable for any reason

whatsoever, or conflicts with any applicable law, this Agreement will be considered divisible as to such provision(s), and such provision(s) will be deemed amended to comply with such law, or if it (they) cannot be so amended without materially affecting the tenor of the Agreement, then it
(they) will be deemed deleted from this Agreement in such jurisdiction, and in either case, the remainder of the Agreement will be valid and binding. Notwithstanding the foregoing, if, as a result of any provision of this Agreement being held invalid or unenforceable, AHM's ability to control the selection of the Dealer Owner, Executive Manager, or the Dealer Manager or to otherwise maintain its ability to exercise reasonable discretion over the selection of the actual individual who is managing a Honda or Acura dealership is materially restricted beyond the terms of this Agreement or the Dealer Agreement, AHM shall be permitted to invoke the purchase provisions of
Section 9.3 hereof.

13. NO IMPLIED WAIVERS

The failure of either party at any time to require performance by the other party of any provision herein shall in no way affect the right of such party to require such performance at any time thereafter, nor shall any waiver by any party of a breach of any provision herein constitute a waiver of any succeeding breach of the same or any other provision, nor constitute a waiver of the provision itself.

14. AHM POLICIES

AHM has adopted certain policies which are attached hereto as Schedule
G. Lithia

Motors hereby agrees to abide by these policies as attached hereto and as reasonably amended by AHM from time to time, and other policies promulgated in the future by AHM. In addition, AHM has expressed a commitment to diversity in management and among employees. Lithia Motors hereby agrees to adhere to that commitment by seeking to achieve diversity among the management personnel and employees it appoints in connection with the Honda and Acura dealerships it owns or controls. Without limiting the generality of the foregoing, Lithia Motors hereby agrees that its dealerships will meet or exceed (with respect to both the applicable zone and the United States as a whole) average Honda and/or Acura dealership performance (as such performance is measured by AHM, now or in the future) with respect to customer satisfaction, sales, and market share.

15. APPLICABLE LAW

This Agreement shall be governed by and construed according to the laws of the State of California.

16. BENEFIT

This Agreement is entered into by and between AHM and the Lithia Parties for their sole and mutual benefit. Neither this Agreement nor any specific provision contained in it is intended or shall be construed to be for the benefit of any third party.

17. NOTICE TO THE PARTIES

Any notices permitted or required under the terms of this Agreement shall be directed to the following respective addresses of the parties, or if either of the parties shall have specified another address by notice in writing to the other party, then to the address last specified:

If to AHM:

AMERICAN HONDA MOTOR CO., INC.

Honda Division
1919 Torrance Boulevard
Torrance, California 90501
Attention: Dealer Placement Department

AMERICAN HONDA MOTOR CO., INC.

Acura Division
1919 Torrance Boulevard
Torrance, California 90501
Attention: Acura Dealer Development Department

with a copy to:

Associate General Counsel
HONDA NORTH AMERICA, INC.

Law Department
700 Van Ness Avenue
Torrance, California 90509-2206 If to any of the Lithia Parties:

LITHIA MOTORS, INC.
360 East Jackson
Medford, Oregon 97501

Attention: Sidney B. DeBoer

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

LITHIA MOTORS, INC.

BY: /s/Sidney B. DeBoer
Title

LITHIA HOLDING, LLC

BY: /s/Sidney B. DeBoer
Title

LITHIA HPI, LLC
BY: /s/Sidney B. DeBoer
Title

LITHIA HS, INC.
BY: /s/Sidney B. DeBoer
Title

/s/Sidney B. DeBoer

Sidney B. DeBoer

/s/M.L. Dick Heimann

M.L. Dick Heimann

/s/R. Bradford Gray

R. Bradford Gray

AMERICAN HONDA MOTOR CO., INC.
Honda Division

BY: /s/Richard Colliver
Richard Colliver
Senior Vice President
Automobile Sales Division

LITHIA MOTORS, INC.
Acura Division

BY: /s/Richard B. Thomas
Richard B. Thomas
Executive Vice President
Acura Division

SCHEDULE LIST

A. List of Lithia

B. AHM Automobile Dealer Sales and Service Agreements

C. AHM Policy on the Public Ownership of Honda and Acura Dealerships

D. Lithia Motors and Holding Ownership Information -- Restricted Shares

E. Lithia Motors Ownership Information -- 5% Interest Holders

F. Indemnification Agreement

G. AHM Policies

X. Lithia Motors Documentation (retained in AHM's files; not attached to copies of the Agreement)

A.

List of Lithia Motors Honda Dealerships

Lithia HPI, Inc.

dba Lithia Honda

700 North Central

Medford, Oregon 97501-5817

B.

AHM Automobile Dealer Sales and Service Agreements

C.

AHM Policy on the Public Ownership of Honda and Acura Dealerships

AMERICAN HONDA MOTOR CO., INC.

POLICY ON THE PUBLIC OWNERSHIP

OF HONDA AND ACURA DEALERSHIPS

I. OBJECTIVES

In this Policy on the Public Ownership of Honda and Acura Dealerships (the "Policy"), American Honda Motor Co., Inc. ("American Honda") addresses several issues raised by the recent announcement by certain entities which own automobile dealerships that they intend to offer stock for sale to the public. Proposals for the public ownership of automobile dealerships have been widely publicized in the press. American Honda has been asked by several dealers and the National Automobile Dealers Association to state its position on the public ownership of Honda and Acura dealerships. This Policy is an effort to address these inquiries by providing guidelines for the ownership of Honda and Acura dealerships that assist Dealer Owners and potential Dealer Owners in assessing whether a particular form of ownership is consistent with American Honda's standards for its dealerships.

II. BACKGROUND

A. The Personal Nature of the Dealer Owner Relationship

There is no simple "yes" or "no" answer to the question, "Will American Honda permit transfer of a dealership to a publicly-owned corporation?" The answer depends on whether the proposed form of ownership preserves the individualized relationship between the Dealer Owner and the local community, on the one hand, and American Honda and the Dealer Owner, on the other hand.

Despite the recent increase of mass marketing (including the advent over the last twenty years of so-called "category killers" such as the toy store giants that have replaced neighborhood toy stores and the hardware giants that have replaced local hardware stores), American Honda continues to believe that automobile sales and service are most effectively done through dedicated, local dealerships with strong ties to the community. For most automobile purchasers, the decision to buy a new car is a major financial commitment and is only made after extensive deliberation. Although competitive price is undoubtedly a major factor in the buying decision, American Honda believes strongly that the building of a relationship between the dealer and the buyer, particularly the development of trust in the qualify of the product and the service provided by Honda dealers has, over the years, been a major selling point that has distinguished Honda and Acura vehicles from the competition. When a first-time new car buyer purchases a Honda vehicle, American Honda believes that we have a great opportunity to make that customer a life-time Honda and Acura buyer -- because we provide the best products and the best service through the most dedicated and committed dealers.

In order to ensure that Honda and Acura dealers provide the advice and service required by new car buyers, American Honda attempts to select the best people to be its dealers and requires that these people maintain personal control over dealership operations. Because individual Dealer Owners have considerable autonomy as to how they run their dealerships, American Honda's influence over the quality of its dealerships depends in large part n how wisely it selects its dealers. Although no process is perfect, American Honda believes that over the years it has done an excellent job of selecting Dealer Owners and is extremely proud of the quality of its dealerships.

B. The Dealer Agreement

The Honda or Acura Automobile Dealer Sales and Service Agreement (the "Dealer Agreement") between American Honda and its dealers includes a number of provisions that ensure that the relationship between American Honda and its dealers will remain personal. Section C of the Dealer Agreement states: "Dealer covenants and agrees that this Agreement is personal to Dealer, to the Dealer Owner, and to the Dealer Manager, and American Honda has entered into this Agreement based upon their particular qualifications and attributes and their continued ownership or participation in Dealership Operations." Sections C and D of the Dealer Agreement name the specific individuals who own the dealership, their percentage of ownership, the individual who will function as the Dealer operation and the individual who will function as the Dealer Manager. Section J states: "Neither this Agreement, nor any part thereof or interest therein, may be transferred or assigned by Dealer, directly or indirectly, voluntarily or by operation of law, without the prior written consent of American Honda." In Section 8.1 of the Dealer Agreement, "Dealer agrees that American Honda has the right to select each successor and replacement dealer and to approve its owners and principal management." Dealers must inform American Honda in writing of any potential change in the ownership or management listed in Sections C and D. Prior to taking effect, such changes must be approved in writing by American Honda. American Honda's approval will not be unreasonably withheld.

C. The Potential Benefits of Public Investment in dealerships

Public investment in dealerships offers potential benefits to both American Honda and its dealers. American Honda needs exclusive Honda or Acura dealerships with separate, freestanding state-of-the-art facilities at prime locations to meet its long term business objectives. American Honda dealers need to compete vigorously and such competition may include expanded and improved showrooms, upgraded computerization, the introduction of various customer amenities, etc. The ability to raise capital through public offerings of stock provides an additional means of financing improvement in dealership facilities and operations.

D. The Tension between Personal Relationship and Public Ownership

American Honda believes that the quality of the individuals who serve as Honda or Acura dealers and Dealer Managers is essential to the success of American Honda and the dealership. Therefore, American Honda is determined to maintain its personal relationship with its Dealer Owners and Dealer Managers and to continue to exercise the right of approval of changes in dealer ownership and management as set forth in the Dealer Agreement. To the extent that public ownership of a Honda or Acura dealership means that the dealer Manager will be appointed by a board of directors selected by owners of publicly-traded stock, such an arrangement is inconsistent with American Honda's needs and the dealer Agreement. On the other hand, public ownership of a portion of the shares of a dealership may be consistent with American Honda's objectives in cases in which a controlling interest in the dealership is maintained by a specified Dealer Owner and the dealership is managed by a specified Dealer Manager. The following guidelines are an attempt to reconcile the tension between American Honda's need for a personal relationship with each dealer and dealer proposals for public ownership of an interest in dealerships.

III. PUBLIC OWNERSHIP GUIDELINES

A. Case-By-Case Determination. As in the past, American Honda will evaluate requests to transfer ownership of Honda and Acura dealerships on a case-by-case basis. Proposals to transfer ownership to entities with publicly-traded shares will be reviewed based on the standards set forth in this Policy. AMERICAN HONDA RESERVES THE RIGHT, IN ITS SOLE BUSINESS JUDGMENT, TO APPROVE OR REJECT SUCH TRANSFERS.

B. Proposals To Be Submitted in Writing. All proposals to transfer ownership of Honda and Acura dealerships must be submitted in writing to American Honda and must include:

1. A list of the individuals and entities that will own privately-held shares of the dealership, including the amount of shares owned by such individual or entity and information and documentation about each such individual or entity; in the case of entities owning or controlling such privately-held shares, a list of the individuals owning such entities and information and documentation about such individuals;

2. With respect to ownership interests not listed in accordance with subsection 1, immediately above, a list of the individuals and entities that will own or control 5% or more of the dealership (either through ownership of publicly-held stock or any combination of privately-held stock and publicly-held stock or any other arrangement), including information and documentation about each such individual or entity;

3. The number and percentage (if any) of the shares of the entity that owns the dealership that will be publicly traded.

4. A detailed description, including flow charts, of the proposed structure of the entities that will own and/or control the dealership and the relationship of the Dealer Owner to these entities, including, with respect to entities with a significant interest in the Dealer Owner, a description of the individuals holding such interest;

5. The name and a brief biography of the individual who will function as Dealer Manager and a detailed description of the functions and responsibilities of the Dealer Manager;

6. Complete financial documents (including but not limited to the most recent and the prior year end audited financial statements of any entity proposing to obtain any interest equal to or grater than 5% of a dealership or 55 of an entity that owns a dealership), indicating, among other things, the amount of capitalization of the dealership and the verifiable sources of such capitalization;

7. A detailed description of the proposed use of the funds to be raised from the public investment;

8. The articles and bylaws of the entities that will own and/or control the dealership;

9. Copies of the proposed transactional documents that will be used to effectuate the transaction, including, without limitation, copies of any government filings and contracts pertaining thereto; and

10. Copies of any additional documents that the transferees, transferors and other parties having a substantial interest in the transaction have that American Honda would reasonably need to evaluate the proposal.

After receipt of complete documentation for the Proposal, as outlined above, and due consideration thereof, American Honda will provide the party submitting the proposal with a preliminary assessment of the proposed transaction. NO FINAL DECISION ON THE PROPOSAL WILL BE MADE UNTIL SUBMISSION OF FINAL VERSIONS OF ITEMS 1 THROUGH 10 WITH ANY OTHER DOCUMENTATION REQUESTED BY AMERICAN HONDA AND AMERICAN HONDA AND THE NEW OWNERSHIP ENTITY AGREE ON AND ENTER INTO A DEALER AGREEMENT.

It is not advisable to make any expenditures or commitments, or to enter into any contracts or incur any obligations on the assumption that authorization of a proposal will be granted. Any such expenditures, commitments or obligations, financial or otherwise, made or entered into by a dealer in anticipation of authorization of a proposal, and prior to: (1) receipt of final written approval by American Honda and (2) execution of the necessary documents as described above (including a new Dealer Agreement) are made entirely at the dealer's own risk and without any liability on the part of American Honda.

C. Guides to Preparation of an Acceptable Proposal

In preparing the documents listed immediately above, the dealer should keep in mind the following list of standards (which is intended to provide guidance, not to be a complete list) to which American Honda will require adherence:

1. All dealerships must have a qualified Dealer Manager acceptable to American Honda. American Honda's right to prior written approval of any change of dealer Manager must be incorporated into the transactional documents. The Dealer Manager should be a well-respected, civicly-active member of the community. As discussed above, personal involvement by Dealer Managers in Dealership Operations is an important means of ensuring that Honda and Acura dealerships are run with a high level of attention, care and commitment. The Dealer Manager must maintain control over the day-to-day operations of the dealership and the transactional documents should set forth in detail the level of autonomy that the Dealer Manager will exercise, including, for example, the amount of money that the Dealer Manager will be empowered to transfer. Dealerships must abide by American Honda's commitment to encourage diversity of persons in dealer management positions.

2. The Dealer Owner's Executive Manager (that is, the person who has operational control of the entity that owns and/or controls the dealership) should e an experienced, well-respected executive with final authority to decide any dealership matters not within the authority of the Dealer Manager.

3. Dealerships are non-transferable without the prior written consent of American Honda. Because the shares of publicly-owned corporations are freely transferable, the percentage of public ownership must be restricted so that a controlling interest of the dealership remains in the hands of approved individuals. It follows that the controlling interest in the entity that controls the dealership cannot be transferred without the prior written consent of American Honda. In no event may the percentage of public ownership of a dealership exceed the percentage of private ownership by American Honda-approved individual and privately-held entities. To the extent that an entity not approved by American Honda attempts to acquire control and/or ownership of a dealership, the dealer Agreement with American Honda must provide for termination of the Dealer Agreement and/or American Honda's right to acquire the dealership at its fair market value.

4. The controlling interest in Honda or Acura dealerships must remain in the hands of a person or entity engaged predominantly in the sale and service of new automobiles. For example, American Honda will not approve transfer of dealerships or entities that control dealerships to general retailers or retailers that deal primarily in non-automotive products.

5. American Honda will not approve the transfer of Honda or Acura dealerships to entities that are known to have significant investments in companies that compete with American Honda or its parent, subsidiaries or Affiliates in manufacturing, marketing, or selling automotive products or services.

6. Public corporations having an ownership interest in the dealership and the individuals and entities that control such public corporations (but not persons whose ownership interest is limited to passive ownership of 5% or less of the shares of public corporations) must agree to obtain American Honda's approval before acquiring an interest in any other Honda or Acura dealership, American Honda reserves the right to limit the number and/or location of Honda and Acura dealerships that can be owned or controlled by any one individual or corporation. In the future, except where a specific finding is made by American Honda that such acquisition would further a business interest or American Honda, individuals and/or entities will be limited to acquiring interests in dealerships as follows:

a. HONDA

No one shall be allowed to acquire an ownership interest, directly or through an Affiliate, in a multiple number of Honda dealerships as provided below:

(a) in a "Metro" market (a "Metro" market is a metropolitan market area represented by two or more Honda dealer points) with two (2) to ten (10) Honda dealership points (inclusive), no Dealer Owner may own, operate or have an interest in more than one (1) Honda dealership;

(b) in a Metro market with eleven (11) to twenty (20) Honda dealership points (inclusive), no Dealer Owner may own, operate or have an interest in more than two (2) Honda dealerships;

(c) in a Metro market with twenty-one (21) or more Honda dealership points, no Dealer Owner may own, operate or have an interest in more than three (3) Honda dealerships;

(d) 4% of the Honda dealerships in any one of the ten Honda Zones; and

(e) seven (7) Honda dealerships nationally.

No one shall acquire contiguous Honda dealerships.

b. ACURA

No one shall be allowed to acquire an ownership interest, directly or through an Affiliate, in a multiple number of Acura dealerships as provided below:

(a) one (1) Acura dealer in a "Metro" market (a "Metro" market is a Metropolitan market are represented by two or more acura dealer points);

(b) two (2) Acura dealerships in any one of the six Acura Zones; and

(c) three (3) Acura dealerships nationally.

No one shall acquire contiguous Acura dealerships.

"Affiliate" of, or a person or entity "affiliated" with, a specified person or entity, means a person or entity that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the person or entity specified. For the purpose of this definition, the term "control" (including the terms "controlling," "controlled by" and "under common control with" means the possession, directly or indirectly, or the power to direct or cause the direction of the management and policies of a person or entity, whether through the ownership of securities, by contract or otherwise.

7. The dealership would continue to have the same reporting requirements as all other Honda and Acura dealerships, including dealership-specific financial information on the same as is that the dealership has provided such information in the pst. In the case of corporations that, with American Honda's approval, own multiple Honda and Acura dealerships, each such dealership must be separately incorporated and financial information must be broken down by individual dealership and must meet capitalization requirements, etc., by individual dealership. The corporate by-laws of the individual corporation that actually owns a Honda or Acura dealership must restrict it from engaging in any activity other than the ownership and maintenance of a Honda or Acura dealership.

8. The dealership must agree to provide American Honda with all information and documents, including but not limited to SEC filings, that evidence a substantial change of ownership or control of such dealership or any entity with a controlling interest in such dealership. Individuals or entities that acquire, own or control more than 5% of any entity that owns or controls a Honda or Acura dealership must provide American Honda with copies of all filings made to the SEC, all comparable filings made to state agencies, and, at least once annually, the most recent calendar year's fully audited financial statements. Nothing in this section 8 should be construed to limit the requirement that any proposed change in the ownership or control of privately-held shares of a dealership or any entity that owns a dealership must be reported to American Honda and is subject to American Honda's prior written approval.

9. For allocation and other purposes, transfer of Honda or Acura Automobiles from one dealership to another dealership owned and/or controlled by the same entity will treated the same as a transfer between separately-owned dealers.

10. The dealership should be committed to providing separate, freestanding Dealership Operations that exclusively offer a full range of Honda Products and services or Acura Products and services and do not offer competing products or services from its Dealership Premises.

11. The controlling individual or entity must be liable for the operation of the dealership and have must agree to indemnify American Honda for any claims made by shareholders of publicly-held shares against American Honda to the full extent permitted by law. American Honda must have the right (but not the obligation) to review all documentation and other representations to the public about any offering of stock in the dealership or the entity owning the dealership. Whether or not American Honda reviews them, such documentation and representations must include an affirmative statement that American Honda is completely independent of the entity offering the stock and that, although American Honda's acts or omissions may have an impact on the value of the stock, American Honda bears no responsibility for such impact and has no liability to any investor under any legal or equitable theory.

12. The entity that owns or controls the dealership may not commingle its trademarks with dealer trademarks other than those used exclusively in connection with the dealership. For example, a dealer could use its own "dealership" trademark in conjunction with the Honda or Acura Trademarks as in "John smith HONDA" but it could not use a trademark in conjunction with the Honda or Acura Trademarks that it also uses in conjunction with non-Honda or non-Acura goods or services. The entity must agree to maintain the Honda or Acura brand image, as that image is developed by American Honda.

13. The entity that owns the dealership must agree to have all dealership sales and service personnel certified by American Honda pursuant to its usual certification programs; to use and sell genuine Honda and Acura parts and accessories; and to participate in good faith in applicable Honda or Acura sales, marketing, service, parts, facility image and upgrade, training, customer satisfaction, and diversity programs.

14. The Dealer Agreement will also provide that breaches of the Dealer Agreement or failure to adhere to American Honda requirements by any individual dealership owned by an entity shall be treated as breaches of the Dealer Agreement between American Honda and such entity and shall constitute reasonable grounds for rejection by American Honda of acquisition by the entity of additional Honda or Acura dealerships.

15. American Honda will not approve any transfer of a dealership that is not in full compliance with the Dealer Agreement between American Honda and such dealership prior to such transfer.

16. The Dealer Agreement with the entity that owns the dealership will include provisions that incorporates the provisions of this Policy and, without limiting the foregoing, permit American Honda to terminate the Dealer Agreement for breaches of the above-listed requirements and to reacquire the dealership as set forth in subsection IIIC3 above.

Inquires about the Policy should be made to Honda Dealer Placement Department and/or Acura Dealer development, as applicable.

Inquiries about the transfer of a dealership should be made to Zone Sales Office.

D.

Lithia Motors and Holding Ownership Information -- Restricted Shares

Schedule D

Lithia Motors and Holding Ownership Information -- Restricted Shares

M.L. Dick Heimann
34.875% Beneficial
Interest

Sidney B. DeBoer
58.125% Beneficial
Interest

Sidney B. DeBoer
100% Voting
Managing Member

R. Bradford Gray
7% Beneficial
Interest

Lithia Holding Company, L.L.C.
53.585% of all shares
4,110,000 Shares of Class "B" Common
10 votes per share, 92% Control
Tax Id 93-1171867

The Public
46.415% of all shares (if options exercised)
3,560,000 Class "A" Common
1 votes per share
8% Control

LITHIA MOTORS, INC.

	Shares		Votes	
Class B Restricted Shares	4,110,000	53.585	41,100,000	92.029%
Class A Shares	2,875,000	37.484	2,875,000	6.438%
Class A Employee Stock Incentive Options	685,000	8.931	685,000	1.534%
Total	7,670,000	100.000	44,660,000	100.000%

E.

Lithia Motors Ownership Information - 5% Interest Holders

Schedule E

Lithia Motors Ownership Information - 5% Interest Holders

The only 5% interest holder that is known to Lithia Motors, Inc. management is Lithia Holding Company, LLC with 4,1 10,000 shares of class B common representing 53.585% of all shares of outstanding common stock (assuming all employee stock incentive options are exercised).

The largest block of stock sold to the underwriters was 250,000 shares, which is less than 5% interest. Information as to the shareholders is given to us quarterly by the transfer agent which is unavailable at this time. They immediately report to us any holdings which are equal to or greater than 10%. If stocks are held in "Street Name" then it may be impossible to tell if someone or entity has accumulated more than 5% interest.

F.

Indemnification Agreement

SCHEDULE F

INDEMNIFICATION AGREEMENT

This INDEMNIFICATION AGREEMENT, effective as of December 17, 1996, is entered into between Lithia Motors, Inc., an Oregon corporation, with its principal place of business at 360 East Jackson, Medford, Oregon 97501 ("Lithia Motors"), Lithia HPI, Inc., an Oregon corporation, with its principal place of business at 700 North Central, Medford, Oregon 97501 ("BPI"), Lithia HS, Inc., a California corporation, intending to establish a place of business at 333 North Main Street, Salinas, California 93901 ("HS"), Lithia Holding, LLC, an Oregon limited liability company, with its principal place of business at 360 East Jackson, Medford, Oregon 97501 ("Holding"), Sidney B. DeBoer, an individual residing at 234 Vista, Ashland, Oregon 97520 ("DeBoer"), M.L. Dick Heimann, an individual residing at 426 Roundelay, Medford, Oregon 97504 ("Heimann"), and R. Bradford Gray, an individual residing at 6764 Laurel Crest Drive, Medford, Oregon 97504 ("Gray"), on the one hand (collectively, the "Indemnifying Parties"), and American Honda Motor Co., Inc. ("AHM"), a California corporation, with its principal place of business at 1919 Torrance Boulevard, Torrance, California 90501, on the other hand.

WITNESSETH

WHEREAS, Lithia Motors has been formed to own subsidiary corporations which will own and operate automobile dealerships; and

WHEREAS, Lithia Motors intends to publicly offer and sell a portion of the shares of the Lithia Stock (as defined in the Agreement between American Honda Motor Company, Inc. and Lithia Motors, Inc. et al. [the "Agreement"]) in a public offering pursuant to the Securities Act of 1933 (the "Act");

WHEREAS, AHM has consented to the offer and sale of such Lithia Stock to the public on the terms set forth in the Agreement between the parties on or about date herewith; and

WHEREAS, in recognition of AHM's demand for complete protection against liability and threats of legal action and in order to obtain AHM's consent to the offer and sale of such shares, the Indemnifying Parties wish to provide in this Indemnification Agreement for the indemnification of and the advancing of expenses to AHM as set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants made herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. INDEMNITY OF AHM

The Indemnifying Parties hereby agree to indemnity and hold harmless AHM and its affiliates from and against any and all losses, liabilities, judgments, amounts paid in settlement, claims, damages and expenses whatsoever (collectively a "Claim"), including, but not limited to, any and all expenses whatsoever (including reasonable attorneys' fees) incurred in investigating, preparing or defending against any litigation, commenced or threatened, to which AHM may become subject under the Act, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the securities laws of any state (the "Blue Sky Laws"), any other statute or at common law or otherwise under the laws of any foreign country, arising in connection with or resulting from the sale of the Lithia Stock. In addition, the Indemnifying Parties hereby agree to indemnity and hold harmless AHM from any

and all claims of the shareholders of Lithia Motors with respect to any matter. If it is ultimately determined, based upon a final decision of a court, arbitrator or other authorized panel or a settlement entered into by the parties to the dispute and consented to by AHM that AHM was liable for such Claim in whole or in part, the indemnification set forth herein shall be reduced proportionately to reflect the extent of such liability, and AHM shall reimburse the Indemnifying Party for any expenses advanced by it pursuant to Paragraph 3 of this Indemnification Agreement to the extent that such expenses were in excess of the Indemnifying Parties' proportionate liability.

If the indemnification provided for in this Section 1 from the Indemnifying Parties is unavailable to AHM hereunder in respect of any losses, claims, damages, liabilities or expenses referred to therein as a result of a judicial determination that such indemnification may not be enforced in such case notwithstanding this Indemnification Agreement, the Indemnifying Parties, in lieu of indemnifying AHM, shall contribute to the amount paid or payable by AHM as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the Indemnifying Parties and AHM in connection with the actions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of such Indemnifying Parties and AHM shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such Indemnifying Parties or AHM, and the Indemnifying Parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

2. NOTIFICATION AND DEFENSE OF CLAIM

(a) If any litigation is commenced against AHM in respect of which indemnity may be sought pursuant to this Indemnification Agreement, AHM shall promptly notify Lithia Motors in writing of the commencement of any such litigation, and the Indemnifying Parties shall then assume the defense of any such litigation, including the employment and fees of counsel (reasonably satisfactory to AHM) and the payment of all such expenses.

(b) AHM shall have the right to employ its own counsel in any such case to oversee the litigation on behalf of AHM, to consult with the attorneys engaged by the Indemnifying Parties as to the proper handling of the litigation and to take such actions in connection with the litigation as are reasonably necessary to protect AHM's interests. The Indemnifying Parties shall pay the reasonable fees and expenses of not more than one additional firm of attorneys for AHM. In the event of a conflict of interest between AHM and the Indemnifying Parties such that it would be inappropriate for Indemnifying Parties' counsel to represent AHM in any litigation, the limitation in the immediately preceding sentence shall not apply and the Indemnifying Parties shall pay the reasonable fees and expenses of as many firms of attorneys as AHM reasonably requires to defend its interests.

(c) Each of the Indemnifying Parties agrees to notify AHM promptly of the commencement of any litigation against any of the parties to the Agreement in connection with the issue and sale of the Lithia Stock. The Indemnifying Parties and AHM agree to cooperate with each other in the defense of any such litigation in which AHM is named as a party.

(d) The Indemnifying Parties shall not be obligated to indemnity or reimburse AHM under this Indemnification Agreement for any amounts paid in settlement of any litigation effected without Lithia Motors's prior written consent. The Indemnifying Parties shall not, in the defense of any such litigation, except with AHM's prior written consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or the plaintiff to AHM of a release from all liability in respect to such litigation. Neither Lithia Motors nor AHM shall unreasonably withhold its consent to any proposed settlement.

3. PAYMENT OF EXPENSES

The Indemnifying Parties agree that it will pay any and all expenses incurred by AHM in defending any civil or criminal action, suit or proceeding against AHM in advance of the time such expenses are due. With respect to legal fees and disbursements of AHM's attorneys, the Indemnifying Parties will pay such attorneys an advance retainer of up to $20,000 and will pay additional fees and expenses of such attorneys in increments of not more am $20,000 periodically in advance of the dates that such fees and expenses are incurred.

4. ENFORCEMENT

(a) The Indemnifying Parties expressly confirm and agree that they have entered into this Indemnification Agreement and assume the obligations imposed by it in order to induce AHM to consent to the offer and sale of Lithia Stock and acknowledge that AHM is relying upon this Indemnification Agreement to grant such consent.

(b) In the event AHM is required to bring any action to enforce rights or to collect monies due under this Indemnification Agreement and is successful in such action, the Indemnifying Parties shall reimburse AHM for all of AHM's reasonable fees and expenses in bringing and pursuing such action.

5. MISCELLANEOUS

(a) This Indemnification Agreement shall be interpreted and construed in accordance with the laws of the State of California, without giving effect to the conflict of law rules.

(b) This Indemnification Agreement shall be binding upon and inure to the benefit of the Indemnifying Parties and AHM and their respective legal representatives, successors and assigns.

(c) No amendment, modification or termination of this Indemnification.Agreement shall be effective unless in writing and signed by both parties hereto.

(d) If any provision of this Indemnification Agreement should be held invalid or unenforceable for any reason whatsoever, or conflicts with any applicable law, this Indemnification Agreement will be considered divisible as to such provision(s), and such provision(s) will be deemed amended to comply with such law, or if it (they) cannot be so amended without materially affecting the tenor of this Indemnification Agreement, then it
(they) will be deemed deleted from this Indemnification Agreement in such jurisdiction, and in either case, the remainder of this Indemnification Agreement will be valid and binding.

IN WITNESS WHEREOF, the parties hereto have executed this Indemnification Agreement on the date first above written.

LITHIA MOTORS, INC.

BY: /s/Sidney B. DeBoer
Title:

LITHIA HOLDING, LLC

BY: /s/Sidney B. DeBoer
Title:

LITHIA HPI, LLC

BY: /s/Sidney B. DeBoer
Title:

LITHIA HS, INC.

BY: /s/Sidney B. DeBoer
Title:

/s/Sidney B. DeBoer
Sidney B. DeBoer

/s/M.L. Dick Heimann
M.L. Dick Heimann

/s/R. Bradford Gray
R. Bradford Gray

AMERICAN HONDA MOTOR CO., INC.
Honda Division

BY: /s/Richard Colliver
Richard Colliver
Senior Vice President
Automobile Sales Division

AMERICAN HONDA MOTOR CO., INC.
Acura Division

BY: /s/Richard B. Thomas
Richard B. Thomas
Executive Vice President
Acura Division

G.

AHM Policies

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EXHIBIT 10.5.5

AMENDMENT TO AGREEMENT BETWEEN

AMERICAN HONDA MOTOR CO., INC.

AND

LITHIA MOTORS, INC. ET AL.

This Amendment is dated October 2 , 1997 (the "Amendment") and amends the Agreement between American Honda Motor Co., Inc. and Lithia Motors, Inc. et al., effective December 17, 1996 (the "Agreement).

1. Except to the extent it is amended hereby, the Agreement shall remain in full force and effect. The capitalized terms used herein are defined in the Agreement.

2. Schedule A to the Agreement is hereby amended to add the following:

"Lithia BB, Inc. dba Lithia Acura of Bakersfield 3201 Cattle Drive Bakersfield, California 93313

Provided that the Lithia Parties are in compliance with all terms and conditions of the Agreement, AHM hereby authorizes Lithia Motors to acquire the Acura dealership in Bakersfield, California which is currently owned by Nissan-BMW, Inc. and is doing business as Acura of Bakersfield. AHM understands that, for a period of no greater than sixty (60) days from the date of acquisition of such Bakersfield Acura dealership, such dealership may be referred to as "Lithia Acura of Bakersfield". Lithia Motors agrees that on or before the end of such sixty (60) day period, it will remove any reference to "Lithia" from the d/b/a of this dealership and any other Acura or Honda dealership owned by Lithia Motors or any of its Affiliates and change the d/b/a of such Bakersfield dealership to Acura of Bakersfield or such other d/b/a which is acceptable to AHM."

3. Paragraph 1.8 of the Agreement is amended to insert in line 15 between the words "unsatisfactory." and "Unless", the following:

"Notwithstanding the immediately preceding sentence, as long as control of Lithia Motors remains in the hands of persons or entities approved by AHM, it is not AHM's intention to restrict reputable banks, mutual funds, insurance companies, and/or pension funds (collectively referred to herein as "Institutional Investors") from acquiring up to 10% of Lithia Stock. Therefore, the parties further agree that, unless such Institutional Investor
(i) is owned or controlled by or has a substantial economic interest in an entity that competes with AHM or its parent, subsidiaries or Affiliates in manufacturing, marketing, or selling automotive products or services (not including an interest in a dealership selling products manufactured by a

competing automobile manufacturer); or (ii) has criminal affiliations or a criminal record; or (iii) has acquired, or has a reasonable likelihood of acquiring, a controlling interest in Lithia Motors, acquisition of up to 1 0% of Lithia Stock by such Institutional Investor shall be presumed not to be detrimental to AHM's interests. The parties further agree.that acquisition or control of more than 10% of Lithia Stock by any party shall be subject to AHM's right of disapproval pursuant to the standards set forth above with respect to parties that acquire 5% or more of Lithia Stock.

Lithia Motors agrees that it will provide AHM with notice of any acquisition or proposed acquisition of Lithia Stock of which it becomes aware with respect to which AHM has a right of disapproval pursuant to this Section
1.8. Lithia Motors shall make its best efforts to obtain an d provide to AHM such documentation and information pertaining to the party or parties that have acquired or are proposing to acquire the Lithia Stock that AHM would reasonably need to exercise its right of disapproval."

4. Paragraph 3.1 of the Agreement is amended to change both current references to December 31, 1997 to October 1, 1998. In addition, the following language is inserted at the end of Paragraph 3.1: "The currently non-exclusive Acura Dealership Operations in Bakersfield, California that are being acquired by Lithia Motors will, by no later than October 1, 1998, be conducting all business in a separate, freestanding exclusive new facility built and maintained in full compliance and conformity with Acura's designs and specifications, including Acura's minimum land and building requirements, as detailed within the Acura Facility Upgrade Program or such other standards and guidelines published by AHM. Such new, exclusive Acura dealership facility will be located on a site acceptable to AHM. By no later than October 1, 1998, the aforementioned Acura Dealership Operations in Bakersfield will also be under, and will continuously remain under, a separate corporation formed exclusively for said dealership."

5. The Agreement, as amended hereby, is hereby ratified and confirmed in all respects.

IN WITNESS WHEREOF, the parties have executed this Amendment on the date first written above.

LITHIA MOTORS, INC.

By: /s/ Sidney B. deBoer
Title: Chairman

LITHIA HOLDING, LLC

By: /s/ Sidney B. deBoer
Title: Managing Member

LITHIA HS, INC.

By: /s/ Sidney B. deBoer
Title: President

LITHIA HPI, LLC.

By: /s/ Sidney B. deBoer
Title: President

/s/ M.L. Dick Neimann
M.L. Dick Heimann

/s/ Sidney B. deBoer
Sidney B. deBoer

//R. Bradford Gray
R. Bradford Gray

AMERICAN HONDA MOTOR CO., INC.

By: /s/ Richard Colliver

Richard Colliver
Executive Vice President
Automobile Sales Division

AMERICAN HONDA MOTOR CO., INC.

By: /s/ Richard B. Thomas

Richard B. Thomas
Executive Vice President
Acura Division

EXHIBIT 10.7.1

Superseding

FORD MOTOR COMPANY

Seattle Region

Mercury Sales and Service Agreement

AGREEMENT made as of the 1st day of June, 1997, By and Between Lithia TLM, LLC, Limited Corporation, Oregon, doing business as Lithia Lincoln Mercury and with a principal place of business at 360 East Jackson Street, Medford, Jackson County, Oregon 97501.

(hereinafter called the "Dealer") and Ford Motor Company, a Delaware corporation with its principal place of business at Dearborn, Michigan (hereinafter call the "Company").

PREAMBLE

The purpose of this agreement is to (i) establish the Dealer as an authorized dealer in COMPANY PRODUCTS including VEHICLES (as herein defined), (ii) set forth the respective responsibilities of the Company in producing and selling those products to the Dealer and of the Dealer in reselling and providing service for them and (iii) recognize the interdependence of both parties in achieving their mutual objectives of satisfactory sales, service and profits by continuing to develop and retain a broad base of satisfied owners of COMPANY PRODUCTS.

In entering into this agreement, the Company and the Dealer recognize that the success of the Company and of each of its authorized dealers depends largely on the reputation and competitiveness of COMPANY PRODUCTS and dealers' services, and on how well each fulfills its responsibilities under this agreement.

It is the opinion of the Company that sales and service of COMPANY PRODUCTS usually can best be provided to the public though a system of independent franchised dealers, with each dealer fulfilling its responsibilities in a given locality from properly located, adequate, well-equipped and attractive dealerships, which are staffed by competent personnel and provided with the necessary working capital. The Dealer recognizes that, in such a franchise system, the Company must plan for the establishment and maintenance of the numbers, locations and sizes of dealers necessary for satisfactory and proper sales and service representation in each market area as it exists and as it develops and changes. At the same time, the Company endeavors to provide each of its dealers with a reasonable profit opportunity based on the potential for sales and service of COMPANY PRODUCTS within its locality.

HOME PERCENTAGE

NAME ADDRESS OF INTEREST
Lithia Motors, Inc. 360 E. Jackson Street, Medford, OR 97501-5892 80 Lithia MTLM, Inc. 360 E. Jackson Street, Medford, OR 97501-5892 20

(ii) upon the representation and agreement that the following person(s), and only the following person(s), shall have full managerial authority for the operating management of the Dealer in the performance of this agreement.

NAME	HOME ADDRESS	TITLE
Sidney B. DeBoer	234 Vista, Ashland, OR 97520	Managing Member
Bret E. Green	2631 Rosewood, Medford, OR 97504	General Manager

and (iii) upon the representation and agreement that the following person(s), and only the following person(s), shall be remaining owners of the Dealer:

NAME ADDRESS	HOME PERCENTAGE OF INTEREST

The Dealer shall give the Company prior notice of any proposed change in the said ownership or managerial authority, and immediate notice of the death or incapacity of any such person. No such change or notice, and no assignment of this agreement or of any right or interest herein, shall be effective against the Company unless and until embodied in an appropriate amendment to or assignment of this agreement, as the case may be, duly executed and delivered by the Company and by the Dealer. The Company shall not unreasonably withhold it consent to any such change.

G. This agreement shall continue in force and effect for a term commencing on the date of its execution and expiring April 30, 2000 unless sooner terminated under the provisions of paragraph 17 hereof.

H. Both the Company and the Dealer assume and agree to carry out and perform their respective responsibilities under this agreement.

The parties hereto have duly executed this agreement in duplicate as of the day and year first above written.

FORD MOTOR COMPANY	*LITHIA LINCOLN MERCURY*
/s/	*/s/ Sidney B. DeBoer*
General Manager, Lincoln-Mercury Division	*Managing Member*

Countersigned by
/s/

FORD MOTOR COMPANY

_____ Region

Addendum to

MERCURY SALES AND SERVICE AGREEMENT Dated: 6/1/97

LINCOLN SALES AND SERVICE AGREEMENT Dated: 6/1/97

by and between Lithia TLM, LLC, Limited Liability Corporation, in the State of Oregon doing business as Lithia Lincoln Mercury (the "Dealer") and Ford Motor Company, a Delaware corporation (the "Company").

THE PARTIES AGREE that the following addendum to Paragraph (F) containing a claus (i)(e) is annexed and made part of the Agreements:

F(i)(a) upon the representation and agreement that the following person(s) and/or entity(ies), and only the following person(s) and/or entity(ies) shall have ownership interests in the principal owner(s) referred to in clause (i) of this Paragraph F:

NAME OF PRINCIPAL OWNER(S) WHICH ARE PARTNERSHIPS OR CORPORATIONS (STATE OF INCORPORATION)	NAME AND ADDRESS OF PERSON(S) OR ENTITY(IES) HAVING OWNERSHIP INTEREST(S) IN PRINCIPAL OWNER(S) (INDICATE STOCKHOLDER OR PARTNER)	PERCENTAGE OF OWNERSHIP INTEREST
Lithia Motors, Inc. Oregon	Lithia Holding Company, LLC., (Stockholder) 360 E. Jackson, Medford, OR 97052-5892 The Public, (Stockholder) Class "A" Stockholders	53.5% 46.5%
Lithia MTLM, Inc. Oregon	Lithia Motors, Inc., (Stockholder) 360 E. Jackson, Medford, OR 97501-5892	100.0%
Lithia Holding Company, LLC Oregon	Sidney B. DeBoer, (Stockholder) 234 Vista, Ashland, OR 97520 Manford L. Dick Heimann, (Stockholder) 426 Roundelay Circle, Medford, OR 97504 Raymond Bradford Gray, (Stockholder) 6764 Laurel Crest Drive, Medford, OR 97504	58.125% 34.875% 7.0%

The provisions of this paragraph F requiring notice to and consent by the Company to any changes in ownership shall apply to any change in the person(s) or entity(ies) having an ownership interest in the principal owner(s) set forth in this clause F(i)(a).

IN WITNESS WHEREOF, the Company and the Dealer have duly executed this addendum in duplicate as of the 1st day of June, 1997.

FORD MOTOR COMPANY	*LITHIA LINCOLN MERCURY*
/s/	*/s/Sidney B. DeBoer, President*
Assistant Secretary	*Lithia Motors, Inc., The Managing Member*

Countersigned by

/s/

EXHIBIT 10.7.2

SUPPLEMENTAL TERMS AND CONDITIONS

FORD MOTOR COMPANY

This Agreement is made this 12th day of June, 1997 by and between Ford Motor Company, a Delaware corporation with its principal place of business at The American Road, Dearbom, Michigan (hereinafter called "Ford") and Lithia Motors, Inc., an Oregon corporation, with its principal place of business at Medford, Oregon (hereinafter called "Lithia").

WHEREAS; Lithia is established as a holding company, owning all the shares of Lithia MTLM, Inc. of Medford, OR (LMTLM); and

WHEREAS; Lithia owns eighty (80%) percent of Lithia Motors TLM, LLC ("LTLM") and LMTLM owns twenty (20%) percent of LTLM; and

WHEREAS; LTLM holds the Lincoln and Mercury Sales and Service Agreements ("Agreements") being transferred to Lithia; and

WHEREAS; Lithia has expressed its interest in changing the current ownership structure, so that a minority ownership of Lithia's shares can be held by the public; and

WHEREAS; Lithia acknowledges that Ford has the right to approve the purchaser of the member units or assets of LTLM pursuant to the Agreements; and

WHEREAS; Lithia has expressed an interest in acquiring additional Ford, authorized dealerships primarily in the western United States and Lithia acknowledges that Ford has the right to approve the purchase of the capital stock or assets of each Ford authorized dealership pursuant to the Agreement, as herein defined;

WHEREAS; Ford is willing to approve the transfer of up to forty-nine (49%) percent of Lithia's voting interest to the public, subject to the terms and conditions of the Agreements and the terms of these Supplemental Terms and Conditions ("Supplemental Terms"); and

WHEREAS; Ford is willing to approve the transfer by one or more of its authorized dealerships of their Ford, Mercury or Lincoln dealership operations to Lithia, on a case by case basis but subject to the terms and conditions of the Ford, Mercury and/or Lincoln Dealer sales and service Agreements ("Agreement") and

the terms of these Supplemental Terms and conditions ("Supplemental Terms");

NOW, THEREFORE, the parties do agree as follows:

1. Definitions. For purposes hereof, the following definitions shall apply in addition to those set forth above:

a. "General Manager" shall mean the person designated by Lithia pursuant to paragraph F (ii) of the Agreement with full day to day management authority and approved by Ford in writing.

b. "Securities Act" shall mean the Securities Act of 1933, as amended.

c. "Exchange Act" shall mean the Securities and Exchange Act of 1934, as

amended.

d. "SEC" shall mean the Securities and Exchange Commission.

e. "Dealership" shall mean each Ford, Mercury or Lincoln authorized dealership owned or controlled directly or indirectly by Lithia.

f. "Delegation Certificate" shall be the instrument executed by an authorized officer of Lithia granting, full day to day operational and management control of the Dealership to the General Manager.

g. "CSI" shall mean the Customer Satisfaction Index used by Ford to measure customer satisfaction in terms of the selling process as well as after sales service, as such may be modified from time to time by Ford.

2. Scope. Lithia has indicated that it will seek to acquire or apply for additional Ford authorized dealerships (Ford, Mercury or Lincoln), primarily in markets in the western United States. In order to simplify future discussions and to avoid any misunderstandings, these Supplemental Terms are intended to apply to those situations where Ford is willing to approve Lithia (or its designated wholly- owned direct or indirect subsidiary) as the purchaser of the capital stock or assets of a Ford authorized dealership (Ford, Mercury or Lincoln) or where it is willing to enter into an Agreement with Lithia with respect to a new dealership location. In each situation where Ford is willing to enter into an Agreement, Lithia will cause the Dealership to execute an Agreement and will cause such Dealership to be bound by these Supplemental Terms.

3. Sole Ownership. To maintain financial and operational autonomy and accountability, each Dealership will be a separate corporation with the Ford, Mercury and or/Lincoln dealership operation being its sole business, unless otherwise agreed in writing by Ford; provided, however, that, if, at the time of acquisition of any Dealership, such Dealership is not a separate corporation, Lithia will use reasonable efforts to cause the Dealership to be held as a separate corporation as soon as practicable. Each dealership shall be wholly owned by Lithia. Ford, however, does acknowledge that LTLM will be a separate legal entity with the Mercury, Lincoln and Toyota dealership operation being its sole business, and that there shall be no requirement for this to change. Further, Ford acknowledges that LTLM will not initially be wholly owned by Lithia, such issue which is addressed further in these Supplemental Terms and Conditions. As is required of all Ford authorized dealerships, LTLM and all other Dealerships shall continue to submit monthly financial and operating performance data to Ford.

4. Capitalization. Each Dealership will be separately and fully capitalized to ensure the maintenance of net cash, working capital and operating investment in accordance with Ford guidelines. Other than through dividends permitted by the law of the state of incorporation of each Dealership, the effect of which shall not impair the ability of the Dealership to meet the above mentioned Ford capitalization guidelines, or through arms-length transactions, all cash and other assets generated by each Dealership will remain within the Dealership and none of the assets of any Dealership owned or controlled by Lithia shall be used directly or indirectly to secure the debt or liability of Lithia or any other Dealership or other business owned or controlled by Lithia; provided, however, that nothing herein shall prevent the cross collateralization of capital stock or assets with respect to the obtaining of a single floorplan financing source for all of the Dealerships owned by Lithia. Provided, such actions are consistent with the above undertakings, nothing contained herein shall preclude Lithia from managing cash generated from the Dealership operations in accordance with policies and programs established from time to time by Lithia.

5. General Manager. Lithia shall delegate in writing the complete day to day management control of each Dealership to the General Manager of such Dealership whose appointment shall be subject to Ford's prior written approval which shall not be unreasonably withheld. The General Manager shall be designated in paragraph F (ii) of the Agreement and shall have full managerial authority and accountability for operating the Dealership in accordance with the terms of the Agreement and the Supplemental Terms. Each person nominated by Lithia as a General Manager must have substantial, successful retail automotive experience and must meet Ford's high standards for moral and ethical behavior. Upon the appointment of a General Manager, a copy of the Delegation Certificate shall be submitted to Ford. All proposed changes to the Delegation Certificate shall be in writing, submitted to Ford and subject to Ford's prior written approval. Lithia will notify Ford and obtain Fords prior written approval of any proposed change to the General Manager, such approval not to be unreasonably withheld. Lithia shall have the right to appoint an interim General Manager as a temporary replacement for any General Manager who is terminated for cause or who voluntarily resigns, in each case without the prior written approval of Ford. In the event that an interim General Manager is appointed, Lithia shall work with Ford to appoint a permanent General Manager within 90 days after the termination or departure of any current permanent General Manager. In addition to meeting the criteria Ford customarily applies to new dealer candidates, Lithia understands that the General Manager is to be assigned to the Dealership for a sufficient time (being a minimum of 3 years unless otherwise agreed by Ford in writing) to allow the General Manager to develop and maintain ties to the local community evidenced by involvement in community civic and charitable organizations, unless failure with respect to performance of the Dealership warrants otherwise.

6. Compensation Plans. Lithia will cause any Dealership to provide to its General Manager and other key employees of the Dealership, as deemed appropriate, as part of their compensation, incentive programs that will provide specific financial rewards to the General Manager and such other employees that are payable to them at least annually and are based upon the achievement and maintenance by the Dealership of the long term and short term operating performance objectives.

7. Performance Criteria. Should any Dealership fail to meet reasonable performance criteria established by Ford relating to such matters as sales performance, CSI and such performance criteria that Ford may reasonably apply to all its authorized dealers, Ford will have the right to implement the following procedure. Ford shall notify Lithia and the General Manager in writing of such failure and shall grant Lithia and the General Manager 90 days to either cure the failure in total or, with respect to sales performance and CSI only, to present to Ford evidence of progress to cure the failure indicating in Ford's reasonable judgment that the failure will be cured within one year of Ford's notice. Should the failure not be cured within the above period, persons delegated with authority from Lithia shall immediately meet with authorized personnel from Ford to arrange for an orderly and expeditious replacement of the General Manager. Should agreement not be reached upon the identity of an appropriate replacement General Manager within 90 days of the end of the cure period, Ford may terminate the Agreement with immediate effect. Requirements that Dealerships consistently meet or exceed Ford's regional average car and truck market share and comparable dealer group average customer.satisfaction ratings, as measured by CSI or other criteria established by Ford, shall be considered reasonable performance requirements. Ford will not unreasonably withhold its consent to the appointment of an appropriate replacement General Manager.

8. Additional Appointments. During the initial 12 month period after the execution of this Agreement, Lithia shall be allowed to acquire up to two
(2) additional Lincoln Mercury Division supervised dealerships and up to three
(3) Ford Division supervised dealerships. The performance (sales performance, CSI and such performance criteria that Ford may reasonably apply to all its authorized dealers) of the Dealerships shall be monitored for a period of twelve
(12) months from the date of the first acquisition of a Ford Division dealership, and if performance at the Dealerships operated by Lithia is deemed to constitute satisfactory performance by Ford, then Lithia shall be allowed to acquire up to one additional Ford Division supervised dealership and one additional Lincoln Mercury supervised dealership. The performance of the Dealerships will subsequently be reviewed for a nine month period (or more, if an additional acquisition is not requested within the nine month period) from the date of any new acquisition, to determine whether satisfactory performance has been achieved and maintained and whether additional acquisitions in the manner outlined above will be approved. Such additional acquisitions shall not exceed one Ford Division supervised dealership and one Lincoln Mercury supervised dealership during any nine month monitoring period, unless such limitation is waived at Ford's sole discretion. In addition, should any Dealership fail to maintain for any 12 month period the level of CSI at substantially the same level that was reported for such Dealership as of the date of its acquisition by Lithia, the Company shall not seek or apply for another Ford authorized dealership until such time as such level of CSI is restored to Ford's reasonable satisfaction. Ford will provide each Dealership a report monthly, summarizing its CSI performance for the preceding month and for the calendar year to date. Unless otherwise agreed by Ford in writing, Lithia shall not seek or apply for a Ford authorized dealership if, once owning such dealership, Lithia would own or control, directly or indirectly, the greater of
(a) 15 Ford and 15 Lincoln Mercury Dealerships or (b) that number of Ford authorized dealerships with total retail sales of new vehicles in the immediately preceding calendar year of more than 5% of the total Ford and Lincoln Mercury branded vehicles sold at retail in the United States; provided, however, that in no event shall Lithia seek or apply for a Ford authorized

dealership in any market area, as defined from time to time by Ford for its dealership network, that would result in the Lithia owning or controlling, directly or indirectly, more than one Ford authorized dealership in those market areas having 2 or less Ford authorized dealerships in them, or in Lithia owning or controlling, directly or indirectly, more than 33% of the Ford authorized dealerships in market areas, as defined from time to time by Ford for its dealership network, having more than 3 authorized Ford dealerships in them, it being understood that this provison is intended to apply separately to Ford and to Lincoln Mercury dealerships. Should the above limitations be exceeded and, notwithstanding the above limitations, Lithia seek Ford's approval to acquire an additional authorized dealership, Ford's refusal to approve such an acquisition shall be deemed to be a reasonable action by Ford.

9. Identification of Lithia Contact Official. Lithia shall identify, in the Agreements, the Lithia executive (other than the General Managers of the Dealerships) who will respond directly to any Ford concerns regarding the operation or performance of the Dealerships, which executive will have full authority, in accordance with Lithia management policies, to resolve issues raised by Ford in connection with the operation of the Dealerships.

10. Issuance of Shares. Lithia agrees that public ownership of Lithia shall not exceed shares representing forty-nine percent (49%) of the total voting control of Lithia. Further Lithia agrees that it shall not make any changes to the voting structure of shares issued, authorize the creation of a preferred class of stock or provide such class of stock voting rights, which would result in a loss of voting control by the Holding Company, without the prior approval of Ford. It is agreed that the voting rights percentage of ownership for the Holding Company in Lithia will be maintained at a percentage of at least fifty-one (51%) percent.

11. Major Changes. Lithia shall submit to Ford copies of all effective registration statements and final reports, proxies and information statements it files with the SEC pursuant to the Securities Act or the Exchange Act within five (5) business days of filing with the SEC. Lithia, if it becomes aware of or obtains copies of, shall submit to Ford all filings submitted to the SEC by third parties that are required to disclose significant holdings or substantial acquisitions of, or changes in, the ownership of the capital stock of Lithia Holding LLC ("Holding, Company), the holding Company that will hold a majority voting interest in Lithia, including, without limitation, Schedules 13D or 13G provided Lithia becomes aware of or receives copies of such filings. Certain events described in such filings shall give rise to the rights and obligations of the parties described in Attachment A.

12. Dissolution of LTLM. It is understood by Ford that the establishment of LTLM by Lithia was undertaken to generate maximum tax deferral benefits for Lithia, such benefits which will be fully realized by Lithia by December 31, 1997. At such time, Lithia will dissolve LTLM and Ford will agree to amend the Agreements to reflect LMTLM as the holder of the Agreements with one hundred percent (100%) ownership of LMTLM being held by Lithia. The request for the change will occur by no later than March 31, 1998 and Ford will have sixty (60) days after such request to process the change. It is agreed by Lithia that at such time, LMTLM will then be bound by all the terms and conditions herein that are currently applicable to LTLM.

13. Exclusive Dealership. Each Dealership shall operate as an exclusively dedicated Ford, Mercury and/or Lincoln dealership, as the case may be, and Lithia will not accept a sales and service agreement with any other automobile manufacturer or importer or allow the merchandising, display, sale or service of new vehicles other than Ford, Mercury or Lincoln vehicles at the facilities and locations approved by Ford and used by any Dealership for the conduct of its business ("Ford Approved Facilities"). It is acknowledged by Ford, however, that LTLM shall operate as a Mercury, Lincoln and Toyota dealership only, and Lithia will not accept a sales and service agreement with any other automobile manufacturer or importer or allow the merchandising, display, sale or service of new vehicles other than those identified above at the facilities and locations approved by Ford and used by LTLM for the conduct of its business. Neither LTLM, nor any other Dealership will merchandise, display or sell new Ford, Mercury or Lincoln vehicles at any unauthorized location including those owned or controlled by Lithia or the Holding Company.

14. Dealership Name. The trade name and corporate name of all Dealerships will be subject to Ford's approval and will not include any reference to any non-Ford, Mercury or Lincoln make vehicle.

15. Prospectus Disclaimer and Indemnification and Hold Harmless Agreement. Lithia shall place in its registration statement and its prospectus, as well as in any other document offering shares in Lithia to public or private investors, the following disclaimer:

No Manufacturer (as defined in this Prospectus) has been involved, directly or indirectly, in the preparation of this Prospectus or in the Offering being made hereby. No Manufacturer has made any statements or representations in connection with the Offering or has provided any information or materials that were used in connection with the Offering, and no Manufacturer has any responsibility for the accuracy or completeness of this Prospectus.

16. Advertising. Lithia recognizes the benefit of local cooperative advertising and has indicated that it will cause LTLM to remain a fully participating member of the local Lincoln and Mercury dealer advertising group (LMDA). Further, Lithia agrees that it will cause any additional Dealership it shall obtain to remain a fully participating member of the LMDA and/or the local Ford dealer advertising group (FDAF), as applicable.

17. Auctions. Used vehicle purchases from Ford sponsored auctions will be governed by a separate "Sponsored Auction Agreement" which will be executed by each Dealership.

18. Site Control. Any existing agreement covering a Dealership or its assets relating to site control will be assumed by Lithia and shall remain in full force and effect.

19. Dispute Settlement. Any dispute concerning the Agreement or the Supplemental Terms shall be resolved using the arbitration plan described in paragraph 18 of the Agreements; provided, however, that notwithstanding anything in the Agreement to the contrary, the use of such Plan shall be mandatory and not optional and, provided, further, that no dispute need be brought before the Ford Dealer Policy Board.

20. Agreement and Supplemental Terms. Lithia confirms that the provisions of these Supplemental Terms are material to its relationship with Ford and that a failure by Lithia to fully comply with any term hereof, after having been given a reasonable opportunity to cure such failure, will constitute good and just cause for Ford, in its discretion, to terminate the Agreement and these Supplemental Terms with immediate effect.

21. Binding Effect. These Supplemental Terms are intended to modify certain provisions of the Agreement and to be incorporated as a part of the Agreement. Should there be an inconsistency between the terms of these Supplemental Terms and any provision of the Agreement, the terms of these Supplemental Terms shall apply.

22. Parent-Subsidiary. Lithia shall cause the Holding Company and each Dealership to carry out the actions and to assume the responsibilities provided herein.

IN WITNESS WHEREOF, Lithia and Ford, through their authorized officers, have set their hands on the day and year above written.

Ford Motor Company	*Lithia Motors, Inc.*
By: /s/ Ford Motor Company	*By: /s/ Sidney B. deBoer*
Its	*Its President-CEO*

Attachment A

Should (a) any SEC filing disclose that a person, entity or group has a binding agreement to acquire, or has acquired, an amount of voting securities (or other securities convertible into voting securities) of Lithia or the Holding Company that will place 50% or more of the voting securities (or other securities convertible into voting securities) of Lithia or the Holding Company into the hands of a person, entity or group who, at the date hereof, do not directly or indirectly control 50% or more of the voting securities (or other securities convertible into voting securities) of Lithia or the Holding Company or the power through capital stock ownership or by contract to elect or designate the election of 50% or more of the members of the Board of Directors of Lithia or the Holding Company, or (b) should Lithia or the Holding Company through their respective Boards of Directors or through shareholder action propose (i) to enter into an extraordinary and material corporate transaction such as a material merger or consolidation of Lithia or the Holding Company with an enterprise in an industry new to Lithia or the Holding Company or the liquidation of Lithia or the Holding Company, respectively, or (ii) to sell or transfer substantially all the respective assets of Lithia or the Holding Company or (iii) to make a change that, together with other changes made to the respective Boards of Directors of Lithia or the Holding Company within the preceding year would result in a change of more than 50% of the composition of either Board of Directors, Lithia shall provide 30 days prior written notice of such intended or proposed action to Ford. If any such action is believed by Ford in its reasonable judgment to have a material and adverse effect on its reputation or image in the market place, with respect to the actions described in (b) or materially incompatible with Ford's interests with respect to the actions described in (a) Ford shall give Lithia written notice to such effect within 30 days of Lithia's prior notice to Ford. In such event, within 90 days of Ford's notice, Lithia shall sell or cause to be sold one or more of the Dealerships, as specified in the notice, to Ford or its designee at fair market value, determined in accordance with Annex 1 or provide evidence to Ford that the proposed action which gave rise to the issuance of Ford's notice will not take place. Should Lithia enter into an agreement to transfer the assets or capital stock of any Dealership to a third party, Ford's right of first refusal provided in paragraph 24 (b) of the Agreement shall apply.

ANNEX

The Fair Market Value shall be determined as follows:

(a) Within 10 days after Ford has given notice to Lithia of its intention to cause Lithia to sell one or more Dealerships (herein called the "Valuation Date"), Ford and Lithia each shall designate a nationally recognized investment banking firm ("Investment Banker"). If either Ford or Lithia shall fail to designate an Investment Banker within such 10-day period, the Investment Banker designated by the other party shall determine the Fair Market Value, and such determination shall be binding on the parties.

(b) Within 30 days after the Valuation Date, each Investment Banker shall submit to Ford and Lithia its written determination of the Fair Market Value of the Dealership or group of Dealerships. If only one Investment Banker submits a written determination within such 30-day period, the Fair Market Value shall be deemed to be the value stated in such determination.

(c) If the two values established by the first two Investment Bankers are within ten percent (10%) of one another (as measured from the lower value), the average of the two values shall be deemed to be the Fair Market Value. If the two values established by the Investment Bankers differ by more than ten percent (10%) (measured from the lower value), the first two Investment Bankers shall, within 10 days of the Valuation Date, jointly select a third Investment Banker meeting the criteria specified in paragraph
(a) who shall submit to Ford and Lithia a written determination of the Fair Market Value of the Dealership or group of Dealerships within 30 days of its appointment. If the first two Investment Bankers fail to appoint the third Investment Banker within the period specified, such appointment shall be made by the American Arbitration Association. The average of the two valuations that are closer in value shall be deemed to be the Fair Market Value of the Dealerships or group of Dealerships.

(d) Ford and Lithia each shall bear the expense of the Investment Banker hired by it and shall share equally in the expense of the third Investment Banker.

Exhibit 10.8.1

SUPPLEMENTAL AGREEMENT TO

GENERAL MOTORS CORPORATION

DEALER SALES AND SERVICE AGREEMENT

This Supplemental Agreement to General Motors Corporation Dealer Sales and Service Agreement is entered into between Lithia Motors, Inc. and General Motors Corporation.

WHEREAS Lithia Motors, Inc. is interested in acquiring ownership of one or more GM Dealerships in selected areas of the United States;

WHEREAS, the parties desire to enter into a positive and productive business relationship which will accomplish our mutual goals and promote sales of GM products consistent with GM's brand strategy for its products and focus on total customer enthusiasm;

WHEREAS, the organization and ownership structure of Lithia Motors, Inc. and its retail operating systems are such that the terms of the Dealer Agreement are not wholly adequate to address the legitimate business needs and concerns of Lithia Motors, Inc. and GM;

NOW, THEREFORE, the parties agree as follows:

1. Purpose of Agreement

1.1 Purpose of Agreement

The parties acknowledge that Lithia Motors, Inc. desires to purchase the stock or assets of one or more current GM Dealerships and to be appointed as the replacement Dealer by the appropriate Divisions. The parties further acknowledge that the ownership arrangements of Lithia Motors, Inc. and the operating processes and procedures of Lithia Motors, Inc. require that the parties supplement the standard terms and provisions of the Dealer Agreement to assure that the legitimate business needs of GM in regard to the representation of its products are satisfied. The parties have agreed to enter into this Agreement for that purpose. This agreement shall not apply in any respect to Saturn Dealers or dealerships.

1.2 Definitions.

For purposes of this Agreement, the following terms shall have the meaning indicated:

1.2.1 "Agreement" means this Supplemental Agreement to General Motors Corporation Dealer Sales and Service Agreement.

1.2.2 "Lithia Motors, Inc. or "Lithia" means Lithia Motors, Inc. and its subsidiary Dealer Companies.

1.2.3 "Dealer Agreement" means a General Motors Corporation Dealer Sales and Service Agreement, a copy of which is attached hereto as Exhibit A and is incorporated herein by reference. It also includes any superseding Dealer Agreements.

1.2.4 "Dealer Company" or "Dealer" means the business entity owned or controlled by Lithia Motors, Inc. that is a party to a Dealer Agreement and is defined as the "Dealer" for purposes of the Dealer Agreement.

1.2.5 "Division" or "Divisions" means one or more of the marketing divisions of GM; Chevrolet, Pontiac-GMC, Oldsmobile, Buick, Cadillac.

1.2.6 "GM" means General Motors Corporation.

1.2.7 "GM Dealerships" means a specific, physical location from which Dealership Operations are conducted by a Dealer pursuant to the terms of one or more Dealer Agreements. It does not include Saturn Dealerships.

1.2.8 "Voting stock" means any stock of Lithia Motors, Inc. that has voting rights as well as any debt or equity security of Lithia Motors, Inc. that is convertible into stock of Lithia Motors, Inc. that has voting rights.

2. Lithia Motors, Inc. Ownership

2.1 Ownership Structure.

Each Dealer will be a separate company, distinct from Lithia Motors, Inc. in the form of either a corporation, partnership or other business enterprise form acceptable to GM, which is capitalized in accordance with the "GM Owned Working Capital Agreement". Each of the Dealer Companies will be owned by Lithia Motors, Inc. or may have minority interests held by employees of that Dealer Company subject to GM approval.

2.2 Lithia Motors, Inc. hereby warrants that the representations and assurances contained in this Agreement are within its authority to make and do not contravene any directive, policy or procedure of Lithia Motors, Inc.

2.3 Change in Ownership. Any material change in ownership of any Dealer company and any material change in Lithia Motors, Inc. or any event described in section 2.4.2(b) shall be considered a change in ownership of the Dealer Company under the terms of the dealer agreements and all applicable terms of the Dealer Agreement as supplemented by this Agreement will apply to any such change.

2.4 Acquisition of Ownership Interest by Third Party. Given the ultimate control Lithia Motors, Inc. will have over the Dealer Companies, and the Divisions' strong interest in assuring that those who own and control their Dealers have interests consistent with those of the Divisions', Lithia Motors, Inc. agrees to the following:

2.4.1 Lithia Motors, Inc. will deliver to GM copies of all Schedules 13D and 13G, and all amendments thereto and terminations thereof, received by Lithia Motors, Inc., within five (5) days of receipt of such Schedules. If Lithia Motors, Inc. is aware of any ownership of its stock that should have been reported to it on Schedule 13D but that is not reported in a timely manner, it will promptly give GM written notice of such ownership, with any relevant information about the owner that Lithia Motors, Inc. possesses.

2.4.2 If Lithia Motors, Inc. through its Board of Directors or through shareholder action proposes or if any person, entity or group sends Lithia Motors, Inc. a schedule 13D, or any amendment thereto, disclosing (a) a binding agreement to acquire or the acquisition of aggregate ownership of more than twenty percent (20%) of the voting stock of Lithia Motors, Inc. (b) Lithia Motors, Inc. through its Board of Directors or through shareholder action proposes or if any plans or proposals which relate to or would result in the following: (i) the acquisition by any person of more than 20% of the voting stock of Lithia Motors, Inc. other than for the purposes of ordinary passive investment (ii) an extraordinary corporate transaction. such as a material merger, reorganization or liquidation, involving Lithia Motors, Inc. or a sale or transfer of a material amount of assets of Lithia Motors, Inc. and its subsidiaries; or (iii) any change which together with any changes made to the Board of Directors within the preceding year, would result in a change in control of the then current board of

directors of Lithia Motors. Inc. or (iv) in the case of an entity that produces or controls or is controlled by or is under common control with an entity that either produces motor vehicles or is a motor vehicle franchisor, the acquisition by any person entity or group of more than 20% of the voting stock of Lithia Motors, Inc. and any proposal by any such person, entity or group through the Lithia Motors, Inc. Board of Directors or shareholders action to change the board of directors of Lithia Motors, Inc., then if such actions in GM's business judgment could have a material or adverse effect on its image or reputation in the GM dealerships or be materially incompatible with GM's interests (and upon notice of GM's reasons for such judgment), Lithia Motors, Inc. agree that it will take one of the remedial actions set forth in Section 2.4.3 below within ninety (90) days of receiving such Schedule 13D or such amendment.

2.4.3 If Lithia Motors, Inc. is obligated under Section 2.4.2 above to take remedial action, it will (a) transfer to GM or its designee, and GM or its designee will acquire the assets, properties or business associated with any Dealer Company at fair market value as determined in accordance with Section 8 below, or (b) provide evidence to the Divisions (reasonably acceptable to GM) that such person entity or group no longer has such threshold level of ownership interest in Lithia Motors, Inc. or that the actions described in Section 2.4.2(b) will not occur.

2.4.4 Should Lithia Motors, Inc. or Dealer Company enter into an agreement to transfer the assets of a Dealer Company to a third party, the right of first refusal described in Article 12.3 of the Dealer Agreement shall apply to any such transfer.

2.4.5 Lithia Motors, Inc. will describe such provisions of this Section in any prospectus it delivers in connection with the offer or sale of its stock or any other securities filing as may be required by any applicable laws or regulations.

2.5 Officers and Key Management. Lithia Motors, Inc. agrees to provide to GM a list of the key management of Lithia Motors, Inc. responsibilities in regard to the control and management of Lithia Motors, Inc. and each Dealer Company. Each Dealer Company shall agree to propose to GM any material changes in the key management of the Dealer Company or their responsibilities. Such proposal should be provided to GM in writing prior to such change to the extent practicable and shall include sufficient information to permit GM to evaluate the proposed change consistent with normal policies and procedures. Lithia Motors, Inc. will notify GM in writing of any material change in the key management of Lithia Motors, Inc. or their responsibilities. For purposes of this Agreement, the term "key management" shall mean CEO, President and Vice Presidents with respect to each dealer company and executive officers with respect to Lithia Motors. Inc.

3. Lithia Motors, Inc. Operating Policies and Procedures.

3.1 GM Brand Strategy. Lithia Motors, Inc. acknowledges that GM has a Brand Strategy and has invested significant capital in the development of corporate, divisional and brand image. Relevant information regarding this strategy has been shared with Lithia Motors, Inc.. Lithia Motors, Inc. agrees to accommodate GM's Brand Strategy in its Lithia Motors, Inc. GM dealership Operations. Lithia Motors, Inc. will incorporate in each of its GM Dealerships the following as a minimum in support of the GM Brand Strategy:

3.1.1 GM has developed retail and service operating standards for each of its Divisions. At each of its GM Dealerships, Lithia Motors, Inc. will implement and use those divisional standards, or higher standards which it may develop, subject to GM's approval.

3.1.2 Dealer marketing associations for each of the Divisions are an integral part of GM's Brand Strategy. Lithia Motors, Inc. agrees that its advertising and marketing practices will support and enhance GM and Divisional brand and marketing practices and goals. Lithia Motors, Inc. agrees and each Dealer Company shall agree that the Dealer Company will participate in the appropriate dealer marketing association or group as provided in Section 11.

3.1.3 Lithia Motors, Inc. will not, and will not permit any Dealer Company to jointly advertise or market any of their non-GM automotive operations in conjunction with its approved GM Dealership Operations (it being understood that the advertising example attached hereto as Exhibit C will be permissible).

4. Acquisition of GM Dealerships.

4.1 In consideration for the representations, covenants and commitments contained herein and assuming compliance with the normal requirements of General Motors regarding transfer of assets and appointment as a dealer, General Motors will permit the acquisition of up to five (5) General Motors Dealerships during the period commencing from the date of this Agreement and ending 24 months thereafter. Currently Lithia Motors is not in compliance with General Motors standards for the Pontiac dealership in Medford, Oregon for Customer Satisfaction and Sales performance. Lithia represents intent to bring the performance into compliance, but believes it will be able to do so if the location is in compliance with GM's channel plan. Accordingly, General Motors will approve, upon receipt of an acceptable proposal Lithia's acquisition of the Buick/Cadillac dealership or the Oldsmobile/GMC dealership or the sale of Pontiac assets to either of those dealers in Medford in order that the plan of a Pontiac-Buick-GMC dealership and a Chevrolet Oldsmobile/Cadillac dealership may be accomplished. If Lithia does not accomplish this purchase or sale within 12 months of the date of this agreement and the Pontiac Customer Satisfaction and Sales performance does not meet the performance standards identified in sections 4.2 and 4.3 of this agreement, Lithia will voluntarily terminate its Pontiac dealer agreement in exchange for payment provided in section 5.2 of this agreement. In the first 12 months following the date of this agreement, GM will allow Lithia to acquire two additional GM dealers, subject to receipt of acceptable proposals, while working on the purchase/sale/correction of the Medford Pontiac dealership deficiencies. In the second 12 months, GM will allow, subject to receipt of acceptable proposals the acquisition of two additional GM dealerships if Lithia is meeting the performance standards for its then owned GM dealerships. Total Lithia owned GM dealerships will not exceed 5 at the conclusion of the 24 months following the date of this agreement.

4.2 Following the 24 month period, each Dealer company in which Lithia Motors, Inc. has an investment must be in compliance with the terms of the General Motors Policies for Changes in GM Dealership Ownership/Management bulletin of September 19, 1994 (a copy of which has already been provided) including any revisions or replacements of that bulletin, in order to be approved for additional acquisitions of General Motors Dealerships.

4.3 Multiple Dealer Policy. Lithia Motors, Inc. recognizes that customers benefit from competition in the marketplace and agree that any proposal to acquire additional GM dealerships shall be subject to the terms of General Motors Multiple Dealer Investor/Multiple Dealer Operator policies as set forth in NAO Bulletin 94-11, including any revisions of replacements to the bulletin.

4.4 GM and Lithia Motors, Inc. agree that Lithia Motors, Inc. will not attempt to acquire more than 50% of the GM dealerships, by franchise line in a GM defined Multiple Dealer Area. GM will provide upon Lithia Motors, Inc. request the number of GM dealerships, by line, in the Multiple Dealer Area and the maximum number of dealerships Lithia Motors, Inc. may acquire in that Multiple Dealer Area.

4.5 Evaluation of Operation. GM will conduct semi annual evaluation meetings with the management of Lithia Motors, Inc. and the Dealer Operators of each GM Dealer Company to review the performance of each GM Dealer Company. In the event GM advises Lithia Motors, Inc. for any two consecutive evaluation periods that the performance of a GM dealership is not meeting the sales volume, Customer Satisfaction and Branding requirements of GM, in addition to other available remedies, GM will have the right to demand a change in the management of the dealer company not meeting those requirements. Lithia Motors, Inc. will make the management changes at any deficient dealership within not more than six (6) months after notice of the deficiencies.

5. Dealership Operations.

5.1 Dealership Operations. Each Dealer Company shall be a distinct and complete business entity which shall include complete Dealership Operations as that term is defined in the Dealer Agreement including, but not limited to sales, service, parts and used car operations. This requirement will not preclude certain centralized functions provided that they are consistent with GM's Channel Strategy, and that such centralized functions are reviewed with and approved by GM, which approval shall not be unreasonably withheld. However, no sales, service or parts operations may be combined with any non-GM representation and all GM Dealerships will have reasonable used car operations.

5.2 GM Channel Strategy. Lithia Motors, Inc. further stipulates and agrees that if Lithia Motors, Inc., GM, and the public are to realize the potential benefits that Lithia Motors, Inc. represents to be the result of the acquisitions proposed by Lithia Motors, Inc., then an integral component of the participation by Lithia Motors, Inc. and Dealer Company is their agreement that all GM Dealerships shall fully comply with General Motors Channel Strategy including proper divisional representation alignment and facilities that are properly located and that are in compliance with appropriate divisional image programs. The Channel Strategy is set forth in a memorandum dated October 5, 1995, from Ronald L. Zarrella to all GM dealers. and in the written statement of the strategy as it relates to each Dealer Company, copies of which will be provided to Lithia Motors, Inc. and each Dealer Company. Lithia Motors, Inc. agrees and each Dealer Company shall agree that within 12 months of the acquisition of any GM Dealership that is not consistent with the Channel Strategy, Lithia Motors, Inc. and Dealer Company will have complied with the Channel Strategy for that location. Notwithstanding the above, GM will consider reasonable requests from Lithia Motors, Inc. for an extension if Lithia Motors, Inc. is making reasonable progress and is unable to comply with the Channel Strategy for reasons beyond Lithia Motors, Inc. control. If Lithia Motors, Inc. and Dealer Company fail to do so within the time provided, then Lithia Motors, Inc. will cause Dealer Company and Dealer Company will agree to terminate the representation of such products as reasonably required by GM to comply with the Channel Strategy. If such termination is required, GM will compensate Lithia Motors, Inc. the of sum $1,000 for each unit of GM retail planning guide for each Dealer Agreement so terminated.

5.3 Exclusive Representation. Lithia Motors, Inc. agrees and each Dealer Company shall agree that all GM Dealerships shall be used solely for the exclusive representation of GM products and related services and in no event shall be used for the display, sale or promotion or warranty service of any new vehicle other than those of General Motors Corporation (provided that if Lithia Motors, Inc. acquires a GM Dealership having a sales and service agreement with a competitive automobile manufacturer or importer and related sales and service operations at the same facility, at GM's request Lithia Motors, Inc. shall cause the competitive sales and service operations to be relocated within one year of acquisition). Lithia Motors, Inc. agrees and each Dealer Company shall agree that should a Dealer Company cease to

provide exclusive representation of GM products, based on the proper franchise alignment as determined by the Charmer Strategy, then that shall constitute good cause in and of itself for the termination of the Dealer Agreement then in effect with such Dealer Company and Lithia Motors, Inc. shall cause Dealer Company to and Dealer Company shall voluntarily terminate the Dealer Agreements then in effect.

5.4 Image Compliance. Any Dealer Company acquired by Lithia Motors, Inc. shall be brought into compliance with applicable Divisional facility image requirements. Any new construction or significant interior or exterior remodeling of any GM Dealerships shall incorporate the appropriate divisional image program and shall be subject to approval by the appropriate Division before such construction is undertaken.

5.5 Corporate Name and Tradenames. Both the corporate name and any tradename or d/b/a of each Dealer Company must include the names of those GM Divisions represented by such Dealer Company.

5.6 Dealer Company Advertising. Lithia Motors, Inc. agrees that the advertising of each of the Dealer companies will maintain and support the GM brand strategy. Newspaper, radio, television and any other form of advertising will not combine GM brands or non GM brands, unless GM has approved combined operations and will clearly identify each GM dealership as a separate entity at its approved location (it being understood that the advertising example attached hereto as Exhibit C will be permissible).

6. Dealer Operator

6.1 Appointment of Dealer Operator. For purposes of the Dealer Agreement, including Paragraph Third and Article 2 and for each GM Dealership, Lithia Motors, Inc. shall appoint an individual who shall act as Executive Manager of that GM Dealership only and who shall be considered as Dealer Operator for purposes of the Dealer Agreement. The Divisions will rely upon the personal qualifications and management skills GM of Dealer Operator. Lithia Motors. Inc. hereby represents that Dealer operator will have complete managerial authority to make all decisions, and enter into any and all necessary business commitments required in the normal course of conducting Dealership Operations on behalf of Dealer Company and may take all actions normally required of a Dealer Operator pursuant to Paragraph Third and Article 2 of the Dealer Agreement. Lithia Motors, Inc. will not revoke, modify or amend such authority without the prior written approval of the applicable Division (except as provided in Section 6.3 below). Because of the unique structure of Lithia Motors, Inc., the 15% ownership requirement contained in Article 2 shall not apply to Dealer Operator.

6.2 Removal of Dealer Operator. Except as provided in Section 6.3 below, the removal or withdrawal of Dealer Operator without Divisions' prior written consent shall constitute grounds for termination of the Dealer Agreements. However, the Divisions recognize that employment responsibilities of the Dealer Operator with Dealer Company may change, making it impractical for the Dealer Operator to continue to fulfill his/her responsibilities as Dealer Operator. In that case, or in the event Dealer Operator leaves the employ of the Dealer Company, Dealer Company shall have the opportunity to propose a replacement Dealer Operator. The Divisions will not unreasonably withhold approval of any such proposal, provided the proposed replacement has the skills and qualifications to act as Dealer Operator pursuant to the standard policies and procedures of GM.

6.3 Replacement Dealer Operator. Dealer Company shall make every effort to obtain the consent of the Divisions to a proposed replacement Dealer Operator prior to the removal or withdrawal of the approved Dealer Operator. If that is not practical, Dealer Company shall notify, Division in

writing within 10 days following the removal or withdrawal of the approved Dealer Operator. Within 10 days of that removal or withdrawal, Dealer Company will submit to Division a plan and appropriate applications to replace Dealer Operator with a qualified replacement acceptable to Division. The replacement Dealer Operator must assume his/her responsibilities no later than 90 days following the withdrawal of the approved Dealer Operator. Lithia Motors, Inc. shall be permitted to appoint a temporary general manager to manage the GM Dealership during the interim period while the Dealer Operator is being replaced.

7. Dispute Resolution. Lithia Motors, Inc. agrees not to join any legal or administrative action a seller of a General Motors dealership may take against General Motors in the event General Motors declines to approve a proposed transfer to Lithia Motors, Inc.. Lithia Motors, Inc. and GM stipulate and agree and each Dealer Company shall stipulate and agree that the dispute resolution process attached hereto as Exhibit D, or any replacement process offered to all GM Dealers. shall be the exclusive source of resolution of any dispute regarding the Dealer Agreements and this Agreement including, but not limited to, involuntary termination of the Dealer Agreements and/or approval of Lithia Motors, Inc. for additional investment in or ownership of GM Dealerships. The parties further agree that the Chevrolet dealer dispute resolution process will be used for the resolution of the matter, regardless of the GM Division involved.

8. Right to Purchase or Lease. In the event of any termination of the Dealer Agreement or any transaction or event that would, in effect, discontinue Dealership Operations from that GM Dealership, or a transfer of assets, properties or business to GM or a GM designee pursuant to Section 2.4.3, Lithia Motors, Inc. agrees and each Dealer Company shall agree to provide GM with: (a) the right to purchase the dealership assets, properties or business for fair market value based on automotive use, and (b) an assignment of any existing lease or lease options that are available, subject in each case to any legal or contractual obligations existing at such time through the process attached hereto as Exhibit B, that Lithia Motors, Inc. shall assure GM or its delegate of quiet possession of the dealership facilities for a period of not less than five years if the right to have any existing lease or lease option assigned as set forth above is exercised with respect to such facilities within ten years of the execution of this Agreement. If, however, Lithia Motors, Inc. enters into a financing arrangement with respect to GM's option as described in this Section 8 would be subordinated to the interests of any lender in connection with any default by Lithia Motors, Inc. under the terms of the financing arrangement other than a default due to the discontinuance of dealership operations from such facilities. The Parties agree that GM may exercise its rights under this
Section 8 with respect to some or all of the dealership facilities to which it may apply at any given time. and that failure to exercise such rights as to one facility shall not affect GM's rights as to other facilities.

9. Electronic Funds Transfer. Lithia Motors, Inc. agrees that each Dealer Company will use Electronic Funds Transfer (EFT) for settlement of the dealership obligations to GM and that GM will have a right of offset for any unpaid debit balances for any Dealer Company at the time the indebtedness is due and will have the right to collect those amounts from the account of the Dealer Company that owes the debt or the account of any other Dealer Company.

10. Compliance with Policies and Procedures. Each Dealer Company must comply with all terms of the Dealer Agreement and all GM policies applicable to Dealer company's Dealership Operations. Those procedures include policies precluding joint advertising and prohibiting sales of GM auction vehicles from other than the purchasing GM Dealership. Except as specifically provided herein, all Dealership Operations shall be conducted consistent with requirements for other GM dealerships.

11. Membership in Dealer Marketing Group. Each Dealer Company will join its respective dealer marketing group and area marketing group including membership financial support and will participate as a regular member in meetings and marketing activities.

12. Capital Standards. Lithia Motors, Inc. agrees and Dealer Company shall agree that Dealer Company shall maintain, at all times, sufficient working capital to meet or exceed the minimum net working capital standards for the Dealer Company as determined from time to time by GM consistent with its normal practices and procedures. Lithia Motors, Inc. and Dealer Company shall provide such documentation as reasonably requested by GM to assure compliance with that requirement. Lithia Motors, Inc. shall submit an annual consolidated balance sheet for the combined GM Dealership operations of Lithia Motors, Inc.

13. Discontinuance of Representations. In the event that Lithia Motors, Inc. determines, voluntarily or otherwise to discontinue representation in any given Multiple Dealer Area, Lithia Motors, Inc. shall grant the right to GM to acquire at fair market value as determined in accordance with Exhibit B the right to representation of the Divisions previously represented by any Dealer Company in that Multiple Dealer Area. GM shall also have the option to acquire the fixed assets and/or the Dealership Facilities in that Multiple Dealer Area in accordance with section 8. The terms and conditions for the exercise of such rights shall be set forth in appropriate and customary documents. Lithia Motors, Inc. has received GM's standard option agreements modified for this Agreement.

14. Supplement to Dealer Agreement. The parties agree that each Dealer Company shall be required to execute an addendum to the Dealer Agreements binding the Dealer Company to the applicable portions of this Agreement. For each Dealer Company, this Agreement shall supplement the terms of the Dealer Agreements in accordance with Article 17.1.1 of the Dealer Agreements.

15. Further Modifications. In the event that the policies of GM with regard to Dealerships owned or controlled in whole or in part by public shareholders should be modified. the parties agree to review such modifications to determine whether modification to this Agreement is appropriate.

16. Rights. Nothing in this Agreement or the Dealer Agreement shall be construed to confer any rights upon any person not a party hereto or thereto, nor shall it create in any party an interest as a third party beneficiary of this Agreement or the Dealer Agreement. Lithia Motors, Inc. and Dealer Company hereby agree to indemnity and hold harmless GM, its directors, officers, employees, subsidiaries, agents and representatives from and against all claims, actions, damages, expenses, costs and liability, including attorneys fees, arising from or in connection with any action by a third-party in its capacity as a stockholder of Lithia Motors, Inc. relating to this Agreement other than through a derivative stockholder suit authorized by the Board of Lithia Motors, Inc., provided that Lithia Motors, Inc. shall have the right to assume the defense and control any such actions or suits and that GM shall not settle any such actions or suits without Lithia Motors, Inc. consent (such consent not to be unreasonably withheld). Notwithstanding the above, GM may choose, at its own expense, to manage and control its own defense in any such action.

17. Modification of Dealer Agreement. This Agreement is intended to modify and adapt certain provisions of the Dealer Agreement and is intended to be incorporated as part of the Dealer Agreement for each Dealer Company. In the event that any provisions of this Agreement are in conflict with other provisions of the standard Dealer Agreement, the provisions contained in this Agreement shall govern. Except as expressly provided in this Agreement the terms of the Dealer Agreements remain unchanged and apply herein.

18. Confidentiality. Each party agrees not to disclose the content of this Agreement to non-affiliated entities and to treat the Agreement with the same degree of confidentiality as it treats its own confidential documents of the same nature, except as expressly provided by Article 2.3.5 of this Agreement or unless authorized by the other party, required by law, pertinent to judicial or administrative proceedings or to proceedings under the Dispute Resolution Process.

19. This Agreement remains in effect so long as Lithia Motors, Inc. or any successor thereto, directly or indirectly holds or has an agreement to hold an ownership interest in any GM Dealer Company.

IN WITNESS WHEREOF, the parties have executed this Agreement this 16th day of January 1998.

GENERAL MOTORS CORPORATION

By: /s/ Sidney B. deBoer

By: /s/ E. K. Roggenkamp III

E.K. Roggenkamp, III
General Manager
North American Operations
Dealer Network Investment and Development

EXHIBIT 10.10.1

PART ONE

MISSION, PHILOSOPHY, VALUES AND FRAMEWORK OF RETAILER-FRANCHISOR RELATIONSHIP

Saturn Distribution Corporation Retailer Agreement

This Agreement, effective the _____ day of _____, 199___, is entered into by Saturn Distribution Corporation (the Franchisor), a wholly owned subsidiary of Saturn Corporation (Saturn), and _____.

(_____) a proprietorship;

(_____) a partnership;

(_____) a limited liability company

(_____) a corporation, incorporated in the State of

_____ on _____, located

in _____, _____ (the Retailer).

Purposes of the Agreement

The principal purposes of this Agreement are to:

A. affirm the commitment of the Retailer and the Franchisor to adhere to the Saturn Philosophy and Values, and achieve the Saturn Mission;

B. identify the framework within which the Retailer and the Franchisor will jointly act to fulfill their commitments to each other;

C authorize the Retailer to sell and service Saturn Products and to represent itself as a Saturn Retailer, and

D. identify other commitments, rights and responsibilities of the Retailer and the Franchiser.

1. Retailer Commitment to the Saturn Mission, Philosophy and Values

Retailers represent Saturn's products and brand to the public. Therefore, it is essential to the success of Saturn, the Franchisor and the Retailers that each Retailer understand, embrace and promote both the letter and the spirit of the Saturn Mission, Philosophy and Values as set forth below.

The Retailer and the Franchisor can conduct their relationship with trust and respect only if both the Retailer and the Franchisor work in an open, fair and cooperative manner. Both the Retailer and the Franchisor are dependent upon each other for maintaining this unique working relationship.

The Retailer therefore agrees to adhere to the Saturn Philosophy and Values in conducting its franchised business, and to work jointly with the Franchisor and Saturn, within the framework identified in this Agreement, to accomplish the Saturn Mission. The Retailer acknowledges that the success of Saturn, the Franchisor, other Retailers and its suppliers is dependent on the Retailer fulfilling this commitment. Consistent with the Saturn Philosophy, the Retailer pledges to maintain the highest ethical standards in all activities.

2. Saturn Mission

Saturn's Mission is to market vehicles developed and manufactured in the United States that are world leaders in quality, cost and customer enthusiasm through the integration of people, technology and business systems and to exchange knowledge, technology and experience throughout General Motors. Achieving this Mission is dependent in part upon the development and maintenance of a network of authorized Retailers working together with the Franchisor to build and maintain customer confidence in the Retailer and Saturn.

3. Saturn Philosophy

We, the Saturn team, in concert with the UAW and General Motors, believe that meeting the needs of customers, Saturn members, suppliers, Retailers and neighbors is fundamental to fulfilling our Mission. To meet the needs of Retailers, the Franchisor will conduct business in an open and fair manner, and will share responsibility and decision making with Retailers in the manner specified in this Agreement to further the spirit of trust and respect that is critical to the relationship.

4. Values

The Saturn Values direct the way the Retailer and the Franchiser can reach their shared goals. The Saturn Values, as set forth below, focus on exceeding customer expectations and on establishing a positive work environment for Saturn team members.

A. Commitment to Customer Enthusiasm

We continually exceed the expectations of internal and external customers for products and services that are world leaders in cost, quality and customer enthusiasm. Our customers know that we really care about them.

B. Commitment to Excel

There is no place for mediocrity and halfhearted efforts at Saturn. We accept responsibility, accountability and authority for overcoming obstacles and reaching beyond the best. We choose to excel in every aspect of our business, including return on investment.

C. Teamwork

We are dedicated to singleness of purpose through the effective involvement of team members, suppliers, Retailers, neighbors and other stakeholders. A fundamental tenet of our philosophy is the belief that effective teams engage the talents of individual members while encouraging team growth.

D. Trust and Respect for the Individual

We have nothing of greater value than our people. We believe that demonstrating respect for the uniqueness of every individual builds a team of confident, creative members possessing a high degree of initiative, self-respect and self-discipline.

F. Continuous Improvement

We know that sustained success depends on our ability to continually improve the quality, cost and timeliness of our products and services. We are providing opportunity for personal, professional, and organizational growth and innovation for all Saturn stakeholders.

5. Shared Responsibility

In consideration of the Retailers' commitments, and to ensure that the relationship between the Retailers and the Franchisor remains mutually satisfactory, the Franchisor has put into place mechanisms that allow Retailers to contribute collectively to decisions that significantly affect Retailers' business. Retailer involvement is provided through two principal mechanisms: the Franchise Operations Team and the Franchise Task Forces.

A. Franchise Operations Team

The Franchise Operations Team (FOT) is made up of an equal number of Saturn Retailer Operators and Franchiser representatives. The FOT shall exercise the responsibilities specified in this Agreement. The selection of FOT members, their terms of service and the manner in which the FOT carries out its responsibilities are pursuant to procedures adopted by the FOT.

The FOT uses a consensus decision-making process, described in the FOT New Member Training Manual. The Retailer Operators serving on the FOT will be trained in this process.

B. Franchise Task Forces

The FOT may establish Franchise Task Forces to assist in the performance of its responsibilities if it concludes the input of additional Retailer Operators, Retail team members and Saturn representatives would be helpful. Franchise Task Forces make recommendations to the FOT unless the Franchise Task Force is empowered by the FOT to make a decision. FOT shall retain authority to modify or change Franchise Task Force decisions. The FOT will determine the membership of each Franchise Task Force, as well as the scope and duration of its assignment. A representative from the FOT will serve as a champion of each Franchise Task Force.

6. Dispute Resolution Process

A. Exclusive Remedy

The Retailer and the Franchiser believe their mutual commitments to the Saturn Mission, Philosophy and Values, together with the mechanisms for sharing responsibility described in Article 5, should minimize the potential for disputes. Nonetheless, some disputes may occur that cannot be resolved in the normal course of business.

The Retailer and the Franchisor acknowledge that, at the state and federal levels, various courts and agencies would, in the absence of this Article 6, be available to them to resolve claims or controversies that might arise between them. The Retailer and the Franchisor agree that it is inconsistent with the Saturn Mission and Philosophy for either the Retailer or the Franchiser to use courts or governmental agencies to resolve such claims or controversies.

THEREFORE, CONSISTENT WITH THE PROVISIONS OF THE UNITED STATES ARBITRATION ACT (9 U.S.C Section I et seq.), THE RETAILER AND THE FRANCHISOR AGREE THAT THE DISPUTE RESOLUTION PROCESS OUTLINED IN THIS ARTICLE, WHICH INCLUDES BINDING ARBITRATION, SHALL BE THE EXCLUSIVE MECHANISM FOR RESOLVING ANY CONTROVERSY OR CLAIM BETWEEN THEM ARISING OUT OF OR RELATING TO THIS AGREEMENT, ITS CREATION OR TERMINATION.

There are two steps in the Dispute Resolution Process:
Mediation and Binding Arbitration. All controversies or claims must be submitted to Mediation, unless that step is waived by written agreement of the parties. If Mediation does not resolve the dispute to their mutual satisfaction, then the Retailer or the Franchiser may submit the dispute to Binding Arbitration.

Mediation and Arbitration are each conducted by a panel consisting of two Franchiser Representatives and two Retailer Operators selected from a pool of volunteers approved by the FOT and trained to serve in the Dispute Resolution Process. The Retailer and the Franchisor agree that the procedures contained in the Retailer/Saturn Dispute Resolution Guide, as may be modified from time to time by the FOT, shall govern Mediation and Arbitration under this Article.

B. Mediation

Either the Retailer or the Franchiser can submit to Mediation a claim or controversy between them that arises out of or relates to the Retailer Agreement. The Mediation Panel will evaluate each position and recommend a solution. The recommended solution is not binding.

C. Binding Arbitration

If a claim or controversy arising out of or relating to this Agreement has not been resolved after Mediation or if the Retailer and the Franchisor have agreed in writing to waive Mediation, then the claim or controversy will be settled by Binding Arbitration in accordance with the procedures in the Retailer/Saturn Dispute Resolution Guide. All awards of the arbitration are binding and non-appealable except as otherwise provided in the United States Arbitration Act. Judgment upon any award rendered by the arbitrators may be entered and enforced in any court having jurisdiction.

PART TWO

RIGHTS GRANTED

7. Authorized Retailer

The Retailer has presented the Franchisor with information regarding its qualifications to be appointed a Saturn Retailer. The Retailer, its Retailer Operator and Investors have been evaluated and found to satisfy the Franchisor's standards.

The Retailer has also presented to the Franchiser a Marketing Area Plan ("MAP"), stating the Retailer's proposal to develop and operate facilities in a specified Marketing Area to promote, sell and service Products. The Franchiser has accepted this MAP.

In reliance upon the Retailer's representations, and on its expressed commitment to the Mission, Philosophy and Values, the Franchisor grants the Retailer a nonexclusive right to:

a) buy new Motor Vehicles distributed for resale by Saturn and identified in any Saturn Motor Vehicle Addendum and related Parts and Accessories; and

b) identify itself as an authorized Saturn Retailer in the manner

and at the location(s) approved by the Franchisor.

The Retailer accepts the rights granted and agrees to fulfill its obligations under this Agreement.

8. Retailer Operator

A. Personal Qualifications

The Franchisor is entering into this Agreement in reliance on the qualifications and capabilities of the person identified in Article 25 as "Retailer Operator," on that person's commitment to the Mission, Philosophy and Values, and on the Retailer's assurance that the personal services of the Retailer Operator will be provided in the overall management of the franchised business.

B. Management Responsibility

Both the Retailer and the Franchiser agree that the Retailer Operator must have the sole authority to exercise management control of the Retailer.

The Retailer's MAP describes the ownership of the Retailer and any arrangements necessary to comply with this Article.

C. Ownership Requirement

The Retailer Operator will have and maintain an unencumbered ownership interest in the Retailer of at least 10 percent at all times.

9. Retailer Investor

The Franchisor is entering into this Agreement in reliance on the qualifications of the person(s) identified in Article 25 as "Retailer Investor (s)." Retailer investor candidates with previous retail automotive operating or management experience must participate in a selection process to demonstrate qualification under the Franchisor's Retailer Selection Criteria. Retailer investor candidates without previous automotive or management experience must complete an investor questionnaire for review and approval by the Franchisor.

10. Term

If the Retailer continues to meet all conditions and fulfill its obligations and responsibilities under this Agreement, this Agreement will not expire until the first to occur of the following:

a) a superseding form of Retailer Agreement, recommended by FOT pursuant to Article 24L, is executed;

b) 90 days after such superseding form of Retailer Agreement is presented to the Retailer for execution; or

c) 90 days following the death or incapacity of the Retailer Operator, whichever occurs first.

If this Agreement is to expire because of the death or incapacity of the Retailer Operator, the Retailer may request a deferral of the effective date of expiration to assist in winding up its franchised business or to provide for a transfer of assets or ownership previously approved under Article 20.

The request must be made at least 30 days prior to the effective date of expiration, and the Franchiser will not unreasonably refuse to grant any necessary extension.

11. Authorized Locations and Marketing Area Rights

A. Retailer's Marketing Area

The Retailer has been furnished with a "Notice of Retailer's Marketing Area." The Retailer is responsible for effectively selling, servicing and otherwise representing Saturn Products in its Marketing Area. The Retailer agrees to conduct Saturn Retail Facility Operations only from approved locations within its Marketing Area. The Retailer's Marketing Area Plan as described in Article 15 specifies Retailer's approved location(s) and facility(ies). Where applicable, the Retailer will establish additional facilities in the time and manner agreed to by the Retailer and the Franchiser in the MAP.

1) Facility Design and Appearance

Saturn's Mission to exceed customers' expectations can be furthered if Retailers' facilities are instantly identifiable and share a consistent architectural design and environment. Accordingly, the Retailer agrees to purchase Franchiser's Retail Environmental Design Package and to provide retail facilities consistent with that Package. The Retailer also agrees to review all proposed facility plans with the Franchisor and to obtain the Franchisor's approval before committing to any construction or purchase.

Additionally, the Retailer pledges to properly maintain its facilities so that they promote and reinforce the unique Saturn image. The Retailer agrees to make any facility modifications approved by the FOT. The Retailer agrees not to make any facility modifications that affect the appearance or function of its facilities without the Franchiser's prior written authorization.

2) Exclusive Use

The Retailer agrees to use all Saturn facilities (including the individual sites approved by Saturn) exclusively for conducting Saturn Retail Facilities Operations. The Retailer agrees to conduct from each location only those Retail Facility Operations authorized in the MAP for such location.

B. Marketing Area Rights

The Retailer will devote its full efforts to developing its Marketing Area. Consequently, the Retailer agrees not to engage, either directly or indirectly, in any of the activities contemplated by this Agreement from any locations outside of its Marketing Area.

If the Retailer meets its obligations under the MAP and this Agreement, then the Franchiser will not authorize any other Retailer to establish a Saturn retail facility in the Retailer's Marketing Area. If the Retailer fails to develop its Marketing Area according to its MAP, then the Franchisor may terminate this Agreement for failure of performance under Article 21 or restructure the Retailer's Marketing Area and reassign any areas necessary to achieve the maximum potential development of the Marketing Area.

PART THREE

PRODUCT AND PERFORMANCE STANDARDS RESPONSIBILITIES

12. Retailer's Responsibility to Promote, Sell and Service Saturn Products and Adhere to Brand Critical Standards

A. Responsibility to Promote and Sell

1) The Retailer agrees to effectively promote and sell both the purchase and the use (including rental and leasing) of Saturn Products to customers located in its marketing Area. The Franchiser will review annually the Retailer's performance of this obligation, in conjunction with the Marketing Area Plan as described in Article 15.

2) The Retailer is authorized to sell new and unused Motor Vehicles only to:

a) customers who purchase for personal use or for a primary business use other than resale,

b) other Saturn Retailers, and

c) Saturn.

3) The Retailer agrees to offer for sale Saturn Service Plan Products to all customers who purchase or lease new Saturn vehicles, and used Saturn vehicles if they are eligible for a Saturn Service Plan. The Retailer may, in addition, offer customers the option of choosing a non-Saturn service contract (or insurance coverage) provided:

a) the non-Saturn service contract or insurance meets or exceeds quality standards adopted by FOT, and

b) the Retailer discloses to the customer in writing that the non-Saturn service contract (or insurance) is not marketed or warranted by Saturn, and the coverage is not provided by Saturn or an affiliate and may not be honored by other Saturn Retailers. The form of the disclosure will be approved by FOT.

4) The Retailer is authorized to sell Saturn Products only to customers located in the United States. The Retailer agrees not to sell Saturn Products for resale or use outside the continental United States, Alaska and Hawaii.

B. Responsibility to Service

The manner in which Retailers service Saturn Motor Vehicles is important to maintaining the Saturn brand image, and to securing and growing a loyal customer base.

Therefore, the Retailer agrees to provide quality, courteous, convenient, prompt, efficient, respectful and professional service to owners of Motor Vehicles, regardless of where the vehicles were purchased.

All service will be performed in accordance with this Agreement and the Saturn Service Policies and Procedures Manual, as modified from time to time, which is incorporated into this Agreement by reference.

C. Responsibility to Adhere to Brand Critical Standards

Saturn's brand image has been achieved through a consistent, outstanding customer experience. Protecting the Saturn brand and achieving Saturn's goal to be the industry leader in customer enthusiasm requires that all Retailers adhere to consistent standards in conducting their operations.

FOT may designate a particular standard as a Brand Critical Standard when it pertains to matters deemed by FOT to be particularly vital to the strength of the Saturn brand, or protecting the reputation and goodwill of the Franchisor, Saturn and other Saturn Retailers.

The Retailer agrees to adhere to Brand Critical Standards approved by FOT. The Retailer Standards Manual, which is incorporated into this Agreement by reference, defines these Brand Critical Standards and will be reviewed annually, or more often if deemed necessary by FOT, for potential modifications.

13. Sale of Products to Retailer

A. Sale of Saturn Motor Vehicles to Retailers

The Franchisor has provided the Retailer with a Saturn Motor Vehicle Addendum specifying the current model types or series of new Motor Vehicles that the Retailer may purchase. The Franchisor may change the Saturn Motor Vehicle Addendum at any time by furnishing the Retailer with a superseding Saturn Motor Vehicle Addendum.

The Franchisor will make every effort to allocate new Motor Vehicles among Retailers in a fair and equitable manner. The allocation method used will be reviewed by the FOT and will provide the Franchisor discretion in exercising business judgment to achieve fairness and equity.

B. Sale of Parts and Accessories to Retailers

Parts and Accessories are any new or remanufactured automotive parts and accessories that are marketed by Saturn and listed either in the current "Retailer Parts and Accessories Price Schedules" or in supplements furnished to the Retailer.

Parts and Accessories will be sold to Retailers by the Franchisor, Saturn or other suppliers designated by the Franchiser. All orders for Saturn Parts and Accessories will be submitted and processed according to the written procedures established by the Franchisor, Saturn or other designated suppliers.

To support the focus of marketing Parts and Accessories primarily within a Retailer's Marketing Area, Saturn reserves the right to exercise its best business judgment in allocating Parts and Accessories to Retailers.

C. Prices and Other Terms of Sale

1) For Motor Vehicles:

a) Prices, destination charges and other terms of sale applicable to purchases of new Motor Vehicles will be those established according to the "Vehicle Terms of Sale Bulletin" furnished to the Retailer.

b) Prices, destination charges and other terms of sale may be changed at any time. Changes will apply only to Motor Vehicles not shipped at the time changes are effective.

c) If there is an increase in the price charged to the Retailer for a Motor Vehicle or for any optional equipment or transportation charge during a model year; such increase will not apply to bona fide sold orders that were submitted before the Franchisor notifies the Retailer of the price increase.

d) The Retailer will receive written notice of any price increase before any Motor Vehicle to which such increase applies is shipped except for initial prices for a new model year or for any new model or body type.

2) For Saturn Parts and Accessories:

a) Prices and other terms of sale applicable to Parts and Accessories will be those established according to the "Parts and Accessories Terms of Sale Bulletin" furnished to the Retailer.

b) These prices and other terms of sale may be changed at any time. Sales to Retailers will be made at the Retailer price in effect at the order commitment date.

c) Such changes apply to Parts and Accessories not shipped at the time the changes are effective.

D. Inventory

1) Motor Vehicle Inventory.

The Retailer recognizes that customers expect to have a reasonable quantity and variety of current model Motor Vehicles in inventory. Accordingly, the Retailer agrees to stock and sell, subject to any supply restrictions, all models and series of current Motor Vehicles identified in the Motor Vehicle Addendum.

2) Parts and Accessories:

The Retailer also agrees to stock sufficient Parts and Accessories to:

a) perform warranty repairs and policy adjustments,

b) meet the demands of its customers primarily within its Marketing Area, and

c) meet the "same day" availability standards approved by the FOT.

E. Warranties on Products

Saturn warrants the new Motor Vehicles and Parts and Accessories (Products) that it produces. The warranties are explained in documents provided with these Products and in the Saturn Service Policies and Procedures Manual. Franchisor (Saturn Distribution Corporation) does not warrant products.

EXCEPT AS OTHERWISE PROVIDED BY LAW, THE WRITTEN SATURN WARRANTIES ARE THE ONLY WARRANTIES APPLICABLE TO NEW PRODUCTS. WITH RESPECT TO RETAILERS, SUCH WARRANTIES ARE IN LIEU OF ALL OTHER WARRANTIES OR LIABILITIES, EXPRESS OR IMPLIED, INCLUDING ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR ANY LIABILITY FOR COMMERCIAL LOSSES BASED UPON NEGLIGENCE OR MANUFACTURER'S STRICT LIABILITY. EXCEPT AS MAY BE PROVIDED UNDER AN ESTABLISHED SATURN PROGRAM OR PROCEDURE, SATURN NEITHER ASSUMES NOR AUTHORIZES ANYONE TO ASSUME FOR IT ANY OTHER OBLIGATION OR LIABILITY IN CONNECTION WITH PRODUCTS, AND SATURN'S MAXIMUM LIABILITY IS TO REPAIR OR REPLACE THE PRODUCT.

Any Parts and Accessories sold by to the Retailer by a designated supplier are not warranted by Saturn or the Franchisor and are warranted only as specified by the supplier.

14. Service of Products

A. Service for Which Franchisor Pays

1) New Saturn Vehicle Predelivery Inspections and Adjustments

The delivery condition of a new vehicle is important to customer enthusiasm. Therefore, the Retailer agrees to perform all predelivery inspections and adjustments on each new Motor Vehicle and to verify the completion of these inspections and adjustments according to the procedures established in the Saturn Service Policies and Procedures Manual.

2) Warranty Repairs and Special Policy Adjustments

The Retailer agrees to:

a) perform all required warranty repairs on each qualified Motor Vehicle both at the time of predelivery service and when requested by owner,

b) perform any special policy adjustments approved by Franchisor, and

c) give the owner a copy and explanation of the repair document reflecting all services performed and an explanation of those services when the vehicle is returned to the owner.

3) Campaign Inspections and Corrections

The Retailer agrees to find and correct suspected factory conditions on Products that the Franchisor has identified. The Retailer will also ensure that, prior to sale, all campaign actions and corrections have been made on all new and used Saturn Motor Vehicles in its inventory, and will follow up on Products on which campaigns are outstanding.

4) Payment for Predelivery Adjustments, Warranty and Campaign Work

For the Retailer's performance of services, predelivery adjustments, warranty repairs, special policy adjustments, and campaign inspections and corrections, the Franchisor will provide or pay the Retailer for the Parts and other materials required and will pay the Retailer a fair amount for Labor. Payment will be made according to policies in the Saturn Service Policies and Procedures Manual. The Retailer will not impose any charge for such service on owners or users except where a deductible or pro rata charge applies.

B. Parts, Accessories and Body Repairs

1) Warranty Repairs and Policy Adjustments

The Retailer agrees to use only genuine Saturn or Franchisor approved parts in performing all warranty repairs and policy adjustments, including special policies.

2) Representations and Disclosures as to Modifications, Parts and Accessories

Both the Retailer and the Franchisor recognize and appreciate that people who drive and own Motor Vehicles reasonably expect that vehicles sold by Retailers as well as parts and accessories sold or used by Retailers in servicing vehicles are marketed by Saturn or the Franchisor.

If the Retailer sells or uses parts or accessories that are not marketed by Saturn or the Franchisor in lieu of Saturn Parts and Accessories, the Retailer is required to give customers written notice on the purchase order or bill of sale that such parts or accessories are not marketed or warranted by Saturn or the Franchisor.

If the Retailer adds non-Saturn aftermarket items to customers' vehicles, the Retailer agrees not to represent that these vehicle modifications are warranted or approved by Saturn or the Franchisor.

Furthermore, the Retailer agrees not to represent that any vehicle modifications performed by the retail facility or authorized sublet shop that are not specifically authorized by Saturn are warranted or approved by Saturn or the Franchiser

3) Body Repairs

The Retailer must provide body repair service for all Saturn vehicles. The Retailer can provide this service through its own body shop, or in cases where the Franchiser agrees, by arrangement with an independent repair establishment that is acceptable to the Franchiser.

PART FOUR

THE BUSINESS PLANNING PROCESS

15. Business Planning

A. Marketing Area Plan

The Retailer and the Franchiser have executed a Marketing Area Plan (MAP), which is an essential part of this Agreement and which may be updated annually. The MAP describes how the Retailer will develop its Marketing Area and fill its sales and service commitments.

1) Initial Marketing Area Plan

The Retailer agrees to develop its assigned Marketing Area according to the MAP. Its commitments for such development include:

a) a detailed description of the number, location, type, size and opening date of the Saturn facilities to be provided,

b) a detailed implementation schedule for each facility, and

c) a statement of the Retailer's legal and financial structure, including capitalization, line of credit and equity ownership. The Retailer agrees to update this statement whenever necessary to ensure it is accurate.

2) Annual Marketing Area Plan

The Retailer also agrees to fill the sales and service commitments described in the MAP as updated annually. These operational commitments include but are not limited to:

a) Customer enthusiasm

b) Team member enthusiasm

c) Training

d) Financial performance

e) Market development

f) Retail image

g) Partnership

B. Annual Plan Review

In order to maintain an effective working relationship, the Retailer agrees to update its MAP annually, or more often if requested by either party, and submit it to the Franchisor for joint review. Updated MAPs will include a performance evaluation and any proposed modifications to the prior year's MAP. If the Retailer and the Franchisor agree that changes to the proposed MAP are necessary, then the Retailer will make these changes and then resubmit the MAP.

The Retailer's performance of its obligations is essential to effectively and consistently representing Saturn Products and to building and main the reputation of Saturn, the Franchisor and other Retailers.

Therefore, the Retailer agrees to review with the Franchisor its performance against the prior year's MAP in its updated MAP. The Retailer's performance will be evaluated based on a number of factors including its attainment of applicable Performance Benchmarks in areas which may include but are not limited to the following Critical Success Factors:
Customer Enthusiasm, Team Member Enthusiasm, Training, Financial Performance, Market Development, Retail Image and Partnership. The Retailer and the Franchisor will use this evaluation to identify areas in which improvements are necessary so that Retailer can take prompt action to achieve acceptable performance, and to set goals for continuous improvement. Performance Benchmarks are approved by FOT and may be modified from time to time with FOT approval. Periodic facility evaluations will also be conducted, including an evaluation of the Retailer's compliance with current requirements and standards for the retail facility under the Marketing Area Plan.

PART FIVE

OTHER OPERATING RESPONSIBILITIES

16. Saturn Systems and Processes

A major element of the Saturn Mission is to lead the industry in customer enthusiasm. Maintaining this level of enthusiasm requires consistent application by all Retailers of all designated sales, service, marketing, facilities and other systems. The Retailer agrees to purchase, implement and maintain the required systems that are identified in this Agreement, set forth in the Retail Facilities Guide, the Architects Guide, other Franchise Systems Manuals, or approved by the Franchise Operations Team. Additionally, the Retailer agrees to fully utilize Saturn processes in order to ensure that customers experience the Saturn Difference.

A. Systems for Which Retailer Rays

1) Sales and Service Systems

The Retailer agrees to pay Saturn, the Franchisor or approved sources for the systems necessary to develop and implement Saturn sales and service in the Retailer's Marketing Area. These systems include materials and initiatives designed to promote the consistent display, sales and service of Saturn Products.

Periodically, the FOT will determine that new or updated information, materials or initiatives are necessary. The Retailer agrees to accept and utilize such designated new or updated information, materials or initiatives and pay any applicable charges. Any such charges will be established by the FOT and will be based on anticipated costs.

2) Computer Systems

Saturn's Mission involves the integration of people, technology and business systems. This integration is possible only if the Retailer has computer systems that meet customers' needs and the retail facility's internal business needs; permit direct communication between the Retailer, the Franchisor and Saturn; and give the Franchisor and Saturn ready access to the Retailer's accounts and records.

Accordingly, the Retailer agrees to purchase and use all FOT-approved computer system hardware and software packages and to diligently update these hardware and software packages whenever changes are approved by the Franchise Operations Team.

3) Signs

To promote a consistent image among Retailers, the Retailer agrees to purchase, maintain and use only signs approved by the Franchisor as designated in the Retail Facilities Guide and the Critical Image Element Guide, and to make and pay for any changes in signage approved by the FOT.

4) Tools and Equipment

The Retailer also agrees to provide all the service tools and equipment necessary to fulfill its service obligations, and to purchase and maintain any specified special tools and equipment to service Saturn Products.

B Other Systems

1) Accounts and Records

a) Uniform Accounting System

Both the Retailer and the Franchiser will benefit by using Retailer operating information to develop composite operating statistics, to analyze the Retailer's business management practices, and to assess the impact of the Franchiser's policies and practices.

To assure maximum benefit, the Retailer agrees to maintain a uniform accounting system and to furnish reports and records as provided in the GM Dealer's Standard Accounting Manual and the FOT approved Saturn Retailer Systems business accounting applications.

b) Examination of Accounts and Records

The Franchisor and Saturn will have access, through computer systems, to the Retailer's accounts and records.

In addition, any designated representative of the Franchisor is authorized to examine, audit, reproduce and take copies of any of the accounts and records the Retailer maintains under this Agreement. The Retailer agrees to make such accounts and records readily available in an organized manner at its retail facilities during business hours. The Franchisor agrees to furnish the Retailer with a copy of any reproduced records.

c) Confidentiality of Retailer Data

The Franchiser will not furnish to any nonaffiliated entity any personal or financial data submitted to it by the Retailer in a format that permits identification of the Retailer, unless it is either authorized by the Retailer, required by law, pertinent to proceedings under the Dispute Resolution Process or to court or administrative proceedings.

2) Additional Systems

The Retailer is free to use any additional systems to help manage the business, so long as they are consistent with all the required Saturn systems and with Saturn's Mission, Philosophy and Values. The Retailer agrees to discontinue use of any systems deemed inconsistent by the Franchisor.

C Consistent Processes

An integral part of the Franchiser's plan to develop industry leading customer enthusiasm is to promote Saturn Retailers as the unsurpassed leaders of convenient and consistent automotive sales and service. The Retailer agrees it will conduct its Retail Facility Operations to support this concept, including utilizing processes approved by the FOT. These processes include but are not limited to the Saturn Consultative Sales Process, the Saturn Consultative Service Process, the Saturn Financial Services Consultative Process and, if used vehicles are sold at any approved locations specified in the Retailer's MAP, the Saturn Used Car Process.

17. Marketing Association

Both the Retailer and the Franchisor acknowledge the mutual benefits of comprehensive joint Retailer advertising and merchandising to promote the sale and service of Saturn Products.

Accordingly, the Regional Unincorporated Marketing Association (Association) has been established through the joint effort of Retailers and the Franchisor to produce such joint merchandising and advertising. The Retailer agrees to participate in the Association. The Association is governed by the Regional Marketing Council (RMC), which is self-governing according to its bylaws. The Retailer and the Franchisor agree to support the merchandising and advertising initiatives of the RMC.

The Association will, from time to time, assess a minimum amount for each new Motor Vehicle purchased by Retailers to fund merchandising and advertising initiatives. The FOT will review annually the minimum assessment, and may recommend changes based on marketing conditions.

18. Training

The training of all Retailer team members is critical to the success of the Retailer and the Franchisor in conducting business based on the Saturn Mission, Philosophy, Values and designated processes.

The Retailer therefore agrees that all team members will participate in both the initial and ongoing programs identified in the Saturn Retail Training Catalogue of Programs and Services, and in any others approved by the FOT, within the time frames specified. The MAP will measure the completion of training required compared to FOT approved Performance Benchmarks. The Retailer agrees to pay any specified training charges.

19. Capitalization

To ensure that the Retailer is financially capable of fulfilling its commitments, the Retailer will maintain the levels of capitalization mutually agreed upon in the Marketing Area Plan. To avoid the erosion of Saturn's goodwill, which could result if the Retailer is financially unable to fulfill its commitments, the Retailer agrees to have and maintain a separate line of credit from a financial institution available for the Retailer to draw upon to finance the purchase of new vehicles. The amount of the line of credit and the identity of the financial institution will be included in the Retailer's Marketing Area Plan, which is reviewed annually.

PART SIX

REPLACEMENT RETAILERS

20. Changes in Ownership

Both the Retailer and the Franchisor recognize it is essential to the success of all associated with Saturn that each Saturn retail facility be owned and operated by people who are committed to upholding and promoting the Saturn Mission, Philosophy, Values and way of doing business.

It is equally important that the Retailer Operators are highly qualified and consistently meet the same high personal standards as the original Retailer Operators.

Because the Franchisor has entered into this Agreement based on the personal qualifications of the Retailer Operator and the qualifications of any Investor(s), the Retailer agrees that it cannot assign its rights under this Agreement.

A. Succession Rights upon Death or Disability

1) Successor Addendum

The Retailer can apply for a Successor Addendum, which designates a proposed retailer operator and/or investor(s) of a successor retailer to be established if this Agreement expires because of the death or incapacity of the Retailer Operator. The Franchisor will execute the Successor Addendum if the proposed retailer operator successfully completes the Retailer Selection Process and if any proposed investors satisfy applicable Retailer Selection Criteria.

However, the proposed retailer operator and investors will not be required to meet the usual capital requirements, nor to demonstrate an ability to implement the Retailer's Marketing Area Plan until the Successor Addendum is implemented.

At the time of application, the Retailer will pay the Franchisor a nonrefundable fee to defray costs associated with review of the proposal.

2) Rights of Remaining Investors

If this Agreement is due to expire because of the death or incapacity of the Retailer Operator, and the Retailer and the Franchisor have not executed a Successor Addendum, the remaining Investors may propose a successor retailer to continue the operations identified in this Agreement.

The proposal must be made in writing to the Franchisor at least 30 days prior to the expiration of this Agreement, including any deferrals granted under Article 10. At the time of application, the Retailer will pay the Franchisor a nonrefundable fee to defray costs associated with review of the proposal.

The proposal will be accepted if it meets the requirements of Articles 2OA(3), if the proposed retailer operator successfully completes the Retailer Selection Process and if all proposed investors satisfy applicable Retailer Selection Criteria.

If the proposed successor retailer includes a retailer operator and/or investors who are not remaining Investors, and who will collectively acquire a majority ownership or voting control in the proposed retailer, then Franchisor's right of first refusal or option to purchase under Article 20C shall apply.

3) Successor Retailer Requirements

The Franchisor will accept a proposal to establish a successor retailer that is submitted by a proposed retailer operator under Article 20A if

a) the proposed successor retailer and the proposed retailer operator are ready, willing and able to comply with the requirements of a new retailer agreement and agree to adhere to and implement the Marketing Area Plan formally agreed to by the Retailer, and

b) all outstanding monetary obligations of the Retailer to Saturn and the Franchisor have been paid.

4) Limitation on Offers

The Retailer will be notified in writing of the Franchisor's decision on a proposal under Article 2OA(3) within 60 days after the Retailer has submitted all applications and information reasonably requested by the Franchisor and the proposed retailer operator has successfully completed the Retailer Selection Process. The Franchisor's offer of a new Retailer Agreement under Article 20A will automatically expire if it is not accepted by the proposed successor retailer within 60 days after it receives the offer.

5) New Successor Addendum

The Retailer may cancel an executed Successor Addendum at any time prior to the death or incapacity of the Retailer Operator. However, the Franchisor may cancel an executed Successor Addendum only if the proposed retailer operator or proposed investor(s) no longer meet the Retailer Selection Criteria applicable to each. The parties may execute a superseding Successor Addendum by agreement.

B. Other Changes in Ownership or Management

If the Retailer proposes a change in Retailer Operator, a change in ownership, or a transfer of its Saturn franchised business or principal assets to any person, the Franchisor will consider the Retailer's proposal subject to the following:

1) The Retailer agrees to give the Franchisor prior written notice of any such proposed change or transfer. The Retailer understands that if any such change is made prior to the Franchisor's approval of the proposal, termination of this Agreement will be warranted and the Franchisor will have no other obligation to consider the Retailer's proposal.

2) To maintain the high standard and integrity of the Retailer network, the Retailer agrees to give the Franchisor prior written notice of any proposed disposition of its principal assets or of any proposed change of ownership in which a party:

a) first acquires equity ownership or beneficial interest in the franchised business, or

b) acquires a majority ownership or voting control in the franchised business.

3) If the proposal involves a change of Retailer Operator, the Retailer will pay the Franchiser a fee to defray the costs of reviewing the proposal and completing the Retailer Selection Process. The Franchiser has no obligation to consider the proposal until it has received a nonrefundable payment.

4) The Retailer will be notified in writing of the decision on its proposal within 60 days after the Retailer has furnished all applications and information reasonably requested by the Franchiser and after the proposed retailer operator has successfully completed the Retailer Selection Process. If the Franchiser disagrees with the proposal, it will specify its reasons.

5) Any material change in the Retailer's proposal, including a change in price, proposed investors or proposed retailer operator, will be considered a new proposal and the time period for the Franchisor to respond shall recommence. In the event a new proposal is submitted and the proposal includes a new retailer operator or investor candidate, an additional fee may be imposed.

6) Prior written approval is not required where the transfer of equity ownership or beneficial interest to an individual is between Investors of the Retailer previously approved by the Franchisor where there is no change in majority ownership or voting control. The Retailer agrees to notify the Franchisor within 30 days of the date of the change and to execute a new Form C: Investor Summary to Retailer's Marketing Area Plan.

7) The Franchisor is not obligated to execute a new Retailer Agreement under this Article unless the Retailer makes acceptable arrangements to the Franchisor to satisfy any indebtedness to Saturn or the Franchisor.

C. Right of First Refusal or Option to Purchase

1) Creation and Coverage

If a proposal is submitted by the Retailer under Article 20B, then the Franchisor has a right of first refusal or option to purchase as described under this Article 20C.

If the Franchisor exercises its right or option, it will do so in the written decision on the Retailer's proposal. The Franchisor's right or option may be assigned to any party and the Franchisor will guarantee the full payment of the purchase price by the assignee. The Franchisor has the right to disclose the terms of the buy/sell agreement to any potential assignee.

If the Retailer has entered into a bona fide written buy/sell agreement for its franchised business or principal assets, the Franchisor's right under this Article 20 is a right of first refusal, enabling the Franchisor to assume the buyer's rights and obligations under such buy/sell agreement, and to cancel this Agreement and all rights granted to the Retailer.

In the absence of a bona fide written buy/sell agreement, the Franchisor has the option to purchase the Retail Facility Assets of the Retailer and to cancel this Agreement and all rights granted to the Retailer. Real property will be included only if the Retailer and the Franchisor agree.

If the Franchisor exercises its right or option, the fee described in Article 2OB(3) will be refunded if the person proposed by the Retailer as a replacement retailer operator or investor satisfies the Retailer Selection Criteria.

The Franchisor's rights under Article 20C will be binding and enforceable against any assignee or successor in interest of the Retailer or purchaser of the Retailer's assets.

2) Purchase Price and Other Terms of Sale

a) Bona Fide Agreement

If the Retailer has entered into a bona fide written buy/sell agreement, the purchase price and other terms of the sale will be those set forth in such agreement and any related documents unless the Retailer and the Franchisor agree to other terms.

Upon the Franchisor's request, the Retailer will provide all other documents relating to the proposed transfer, including, but not limited to, those reflecting any other agreements or understandings between the parties to the buy/sell agreement. If the Retailer does not provide such documentation or state in writing that such documents do not exist, the agreement will be presumed not to be bona fide.

b) Absence of Bona Fide Agreement

In the absence of a bona fide written buy/sell agreement, the purchase price of the Retail Facility Assets, excluding new and undamaged Parts and Accessories, will be determined by good faith negotiations between the parties.

If agreement cannot be reached, the purchase price will be determined through the Dispute Resolution Process. Repurchase prices for new and undamaged Parts and Accessories will be the prices last indicated in the parts price listing established by the Franchisor.

The Franchisor will not be responsible for the repurchase of non-Saturn Parts or accessories in the Retailer's inventory, or for Saturn Parts and Accessories that are not resaleable as new, as specified in the Saturn Service Policies and Procedures Manual.

3) Consummation

The Retailer agrees to transfer the property by Warranty Deed conveying marketable title free and clear. The Warranty Deed will be in proper form for recording and the Retailer will deliver complete possession of the property when the Deed is delivered. The Retailer will also furnish the Franchisor with copies of any easements, licenses or other documents affecting the property, and will assign to the Franchisor any permits or licenses necessary to conduct the franchised business.

4) Transfers Involving Family Members

When the proposed change of ownership involves a transfer by a Retailer Investor to a member or members of his or her immediate family, the Franchisor's right of first refusal will not apply. An "immediate family member" shall be the spouse, child, grandchild, spouse of a child or grandchild, brother, sister, or parent of the Retailer Investor. All other requirements of Article 20B shall apply.

PART SEVEN

TERMINATION AND TERMINATION ASSISTANCE

21. Termination

A. Termination of Agreement

1) By Retailer

The Retailer may terminate this Agreement by giving written notice to the Franchisor. The Termination will be effective 30 days after the Franchisor receives the notice, unless otherwise mutually agreed upon in writing.

2) By Agreement

This agreement may be terminated at any time by written agreement between the Retailer and the Franchisor. Termination assistance will be applicable only as specified in the written termination agreement.

3) Failure to Be Licensed

If the Retailer or the Franchisor fails to secure or maintain any license that is required to perform their obligations under this Agreement, or if such license is suspended or revoked, then either party may immediately terminate this Agreement by giving the other party written notice.

4) Misrepresentation, Failure to Conduct Operations, or Disqualification or Change of Retailer Operator or Investor

If any of the following occurs, the Franchisor will notify the Retailer and provide 30 days for the Retailer to respond. Thereafter, the Franchisor may notify the Retailer that the Agreement will be terminated not less than 30 days after receipt of notice.

a) If the Retailer submits any false information to Saturn or to the Franchisor,

b) The Retailer fails to conduct customary Saturn Retail Facility Operations for seven consecutive business days,

c) The Retailer Operator or Investor(s) fail to continue to meet the Retailer Selection Criteria applicable to each,

d) The Retailer Operator is changed or withdraws without prior written approval of the Franchisor, or

e) if, without the prior written notice to and approval of the Franchiser, a person:

i. first acquires an equity ownership or beneficial interest in the Retailer, or

ii. acquires majority ownership or voting control.

If the Retailer chooses to use the Dispute Resolution Process, the Agreement will continue pending a final resolution of the dispute.

5) Failure of Performance

If the Retailer fails to perform any other obligations specified in this Agreement, including those listed as part of the Marketing Area Plan, the Franchiser will review the failure with the Retailer.

If the Franchisor determines that corrective action is not forthcoming, then the Franchisor will notify the Retailer in writing and designate a period of time during which the Retailer is expected to remedy the failure.

If the failure is not remedied within that period, the Franchiser may invoke the Dispute Resolution Process immediately or at any time, or terminate this Agreement by giving the Retailer three months' advance written notice.

6) Conviction of a Felony

a) The Franchiser may terminate this Agreement by giving written notice to the Retailer if it learns that the Retailer, or a predecessor of the Retailer owned or controlled by the same person, or the Retailer Operator is convicted in a court of original jurisdiction of any felony. Termination will be effective on the date specified in the notice.

b) If a Retailer Investor is convicted in a court of original jurisdiction of any felony, the Retailer Investor must divest its ownership interest in the Retailer within 60 days after the Franchiser notifies the Retailer or the Retailer becomes aware of the conviction, whichever occurs first. If the Retailer Investor fails to divest its interest in the Retailer within that period, the Franchisor may terminate this Agreement Termination will be effective on the date specified in the notice.

7) Reliance on Any Applicable Termination Provision

The terminating party may select the termination provision under which it elects to terminate without reference in its notice of termination to any other provision that may also be applicable. Subsequently, the terminating party may also assert other grounds for termination.

8) Option to Purchase

If this Retailer Agreement is set to expire or to terminate for any reason, the Franchisor has the option to purchase the Retail Facility Assets, and to cancel this Agreement and all rights granted to the Retailer. Real property will be included only if the Retailer and the Franchisor agree. The purchase price of the Retail Facility Assets and other terms will be determined under Article 2OC(2)b. The Franchiser must advise the Retailer of its intent to exercise this option within 60 days after it notifies the Retailer that an event has occurred that would cause expiration or warrant termination.

B. Transaction after Termination

1) Orders

If, when this Agreement expires or is terminated, the Retailer and the Franchisor do not enter into a new Retailer Agreement, the Retailer's designated supply of Products will automatically be canceled except as provided in this Article.

The termination or expiration of this Agreement will not release the Retailer or the Franchisor from the obligation to pay any amounts owing to the other when such amounts become due.

2) Deliveries

If this Agreement is voluntarily terminated by the Retailer or if it expires because of the death or incapacity of a Retailer Operator, the Franchisor will make its best efforts consistent with distribution procedures to furnish the Retailer with Motor Vehicles to fill the Retailer's bona fide retail orders on hand on the effective date of termination or expiration. Franchiser's obligation under this Article 21B(2) shall not exceed the total number of Motor Vehicles invoiced to the Retailer for retail sale during the average of any three-month period during the year preceding the effective date of termination.

3) Effect of Transactions after Termination

Neither the sale of Products to the Retailer, nor any other act by Saturn, the Retailer or the Franchisor after the termination or expiration of this Agreement, will waive the termination or expiration.

22. Termination Assistance

If this Agreement expires or is terminated and the Franchiser does not offer either the Retailer or a replacement retailer with substantially the same ownership (more than 50%, including total family ownership) a new Retailer Agreement, then the Franchisor will provide assistance as specified in the Termination Assistance Manual. The Franchisor's obligations under this Article 22 are subject to the Retailer fulfilling its responsibilities relating to termination assistance, which are described in the Termination Assistance Manual.

PART EIGHT

GENERAL PROVISIONS

23. Acknowledgment of Franchise Law Compliance

A. Retailer's Investigation

The Retailer acknowledges that it has conducted an independent investigation of the business venture contemplated by this Agreement, and recognizes that it involves business risks and that its success will be largely dependent upon the ability of the Retailer.

The Franchisor expressly disclaims the making of, and the Retailer acknowledges that it has not received, a warranty or guarantee, express or implied, as to the potential volume, profits or success of the business venture contemplated by this Agreement.

B. Disclosure

The Retailer also acknowledges having received a copy of this Agreement (together with attachments and related documents) at least five business days prior to the date on which this Agreement was executed.

The Retailer further acknowledges having received the disclosure document, which is required by the Trade Regulation Rule of the Federal Trade Commission entitled the "Franchise Offering Circular," which contains a copy of this Agreement, at least 10 business days prior to the date on which this Agreement was executed.

C. Review

The Retailer acknowledges that it has read and understands this Agreement (and its attachments and related agreements) and that the Franchiser has afforded the Retailer ample time and opportunity to consult with advisors of the Retailer's own choosing, about the potential benefits and risks of its entering into this Agreement.

24. General Provisions

A. No Agent or Legal Representative Status

This Agreement does not make either party or Saturn the agent or legal representative of the others for any purpose, nor does it grant either party or Saturn authority to assume or create any obligation on behalf of or in the name of the others. No fiduciary obligations are created by this Agreement.

B. Retailer's Responsibility for Its Operations

Except as provided in this Agreement, the Retailer is solely responsible for all expenditures, liabilities and obligations incurred or assumed by the Retailer to establish and conduct its operations.

C. Taxes

The Retailer is responsible for all local, state, federal, or other applicable taxes and tax returns related to its franchised business and agrees to hold the Franchisor and Saturn harmless from any related claims or demands made by any taxing authority.

D. Indemnification by Saturn

Saturn has agreed with the Franchisor that Saturn will assume the defense of the Retailer and indemnify the Retailer against any judgment for monetary or rescission of contract in any lawsuit that names the Retailer as a defendant when the lawsuit concerns:

1) Breach of the Saturn warranty related to a product or bodily injury or property damage that is claimed to be caused solely by a defect in the design, manufacture or assembly of a Product by Saturn. Saturn may withhold indemnification where a defect should have been detected during the predelivery inspection of the Product;

2) Failure of a Product to conform to the description set forth in advertisements or product brochures distributed by Saturn, because of changes in either standard equipment or material component parts, unless the Retailer received notice of the changes prior to retail delivery of the affected Product by Retailer;

3) Any substantial damage to a Product purchased by Retailer from Saturn that has been repaired by Saturn unless the Retailer accepted the Product with knowledge of the repair. Saturn has no obligation under its agreement with Franchisor if the product involved has been altered. Any indemnification provided by Saturn will be net of any offset recovered by the Retailer. Procedures for requesting indemnification, administrative details and limitations are contained in the Saturn Service Policies and Procedures Manual.

E. Trademarks and Services Marks Saturn, the Franchisor or affiliated companies are the exclusive owners of the various trademarks, service marks, names and designs (Marks) used in connection with any Products.

The Retailer is granted the nonexclusive right to display Marks in the form and manner approved by the Franchisor in the conduct of its franchised business. Marks may be used as part of the Retailer's name with the written approval of the Franchiser. The Retailer agrees to change or discontinue the use of any Marks upon the Franchisor's request.

The Retailer agrees that no company owned by or affiliated with the Retailer or any of its Investors may use any Mark to identify a business without the Franchisor's written permission.

Upon termination of this Agreement, the Retailer agrees to immediately discontinue, at its expense, all use of Marks. Thereafter, the Retailer will not use, either directly or indirectly, any Marks or any other confusingly similar marks in a manner that the Franchisor determines is likely to cause confusion or mistake or to deceive the public.

The Retailer will reimburse the Franchisor for all legal fees and other expenses incurred in connection with any action that is taken to require the Retailer to comply with this Article 24E.

F. Notices

Any notice that is required to be given by either party to the other in connection with this Agreement will be in writing and delivered personally or by mail. Notices to the Retailer will be directed to either the Retailer or its representatives at the Retailer's principal place of business. Notices by the Retailer will be directed to:

Retail Network Planning Saturn Distribution Corporation 100 Saturn Parkway, P.O. Box 1500 Spring Hill, TN 37174-1500

Mailed notices will be deemed received on the date deposited in U.S. or express mail.

G. No Implied Waiver

The delay or failure of the Retailer or the Franchisor to require performance by the other party or the waiver by Retailer or Franchisor of a breach of any provision of this Agreement will not affect the right subsequently to require such performance.

H. Assignment of Rights or Delegation of Duties

The Franchisor may assign this Agreement and any rights, or delegate any obligations to any affiliated or successor company. The Franchisor will provide the Retailer with written notice of such assignment or delegation. Such an assignment or delegation will not relieve the Franchisor of liability for the performance of its obligations.

I. Accounts Payable

All monies or accounts due to the Retailer will be considered net of the Retailer's indebtedness to the Franchisor and Saturn. The Franchisor and Saturn may deduct any amounts due, or to become due from the Retailer to the Franchisor or Saturn, or any amounts held by the Franchisor or Saturn, from any sums or accounts due, or to become due, from Saturn or the Franchisor to the Retailer.

J. Sole Agreement of Parties

Except as provided in this Agreement, the Franchisor has made no promises to the Retailer, the Retailer Operator or the Retailer Investor(s). There are no other agreements or understandings, either oral or written, between the parties affecting this Agreement or relating to any of the subject matter covered by this Agreement.

Except as otherwise provided in this Agreement, this Agreement cancels and supersedes all previous agreements between the parties that relate to any matters covered herein.

No agreement between the Retailer and the Franchisor that relates to matters covered herein, and no change in, addition to (except the filling in of blank lines) or erasure of any printed portion of this Agreement, will be binding unless it is approved in a written agreement executed under Article 25.

K. Severability

If any provision of this Agreement is determined to be unenforceable under a valid and applicable law in effect as of the effective date of this Agreement, then the Agreement will be modified to the minimum extent necessary to comply with such law.

L. Review and Modification of Agreement Terms

To demonstrate its commitment to the Saturn Philosophy, Mission, Values and way of doing business, the Franchisor has entered into indefinite term Agreement.

However, neither the Retailer nor the Franchisor want to prevent the modification of their contractual relationship as necessary to respond to changes in marketing conditions. Therefore, the Franchise Operations Team will review this Agreement every five years or at such other time as the FOT decides is appropriate.

In the event the FOT recommends a superseding form of Retailer Agreement, the Retailer and the Franchisor agree to terminate this Agreement and execute the new Agreement. Unless otherwise agreed in writing, the rights and obligations of the Retailer that may otherwise become applicable upon termination or expiration of this Agreement will not be applicable.

25. Execution on Behalf of Retailer and Franchisor

This Agreement and related agreements are valid only if signed:

A. On behalf of the Retailer by a duly authorized representative and, in the case of this Agreement, by the Chief Executive Officer, Retailer Operator and Retailer Investor(s); and

B. On behalf of the Franchisor by either its President

or a Vice President, Sales.

SATURN OF SOUTHWEST OREGON, INC.		*SATURN DISTRIBUTION CORPORATION*	
Retailer Name			
By: /s/Sidney B. DeBoer	*6-16-97*	*By: /s/Joe Kennedy*	*6-5-97*
Retailer Operator	*Date*	*President*	*Date*
By: /s/Sidney B. DeBoer	*6-16-97*	*By: /s/Donald E. Young*	*6-9-97*
Retailer Investor	*Date*	*Vice President, Sales*	*Date*

LITHIA MOTORS, INC.
Sidney B. DeBoer, President

By: /s/Sidney B DeBoer 6-16-97
Retailer Investor Date

LITHIA HOLDING, LLC
Sidney B. DeBoer, Managing Member

By: /s/Sidney B DeBoer 6-16-97
Retailer Investor Date

LITHIA HOLDING, LLC
Manfred L. Heimann, Member

By: /s/Manfred L. Heimann
Retailer Operator Date

LITHIA HOLDING, LLC
R. Bradford Gray, Member

By: /s/R. Bradford Gray
Retailer Operator Date

Glossary of Terms

Critical Success Factors: Areas of performance that are critical to the Retailer's success and success and that are evaluated in the MAP.

Financial Services Process: The four-step process that allows customers to make informed financial decisions by providing an educational, customer focused consultation by the financial services manager. The steps are introduction, interview, selective presentation, and summary and disclosure. By adhering to this process, customers receive a quality experience that creates customer enthusiasm.

Franchise Systems Manuals: Manuals that contain the policies, procedures, systems and guidelines for the conduct of Saturn Retail Facility Operations under the Retailer Agreement.

Marketing Area: The geographic area assigned to the Retailer and identified in a Notice of Retailer's Marketing Area.

Marketing Area Plan (MAP): An essential part of the Retailer Agreement that describes how the Retailer will develop its designated area and fulfill all the corresponding sales and service commitments.

Marks: The various trademarks, service marks, names and designs used by Saturn, the Franchisor and its affiliated companies in connection with Products.

Motor Vehicles: All current Saturn branded model types or series of new motor vehicles specified in any Motor Vehicle Addendum and all past motor vehicles marketed through Retailers.

Nonaffiliated Entity: An entity that is not incorporated into or associated with either the Saturn Distribution Corporation, Saturn Corporation, General Motors or any of its subsidiaries.

Parts and Accessories: New or remanufactured automotive parts and accessories that are marketed or approved by Saturn or the Franchisor and listed in the current Retailer Parts and Accessories Price Schedules and supplements.

Performance Benchmarks: Minimum acceptable level of performance for a Critical Success Factor, which may be modified from time to time by the FOT, that will be evaluated in the MAP process.

Products: Motor Vehicles, Parts and Accessories, and Saturn Service Plan Products.

Retail Environment Design Package: A comprehensive design package to provides a design guide and access to a portfolio of Saturn retail facility design control drawings (interior and exterior).

Retail Facility Assets: The principal assets of the Retailer used in the franchised business, other than real property.

Retail Facility Premises: The approved site(s) and facility(ies) provided by the Retailer for Saturn Retail Facility Operations.

Retailer: The corporation, partnership, limited liability company or proprietorship that signs the Retailer Agreement.

Retailer Agreement. The Retailer Agreement that is executed including the Marketing Area Plan, the Retailer Standards Manual, the Saturn Service Policies and Procedures Manual, other related Addenda and the Terms of the Sale Bulletins.

Retailer Operator. The principal manager of the Retailer upon whose personal service the Franchisor relies in entering into the Retailer Agreement.

Retailer Investor. A person having equity ownership or a beneficial interest in the Retailer upon whose qualifications the Franchisor relies in entering into the Retailer Agreement.

Retailer Selection Criteria: The qualifications and standards that prospective Retailer Operators and certain Retailer Investors must satisfy in order to be approved by the Franchisor.

Retailer Selection Process: The process that an applicant must successfully complete before becoming a Saturn Retailer Operator. This process includes the application, the questionnaires, the assessment at the applicant's place of business, an orientation and interview, and the development and agreement on a Marketing Area Plan.

Retailer Standards Manual: The manual that contains Saturn Brand Critical Standards and Fundamental Principles.

Sales Consultative Process. The seven-step process that delivers a sales experience focused on the wants and needs of the customer. It includes reception, interview, selective presentation, and demonstration, purchase consultation, delivery and follow-up. By adhering to this process, customers receive a quality experience that creates customer enthusiasm.

Saturn Brand Critical Standards. Retailer Standards that pertain to matters deemed by the FOT to be particularly vital to the strength of the Franchisor and other Retailers. These Brand Critical Standards must be executed consistently across the retail network.

Saturn Retail Facility Operations: All operations contemplated by the Retailer Agreement. These include the sales and service of Products, the sale or promotion of products marketed or distributed by Saturn Corporation, and any other activities undertaken by the Retailer related to Products, including rental and leasing operations, used vehicle sales

(including non-Saturns) using the Saturn Used Car Process, body shop operations, and finance and insurance operations, whether conducted or indirectly by the Retailer. "Saturn Retail Facility Operations" does not include the sale of used vehicles (Saturn or non-Saturn) when the Saturn Used Car Process is not used.

Saturn Service Policies and Procedures Manual: The manual, as may be modified from time to time by the Franchiser, that details certain policies and procedures for Retailer service under the Retailer Agreement.

Saturn Used Car Process: Procedures designed to bring the "Saturn Difference" to the retail used car business through a consistent approach as defined in the Administrative Guidelines for the Saturn Used Car Process, which may be modified from time to time, with approval of FOT as appropriate.

Service Consultative Process: The seven-step process that provides service teams with a guide to exceed the customer's expectations during a service visit. The process includes service reservation, customer reception, interview, CSO development, customer and shop communication, active service delivery, and customer follow-up. By involving the customer in the service process and focusing on their wants and needs, service teams are better able to customer enthusiasm that leads to customer retention, referrals and repeat vehicle sales.

EXHIBIT B

PROCEDURE FOR DETERMINATION OF FAIR MARKET VALUE

For purposes of the Agreement to which this is an attachment, the term "Fair Market Value" shall mean the fair market value of the businesses, properties and assets of the Saturn Retailer. Fair Market Value shall be calculated: (a) as the value of a Saturn automobile sales and service facility that is not part of any other system or entity and not necessarily the value of the Retailer, (b) based on comparable sales of automobile sales and service facilities similar to the Saturn retail facility in the market area in which Saturn retail facility is located, and (c) based on facility in "AS IS, WHERE IS" condition. Fair Market Value shall be determined in following manner:

1. The parties shall attempt, in good faith to agree on Fair Market Value of the Saturn Retailer. If the parties fail, refuse, or are unable for any reason to agree on Fair Market Value within thirty (30) days following notice by SDC of an event giving rise to a determination of Fair Market Value, Saturn of Southwest Oregon, Inc. ("Retailer"), shall within ten
(10) days thereafter select both a nationally recognized investment banker and an appraiser and notify SDC in writing of the names, addresses and qualifications. Within ten (10) days following its receipt of such notice, SDC shall also select a nationally recognized investment banker and an appraiser and notify Retailer of their names, addresses and qualifications. The investment bankers and appraisers selected by Retailer and SDC are sometimes referred to herein as the "Advisers."

2. The Advisers shall advise Retailer and SDC of their respective determinations of Fair Market Value within 30 days of SDC's selection of its investment banker and appraiser. If the greatest of the four determinations of Fair Market Value is less than or equal to one hundred five percent (105%) of the average of the four determinations of Fair Market Value, the Fair Market Value shall equal the average of such determinations of Fair Market Value, and that determination shall be binding and conclusive upon all parties. If the greatest of the four determinations is greater than 105% of the average of the four determinations, the two investment bankers shall select a third nationally recognized investment banker and the two appraisers shall select a third appraiser to each make an additional determination of Fair Market Value. If the average of the third set of appraisals is higher than the highest of the original appraisals, then the highest original appraisal will be used. If the average of the third set of appraisals is lower than the lowest of the original appraisals, then the lowest original appraisal will be used. If the average of the third set of appraisals falls between the highest and lowest of the original appraisals, then the average of the third set of appraisals will be used and shall be binding and conclusive upon all parties.

3. If the investment bankers selected by SDC and Retailer respectively are unable to agree upon the designation of a third investment banker within ten (10) days after the expiration of the thirty (30) day period referred to above, or if such third investment banker has not advised the investment bankers selected by Retailer and SDC of his/her determination of Fair Market Value within thirty (30) days after his/her selection, either party may request the United States District Court for the District in which the premises are located to appoint a nationally recognized investment banker. If the appraisers selected by SDC and Retailer respectively are unable to agree upon the designation of a third appraiser within ten (10) days after the expiration of the thirty (30) day period referred to above, or if the third appraiser has not advised the appraisers selected by SDC and Retailer of his/her determination of Fair Market Value within thirty (30) days after his/her selection, either party may request the United States District Court for the District in which the Premises are located to appoint an appraiser. The determination of Fair Market Value made by the third investment banker and by the third appraiser appointed pursuant hereto shall be made within thirty (30) days after such appointment. If the average of the third set of appraisals is higher than the highest of the original appraisals, then the highest original appraisal will be used. If the average of the third set of appraisals is lower than the lowest of the original appraisal, then the lowest original appraisal will be used. If the average of the third set of appraisals falls between the highest and lowest of the original appraisals, then the average of the third set of appraisals will be used and shall be binding and conclusive upon all parties.

4. All appraisers selected or appointed as provided above shall (i) be independent qualified MAI appraisers active in the market in which the premises are located, with experience in appraising automobile sales and service facilities, (ii) use the definition of fair market value set forth above, and (iii) be registered in the state in which the Premises are located ("State") if the State provides for or required such registrations. The costs and expenses of any investment banker and appraiser selected by a party shall be borne solely by such party, and the costs and expenses of a third investment banker and appraiser shall be shared equally between Retailer and SDC.

If SDC elects to purchase the Saturn retail facility premises, then within thirty (30) days following initiation of the Fair Market Value process, Retailer shall supply SDC with commitment for title insurance and a title report showing good and marketable title in Retailer. At closing, Retailer shall cause a policy of title insurance to be issued to SDC insuring good marketable title.

The parties shall close the purchase and sale of the Saturn retail facility, within thirty (30) days after the determination of the Fair Market Value. The parties shall prepare, execute and deliver all appropriate and customary documents and make such closing adjustments as may be normal for transactions of this type in the State.

EXHIBIT 10.10.2

SUPPLEMENTAL AGREEMENT

TO SATURN RETAILER AGREEMENT

This Supplemental Agreement to the Saturn Retailer Agreement is entered into among Saturn of Southwest Oregon, Inc., an Oregon corporation and wholly-owned subsidiary of Lithia Motors, Inc. ("Retailer"); Lithia Motors Inc., an Oregon corporation ("Retailer Investor"); Lithia Holding, LLC, an Oregon limited liability company, ("Holding"); Sidney B. DeBoer, an individual ("DeBoer'), and Saturn Distribution Corporation, a Delaware corporate ("SDC').

WHEREAS, SDC has entered into a Saturn Retailer Agreement ("Retailer Agreement") with Retailer, permitting Retailer to conduct retail operations from approved locations identified in the Retailer Agreement; and

WHEREAS, the organization and ownership structure of Retailer and Retailer Investor are such that the terms of the Retailer Agreement are not wholly adequate to address the legitimate business needs and concerns of the Retailer, Retailer Investor, Holding and SDC; and

WHEREAS, the parties desire to continue a positive and productive business relationship and to accomplish our mutual goals and promote the sale and service of Saturn products consistent with Saturn's brand strategy and to focus on total customer enthusiasm:

NOW, THEREFORE, in consideration for the mutual agreements contained here and in the Retailer Agreement, the parties agree:

1. Purpose of Agreement

1.1 Purpose of Agreement.

The parties acknowledge that Retailer Investor desires to offer from thirty to fifty percent of its equity as Class A Common Stock (with total voting control of not more than 6.25%) to the public. The remaining shares of Retail Investor's common stock will be Class B stock (with not less than 93.75% of total effective voting control). Holding will be the only initial owner of Class B common stock. The parties further acknowledge that the ownership arrangements for Retailer and the operating processes and procedures of Retailer Investor and Holding require that the parties supplement the standard terms and provisions of the Retailer Agreement to assure that the legitimate business needs of Saturn in regard to the representation of its products are satisfied. The parties have agreed to enter into this Supplemental Agreement for that purpose.

1.2 Definitions.

For purposes of this Agreement, the following terms shall have the meaning indicated:

1.2.1 "Agreement" means this Supplemental Agreement to the Saturn Retailer Agreement.

1.2.2 "Retailer Agreement" means a Saturn Retailer Agreement, a copy of which is attached hereto as Exhibit A and is incorporated herein by reference. It also includes any superseding Saturn Retailer Agreements.

1.2.3 "Saturn" means Saturn Corporation.

1.2.4 "SDC" means Saturn Distribution Corporation.

1.2.5 "Voting stock" means any stock of Retailer or Retailer Investor that has voting rights as well as any debt or equity security of Retailer or Retailer Investor that is convertible into stock of Retailer that has voting rights.

2. Retailer Ownership

2.1 Ownership Structure

Retailer, Retailer Investor, Retailer Operator and Holding hereby each warrant that the representations and assurances contained in this Supplemental Agreement are within its respective authority to make and do not contravene any directive, policy or procedure of each.

Retailer Investor is the 100% shareholder of Retailer; Holding is and shall continue to be the controlling (as defined below) shareholder of Retailer Investor, and DeBoer is and shall continue to be the managing and controlling member of Holding. (For purposes of this Supplemental Agreement, the terms "control", "controlling" and "controlled" have the meanings given to them in Rule 405 under the Rules and Regulations of the Securities Act of 1933, as amended.) DeBoer will serve as Chief Executive Officer ("CEO"), Trustee and Controlling Manager of Holding, and will continue to serve as President and CEO of Retailer Investor.

The ownership of the stock of Retailer Investor is:

	Share of Total Stock	Type of Stock	Votes Per Share	Share of Total Voting Control
Holding	Not less than 55%	Common Class B	10	Not less than 93.75%
Others	Not more than 45%	Common Class A	1	Not more than 6.25%

The members of the Holding, an Oregon Limited Liability Company, and their respective interests in Holding are:

	Share of Units
Sidney B. DeBoer	58.125%
Manfred L. Heimann	34.875%
R. Bradford Gray	7.000%

2.2 Retailer Operator

The parties agree that DeBoer shall continue to serve as Retailer Operator under Article 8 of the Retailer Agreement. AH parties to this Agreement acknowledge and agree that, in addition to meeting the qualifications for Retailer Operator set forth in the Retailer Agreement and the Saturn Retailer Selection Process, DeBoer, as Retailer Operator, must also meet the following q@cations at all times:

(i.) he must serve as CEO of Retailer Investor.

(ii.) he must maintain both effective voting control and a direct or indirect beneficial ownership in Retailer of at least 20% at all times (the beneficial interest with Holding must be equal to or greater than 34.4% in order to constitute an effective 20% ownership interest in Retailer).

3. Changes in Ownership

All parties agree that the Retailer Agreement and this Supplemental Agreement have been executed in reliance upon the ownership and management structure described by this Agreement and any material change in such structure (other than changes in ownership, which are discussed in Section 3.2 below), shall be the basis for a review of the Agreements among the parties and a determination whether changes and modifications are required and whether the business relationship among the parties should continue or terminate.

Retailer will be maintained as a separate legal entity, distinct from Retailer Investor and Holding, in the form of either a corporation, partnership or other business enterprise form acceptable to SDC. Retailer must capitalize in accordance with Part 5, Article 19 of the Saturn Retailer Agreement. Retailer will not engage in any business other than the operation of its Saturn franchises. Retailer will not be merged with or into, or be consolidated with, or acquire substantially all the assets of, any other entity without prior written consent of SDC.

Any change in ownership of Retailer or any material change in Retail Investor or Holding (as described in Section 3.1) shall be considered a change in ownership of the Retailer under the terms of the Retailer Agreement, and all applicable terms of the Retailer Agreement as supplemented by this Agreement will apply to any such change.

3.1 Material Changes in Ownership

Given the ultimate control Retailer Investor and Holding could have over the Retailer and SDC's strong interest in assuring that those who own and control the Retailer have interests consistent with those of Saturn and SDC, all parties agree that:

3.1.1 Retailer Investor will deliver to SDC copies of all Schedules 13D and 13G, and all amendments thereto and terminations thereof, received by Retailer Investor, within five (5) days of receipt of such Schedules. If Retailer Investor is or becomes aware of any ownership of its stock that should have been reported to it on Schedule 13D but that is not reported in a timely maimer, it will promptly give SDC written notice of such ownership, with any information about the owner that Retailer Investor possesses.

3.1.2 Any change of ownership that was reported or should have been reported through filings to the Securities and Exchange Commission by third parties that are required to disclose significant holdings or substantial acquisitions of, or changes in the ownership of the stock of Retailer Investor, including but not @ted to Schedule 13D, that indicates that any person, entity or group as a result of such change of ownership now has or is about to acquire aggregate ownership of equal to or greater than twenty percent (20%) of equity and/or voting interest in Retailer Investor, shall be deemed a material change of ownership under this section.

Additionally, if Retailer Investor proposes, through its Board of Directors or through shareholder action, or if any person, entity or group notifies Retailer Investor by Schedule 13D or otherwise, of (a) a proposal to acquire more than 20% of the voting and/or equity interests of Retailer Investor, (b) an extraordinary corporate transaction, such as a merger, reorganization or liquidation involving Retailer Investor which would result in an issuance of more than 20% of the voting and/or equity interest to another party; (c) a sale or transfer of a material amount of the assets of Retailer Investor and/or its subsidiaries; or (d) any change which, either by itself or together with any changes made to the Board of Directors within the preceding year, would result in a change of control of the thencurrent Board of Directors of Retailer Investor, such proposal, transaction, sale or offer of change shall be treated by SDC as a proposal for a material change of ownership or a material change of ownership, and shall require the prior written approval of SDC or remedial action as set forth in Paragraph 3.2.

A material change in the ownership of Holding is deemed to have occurred in the event that DeBoer no longer serves as Chief Executive Officer and sole manager of Holding.

3.2 Remedial Actions.

SDC will consider any proposed change in ownership of Retailer or Holding, or any proposed material change in ownership (as defined in 3. 1) of Retailer Investor under Article 20(B) of the Retailer Agreement. The right of first refusal and/or option to purchase under Article 20(C) shall apply. Alternatively,. SDC may, at its sole discretion, require Retailer, Retailer Investor and/or Holding to take one of the rededial

actions set forth in Section 3.2.1 within 90 days of the time SDC learns of such proposal. Upon notification of a material change of ownership that has already occurred in Retailer Investor, SDC at its sole discretion, may require Retailer, Retailer Investor and/or Holding to take one of the remedial actions set forth in Section 3.2.1 within 90 days of the date SDC learns of the material change of ownership.

3.2.1 If Retailer, Retailer Investor and/or Holding is required by SDC to take remedial action, it/they will: (i) transfer to SDC or its designee, and SDC or its designee will acquire, all the assets, properties and/or businesses associated with Retailer at fair market value, as determined in accordance with Section 6, below; or, (ii) provide evidence reasonably acceptable to SDC that such person, entity or interest no longer has such threshold level of ownership interest or effective voting interest described in Section 3.1.2.

3.2.2 Retailer Investor will describe such provisions of this Section in any prospectus it delivers in connection with the offer or sale of its stock or any other securities filing as may be required by any applicable laws and/or regulations.

3.3 Officers and Key Management

Retailer Investor agrees to provide to SDC a list of the key management of Retailer Investor and of their responsibilities in regard to the control and management of Retailer Investor and Retailer. Retailer shall agree to propose to SDC any material changes in the key management of the Retailer or their responsibilities. Such proposal should be provided to SDC in writing prior to such change and shall include sufficient information to permit SDC to evaluate the proposed change consistent with normal policies and procedures. Retailer Investor will notify SDC in writing of any material change in the key management of Retailer Investor or their responsibilities. For purposes of this Agreement, the term "key management" shall mean CEO, President and Vice Presidents with respect to Retailer, all executive officers and Board of Directors with respect to Retailer Investor, and all members with respect to Holding.

4. Changes in Retailer Operator or Retailer Operator's Qualifications

For purposes of these Agreements, Sid DeBoer is, has been and will continue to be the Retailer Operator as set forth in Article 7 of the Retailer Agreement. SDC has relied on and will continue to rely on DeBoer's personal qualifications, management skills and commitment to Saturn's Mission, Philosophy and Values. AH parties hereby represent and agree that Retailer Operator wig have complete managerial authority to make all decisions, and to enter into any and all necessary business commitments required in the normal course of conducting Retailer Operations on behalf of Retailer, and to take any and all actions required of a Retailer Operator pursuant to the Agreements. Retailer, Retailer Investor, and/or Holding will not revoke, modify, amend or abrogate Retailer Operator's authority without the prior written approval of SDC.

4.1 Removal, Withdrawal or Replacement of Retailer Operator

The removal, withdrawal and/or replacement of Retailer Operator or the restriction of his managerial authority, without SDC's prior written approval, shall constitute grounds for termination of the Retailer Agreement. In the event Retailer proposes a change in Retailer Operator for SDC's consideration, Retailer will pay SDC a fee (currently $5,000.00) to defray the costs of review of the proposal and completion of the Retailer Selection Process. SDC has no obligation to consider the proposal until it has received this non-refundable payment. SDC's right of first refusal or option to purchase described in Article 20(C) of the Retailer Agreement shall apply to any proposal to change Retailer Operator. In the event that SDC elects to exercise its right of first refusal or its option to purchase, the price to be paid by SDC or its designee shall be the fair market value as determined in accordance with Section 6 below.

4.2 Change in Qualifications of Retailer Operator

In the event that the Retailer operator fails to continue to meet the Retailer Selection Criteria or the additional qualifications set forth under Paragraph 2.2 of this Agreement, Article 2 1 (A) of the Retailer Agreement shall apply.

5. Retailer Investor Operating Policies and Procedures

5.1 Saturn Brand Strategy

Retailer, Retailer Investor and Holding acknowledge that Saturn and SDC have a Brand Strategy and have invested and are continuing to invest significant capital in the development of the Saturn brand. Relevant information regarding this strategy has been shared with Retailer, Retailer Investor and Holding.

5.1.1 Retailer and Retailer Investor agree to accommodate Saturn's Brand Strategy in their Retailer Operations, and will incorporate in each Sat= retail facility as a minimum in support of the Saturn Brand Strategy, all Saturn Retail and Service operating standards, including Saturn Brand Critical Standards.

5.1.2 Neither Retailer nor Retailer Investor will jointly advertise or market any non-Saturn operations in conjunction with any Saturn Retailer Operations. Retailer, Retailer Investor and Holding agree that they will not compete with Saturn or SDC within Retailer's Marketing Area in any areas in which Saturn proposes to extend its brand.

6. Right to Purchase or Lease

In the event of any termination of the Retailer Agreement or any transaction or event that would, in effect, discontinue Retail Operations from that Saturn Retail facility, or require a transfer of assets, properties or business to SDC or an SDC designee pursuant to Section 3, and business for fair market value with fair market value being determined by the process set forth in Exhibit B; (ii) the right to lease the properties for up to 24 (twenty-four) months at a monthly rent equivalent to 1% of the appraisal

value as determined by the process set forth in Exhibit B; and (iii) the right to an assignment of any existing lease or lease options that are available, subject in each case to any legal or contractual obligations existing at such time; provided, however, that the parties shall assure SDC or its designee of quiet possession of the retail facilities for a period of not less than five years if this right is exercised with respect to such facilities within ten years of the execution of this Agreement. If, however, the parties enter into a financing arrangement with respect to such facilities then such assurance of quiet possession would be subordinated to the interests of any lender in connection with any default by the parties under the terms of the financing arrangement other than a default due to the discontinuance of dealership operations from such facilities. The parties agree that SDC may exercise any of its rights under this Section with respect to some or all of the retail facilities to which it may apply at any given time, and that exercise or failure to exercise any such rights as to one facility shall in no way affect SDC's other rights or its rights as to other facilities.

7. Dispute Resolution

All parties stipulate and agree that the dispute resolution process described in Article 6 of the Retailer Agreement, including binding arbitration, shall be the exclusive mechanism for resolving any dispute with SDC arising out of or relating to the Saturn Retailer Agreement and this Supplemental Agreement including, but not @ted to, involuntary termination of the Agreement(s), and/or approval of Retailer Investor for additional investment in or ownership of Saturn franchises.

8. Supplement to Retailer Agreement

The parties agree that this Agreement shall supplement the terms of the Retailer Agreement in accordance with 24.J of the Retailer Agreement.

9. No Third Party Rights

Nothing in this Agreement or the Retailer Agreement shall be construed to confer any rights upon any person not a party hereto, nor shall it create in any party an interest as a third party beneficiary of this Agreement or the Retailer Agreement. Retailer, Retailer Investor and Holding hereby agree to indemnity and hold Sat= Corporation, Saturn Distribution Corporation, its directors, officers, employees, subsidiaries, agents and representatives harmless from and against all claims, actions, damages, expenses, costs and liability arising from or in connection with any action by a third party in its capacity as a stockholder of Retailer, Retailer Investor or Holding.

10. Modification of Retailer Agreement

This Agreement is intended to modify and adapt certain provisions of the Retailer Agreement to the limited extent provided herein and is intended to be incorporated as part of the Retailer Agreement AH provisions of the Retailer Agreement not in conflict with this Agreement shall continue to have fun force and effect. la the event that any provisions of this Agreement are found to be in conflict with other provisions of the Retailer Agreement, the provisions contained in this Supplemental Agreement shall govern.

11. Confidentiality

Each party agrees not to disclose the content of this Agreement to non-affiliated entities and to treat the Agreement with the same degree of confidentiality as it treats its own confidential documents of the same nature, unless authorized by the other party, required by law, pertinent to judicial or administrative proceedings or to proceedings under the Dispute Resolution Process.

IN WITNESS WHEREOF, the parties have executed this Agreement this 26 day of August 1997.

"RETAILER"
Saturn of Southwest Oregon, Inc.

/s/ Sidney B. DeBoer
By: Sidney B. DeBoer
Retailer Operator

"SDC"
Saturn Distribution Corporation

/s/ Joe Kennedy 8-22-97
By: Joe Kennedy
President

"HOLDING"
Lithia Holding, LLC

/s/ Sidney B. DeBoer
By: Sidney B. DeBoer, Member

Manfred L. Heimann
By: Manfred L. Heimann, Member

/s/ R. Bradford Gray
By: R. Bradford Gray, Member

"RETAILER INVESTOR"
Lithia Motors, Inc.

/s/ Sidney B. DeBoer
By: Sidney B. DeBoer
President

"DeBoer"
Sidney B. DeBoer

/s/ Sidney B. DeBoer
By: Sidney B. DeBoer
Chief Executive Officer

EXHIBIT B

PROCEDURE FOR DETERMINATION OF FAIR MARKET VALUE

For purposes of the Agreement to which this is an attachment, the term "Fair Market Value" shall mean the fair market value of the businesses, properties and assets of the Saturn Retailer. Fair Market Value shall be calculated: (a) as the value of a Saturn automobile sales and service facility that is not part of any other system or entity and not necessarily the value of the Retailer, (b) based on comparable sales of automobile sales and services facilities similar to the Saturn retail facility in the market area in which Saturn retail @ty is located, and (c) based on the facility in "AS IS, WHERE IS" condition. Fair Market Value shall be determined in the following manner.

1. The parties shall attempt, in good faith, to agree on Fair Market Value of the Saturn Retailer.

If the parties fail refuse, or are unable for any reason to agree on Fair Market Value within (30) days following notice by SDC of an event giving rise to a determination of Fair Market Value, Saturn of Southwest Oregon, Inc. ("Retailer"), shall within ten (10) days thereafter select both a nationally recognized investment banker and an appraiser and notify SDC in writing of the names, addresses and qualifications. Wid2in (10) days following its receipt of such notice, SDC shall also select a nationally recognized inves=ent banker and an appraiser and notify Retailer of their names, addresses and qualifications. The investment bankers and a selected by Retailer and SDC are sometimes referred to herein as the "Advisers."

2. The Advisors shall advise Retailer and SDC of their respective derminitions of Fair Market Value within 30 days of SDC's selection of its investment banker and appraiser. If the greatest of the four determinitions of Fair Market Value is less dm or equal to one hundred five percent (105%) of the average of the four determinations of Fair Market Value, the Fair Market Value shall equal the average of such determinations of Fair Market Value, and that determination shall be binding and conclusive upon all parties. If the greatest of the four determinations is greater than 105% of the average of the four determinations, the two investznent bankers shall select a diird nationally recognized investment banker and the two appraisers shall select a third appraiser to each make an additional determinition of Fair Market Value. If the average of the third set of appraisals is higher than the highest of the original appraisals, then the highest original appraisal will be used. If the average of the third set of appraisals is lower than the lowest of the original appraisals, then the lowest original appraisal will be used. If the average of the third set of appraisals falls between the highest and lowest of the original appraisals, then the average of the third set of appraisals will be used and shall be binding and conclusive upon all parties.

3. If the investment bankers selected by SDC and Retailer respectively are unable to agree upon the designation of a third investment banker withen ten (10) days after the expiration of the thirty (30) day period referred to above, or if such third investment banker has not advised the investment bankers selected by Retailer and SDC of his/her determination of Fair Market Value within (30) days after his/her selection, either party may request the United States District Court for the District in which the premises are located to appoint a nationally recognized investment banker. If the appraisers selected by SDC and Retailer respectively

are unable to agree upon the designation of a third appraiser within ten (10) days after the expiration of the thirty (30) day period referred to above, or if the third appraiser has not advised the appraiser selected by SDC and Retailer of his/her determination of Fair Market Value within (30) days after his/her selection, either party may request the United States District Court for the District in which the Premises are located to appoint an appraiser. The determination of Fair Market Value made by the third investment banker and by the third appraiser appointed pursuant hereto shall be made within (30) days after such appointment. If the average of the third set of appraisals is higher than the highest of the original appraisals, then the highest original appraisal will be used. If the average of the third set of appraisals is lower than the lowest of the original appraisal then the lowest original appraisal will be used. If the average of the set of appraisals falls between the highest and lowest of the original appraisal then the average of the third set of a will be used and shall be binding and conclusive upon all parties.

4. All appraisers selected or appointed as provided above shall (i) be independent and qualified MAI appraisers active in the market in which the premises are located, with experience in appraising automobile sales and service facilities, (ii) use the de@tion of Fair Market Value set forth above, and (iii) be registered in the state in which the Premises are located ("State') if the State provides for or required such registrations. The costs and expenses of any investment banker and appraiser selected by a party shall be borne solely by such party, and the costs and expenses of a third investment banker and appraiser shall be shared equally between Retailr and SDC.

If SDC elects to purchase the Saturn retail facility premises, then within (30) days following initiation of the Fair Market Value process, Retailer shall supply SDC with a commitment for title insurance and a title report showing good and marketable title in Retailer. At closing, Retailer shall cause a policy of title insurance to be issued to SDC insuring good and marketable title.

The parties shall close the purchase and sale of the Saturn retail facility, within (30) days after the determination of the Fair Muket Value. The parties shall prepare, execute and deliver all appropriate and customary documents and make such closing adjustments as may be normal for transactions of this type in the State.

MOTOR VEHICLE ADDENDUM

TO

SATURN RETAILER AGREEMENT

Saturn of Southwest Oregon, Inc.
Retailer Entity Name

Medford, Oregon
City, State

In accordance with the effective date of the Saturn Retailer Agreement (see page 1), Retailer, as an authorized Saturn Retailer, has a non-exclusive right to buy the following new Motor Vehicles marketed by Satum Distribution Corporation:

SL, SL1, SL2, SC1, SC2, SW1, SW2

This Motor Vehicle Addendum shall remain in effect unless and until superseded by a new Motor Vehicle Addendum fumished to Retailer by SDC. This Motor Vehicle Addendum cancels and supersedes any previous Motor Vehicle Addendum fumished to Retailer by Saturn.

SATURN DISTRIBUTION CORPORATION

By: Joe Kennedy 6-5-97

President

(This Motor Vehicle Addendum should be filed with your Saturn Retailer Agreement)

Execution of Agreement

We are pleased to offer you the new Saturn Retailer Agreement (Agreement). The Franchise Operations Team (FOT), formerly the Franchise Development Team (FDT), has reviewed this new Agreement and recommends it pursuant to Article 22K of the existing Saturn Dealer Agreement.

"In the event the FDT recommends a superseding form of Dealer Agreement, Franchisor and Dealer mutually agree to terminate this Agreement and execute the new Agreement."

Saturn Distribution Corporation as the Franchisor and Dealer mutually agree to terminate the existing Saturn Dealer Agreement, including the existing Marketing Area Plan (MAP), and execute the new Saturn Retailer Agreement and new Marketing Area Plan effective the date signed by the Retailer Operator or March 15, 1997 whichever is later.

The following agreements attached to this document are incorporated by reference and survive the execution of the new Retailer Agreement:

None

Agreed to:

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer
Retailer Operator

Joe Kennedy 6-5-97
Joe Kennedy
President
Saturn Distribution Corporation

Saturn of Southwest Oregon, Inc.
Retail Entity

[Saturn of Southwest Oregon letterhead]

August 28, 1997

Mr. Larry C. Schmid
Manager Network Planning
Saturn Corporation
100 Saturn Parkway
P.O. Box 1500
Springhill, Tennessee 37174

Dear Larry,

Please find enclosed the signed supplemental agreement between Lithia Motors, Inc. and Saturn Distribution Corporation. Unfortunately during our final review we found some of the percentages in the agreement are inaccurate. Our legal counsel did not take into account the impact of the stock options issued to employees. The following table shows the ownership and voting control breakdown:

	Number of Shares/Options		Votlng Control	
Class A Shares - Public	2,875,000	37.484%	2,875,000	6.438%
Class A Employee Stock Options	685,000	8.931%	685,000	1.534%
Total Class A Shares	3,560,000	46.415%	3,560,000	7.971%
Class B Shares	4,110,000	53.585%	41,100,000	92.029%
Total Shares Outstanding	7,670,000	100.000%	44,660,000	100.000%

The corrections should therefore read as follows:

Paragraph 1. 1

6.25% should read 7.971%

93.75% should read 92.029%

Paragraph 2.1

55% should read 53.585%
93.75% should read 92.029%
45% should read 46.415%
6.25% should read 7.971%

We hope you agree these differences are minor. If so, we propose the Supplemental Agreement not be changed, but rather this letter serve as an amendment and attachment to it. If this is not acceptable, please so advise. Thank you for all your help and cooperation in formulating this agreement.

Sincerely,

/s/ Sidney B. DeBoer
Sidney B. DeBoer
President & CEO

SN/sm
enclosure: Supplemental Agreement

[Saturn of Southwest Oregon letterhead]

August 28, 1997

Mr. Sid DeBoer
Lithia Automotive Group
360 E. Jackson Street
Medford, OR 97501-5892

Dear Sid,

Enclosed are two copies of the supplemental agreement between Lithia Motors, Inc. and Saturn Distribution Corporation. This agreement incorporates the suggested changes in your letter to me dated June 16, 1997. You had also indicated you would "continue to ask for the removal of the 20% equity interest portion". As you will see in the supplemental agreement, our requirement remains at a minimum "of at least 20% at all times".

This supplemental agreement supercedes the supplemental agreement you executed on June 16, 1997. Please date and obtain the necessary signatures on both copies. Keep one copy for your files and forward one copy to me at the following address:

Saturn Corporation
PO Box 1500
Springhill, TN 37174-1500
Attention: Larry Schmid
Mail Drop S20

Sid, thank you for your assistance in this matter.

Sincerely,

/s/ Larry Schmid
Larry Schmid
Mgr.- Network Planning

Attach.

cc: Jill Lajdziak
Jim Craner
John Minarick

EXHIBIT 10.12.1

AMERICAN SUZUKI MOTOR CORPORATION

TERM DEALER SALES AND SERVICE AGREEMENT

THIS AGREEMENT, effective the 6th day of October, 1997, is entered into by and between AMERICAN SUZUKI MOTOR CORPORATION, Automotive Division, a California Corporation (hereinafter referred to as "SUZUKI"), having its principal office at 3251 East Imperial Highway, Brea, California, and LITHIA SALMIR, INC., a corporation duly incorporation under the laws of the State of NEVADA, and doing business as DBA DICK DONNELLY LINCOLN MERCURY, AUDI, SUZUKI, ISUZU (hereinafter referred to as "DEALER"), having it principal office at 40 "B" STREET, SPARKS, NEVADA 89431.

PURPOSE OF AGREEMENT

It is acknowledged by both SUZUKI and DEALER that the purpose of this Agreement is to establish DEALER as an authorized dealer of Suzuki Products and to provide for the sale, lease and servicing of Suzuki Products by DEALER. It is of utmost importance to SUZUKI that Suzuki products are sold and services in a manner which promotes consumer satisfaction and confidence. It is hereby understood and acknowledged that DEALER desires an opportunity to qualify for a three-year American Suzuki Motor Corporation Dealer Sales and Service Agreement for Suzuki Four Wheel Vehicle Products. DEALER understands, acknowledges and accepts that DEALER must first fulfill all of DEALER's undertakings as hereinafter set forth.

In furtherance of the purpose of this Agreement, the parties acknowledge that SUZUKI is the exclusive distributor in the United States (except Hawaii) of Suzuki Four Wheel Vehicles and Parts and Accessories therefor manufactured by Suzuki Motor Co., Ltd., a corporation incorporated under the laws of Japan.

It is of utmost important to SUZUKI that Suzuki Products are sold and services in a manner which promotes consumer satisfaction and confidence. DEALER desires to become one of SUZUKI'S AUTHORIZED DEALERS. SUZUKI, based on the representations and promises of DEALER, and in reliance on DEALER's integrity, ability and expressed intention to deal fairly with SUZUKI and the consumer, has accepted DEALER as an authorized retail dealer of Suzuki Products.

DEALER acknowledges that SUZUKI has selected DEALER as an authorized SUZUKI dealer and has granted to it a Dealership for Suzuki Products and related rights pursuant to this Agreement solely in reliance upon the undertaking of DEALER to fulfill its responsibilities to any third party or parties.

This Agreement sets forth the rights and responsibilities of SUZUKI and DEALER. The relationship between SUZUKI and DEALER shall be that of vendor and purchaser. DEALER is not the agent or legal representative of SUZUKI or Suzuki Motor Co., Ltd. for any purpose whatsoever. DEALER does not have any express or implied rights of authority to assume or create any obligations or responsibilities on behalf or, or int he name of, SUZUKI or Suzuki Motor Co., Ltd.

THEREFORE, subject to the terms and conditions of this Agreement, based on the foregoing facts and in consideration of the mutual promises and other valuable consideration the receipt of which is hereby acknowledged, the parties hereto agree as follows:

I. RIGHTS GRANTED TO DEALER

Subject to the terms of this Agreement SUZUKI hereby appoints DEALER as a nonexclusive authorized dealer for Suzuki Products and grants DEALER the right to:

A. Sell, lease and service Suzuki Products to the satisfaction of SUZUKI from the Dealership Facilities and Locations as set forth in the Facility Standards Addendum and Section X herein.

B. Identify itself as an authorized Suzuki Dealer utilizing Suzuki-approved signage at the Dealership Facilities, and

C. Use the name "Suzuki" and the Suzuki trademarks int he advertising, promotion, sales, leasing and servicing of Suzuki Products in the manner herein provided.

SUZUKI hereby reserves the unrestricted right to sell Suzuki trademarks to other dealer and entities, wherever they may be located.

II. RESPONSIBILITIES ACCEPTED BY DEALER

DEALER accepts its appointment as an authorized Suzuki Dealer and, in consideration of its appointment and subject to their conditions and provisions of the Agreement, agrees to:

A. Establish and maintain Dealership Facilities to the satisfaction of SUZUKI as set forth herein and in the Facility Standards Addendum and the Dealer Minimum Standards Addendum at the location(s) set forth herein;

B. Sell, lease and promote Suzuki Products subject to, and in accordance with, the terms and conditions of this Agreement;

C. Service, in a manner satisfactory to SUZUKI, Suzuki Products subject to, and in accordance with, the terms and conditions of this Agreement, and

D. Build and maintain public confidence and respect in DEALER, SUZUKI and Suzuki Products by maintaining the highest ethical standards of advertising, business practices and conduct.

III. TERM

This Agreement shall come into full force and effect at SUZUKI headquarters in Brea, California when executed by SUZUKI and, subject to its earlier termination, in accordance with the provisions of this Agreement, shall continue in full force and effect for one year, expiring on October 6, 1998 subject to the provisions of section 11.00 of the Standard Provisions only upon the condition that DEALER complies and completes all the terms and conditions of this Agreement.

IV. OWNERSHIP OF DEALER

DEALER represents and warrants and this Agreement is conditioned upon, and is entered into by SUZUKI upon the representations and warranties of Dealer that:

A. Dealer is a Nevada Corporation (indicate whether a sole proprietor, a partnership, a corporation or other type of organization)

B. The following person(s) and only said person(s) own and will continue to own, throughout the term of this Agreement, the following interest in ownership of the Dealership:

Name	Percentage of Interest	State Whether Partner Officer and Director
Lithia Motors, Inc.,	100%	
Owned by:		
The Public		8%
Lithia Holding Company, LLC		92%
Owned by:		
	Voting	Non Voting
Sidney B. DeBoer	100%	58.125
M.L. Dick Heimann		34.875
R. Bradford Gray		7.000

C. DEALER intents to carry on business under the name(s) of Dick Donnelly Lincoln, Mercury, Audi, Suzuki, Isuzu.

DEALER warrants that the appropriate registration or fictitious business name statement reflecting the name in Paragraph (C) above has been filed with the proper state authorities for the conduct of business under the name by DEALER.

V. MANAGEMENT OF DEALERSHIP

A. SUZUKI enters into this Agreement on DEALER's representation that Dick Donnelly and no other person, shall be General Manager and shall have

full managerial authority and responsibility for the operation and management of all phases of the business of the Dealership with authority to make all decisions on behalf of DEALER with respect to the operation of the Dealership and the performance of this Agreement.

VI. CHANGE IN OWNERSHIP OR MANAGEMENT

SUZUKI has entered into this Agreement in reliance on DEALER's representation that the persons identified as Owners and/or General Manager in section IV and V herein possess the ability, experience and other personal qualifications requisite for the performance of this Agreement. Therefore, if there is to be a change in the person(s) named as having full ownership and/or full managerial authority as General Manager and responsibility for the operation and management of the Dealership, DEALER must give prior written notice of the change to SUZUKI (except a change caused by death, in which case DEALER or the DEALER's legal representative shall give immediate written notice to SUZUKI). No such change or notice shall alter or modify any of the provision in this Agreement until embodied in an appropriate written amendment and executed by all parties. SUZUKI will not unreasonably withhold consent to a change in ownership or management, provided that SUZUKI receives all information requested by it concerning the prospective owner(s) and/or General Manager, and provided that the prospective owner(s) and/or General Manager meet(s) all SUZUKI financial qualifications in effect at the time of the proposed change.

VII. LICENSING OF DEALER

If any state, city or other jurisdiction where the Dealership operations are to be located and conducted requires DEALER to obtain and maintain a license for the conduct of Dealership operations as set forth herein, this Agreement shall not be valid until and unless DEALER shall have first provided to SUZUKI certification of the issuance of such license(s) to DEALER. DEALER shall immediately notify SUZUKI in writing of failure to obtain or maintain any such licenses or renewal thereof. DEALER shall further notify SUZUKI in writing if any license that DEALER has obtained pursuant to this Paragraph is suspended or revoked and the date and reasons therefor.

VIII. INCORPORATION OF STANDARD PROVISIONS

The Suzuki Dealer Sales and Service Agreement Provisions accompanying this Agreement are incorporated herein by this reference and made a part of this Agreement with the same force and effect as if fully set forth in this point.

IX. INCORPORATION OF DOCUMENTS AS PART OF AGREEMENT

The Dealer Application, Facility Standards Addendum, Dealer Minimum standards Addendum and Dealer Updates are incorporated by this reference and made a part of this Agreement with the same force and effect as if all the representations and warranties in the Dealer Application, and all terms and conditions of the Facility Standards Addendum, Dealer Minimum Standards Addendum and Dealer Updates were set forth in full herein. The DEALER represents and warrants and SUZUKI enters into this Agreement in reliance upon those representations and warranties that all representations and warranties made by the DEALER in the Dealer Application, Facility Standards Addendum and Dealer Minimum Standards Addendum are true and correct as of the date of execution of this Agreement.

X. CONDITIONS OF SUZUKI'S OFFER

If this Agreement is not terminated prior to its expiration date as set forth above, SUZUKI hereby offers to enter into a three-year American Suzuki Corporation Dealer Sales and Service Agreement with DEALER in such form as shall be in use by SUZUKI at that time. This offer may be accepted by DEALER fulfilling all of the following conditions during the term of this Agreement and at the expiration thereof, each of which DEALER recognizes, understands and agrees as being reasonable and necessary.

(a) Provide through acquisition or construction, and maintain the following facilities for the Suzuki Dealership and for the sale, leasing and servicing Suzuki Products:

40 "B" Street Sparks, Nevada 89431

Dealer shall not establish or conduct any Dealership operations which are the subject of this Agreement, including the display, sale, leasing or servicing of Suzuki Products, at any location or facility other than as set forth above or in the Facility Standards Addendum.

(b) Complete the acquisition and installation, at the Dealership Facilities, of improvements, signs, furniture and furnishings, tools and equipment as recommended by SUZUKI for the Dealership;

(c) Employ such personnel, in qualification and number, as recommended by SUZUKI for the Dealership;

(d) Furnish SUZUKI, on forms or int he formate designated by SUZUKI, by the tenth (10) day of each month, with the financial and operating statements set forth in section 3.04 of the Standard Provisions;

(e) Comply with all other of SUZUKI's standards of DEALER to operate the Dealership and qualify in all other respects for a Suzuki three-year Dealer Sales and Services Agreement;

(f) Company with all federal, state and local governmental statues, ordinances, rules, regulations and standards to conduct business as an authorized Suzuki Dealer at the Dealership Facilities;

(g) Other conditions:

o Complete and maintain a minimum of two (2) Suzuki trained technicians in Product intro and EFI to service the Suzuki product line by the expiration of this agreement.

o Install and maintain approved Suzuki signage in accordance with paragraph 2.02 of the Standard Provisions of the Dealer Sales and service Agreement by the expiration of this agreement.

o Maintain average monthly District, Region, or National total sales per dealer, whichever is highest, during the entire term of the Term Dealer Sales and Service Agreement.

o Pursuant to section 5.02 of the Suzuki Standard Provisions, DEALER agrees to obtain and maintain adequate flooring arrangements conforming to the requirements established and approved by SUZUKI, in no event less than $500,000.

o Utilize Suzuki financial statement and submit by the 20th of each month to National AND Regional Offices during the term of this agreement.

o Install and maintain Suzuki information Center during the term of this agreement.

o Install and maintain Suzuki SCAT System by the expiration of this agreement.

Should DEALER fail to fulfill each and every condition set forth in this paragraph during the term of the Agreement and prior to the expiration thereof, the above offer made by SUZUKI shall be automatically revoked on the expiration date set forth in Paragraph III without further notice to dealer.

XI. EFFECT OF LEGAL PROCEEDINGS ON SUZUKI'S OFFER TO DEALER

Should a proceeding of any nature be filed with or initiated in any court or administrative body seeking to prevent or delay SUZUKI from entering into a Dealer Sales and Service Agreement with DEALER and/or seeking damages resulting from SUZUKI doing so, SUZUKI shall be under no obligation to enter into such Agreement during the pendency of such proceeding. Furthermore, if, as a result of such proceeding, SUZUKI shall be ordered or prevented from entering into such an Agreement with Dealer, the offer contained in Section X herein shall be void and SUZUKI shall have no liability to DEALER whatsoever for any damages which DEALER may incur as a result thereof.

XII. BREACH OF AGREEMENT BY DEALER

Should DEALER fail to comply with and fully and completely carry out all of the terms and conditions of this Agreement, including those incorporated by reference, such failure shall constitute a material breach of this Agreement and SUZUKI shall be under no obligation whatsoever to DEALER to extend this Agreement in whole or in part, to enter into a regular three year Dealer Sales and Service Agreement with DEALER or be under any other obligation or have any liability to DEALER whatsoever.

XIII. ONLY AGREEMENT

Unless expressly referred to and incorporated herein, this Agreement cancels and supersedes all previous contracts, agreements and understandings between SUZUKI and DEALER with respect to Suzuki Products, and there are no promises, representations, understandings or agreements except as stated herein.

IN WITNESS WHEREOF the parties hereto have executed this Agreement this 6th day of October, 1997.

AMERICAN SUZUKI MOTOR CORPORATION
Automotive Division

By: /s/ M. Nagura
M. Nagura, President

LITHIA SALMIR, INC., dba Dick Donnelly Lincoln, Mercury, Audi, Suzuki, Isuzu

Dealer Entity Name

By:
President

By:
Secretary

DEALER MINIMUM STANDARD ADDENDUM

Dealer:	Sidney B. DeBoer
Dealer Code:	427063
Firm Name:	Lithia Salmir, Inc.
DBA:	Dick Donnelly Lincoln, Mercury, Audi, Suzuki, Isuzu
Region:	Los Angeles
Sale District:	A03
Service District	A03
Address:	40 "B" Street
City:	Sparks
State:	Nevada
Zip Code:	89431

MANAGEMENT OFFICE

Business Name:	Lithia Salmir, Inc.
Phone:	702-851-5000
Fax Number:	702-851-5017
Address:	7175 South Virginia
City:	Reno
State:	Nevada
Zip Code:	89610

SOURCE

Credit Institution:	U.S. Bank
Phone:	541-776-2506
Credit Line:	$1,000,000
Address:	131 Main Street
City:	Medford
State:	Oregon
Zip Code:	97501

PERSONNEL

	Standard	Actual
Sales Manager	1	1
Salesmen	4	8
Service Manager	1	1
Parts Manager	1	1
Technicians	2	2

REQUIREMENTS

	Ordered	Complete
Advertising Materials		X
General Workshop Equipment		X
Initial Parts Order		X
Initial Accessories Order		X
SCAT Plus System		X
Special Tool Kit		X
Temporary Signage		N/A
Signage		X
Suzuki Information Center		X

Copy of Documents Files With State: Articles of Incorporation Dealer Entity: Corporation

LITHIA SALMIR, INC., DBA DICK DONNELLY LINCOLN, MERCURY, AUDI, SUZUKI, ISUZU
(Dealer)

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer, President
9/25/97

AMERICAN SUZUKI MOTOR CORPORATION
(Automotive Division)

By: /s/ M. Nagura
M. Nagura, President
10/6/97

FACILITY STANDARDS ADDENDUM

Lithia Salmir, Inc., dba

Dick Donnelly Lincoln Mercury, Audi, Suzuki, Isuzu Sparks, Nevada 89431 October 6, 1997

Dealer Code: 427063

Main Location and Use: 40 "B" Street; Sales, service, parts.

Facility		
Showroom, inclusive of Closing Offices:*		3,400
General Office and Customer Lounge:*		375
Parts:*	2,000	
Dedicated Suzuki Parts:*	600	
Service:*	13,200	
Dedicated Suzuki Stalls/Hoists:	3/3	
Body Shop:*	N/A	
Land		
New Vehicle Display:*	12,000	
New Vehicle Storage:*	6,000	
Customer Parking:*	2,000	
Service Customer Parking:*	6,000	
Used Car Display:*	3,500	
Totals		
Building:	18,975	
Land:	29,500	
Total Land and Building:	48,475	

* Total Facility.

Facilities Owned by: Dealer Realty Corporation or Similar Entity Facilities are: Permanent

LITHIA SALMIR, INC., DBA DICK DONNELLY LINCOLN, MERCURY, AUDI, SUZUKI, ISUZU
(Dealer)

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer, President
9/25/97

AMERICAN SUZUKI MOTOR CORPORATION
(Automotive Division)

By: /s/ M. Nagura
M. Nagura, President
10/6/97

SUZUKI

AGREEMENT FOR SATELLITE FACILITY

THIS AGREEMENT, effective October 6, 1997, is entered into by and between AMERICAN SUZUKI MOTOR CORPORATION, Automotive Division, a California corporation (hereinafter referred to as "SUZUKI"), having its principal place of business at 3251 East Imperial Highway, Brea, California, and LITHIA SALMIR, INC., a corporation, doing business as DICK DONNELLY LINCOLN, MERCURY, AUDI, SUZUKI, ISUZU, having its principal place of business at 40 "B" Street, Sparks, Nevada 89431 (hereinafter referred to as "DEALER").

WHEREAS, SUZUKI AND DEALER are parties to a Three Year Dealer Sales and Service Agreement, dated October 6, 1997 whereby DEALER is an authorized Suzuki dealer and is granted a dealership for Suzuki products; and

WHEREAS, DEALER desires to carry on the business of the above-mentioned Suzuki dealership, specifically the sale of Suzuki vehicles, at more than one location; and

WHEREAS, DEALER in furtherance of said desire to operate a sales operation at a location in addition to its primary facility desires to establish a sales-only satellite facility at a location approved by SUZUKI; and

WHEREAS, DEALER has advised SUZUKI of such intention to establish a sales-only satellite facility and SUZUKI has relied on the representations of DEALER that he will establish and maintain a sales-only satellite facility to the satisfaction of SUZUKI as set forth herein below incorporated herein as if fully set forth.

THEREFORE, based on the foregoing facts, in consideration of the mutual promises and other valuable consideration, the receipt of which is hereby acknowledged, and subject tot he terms and conditions set forth herein, the parties hereto agree as follows:

1. Rights Granted to DEALER

Subject to terms of this Agreement, SUZUKI hereby grants to DEALER, as a nonexclusive authorized dealer for Suzuki Products, the right to

a. Establish a sales-only satellite facility, as approved by SUZUKI, for the sales and lease of Suzuki Products to the satisfaction of SUZUKI from the sales-only satellite facility located at 7175 S. Virginia Street, Reno, Nevada 89511;

b. Identify itself as an authorized Suzuki Dealer at said location by utilizing and maintaining Suzuki-approved signage conforming to the requirements established by SUZUKI; and

c. Use the name "Suzuki" and the Suzuki trademarks in the advertising, promotion, sales and leasing of Suzuki Products from said sales-only satellite facility.

2. Responsibilities Accepted by DEALER

a. DEALER agrees to establish and maintain a sales-only satellite facility as states in Paragraph 1 a), to the satisfaction of SUZUKI as set forth herein, and in accordance with the Satellite Facility Standards Addendum attached hereto, which by this reference is incorporated as if fully set forth. DEALER shall not establish or conduct any sales activities, including the display, sale or lease of Suzuki Products, at any location or facility other than its primary facility and the above-mentioned sales-only satellite facility as approved by SUZUKI. DEALER shall obtain prior written approval from SUZUKI should DEALER desire to change the location of this sales-only satellite facility. Failure to obtain such prior written approval shall constitute grounds for termination of this Agreement.

b. DEALER agrees to, and shall, comply with all applicable state and local laws and regulations with respect to the establishment and operation of said sales-only satellite facility, including but not limited to obtaining a separate license for such facility as well as all approvals required by state and/or local law and codes.

c. DEALER agrees to sell, lease and promote the Suzuki Products sold at the said sales-only satellite facility subject to, and in accordance with, the terms and conditions set forth herein.

d. DEALER agrees to build and maintain public confidence and respect in DEALER and Suzuki Products by maintaining the highest ethical standards in advertising, business practices and conduct at such sales-only satellite facility.

e. DEALER acknowledges, understands and agrees that customer satisfaction is of utmost importance and that DEALER is responsible for building and maintaining customer satisfaction. DEALER further acknowledges and agrees that because a sales-only facility, as contemplated by DEALER, does not provide all the services that a full sales, parts and service dealership provides, a customer could be inconvenienced and become dissatisfied with DEALER and Suzuki Products. Therefore, in light of the foregoing, if a high level of customer satisfaction is not achieved by the sales-only satellite facility which is the subject of this Agreement, such customer dissatisfaction would constitute grounds for termination of this Agreement, and SUZUKI reserves the right to terminate this Agreement with respect to the sales-only satellite facility.

f. DEALER understands, acknowledges and agrees that because the sales-only satellite facility does not provide for repair or other services with respect to Suzuki-brand vehicles, the customer must be informed as to the availability of such services. Therefore, before the retail sale of a Suzuki vehicle is completed, DEALER agrees to, and shall, fully advise every customer in writing, at the sales-only satellite facility, as to where the customer can go for service and where the vehicle can and will be serviced. Furthermore, DEALER shall provide each customer with detailed written instructions and/or directions for the service drop-off location before the retail sale of a Suzuki vehicle is completed.

g. DEALER understands and agrees that the permission granted herein for DEALER to establish and operate a sales-only satellite facility as described above is conditioned upon and subject to: i) the Dealer sales and Service Agreement entered into between the parties hereto being in full force and effect; and ii) DEALER receipt and maintenance of all licenses, permits and approval required by law therefor. DEALER further understands and agrees that it shall be his sole responsibility and obligation to obtain such licenses, permits, and approvals and that SUZUKI shall have no responsibility in that regard. DEALER shall immediately notify SUZUKI in writing of failure to obtain or maintain such licenses or renewals thereof. DEALER shall further notify SUZUKI in writing if any license that DEALER has obtain pursuant to this paragraph is suspended or revoked, and the date and reason therefor.

3. Term

This agreement shall come into full force and effect at SUZUKI headquarters in Brea, California when executed by SUZUKI and shall continue in full force and effect for so long as the Dealer Sales and Service Agreement entered into between the parties hereto remains in full force and effect, except that SUZUKI reserves the right to terminate this Agreement at SUZUKI's sole option and for any reason upon sixty (60) days notice to DEALER.

4. Signage

DEALER shall erect and maintain in such sales-only satellite facility authorized sales signs conforming to the requirements established and approved by SUZUKI. Due to applicable government statutes, ordinances and regulations, DEALER shall a) pursue and obtain a variance, if necessary, and b) if, and only if, the Suzuki-authorized signage is not allowed by ordinance, and DEALER's attempt to obtain a variance fails through no fault of DEALER, DEALER shall provide an alternate signage proposal acceptable to SUZUKI. DEALER shall obtain and maintain all licenses and/or permits necessary to the erection and maintenance of SUZUKI signage.

5. Location

Except for his primary dealership premises, DEALER shall sell and lease at retail the SUZUKI Products only at the sales-only satellite facility, or any part of its operation, prior written approval from SUZUKI must be obtained. Failure to obtain such prior approval shall be a material breach of this Agreement and shall constitute grounds for termination of this Agreement.

6. Personnel

DEALER shall at all times employ competent and adequate personnel including, but not limited to, a sales manager and salespeople, to sell and lease the Suzuki Products in a manner satisfactory to SUZUKI.

7. Inventory Responsibility

With respect to the above-described sales-only satellite facility, DEALER shall maintain at all times an adequate stock of new undamaged, and marketable Suzuki Products for display, demonstration and sale at said sales-only satellite facility.

8. Delivery of Vehicles

SUZUKI will only be responsible for delivery of Suzuki-brand vehicles to DEALER's primary dealership location. DEALER shall be responsible for transporting vehicles to the sales-only satellite facility.

9. Dealer Directives

DEALER shall at all times comply with SUZUKI's existing and future directives, bulletins and manuals pertaining to sale of Suzuki Products form said sales-only satellite facility.

10. Sales

All sales of Suzuki Products to DEALER will be at Dealer Prices published by SUZUKI in the Dealer Price Lists.

11. Title

Title to Suzuki Products passes to DEALER from SUZUKI only upon payment in full for the Suzuki Products shipped to DEALER.

12. Advertising Standards

SUZUKI and DEALER recognize the need to maintain at all times the highest ethical standards in advertising and which evoke an image consistent with the equality and reputation that SUZUKI and Suzuki Products enjoy in order to maintain public confidence in, and respect for, DEALER, SUZUKI and Suzuki Products. Accordingly, DEALER shall not publish, nor cause or permit to be published, advertising relating to Suzuki Products which is not in compliance with all federal, state and local laws, ordinances, rules and regulations or that is likely to mislead or deceive the public or impair goodwill, good name and reputation of SUZUKI, Suzuki Motor Corporation or Suzuki Products. If SUZUKI, in its sole judgment, determines that any of DEALER'S advertising is inappropriate and which may be injurious to SUZUKI's reputation or to the business of SUZUKI or DEALER, it shall so advise DEALER. Upon receipt of such notice, DEALER agrees to immediately discontinue all such appropriate advertising.

13. Termination

a) Written Notice

Either party may terminate this Agreement by giving a sixty (60) days' written notice of termination to the other party.

b) Termination by SUZUKI

Notwithstanding the foregoing, SUZUKI may terminate this Agreement with fifteen (15) days' written notice after the occurrence of any of the following events:

i) DEALER or any of its owners, partners, shareholders, offices or managers engaging in any practice or conduct or being convicted of any felony or the violation of any law that, in the opinion of SUZUKI, may adversely affect the operation or business of the DEALER or be injurious to the goodwill or reputation of SUZUKI, Suzuki Products or other Suzuki Dealers;

ii) The closure of the sales-only satellite facility for any reason for a period in excess of seven (7) days;

iii) Any change in the location of the sale-only satellite facility or any portion of its operation without the prior written consent of SUZUKI;

iv) Any sale or attempted sale of the sales-only satellite facility by DEALER;

v) The insolvency of DEALER, the filing of a voluntary petition in bankruptcy by DEALER, the filing of an involuntary petition to have the DEALER declared bankrupt, the appointment of a receive or a trustee for DEALER, or in the execution by DEALER of an assignment for the benefit of creditors;

vi) Any bulk sale or the attempted sale of the DEALERSHIP assets; and/or

vii) The dissolution of the Dealership if the Dealership is a corporation or a partnership.

14. Termination by Operation of Law

Notwithstanding the provisions above, this Agreement will terminate automatically and without notice from either party int he event of the occurrence of any of the following:

a) The failure of DEALER to obtain any license required for the operation of the sales-only satellite facility in any jurisdiction where this Agreement is performed; and/or

b) The failure of DEALER to secure or maintain the license or renewal thereof, or the suspension or revocation of the license, irrespective of the cause or reason.

15. Insurance

DEALER shall maintain at is own expense adequate insurance against all types of risk and ability, including without limitation, personal liability insurance. Such insurance shall be with an accredited and reputable company. DEALER shall annually furnish SUZUKI with certification for such insurance with evidence showing that premiums have been paid in full.

16. Expenses

Except as set forth herein, SUZUKI shall not be under any liability whatsoever for any expenditure made or expense incurred by DEALER with respect to DEALER's performance of its obligation pursuant to this Agreement.

17. Only Agreement

This Agreement when executed by SUZUKI and DEALER shall supersede and cancel all other agreements at that time existing between SUZUKI and DEALER with respect to the sales-only satellite facility which is the subject of this Agreement.

18. No Assignment

This Agreement, based on mutual trust between DEALER and SUZUKI, may not be assigned or transferred by DEALER without the prior written consent of SUZUKI. Any purported assignment without the prior written consent of Suzuki is null and void.

19. Jurisdiction

This Agreement is entered into in Brea, California. Therefore, it shall be construed according to the laws of the state of California and shall be treated in all respects as a California contract. The parties hereby accept and accede to the jurisdiction and venue of the federal and state courts in and for Oregon County, California to resolve any and all disputes arising under this Agreement.

20. Arbitration

All disputes between the parties arising out of or in any way related to this Agreement or the business relationship between the parties shall be subject to and resolved by binding arbitration according to the rules and under the administration of the American Arbitration Association. The site of the arbitration shall be in any federal judicial district where venue would be appropriate under federal law, without regard to the amount allegedly in controversy.

21. Partial Invalidity

If any provision of this Agreement is invalid under or in conflict with the laws of any jurisdiction where this Agreement is to be performed, such provision shall be deemed to be deleted and the remaining provisions of this Agreement shall remain valid and binding.

22. Waiver

The waiver by either party of any breach or violation or any provision of this Agreement shall not be deemed to be a waiver by that party of any subsequent breach or violation of any other provisions herein.

23. Entire Agreement

This Agreement constitutes the entire agreement between the parties relating to the matters set forth and there is no understanding between the parties, either oral or written, which is in conflict with this Agreement.

24. Notice

Whenever a notice, demand or other document is required or permitted to be given by the terms of this Agreement, or any document incorporated by reference, it shall be deemed sufficiently given if delivered personally or by prepaid ordinary mail at the addresses set forth for SUZUKI and DEALER on page one (1) of this Agreement. The addresses set forth may be changed form time to time by notice in writing. Any notice or other document, if sent by mail, shall be deemed to have been given to, and received by the party to whom it was sent as of the date of the mailing.

25. Modification

Any modification or amendment to this Agreement must be executed in the same manner as the Agreement itself.

26. Attorney's Fees

If SUZUKI sues DEALER for lack of performance, monies due, or for any other reason under the terms of the Agreement, SUZUKI shall be entitled to reasonable attorney's fees as determined by a court of competent jurisdiction.

27. Reliance by SUZUKI on Representations of DEALER

DEALER represents and warrants and SUZUKI enters into this Agreement in reliance thereon that all representations and warranties made by DEALER to SUZUKI with respect to the sales-only satellite facility which is the subject of this Agreement are true and correct as of the date of execution of this Agreement.

IN WITNESS WHEREOF the parties hereto have executed this Agreement this 6th day of October, 1997.

AMERICAN SUZUKI MOTOR CORPORATION
(Automotive Division)

By: /s/ M. Nagura
M. Nagura, President

DEALER

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer, President

SATELLITE FACILITY STANDARDS ADDENDUM

Lithia Salmir, Inc., dba

Dick Donnelly Lincoln Mercury, Audi, Suzuki, Isuzu 40 "B" Street Sparks, Nevada 89431

October 6, 1997

Dealer Code: 427063

Main Location and Use: 40 "B" Street; Sales, service, parts.

Deal with: Lincoln-Mercury, Isuzu, Audit used cars

Satellite Facility Location:7175 Virginia Street, Reno, Nevada 89511

Facility
Distance from Main Location: 7 miles
Facility Showroom: 6,500 sq. ft.
Offices and Customer Lounge:1,575 sq. ft.

New Vehicle Display:	24,000 sq. ft.
New Vehicle Storage:	44,800 sq. ft.
Customer Parking:	2,500 sq. ft.
Used Car Display:	10,000 sq. ft.
Totals	
Building:	8,075 sq. ft.
Land:	81,300 sq. ft.

Total Land and Building:89,375 sq. ft.

Satellite Facilities Owned by: Facilities are lease, see section below. Facilities are: Permanent

LITHIA SALMIR, INC., DBA DICK DONNELLY LINCOLN, MERCURY, AUDI, SUZUKI, ISUZU
(Dealer)

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer, President
9/25/97

AMERICAN SUZUKI MOTOR CORPORATION
(Automotive Division)

By: /s/ M. Nagura
M. Nagura, President
10/6/97

Date Lease Expires:	10/16/99
Monthly Lease Rate (Net):	$30,000 per month
Options and/or Contingencies:	10-year option to renew

EXHIBIT 10.12.2

SUZUKI DEALER SALES AND SERVICE AGREEMENT

STANDARD PROVISIONS

The following standard Provisions have been made a part of, and are incorporated by reference, in the American Suzuki Motor Corporation dealer Sales and Service Agreement and shall apply to and govern the transactions, dealings, and relations between SUZUKI and DEALER.

1.00 DEFINITIONS

For the purpose of this Agreement the following terms set forth below shall be defined as indicated:

(a) "Accessories": All accessories for Suzuki Vehicles as defined in
(o) herein below, distributed in the United States by SUZUKI.

(b) "Agreement": This Agreement and the Dealer Application, Facility Standards Addendum, Dealer Minimum Standards Addendum and Dealer Updates as may be issued from time to time.

(c) "Dealership": The business of the DEALER located at the designated Dealer Premises.

(d) "Dealer Application": The signed application of the DEALER presented to SUZUKI which will become part of this Agreement when approved by SUZUKI.

(e) "Dealer Minimum Standards Addendum": The written requirements executed by DEALER and SUZUKI, as amended from time to time by SUZUKI, setting forth the minimum qualifications required by SUZUKI for appointment as a Suzuki Dealer and DEALER's representations as to its fulfillment of those qualifications relied upon SUZUKI for DEALER's appointment as an authorized Suzuki Dealer. In conjunction with the Facility Standards Addendum, it constitutes the criteria by which SUZUKI shall evaluate DEALER's performance to determine whether DEALER qualifies for renewal(s) of its Suzuki Dealership. The Dealer Minimum Standards Addendum has been incorporated by reference and is part of this Agreement as though set forth in full herein.

(f) "Dealer Premises": The specific premises approved for the Dealership by SUZUKI.

(g) "Dealer Prices": The prices in effect at the time of delivery of Suzuki Products as set forth in the Dealer Price Lists that will be charged by SUZUKI to the DEALER exclusive of any charges for transportation, taxes or any other charges.

(h) "Dealer Price Lists": The price lists issued by SUZUKI for Suzuki Products as defined in (n) herein below, as amended from time to time by SUZUKI.

(i) "Dealer Updates": Addendums to the Agreement pursuant to the terms of this Agreement, issued from time to time by SUZUKI to clarify and explain procedures and programs to be followed by the DEALER in the operation of the Suzuki Dealership. The Updates shall be incorporated as part of this Agreement as they are issued.

(j) "Facility Standards Addendum": The written standards for facilities, as amended from time to time by SUZUKI, setting forth the criteria with respect to the physical facilities which DEALER is required to establish and maintain and which was relied upon by SUZUKI in its appointment of DEALER as an authorized Suzuki Dealer. The Facility Standards Addendum, in conjunction with the Dealer Minimum Standards Addendum constitutes the criteria by which SUZUKI shall evaluate DEALER's performance to determine whether DEALER qualifies for renewal(s) of its Suzuki Dealership. Said Facility Standards Addendum shall become part of this Agreement upon execution of the Agreement by SUZUKI.

(k) "Manufacturer's Suggested Retail Price": Any suggested retail price for any Suzuki Product as issued by SUZUKI from time to time.

(l) "Owner(s)": The beneficial owner(s) of the Dealership, listed in this Agreement.

(m) "Parts": All parts of the Four Wheel Vehicles, which are the subject of this Agreement, and/or accessories therefor distributed in the United States by SUZUKI.

(n) "Suzuki Products": Suzuki Four Wheel vehicles manufactured for highway use by Suzuki Motor Co., Ltd. including automobiles, trucks, vans, and four wheel drive vehicles and their successors and the parts and accessories therefor distributed in the United States (except Hawaii) by SUZUKI. Whenever the term "Suzuki Products" is used in this Agreement, it shall be construed as defined herein.

(o) "Suzuki Vehicles": All suzuki automobiles, trucks, vans and four wheel drive vehicles for highway use and their successors manufactured by Suzuki Motor Co., Ltd. and distributed in the United States (except Hawaii) by SUZUKI. This term specifically excludes all ATV recreational vehicles manufactured and distributed by SUZUKI. Whenever the term "Suzuki Vehicles" is used in this Agreement, it shall be construed as defined herein.

(p) "Suzuki Warranty": The warranty issued from time to time by SUZUKI with respect to Suzuki Products and any revisions or supplements thereto.

2.00 PLACE OF BUSINESS

2.01 Location. The DEALER shall be responsible for selling, leasing and servicing at retail the Suzuki Products, but only at the Dealer Premises described in this Agreement by the Facility Standards Addendum and the Dealer Minimum Standards Addendum. If the DEALER desires to change the location of the Dealership, or any part of its operation, prior written approval from SUZUKI must be obtained. Failure to obtain such prior approval shall be a material breach of this Agreement and shall constitute grounds for its termination.

2.02 Identification and Signs. Subject to applicable government statutes, ordinances, rules and regulations, DEALER shall buy from SUZUKI, or from sources designated by SUZUKI, and erect and maintain in good working order on the Dealership Premises, entirely at DEALER's expense, authorized sales and service signs conforming to the requirements established and approved by SUZUKI. DEALER shall obtain and maintain any licenses or permits necessary to erect and maintain such signs. Failure to obtain, erect, maintain, repair, illuminate and prominently display such signs in a manner approved by SUZUKI shall constitute grounds for termination of this Agreement.

2.03 Business Hours. The DEALER shall operate the Dealership in an efficient and businesslike manner during the retail and service hours customary for the DEALER's trade and the area in which the Dealership is located.

3.00 RETAIL SALES

3.01 Suzuki Products and Tradenames. Subject to and in accordance with the terms and conditions of this Agreement, the DEALER shall have the nonexclusive right to:

(a) Purchase from SUZUKI, for sale at retail only, Suzuki Products; and

(b) Identify itself as an authorized Suzuki Dealer by displaying the various tradenames, trademarks and service marks and any other word or design marks that SUZUKI uses in connection with or with respect to the Suzuki Products.

3.02 Personnel. The DEALER shall at all times employ competent and adequate personnel to sell and service the Suzuki Products in a manner satisfactory to SUZUKI. Upon request to do so by SUZUKI, the DEALER, at its own expense, shall send its personnel to any training seminars organized and carried out by SUZUKI.

3.03 Inventory Responsibility. The DEALER shall maintain at all times an adequate stock of new, undamaged, and marketable Suzuki Products for display, demonstration, sale and servicing. Further, the DEALER shall maintain an adequate supply of tools for servicing the Suzuki Products.

3.04 Standard Accounting System. It is mutually beneficial to DEALER and SUZUKI that DEALER keep and maintain standard accounting systems and practices. Therefore, DEALER agrees to maintain its records based upon commonly accepted accounting principles and to establish and maintain a standard accounting system and practices in accordance with the Suzuki Automotive Standard accounting System established and designated by SUZUKI for use by all Suzuki Dealers, as the same may from time to time be amended, revised or supplemented. DEALER further agrees to provide to SUZUKI by the tenth (10th) day of each month, in the manner and form prescribed by SUZUKI, complete and accurate financial and operating statements covering the preceding month and showing calendar year-to-date operations of the Suzuki Dealership.

3.05 Sales Records and Reports. DEALER shall keep an accurate record of its sales of Suzuki Products, in conformity with any statutory and regulatory requirements.

3.06 Retail Delivery Report. DEALER shall immediately upon delivery of a Suzuki Vehicle to a retail purchaser complete and transmit to SUZUKI a report of the retail sale called the "Retail Delivery Report" and furnish SUZUKI with other reports or records as may be reasonably required by SUZUKI in its sole discretion.

3.07 Dealer Reports. DEALER shall furnish reprots of its sales and inventory at intervals no greater than ten (10) days each for each calendar month on the forms provided by SUZUKI. DEALER shall also furnish such reports concerning its financial condition as SUZUKI may reasonably request, including mnthly financial statements, accurately reflecting Suzuki Dealership operations.

3.08 Electronic Data Processing Requirements. In order to promote prompt and accurate reporting of relevant dealership operational and financial information as SUZUKI may require hereunder, DEALER agrees to install and maintain electronic data processing equipment which is compatible with SUZUKI's computer network as it may from time to time be modified, updated or supplemented.

3.09 Dealer Directives. DEALER shall faithfully comply with SUZUKI's existing and future directives, bulletins and manuals pertaining to the sale and servicing of Suzuki Products.

3.10 Promotions. To further expose and popularize the name "Suzuki" and the "Suzuki" Vehicles, SUZUKI may from time to time sell Suzuki Products directly to non-dealers for use in promotions of unrelated merchandise through "give away", "premium", and other forms of promotional programs or in payment for media advertising. DEALER shall cooperate by rendering pre-delivery inspections, delivery and warranty services in connection with such sales, for which DEALER will be compensated at the rates established therefor by SUZUKI.

3.11 Suzuki Product Orders. All orders for suzuki Products shall be submitted in writing by the DEALER to SUZUKI in accordance with Suzuki directives and on the forms that SUZUKI shall supply. All orders are subject to acceptance by SUZUKI's home office in whole or in part. All orders submitted by DEALER shall be binding upon DEALER unless and until they are rejected in writing by SUZUKI; provided, however, that in the event of a partial acceptance by SUZUKI, it is understood that DEALER shall no longer be bound in respect to the part of the order not accepted. SUZUKI will attempt to fill all pre-sold retail orders but cannot be held responsible for its failure to do so, nor for any lost profits or loss of business experienced by DEALER from SUZUKI's inability to supply any pre-sold order.

3.12 Distribution and Delivery. SUZUKI shall endeavor, to the extent practicable, to deliver the new Suzuki Products ordered by DEALER and required in the fulfillment of DEALER's responsibilities under this Agreement. DEALER acknowledges that SUZUKI also has an obligation to endeavor to deliver to Suzuki Products to other Suzuki Dealers who are also required by SUZUKI to fulfill their responsibilities under their Dealer Agreements with SUZUKI. Because of numerous factors that affect the distribution of the Suzuki Products and the relevance of such factors at any given time, SUZUKI does hereby reserve to itself discretion in applying such factors and in processing orders for Suzuki Products from its authorized Dealers. The judgment and decisions of SUZUKI, therefore, shall be final in all matters relating to the distribution and delivery of Suzuki Products to DEALER.

3.13 Force Majeure. SUZUKI shall not be liable for failure to process or for any delay in processing orders for any suzuki Products where such failure or delay is due, in whole or in part, to any of the following: 1) labor, material, transportation or utility shortage or curtailment; 2) Japanese or United States governmental regulation; 3) any import or export restriction; 4) discontinuance of sale by SUZUKI of the Suzuki Products ordered; 5) any labor trouble in the plants of Suzuki Motor co., Ltd., or its suppliers or the transportation and distribution system used by SUZUKI; 6) any curtailment of production due to economic or trade conditions; or 7) any cause beyond the control of, or without the fault or negligence of, SUZUKI.

3.14 Suggested Retail Prices. SUZUKI's Dealer Price Lists will set forth Suggested Retail Prices for the Suzuki Products. The DEALER is under no obligation to accept these Suggested Retail Prices and may sell for a different retail price. If DEALER sells at prices less than, or more than, those suggested, those sales will not affect its business relations with SUZUKI or any other person over whom SUZUKI has control or influence.

3.15 Title. Title to suzuki Products shall pass to the DEALER from SUZUKI only upon payment in full for the Suzuki Products shipped to DEALER. Until payment in full for Suzuki Products is made, SUZUKI retains all right, title, and a security interest in the Suzuki Products.

3.16 Security Interest. DEALER grants to SUZUKI a security interest in all Suzuki Products delivered to DEALER to secure repayment of any indebtedness owing from DEALER to SUZUKI. SUZUKI shall have all the rights of a secured creditor under the Uniform Commercial Code, including the right to take possession of Suzuki Products, without the necessity of legal process, to satisfy outstanding indebtedness. DEALER shall execute all documents and notices as may be required to perfect the security interest of SUZUKI under applicable laws.

3.17 Termination. Upon termination of this Agreement, SUZUKI may cancel any or all pending orders of DEALER for Suzuki Products, whether or not previously accepted by SUZUKI.

4.00 SERVICE

4.01 Service Records. DEALER shall keep an accurate record of its servicing, in conformity with any requirements in the Suzuki Warranty Manual, Dealer Updates and any statutory and regulatory requirements.

4.02 Recommended Service Procedures. DEALER shall faithfully comply with SUZUKI's existing and future directives, bulletins and manuals pertaining to the sale and servicing of Suzuki Products.

4.03 Records and Manuals. DEALER shall maintain and keep updated all manuals, bulletins and records received from SUZUKI. DEALER and its service personnel will have available and be familiar with all service and maintenance manuals provided by SUZUKI.

4.04 Service Schools. DEALER will send Dealer personnel to and participate in, service training classes, service schools, seminars and other dealer employee training courses as provided by SUZUKI from time to time. DEALER acknowledges the need for such school and training to keep current on all Suzuki Products for the protection of DEALER's customers.

4.05 Service Personnel. Service personnel in the Dealership will be competent and adequate to handle all service work on the DEALER's customers. DEALER accepts the responsibility to provide fast, efficient and accurate service work to its customers. From time to time, SUZUKI will make suggestions regarding the improvement and upgrading of DEALER's Service Department and personnel; however, DEALER is solely responsible for all work performed in its Service Department by its service personnel.

4.06 Recall Procedures. If at any time DEALER receives from SUZUKI a notification of certain procedures that DEALER is to follow concerning a recall of any Suzuki Product in conformance with the requirements of the National Highway Traffic Safety act or Consumer Product Safety Commission or any other governmental agency, DEALER shall comply with it. If for any reason DEALER fails or refuses to comply with the procedures outlined in any Suzuki recall notice, DEALER shall be in violation of this Agreement. DEALER acknowledges the necessity of complying with recall notices to insure the protection of the consumer and to comply with government laws, rules and regulations.

4.07 Dealer Distributed Literature. If the sate in which the DEALER is franchised institutes programs which require distribution of material such as Lemon Law disclosures, Consumer Rights brochures or general notices, the DEALER shall in accordance with SUZUKI instructions complete, execute and deliver said material.

4.08 Notice of Complaints. If at any time the DEALER receives any customer complaints which apply to any consumer protection laws, rules or regulations, the DEALER agrees to provide prompt notice to SUZUKI of such complaints and take steps that SUZUKI may reasonably require. The DEALER agrees to perform in a manner that will not adversely affect SUZUKI's rights under such laws, rules and regulations.

5.00 CAPITALIZATION

5.01 Net Working Capital. Dealer agrees to establish and maintain actual net working capital which in SUZUKI's judgment is sufficient to allow the DEALER to effectively perform his obligations under the Agreement.

5.02 Flooring and Lines of Credit. At all times during the term of this Agreement, it is DEALER's sole responsibility, which DEALER hereby accepts and to which he agrees, to obtain and maintain adequate flooring arrangements and lines of credit with a reputable financial institution acceptable to SUZUKI to ensure the availability of sufficient funds to meet DEALER's needs for payment of Suzuki Products ordered by DEALER from SUZUKI.

6.00 CREDIT, FINANCE AND PAYMENTS

6.01 Sales. All sales to DEALER will be at Dealer Prices published by SUZUKI in the Dealer Price Lists.

6.02 Payment for Suzuki Vehicles. Unless financing is arranged with respect to a particular shipment in advance, all payments for Suzuki vehicles shall be made in full at the time of shipment.

6.03 Open Account. Dealer may order Suzuki Products, promotional and miscellaneous items, other than Suzuki Vehicles, on open account, so long as SUZUKI determines DEALER is credit qualified. DEALER agrees to pay for all items billed to its open account per monthly itemized statements. DEALER agrees to pay all late charges, interest, attorneys' fees, court costs and expenses that may be incurred as a result of default on DEALER's open account obligations. Upon default, SUZUKI may suspend or terminate DEALER's open account. SUZUKI may offset any credits due DEALER against debits for sums due SUZUKI.

6.04 Security Interest. DEALER grants to SUZUKI a security interest in all Suzuki Products delivered to DEALER to secure repayment of any indebtedness owing from DEALER to SUZUKI. SUZUKI shall have all the rights of a secured creditor under the Uniform Commercial Code, including the right to take possession of Suzuki Products, without the necessity of legal process, to satisfy outstanding indebtedness. DEALER shall execute all documents and notices as may be required to perfect the security interest of SUZUKI under applicable laws.

6.05 Title. Title to Suzuki Products passes to DEALER from SUZUKI only upon payment in full for the Suzuki Products shipped to DEALER.

6.06 Costs of Return. In the event DEALER's inventory of Suzuki Products is repossessed or returned to SUZUKI or to a financial institution for repurchase by SUZUKI, DEALER agrees to pay reasonable handling costs incurred by SUZUKI according to SUZUKI policy in effect at the time of the return.

6.07 Effect of Termination. Termination of this Agreement, in whatever manner, shall not release DEALER from any obligations or indebtedness owing to SUZUKI.

7.00 ADVERTISING

7.01 Advertising Standards. SUZUKI and DEALER recognize the need to maintain at all times the highest ethical standards in advertising and which evoke an image consistent with the quality and reputation that SUZUKI and Suzuki Products enjoy in order to maintain public confidence in, and respect for, DEALER, SUZUKI and Suzuki Products. Accordingly, DEALER shall not publish, nor cause or permit to be published, advertising relating to Suzuki Products which is not in compliance with all federal, state and local laws, ordinances, rules and regulations or that is likely to mislead or deceive the public or impair the goodwill, good name and reputation of SUZUKI, Suzuki Motor Co., Ltd. or Suzuki Products. If SUZUKI, in its sole judgment, determines that any of the DEALER's advertising is inappropriate or which may be injurious to SUZUKI's reputation or to the business of SUZUKI or DEALER, it shall so advice DEALER. Upon receipt of such notice, DEALER agrees to immediately discontinue all such inappropriate advertising.

7.02 Participation. DEALER shall participate in any existing or future cooperative advertising program with SUZUKI. DEALER shall use its best efforts to promote and sell Suzuki Products. In that regard, DEALER shall also maintain an effective advertising program aimed at enhancing the sale of Suzuki Products.

7.03 Voluntary Dealer Cooperative Advertising Association. SUZUKI and DEALER recognize the benefits which may be derived from a comprehensive, join advertising effort by Suzuki Dealers. Accordingly, DEALER may, if DEALER elects to do so on a completely voluntary basis, participate in the formation and effective operation of a voluntary cooperative dealer advertising association. Each Suzuki Dealer Advertising Association will finance its advertising programs through the voluntary assessment of a fixed charge of no less than 2% or $150.00 of the total dealer price per vehicle, excluding freight, for each new Suzuki Vehicle purchased by Suzuki Dealers who voluntarily choose to participate as members of an advertising association. AS a service to the dealer association, SUZUKI will collect the agreed upon charge, provided that the dealer association maintains control over both the amount of the assessment and manner in which such funds will be expended.

8.00 TRANSPORTATION

8.01 Delivery. SUZUKI shall select the distribution points, carriers and methods of transportation in effecting delivery of Suzuki Products to DEALER. DEALER agrees to reimburse SUZUKI for any delivery, freight handling and other charges which appear on SUZUKI's invoice to DEALER.

8.02 Refusal of Delivery. If SUZUKI is required to divert any Suzuki Products ordered by DEALER because of DEALER's failure or refusal to accept such product, DEALER assumes responsibility for, and will pay charges incurred by SUZUKI as a result of such diversion. In addition, DEALER shall pay all charges for storage and other charges related to such diversion.

8.03 Force Majeure. Although SUZUKI will use due diligence to promptly ship orders accepted by it, SUZUKI shall not be liable for any delay in shipment caused by a shortage of supply, riot, war, government regulation, willful acts of a third party, labor problems, import or export restriction, acts of God, or any other cause beyond SUZUKI's control. It is understood and agreed that SUZUKI will attempt to fill all orders accepted by it, but SUZUKI takes no responsibility for failure to fill any of DEALER's orders.

8.04 Risk of Loss. Notwithstanding the reservation of title in SUZUKI as provided in Paragraphs 3.15, 6.04 and 6.05, all risks with respect to the Suzuki Products shall pass to and be assumed by DEALER at the time of delivery to the DEALER, or its agents, or to the carrier of the Suzuki Products. DEALER shall insure Suzuki Products upon delivery to DEALER against all risks and perils at DEALER's own expense.

8.05 Product Return. SUZUKI will not accept the return of Suzuki Products except in cases where SUZUKI has agreed in writing to do so where required by State law. Upon receipt of such written authorization from SUZUKI, DEALER may return Suzuki Products under the following conditions:

(a) DEALER shall pay all transportation and handling charges; and

(b) DEALER shall pay to SUZUKI a restocking charge in accordance with the terms and conditions of SUZUKI policy in effect at the time of return.

9.00 PRODUCT WARRANTY

9.01 Warranty Records. DEALER shall keep an accurate record of its warranty servicing of Suzuki Products, in conformity with any requirement in the Dealer Updates, Warranty Manual and any statutory and regulatory requirements.

9.02 Warranty Responsibility. DEALER shall diligently perform all warranty and servicing obligations in accordance with the scale of remuneration established by SUZUKI from time to time, whether or not the DEALER sold the Suzuki Products to the customer requiring such servicing.

9.03 Dealer Obligation. DEALER acknowledges its obligation to, and shall provide all warranty service, consistent with the Suzuki Limited Warranty applicable to each Suzuki Product, regardless of the origin of purchase of said Suzuki Product.

9.04 Warranty Service and Credit. DEALER will install any replacement parts and make certifications or verifications, perform maintenance and service, and do all other things that may be required under the terms of the Suzuki Limited Warranty, or inspection, correctional, or recall campaigns. SUZUKI will credit DEALER's account for warranty service and inspection, corrections or recalls DEALER performs at the request of SUZUKI.

9.05 No Other Warranties. DEALER acknowledges that the Suzuki Limited Warranty is the only warranty made or deemed to have been made by SUZUKI or Suzuki Motor Co., Ltd. and that neither DEALER, nor its agents or employees, are authorized to extend or enlarge upon the Suzuki Limited Warranty by any oral or written means. DEALER further acknowledges that SUZUKI will not assume nor authorize any person to assume on its behalf, any other obligation of liability in regard to the Suzuki Products.

10.00 PARTS

10.01 Inventory. DEALER agrees to maintain an adequate inventory of Suzuki Parts to fulfill customer service and warranty requirements. If, in the sole judgment of SUZUKI, DEALER fails to maintain an adequate inventory of Suzuki Parts to satisfy customer needs, such failure will constitute a violation of this Agreement.

10.02 Genuine Suzuki Replacement Parts. DEALER will not sell any part to a customer as a Suzuki part, unless it is a genuine Suzuki Part. If DEALER does so, it shall be a violation of this Agreement.

10.03 Shipment Acceptance. DEALER will accept all shipments of suzuki Parts ordered by it. In the event of an error in a shipment by SUZUKI, the DEALER must submit a parts discrepancy report and receive prior written approval of SUZUKI before returning the parts.

11.00 TERMINATION

11.01 Termination by DEALER. DEALER may terminate this Agreement be serving thirty (30) days' written notice of termination on SUZUKI.

11.02 Termination by SUZUKI. In the event that DEALER breaches or violates any of the duties, obligations or responsibilities set forth herein or any of the terms, conditions or undertakings in the Dealer Application, Dealer Updates, the Facility Standards Addendum or the Dealer Minimum Standards Addendum, SUZUKI may terminate this Agreement be giving the DEALER written notice as provided below. SUZUKI need not state all grounds on which it relies for its termination of DEALER. SUZUKI's failure to refer to additional grounds for termination shall not constitute a waiver of its right to rely on such grounds.

11.03 Sixty (60) Days' Notice. SUZUKI may terminate this Agreement with sixty (60) days' notice after the occurrence of any of the following events:

(a) A disagreement or personal difficulty between or among the owners, partners, shareholders, officers or managers of DEALER that, in the opinion of SUZUKI, may adversely affect the ownership, operation, management or business of DEALER, or the presence in the management of DEALER of any person who, in the opinion of SUZUKI, does not have or no longer has the requisite qualifications for his position;

(b) Any change in the legal or beneficial ownership or control of DEALER without the prior written consent of SUZUKI to such changes, or any misrepresentation thereof;

(c) The death, incapacity, removal, resignation, withdrawal, elimination or disassociation from DEALER of any owner, partner, shareholder, officer or manager identified herein.

(d) Failure of DEALER to properly obtain, erect, maintain, repair and illuminate signs and other displays in a manner approved by SUZUKI as required under the provisions of this Agreement.

(e) DEALER's failure to honor any commitment made to SUZUKI including, but not limited to, those made in the Facility Standards Addendum, Dealer Minimum Standards Addendum, Dealer Updates or any other document incorporated by reference herein;

(f) DEALER's failure to submit any reports, financial or otherwise, required by SUZUKI hereunder, or in any Update;

(g) DEALER's financial condition becoming such that, in the opinion of SUZUKI, DEALER is unable to carry out his obligations hereunder satisfactorily;

(h) The failure on the part of DEALER to pay any account, including any monies for Suzuki Satisfaction System Contracts sold, owing to SUZUKI when due;

(i) Any agreement, understanding or contract entered into by DEALER, oral or written, with any other Dealer or Dealers for the purpose of fixing retail prices of Suzuki Products.

(j) The imposition of a levy against DEALER under attachment, garnishment, execution or other similar process, except those garnishments or executions pertaining to obligations of DEALER's employees; or

(k) Any assignment or attempted assignment of this Agreement or any part thereof without the prior written consent of SUZUKI.

11.04 Fifteen (15) Days' Notice. SUZUKI may terminate this Agreement with fifteen (15) days' written notice after the occurrence of any of the following events:

(a) DEALER or any of its owners, partners, shareholders, officers or managers engaging in any practice or conduct or being convicted of any felony or the violation of any law that, in the opinion of SUZUKI, may adversely affect the operation or business of the DEALER or be injurious to the goodwill or reputation of SUZUKI, Suzuki Products or other Suzuki Dealers;

(b) The closure of the Dealership for any reason for a period in excess of ten (10) days;

(c) Any change in the location of the Dealer Premises or any portion of its operation without the prior written consent of SUZUKI;

(d) Any submission by DEALER of a false or fraudulent application, and/or any supporting claim or statement to SUZUKI, for payment by SUZUKI related to warranty repairs, special or recall adjustments performed by the DEALER, or for any other discount, allowance, refund, or credit under any plan, provision or program offered by SUZUKI to the DEALER whether or not the DEALER offers or makes to SUZUKI or SUZUKI seeks or obtains from the DEALER restitution of any payment made to the DEALER on the basis of any false or fraudulent applications, claims or statements;

(e) Any sale or attempted sale of Dealership by DEALER without the prior written approval of SUZUKI;

(f) The insolvency of the DEALER, the filing of a voluntary petition in bankruptcy by the DEALER, the filing of an involuntary petition to have DEALER declared bankrupt, the appointment of receiver or trustee for the DEALER, or the execution by DEALER of an assignment for the benefit of creditors;

(g) Any bulk sale or the attempted sale of the Dealership assets; or

(h) The dissolution of the Dealership if the Dealership is a corporation or a partnership.

11.05 Operation of the Law. Notwithstanding the provisions above, the Agreement will terminate automatically and without notice from either party in the event of the occurrence of any of the following:

(a) The failure of DEALER to obtain any license required for the operation of the Dealership in any jurisdiction where this Agreement is performed; or

(b) The failure of DEALER to secure or maintain the license or renewal thereof, or the suspension or revocation or the license, irrespective of the cause or reason.

11.06 Termination Liability. Upon termination, DEALER shall cease to be an authorized Suzuki Dealer and shall:

(a) Pay forthwith to SUZUKI all sums then outstanding and owing by DEALER to SUZUKI;

(b) Allow SUZUKI to audit DEALER's records with regard to its sales of the Suzuki Satisfaction System contracts and pay forthwith to SUZUKI all sums due and owing for any and all Suzuki Satisfaction System contracts sold for which monies have not been paid by DEALER. DEALER agrees that SUZUKI shall have the right to debit DEALER's parts account for any such sums due and owing on Suzuki Satisfaction System contracts sold by DEALER;

(c) Remove forthwith, at its own expense, all SUZUKI signs which are displayed at Dealer's Premises;

(d) Refrain from all further use whatsoever of any tradename, trademark, logo, service mark, or any word or design that SUZUKI has used or uses in connection with or with respect to Suzuki Products, including in its stationery and other printed material and, if necessary, including changing its corporate or business name;

(e) Cease representing itself as an authorized Suzuki Dealer for Suzuki Products; and

(f) Return to SUZUKI all technical and/or service literature, advertising and other printed material in DEALER's possession which relate to Suzuki Products.

11.07 SUZUKI Option to Repurchase. Upon the termination of this Agreement, SUZUKI shall have the option to purchase from DEALER, free and clear of all liens, charges and encumbrances, any of the follows:

(a) New, unused, unaltered, undamaged, unlicensed and marketable current model Suzuki Vehicles, with mileage of 100 miles of less, which were purchased by DEALER from SUZUKI, and are in DEALER's inventory, at DEALER's vehicle price less destination charges and any voluntary advertising associated assessments made on behalf of a Suzuki Advertising Association. SUZUKI shall pick up said Suzuki Vehicles and pay all transportation charges for return of said vehicles; and

(b) The new, current model Suzuki Parts and Accessories at SUZUKI's invoice price to DEALER, less SUZUKI's prevailing restocking charge, but only if delivered by DEALER at DEALER's expense, to SUZUKI's Parts Warehouse located nearest DEALER provided however, that these Suzuki Parts and Accessories must be in a new,unused,undamaged and saleable condition and in the original package and original package quantity; provided further, that SUZUKI will not purchase any Suzuki Parts or Accessories which SUZUKI deems to be obsolete.

11.08 Application of Credit. If SUZUKI exercises its option to repurchase, any indebtedness owed by DEALER to SUZUKI may be applied against the purchase price and the balance if any, owing to DEALER shall be paid to DEALER only after verification by SUZUKI of the inventory of purchased Suzuki Products.

12.00 INDEMNIFICATION

12.01 Indemnification by SUZUKI. SUZUKI agrees to assume the defense of DEALER and to indemnify, and hold DEALER harmless in any lawsuit naming DEALER as a defendant and involving any Suzuki Product when the lawsuit involves allegation of:

(a) Breach of Suzuki warranty, or bodily injury or property damage arising out of any occurrence allegedly caused solely by a defect in design, manufacture or assembly of a Suzuki Product (except for tires), provided that the defect could not reasonably have been discovered by DEALER during the required pre-delivery service of the Suzuki Product.

Provided:

(b) The DEALER delivers to SUZUKI, within ten (10) days of the service of any summons or complaint, copies of such documents, and requests in writing a defense and/or indemnification;

(c) That the complaint does not involve allegations of DEALER misconduct, including but not limited to, improper or unsatisfactory service or repair, misrepresentation, or any claim of DEALER's unfair or deceptive trade practice;

(d) That the Suzuki Product which is the subject of the lawsuit was not altered by or for DEALER;

(e) The DEALER agrees to cooperate fully in the defense of such action as SUZUKI may reasonably require; and

(f) The DEALER agrees that SUZUKI may offset any recovery on DEALER's behalf against any indemnification that may be required hereunder.

12.02 Indemnification by DEALER. DEALER agrees to assume the defense of SUZUKI and to indemnify and hold it harmless in any lawsuit naming SUZUKI as a defendant when the lawsuit involves allegations of:

(a) DEALER's alleged failure to comply, in whole or in part, with any obligation assumed by DEALER pursuant to this Agreement;

(b) DEALER's alleged negligent or improper repair or servicing of a new or used Suzuki Vehicle or equipment, or such other motor vehicles or equipment as may be sold or serviced by DEALER;

(c) DEALER's alleged breach of any contract or warranty other than that provided by SUZUKI;

(d) DEALER's alleged misleading statements, misrepresentations, or deceptive or unfair trade practices; and

(e) Any modification or alteration made by or on behalf of DEALER to Suzuki Product, except those made pursuant to the express instruction or with the express approval of SUZUKI.

Provided:

(f) That SUZUKI delivered to DEALER, within ten (10) days of the proper service of any summons or complaint, copies of such documents, and requests in writing a defense and/or indemnification;

(g) That SUZUKI agrees to cooperate fully in the defense of such action as DEALER may reasonably require; and

(h) That the complaint does not involve allegations of liability premised upon separate SUZUKI conduct or omissions.

13.00 MISCELLANEOUS PROVISIONS

13.01 Insurance. DEALER shall maintain at its own expense adequate insurance against all types of risk and liability, including without limitation, personal liability insurance. Such insurance shall be with an accredited and reputable company. DEALER shall annually furnish SUZUKI with certification for such insurance with evidence showing that premiums have been paid in full.

13.02 Expenses. Except as set forth herein, SUZUKI shall not be under any liability whatsoever for any expenditure made or expense incurred by DEALER with respect to DEALER;s performance of its obligations pursuant to this Agreement.

13.03 Taxes. DEALER agrees that it shall be responsible for and shall pay any and all sales taxes, use taxes, excise taxes, and other governmental charges whenever imposed, levied or based upon the sale of Suzuki Products by SUZUKI to DEALER and DEALER shall keep accurate and current records of the foregoing for reporting purposes.

13.04 Set off. In addition to any other specific rights of set off otherwise provided in documents affecting DEALER and SUZUKI, SUZUKI shall have the right to set off any sums or accounts due or to become due from DEALER to SUZUKI against any sums or accounts due or to become due from SUZUKI to DEALER.

13.05 No Assignment. This Agreement, based on mutual trust between DEALER and SUZUKI, may not be assigned or transferred by DEALER without the prior written consent of SUZUKI. Any purported assignment without the prior written consent of SUZUKI is null and void.

13.06 Waiver. The waiver by either party of any breach or violation or any provision of this Agreement shall not be deemed to be a waiver by that party of any subsequent breach or violation of any other provisions herein.

13.07 Notice. Whenever a notice, demand or other document is required or permitted to be given by the terms of the Agreement, or any document incorporated by reference, it shall be deemed sufficiently given if delivered personally or by prepaid ordinary mail at the addresses set forth for SUZUKI and DEALER on page one (1) of this Agreement. The addresses set forth may be changed from time to time by notice in writing. Any notice or other document, if sent by mail, shall be deemed to have been given to, and received by the party to whom it was sent as of the date of mailing.

13.08 Survival. The obligations of DEALER upon termination as set forth in Section 11.00 of this Agreement shall survive the termination of this Agreement. Any termination of this Agreement shall be without prejudice to rights accruing hereunder, provided however, that DEALER agrees that SUZUKI shall not be reason of any termination, be liable to DEALER for any compensation, reimbursement, damages or expenses arising from such termination.

13.09 Modification. Any modification or amendment to this Agreement, other than by amendments to the Facility Standards Addendum, the dealer Minimum Standards Addendum and Dealer Updates and transactions under which credit is extended by SUZUKI to DEALER, must be executed in the same manner as the Agreement itself.

13.10 Arbitration. All disputes between the parties arising out of or in any way related to this Agreement or the business relationship between the parties shall be subject to and resolved by binding arbitration according to the rules and under the administration of the American Arbitration Association. The site of the arbitration shall be in any federal judicial district where venue would be appropriate under federal law, without regard to the amount allegedly in controversy.

The law of the State of California shall apply; however, the arbitrator shall not have the power to award exemplary or punitive damages. Nothing in this Agreement to arbitrate shall be construed to prevent either party's use of a court forum for receivership, injunction, repossession, replevin, sequestration, seizure, attachment or other provisional remedies allowed in law or equity. Any award shall be enforceable in any state or federal court having jurisdiction thereof.

13.11 Partial Invalidity. If any provision of this Agreement is invalid under or in conflict with the laws of any jurisdiction where this Agreement is to be performed, such provision shall be deemed to be deleted and the remaining provisions of this Agreement shall remain valid and binding.

13.12 Attorneys' Fees. If SUZUKI is required to retain an attorney to enforce its rights under the terms of this Agreement SUZUKI shall be entitled to reasonable attorneys' fees.

13.13 Jurisdiction. This Agreement is entered into in Brea, California. Therefore it shall be construed according to the laws of the State of California and shall be treated in all respects as a California contract. The parties hereby accept and accede to the jurisdiction and venue of the federal and state courts in and for Orange County, California to resolve any and all disputes arising under this Agreement not subject to the arbitration clause set forth in subsection 13.10.

13.14 Only Agreement. This Agreement when executed by SUZUKI and DEALER shall supersede and cancel all other agreement at that time existing between SUZUKI and DEALER with respect to Suzuki Products.

13.15 Entire Agreement. This Agreement as it may be amended by Updates, etc. constitutes the entire agreement between the parties relating to the matters set forth and there is no understanding between the parties, either oral or written, which is in conflict with this Agreement.

EXHIBIT 10.13.1

BMW OF NORTH AMERICA, INC.

DEALER AGREEMENT

This DEALER AGREEMENT is effective as of the 3rd day of October, 1997, by and between BMW of North America, Inc., a Delaware Corporation having its principal place of business at Woodcliff Lake, New Jersey 07675 ("BMW NA") and

Dealer Name:	Lithia BB, Inc.
Dealer Location:	Bakersfield, California
Business Type:	Corporation

(if a corporation or partnership) organized or incorporated under the laws of the

State of : California

And Doing Business As: BMW of Bakersfield having its principal place of

business at

Address:	3201 Cattle Dr.
City/Town:	Bakersfield, California
County of:	Kern
State of:	California (as "Dealer").

All terms defined in the Dealer Standard Provisions (Form 93/B) are incorporated herein by reference.

PURPOSE OF AGREEMENT

The purpose of this Agreement is to authorize Dealer to operate a BMW automobile dealership and to set forth the responsibilities of both BMW NA and Dealer in providing BMW Products and services to the consuming public.

The United States automotive market requires a fluid relationship between BMW NA and authorized BMW dealers who represent BMW Products. Mutual compliance with the terms of this Agreement will promote the interests of both BMW NA and Dealer by providing each party an opportunity to earn a reasonable return on its investment through developing and retaining satisfied customers and by building a spirit of cooperation between BMW NA and authorized BMW dealers (collectively the "BMW Dealers") which will increase the value and customer perception of BMW trademarks.

BMW NA and Dealer have entered into this Agreement with confidence in each other's integrity, ability and expressed intention to deal fairly with the other party and the consuming public. Dealer is relying upon BMW NA's commitment to distribute quality BMW Products which meet the needs and expectations of the BMW customers in Dealer's primary market and to provide Dealer with a broad range of support activities to assist Dealer in its retail operations. BMW NA is relying upon Dealer's commitment to perform and carry out the responsibilities of an authorized BMW dealer, as set forth in this Agreement. Each party recognizes that it must rely upon the efforts of the other party in performing successfully under this Agreement.

IN CONSIDERATION OF the foregoing and the mutual covenants herein contained, the parties hereto agree as follows:

A. APPOINTMENT OF DEALER

BMW NA appoints Dealer as a dealer of BMW Products. Subject to the terms of this Agreement, Dealer is granted the non-exclusive right to buy BMW Products. Dealer accepts such appointment and agrees to be bound by this Agreement.

While dealer recognizes that its performance will be primarily measured based upon its activities in its Primary Market Area, Dealer agrees that this appointment does not confer upon it the exclusive right to deal in BMW Products in any specific geographic area within the 50 United States, nor does it limit the persons within the 50 United States to whom Dealer may sell BMW Products for use therein.

Dealer agrees that it will not sell BMW Products for resale or use outside the 50 United States. Dealer further agrees to abide by any Export Policy established by BMW NA.

Dealer acknowledges that BMW NA reserves the right to appoint additional dealers, whether located near Dealer's location or elsewhere, as BMW NA in its sole discretion deems necessary or appropriate. BMW NA agrees that it will not explore additional representation without first conferring individually with the BMW Dealer(s) surrounding the proposed location to determine whether other alternatives to additional representation are satisfactory to BMW NA. If a decision is made to proceed with establishment of additional representation, BMW NA will provide such BMW Dealer(s) no less than thirty (30) days written notice of such decision.

B. DEALER STANDARD PROVISIONS AND DEALER OPERATING REQUIREMENTS

The accompanying Dealer Standard Provisions (Form 93/B), Dealer Operating Requirements, Dealer Facility Guidelines, and all currently effective Addenda issued to Dealer by BMW NA, all of which may be amended, canceled or superseded from time to time, are hereby incorporated into this Dealer Agreement ("Incorporated Documents"). Unless the context otherwise indicates, the term "Agreement" shall mean this document, the Incorporated Documents, and the documents referred to therein. Dealer hereby acknowledges receipt of this Agreement and agrees to become familiar with its terms.

While Dealer is not contractually required to comply with the BMW Dealer Operating System, Dealer agrees to consider conforming its operations to the guidelines and recommendations of the BMW Dealer Operating System.

C. DEALER OWNERSHIP AND MANAGEMENT

This is a PERSONAL SERVICES AGREEMENT. BMW NA is entering into this Agreement in reliance upon the qualifications, abilities and integrity of the Dealer Operator and upon the representation of the Dealer's Owner(s) that the

Dealer Operator will have full managerial authority for operations and activities of Dealer. In order to induce BMW NA to enter into this Agreement, Dealer states that:

(i) Dealer's Owners. The beneficial owners, record owners and partners, if any of Dealer are (include Record Owners if different from Beneficial):

Name	%	Record Or Beneficial
Lithia Motors, Inc.	100%	Record

Additional Names Attached ____

(ii) Dealer's Officers. The following persons are Dealer's Officers:

Name	Title
Sidney B. DeBoer	President Secretary/Treasurer
M.L. Dick Heimann	Vice-President

(iii) Dealer's Corporate Directors. If Dealer is a corporation, the following are its Corporate Directors:

Name	Title
Sidney B. DeBoer	President Secretary/Treasurer
M.L. Dick Heimann	Vice-President

(iv) Dealer Operator. The following person shall be in complete charge of Dealer's BMW Operations with authority to make all operating decisions on behalf of Dealer with respect to Dealer's BMW Operations and is the person upon whom BMW NA can rely to act on Dealer's behalf:

Name: James A. Yanco

(v) General Manager. The following is Dealer's General Manager (if none, enter "NONE"):

Name: James A. Yanco

(vi) Successor. The Dealer's Owners have nominated the following individual(s) as proposed Dealer Owner(s) of a Successor dealer to be established if this Agreement is terminated because of the death or permanent disability of any of the Dealers Owners (if none, enter "NONE"):

Name: None

Name:

Because of the importance that BMW NA places on the statements and representations of the Dealer's Owners and the qualifications of the Dealer Operator, Dealer agrees that there will be no change in the (a) identity of the Dealer's Owners (i above); (b) the Dealer Operator (iv above); or (c) Dealer's name, identity, business organization or structure without the prior written consent of BMW NA.

To enable BMW NA to maintain effectively the BMW NA dealer network, Dealer further agrees to provide BMW NA with forty-five (45) days prior written notice of any proposed change in the ownership of Dealer, which would change the majority interest or control of Dealer, or of any proposed disposition of Dealer's BMW assets. Any such change in ownership or disposition of Dealer's BMW assets shall not be effective without the prior written consent of BMW NA which consent shall not be unreasonably withheld. BMW NA shall respond to Dealer's notification within forty-five (45) days after Dealer has furnished to BMW NA all applications and information reasonably requested to evaluate the proposal.

Without limiting other considerations in determining whether BMW NA will provide consent, this Agreement may not be transferred, assigned or assumed until all indebtedness of Dealer to BMW NA, its subsidiaries or affiliates has been fully satisfied and unless the transferee, assignee or party assuming this Agreement agrees and commits to fulfill and complete all of the obligations under this Agreement and the Improvement Addendum (if applicable).

Dealer recognizes that BMW NA has a vital interest in ensuring that qualified personnel are employed by BMW Dealers. Therefore, Dealer agrees to employ personnel who meet the qualifications for each position. BMW NA agrees that Dealer has the right to decide all matters concerning management and personnel.

Dealer has designated herein certain individuals as officers, directors, managers and/or individuals with responsibility for Dealer's BMW Operations. Dealer agrees to notify BMW NA in writing of any change in the designated individuals (ii, iii and v above) and recognizes that such designation shall not relieve Dealer of its responsibility for performance under this Agreement.

Dealer agrees that BMW NA may rely upon the Dealer Operator and General Manager (if applicable) to act on Dealer's behalf and that such reliance will not alter Dealer's responsibilities under this Agreement.

D. DEALER'S FACILITIES

Dealer agrees that Dealer's Facilities shall satisfy all applicable provisions of this Agreement, including reasonable space, facility and BMW Corporate Identification requirements in the Dealer Operating Requirements Addendum and/or Dealer Facilities Guidelines. BMW NA recognizes the investment Dealer has in its facilities and hereby approves the location of the following Dealer's Facilities for the exclusive purpose of:

1) A showroom and sales facility for BMW Vehicles at:

Address: 3201 Cattle Drive, Bakersfield, CA 93313

2) Service and Parts facilities for BMW Vehicles at:

Address: 3201 Cattle Drive, Bakersfield, CA 93313

3) Facilities for the display and sale of used BMW Vehicles at:

Address: 3201 Cattle Drive, Bakersfield, CA 93313

4) Other facilities (indicate the nature of the facility; e.g., storage facility):

Address: NONE

Unless otherwise provided herein, Dealer shall conduct Dealer's BMW Operations and keep BMW Products exclusively at Dealer's Facilities designated above.

In the event that Dealer desires to (i) change its principal place of business from that first set forth in this Agreement; (ii) change any location of Dealer's Facilities; (iii) establish any additional locations for either operating its business or storage of BMW Products; (iv) make any major structural or design change in Dealer's Facilities; or (v) change the usage or function of any locations or facility approved herein or otherwise utilize such locations or facilities for any functions other than the approved functions, Dealer must obtain the prior written approval of BMW NA for any such change or establishment.

In the event Dealer desires to establish or add any additional automobile franchise, line, make or dealership at Dealer's Facilities simultaneously with Dealer's BMW Operations, Dealer agrees to provide BMW NA thirty (30) days prior written notice of such establishment or addition. At the time notice is provided, Dealer shall demonstrate in writing to BMW NA that Dealer will continue to comply with the Dealer Operating Requirements Addendum and will not adversely impact the representation or sale of BMW Products. If Dealer is unable to comply, Dealer shall not pursue such establishment or addition, but may submit a detailed plan of compliance with the Dealer Operating Requirements and Dealer Operating Requirements Addendum to BMW NA. If BMW NA approves the detailed plan of compliance, Dealer may proceed with the establishment or addition. Dealer understands that BMW NA may, at its sole option, reject the plan or require issuance or modification of an Improvement Addendum in the event the plan is approved. Such approval shall not be unreasonably withheld.

E. EXCLUSION OF WARRANTIES

EXCEPT AS SPECIFICALLY PROVIDED FOR IN THE NEW CAR LIMITED WARRANTY, THE LIMITED WARRANTY ON EMISSION CONTROLS, THE LIMITED WARRANTY AGAINST RUST PERFORATION, THE LIMITED WARRANTY ON ORIGINAL BMW PARTS AND THE LIMITED WARRANTY ON ORIGINAL PARTS SOLD OVER THE COUNTER, ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE ARE EXCLUDED. THE EXCLUSION ALSO APPLIES TO

INCIDENTAL, CONSEQUENTIAL, SPECIAL OR INDIRECT DAMAGES FOR ANY BREACH OF EXPRESS OR IMPLIED WARRANTY, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND/OR FITNESS, IF ANY, APPLICABLE TO BMW PRODUCTS.

F. BMW DEALER FORUM

BMW NA and Dealer agree that it is in their mutual interest to have an independent group of BMW dealer representatives serve on the BMW Dealer Forum ("DEALER FORUM"). The DEALER FORUM shall represent BMW Dealers and will communicate the position of BMW Dealers to BMW NA on various common issues. BMW NA and the DEALER FORUM shall establish a mechanism to foster open and frequent communication on substantive issues affecting BMW NA and BMW Dealers.

Each BMW dealer is entitled and encouraged to serve on the DEALER FORUM or on a committee of the DEALER FORUM pursuant to its by-laws and each BMW dealer is expected to support and participate in the DEALER FORUM.

The DEALER FORUM shall adopt by-laws as BMW Dealers deem reasonable and necessary. The DEALER FORUM may establish committees to study various aspects of the retail environment and the BMW NA - BMW Dealers' relationship.

Before any material change may be made to this Agreement, BMW NA agrees to notify the DEALER FORUM and consider BMW Dealers' position regarding the proposed change.

G. TERM

This Agreement shall continue in fill force and effect and shall govern all relations and transactions between the parties commencing on the effective date hereof and continuing as follows:

o If Dealer has fulfilled all of its obligations hereunder and no Improvement Addendum is currently in force, this Agreement shall expire five years from the effective date hereof, unless terminated earlier in accordance with the applicable provisions of this Agreement. In such event BMW NA will renew this Agreement or offer Dealer an opportunity to enter into a superseding Agreement.

o If Dealer has outstanding obligations as of the effective date of this Agreement and/or an Improvement Addendum is in force, this Agreement shall expire on the earlier of three years from the effective date hereof or sixty (60) days following the earliest "Compliance Date" specified in said Addendum, unless otherwise terminated in accordance with the applicable provisions of this Agreement.

H. ALTERNATE DISPUTE RESOLUTION

BMW NA and Dealer agree to minimize disputes between them. However, in the event that disputes arise, BMW NA and Dealer agree that they will attempt to resolve all matters between them before any formal action is taken to seek any administrative or judicial adjudication or governmental review.

A BMW BOARD ("BOARD") will act as the Administrator of all disputes between BMW NA and Dealer arising out of this Agreement. The BOARD will consist of three representatives who will be selected by BMW NA and three representatives of BMW Dealers who will be selected by the DEALER FORUM. The BOARD will determine eligibility requirements, develop procedures to ensure a fair and equitable decision ("ADR PROCEDURES") and select individuals to participate in a DISPUTE RESOLUTION PANEL ("PANEL") to hear an eligible dispute. The PANEL shall consist of at least one BMW NA employee, one BMW dealer and one independent person selected by the BOARD.

The BOARD shall also monitor the dispute resolution process, report to BMW NA and the DEALER FORUM annually on the effectiveness of this process and, when required, make recommendations for changes in this process.

BMW NA and Dealer agree that the process outlined in this Article H and developed by the BOARD in the ADR PROCEDURES will be mandatory. The PANEL's recommendation will be non-binding, unless the parties agree to be bound by the decision of the PANEL. The purpose of the PANEL will be to recommend a resolution and work with the parties to reach a fair and equitable solution to their dispute in a cost-effective, efficient manner and to avoid formal adjudication or government intervention.

If either party to this Agreement initiates any action in court or an administrative agency prior to issuance of a PANEL recommendation on a dispute, that party shall pay all costs, fees and expenses, including attorneys fees, of the other party which arise out of the enforcement of this Article H.

I. RIGHT OF FIRST REFUSAL

BMW NA recognizes the investment which Dealer has committed to remain a BMW dealer. Dealer recognizes the importance to BMW NA of continuing dealership operations from approved locations to provide for effective sale and service of BMW Products. Accordingly, whenever Dealer intends to dispose of Dealer's BMW assets or to change majority ownership from that listed in Article C(i), BMW NA shall have the first right to purchase Dealer's BMW assets or ownership interests pursuant to this Article. Dealer agrees to disclose to the prospective buyer that any sale or disposition shall be subject to the terms of this Dealer Agreement.

BMW NA will advise Dealer if it will exercise the right of first refusal within forty-five (45) days after Dealer has furnished all applications and information in accordance with Article C. If BMW NA exercises the right, BMW NA will assume the proposed buyer's rights and obligations under the written agreement the proposed buyer negotiated with Dealer (the "Buy/Sell Agreement"). The purchase price shall be that set forth in the Buy/Sell Agreement.

In the event BMW NA exercises its right of first refusal, BMW NA may assign the Buy/Sell Agreement to any party. BMW NA shall remain responsible to guarantee the purchase price to be paid by the assignee.

Dealer shall transfer the assets and any applicable real estate free and clear of all liens and encumbrances. Any property shall be transferred by Warranty Deed, where possible, conveying marketable title. Deeds will be in the proper form for recording. Possession will be deemed transferred when the deed is delivered. Dealer will furnish copies of, and will assign where required, all agreements, licenses, easements, permits or other documents necessary for the conduct of Dealer's BMW Operations.

If it exercises its right under this Article, BMW NA will reimburse Dealer for all acceptable expenses, excluding brokerage commissions, incurred by Dealer in connection with the development of the Buy/Sell Agreement. Dealer will supply BMW NA with reasonable documentation to support all those expenses and all copies of materials generated during the negotiation and development of the Buy/Sell Agreement in anticipation of the sale (including environmental reports, accounting reviews, among others.) Any dispute regarding reimbursement shall be presented for review under Article H.

This Article shall not apply in the event that Dealer proposes to change majority ownership, dispose of its assets or otherwise enter into a proposed Buy/Sell Agreement with a member of Dealer's immediate family (spouse, child, brother, sister, parent, grandchild, or spouse of child); to an individual who is listed in the Successor Addendum; to an individual who is currently employed by Dealer and has been actively employed by Dealer for at least three consecutive years in the BMW Operations and is otherwise qualified as a Dealer Operator; or to an individual who is currently listed as a Dealer's Owner in Article C and has been so listed for the past three consecutive years and is otherwise qualified as a Dealer Operator.

J. CUSTOMER SATISFACTION

BMW NA and Dealer agree to conduct their respective businesses to promote and support the image and reputation of BMW NA, BMW Products and BMW Dealers. BMW Products must be perceived as the finest available. BMW NA and BMW Dealers must be recognized as providing the best service in the industry.

Dealer, as the direct link to the BMW customer, is responsible for satisfying customers in all matters, except those directly related to product design and manufacturing. Dealer will take reasonable steps to ensure that each customer is satisfied with BMW Products, and with the services and the practices of Dealer. Dealer will recommend to BMW NA methods of reasonably satisfying customers. BMW NA will support Dealer's customer satisfaction efforts through counseling, training opportunities and providing survey results.

When requested by BMW NA, Dealer shall submit a plan detailing its customer satisfaction programs. That plan shall include continuous reinforcement to all dealership personnel of the importance of customer satisfaction, necessary training for dealership personnel and methods of conveying to customers that Dealer is committed to their satisfaction.

Following consultation with and notice from BMW NA or its authorized representative, Dealer shall remedy to the satisfaction of BMW NA any practice or method of operation which would have a detrimental effect upon customer satisfaction or would impair the reputation or image of BMW NA, BMW Products or Dealer.

K. EXECUTION OF AGREEMENT

This Agreement shall not become effective until signed by a duly authorized officer of Dealer, if a corporation; or by one of the general partners of Dealer, if a partnership; or by the named individual if a sole proprietorship; and countersigned by authorized representatives of BMW NA.

L. MODIFICATION OF AGREEMENT

No representative of BMW NA shall have the authority to waive any of the provisions of this Agreement or to make any amendment or modification of or any other change in, addition to, or deletion of any portion of this Agreement or to make any other agreement which imposes any obligation on either BMW NA or Dealer which is not specifically imposed by this Agreement or which renews or extends this Agreement; unless such waiver, amendment, modification, change, addition, deletion or agreement is reduced to writing and signed by two authorized representatives of BMW NA and by the authorized representative of Dealer as set forth in Article K of this Agreement.

BMW OF NORTH AMERICA, INC.

By: /s/ James J. Ryan 10/17/97
James J. Ryan
Title: Senior Vice President
General Manager
Western Region

By: /s/ William Stoeckel
William Stoeckel
Title: Market Manager

LITHIA BB, INC.

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer
Title: President

Federal Tax ID #91-1835532

ATTEST (If Dealer Is A Corporation)

/s/ Sidney B. DeBoer
(Secretary)

EX-10 Exhibit 10.14.1 Hyundai Dealer Sales & Serv Agmt

EXHIBIT 10.14.1

HYUNDAI MOTOR AMERICA

DEALER SALES AND SERVICE AGREEMENT

This is an Agreement between HYUNDAI MOTOR AMERICA (HMA), a California corporation, and Lithia JEF, Inc. (DEALER), a corporation, duly incorporated in the state of California and doing business as Lithia Hyundai of Fresno.

INTRODUCTION

HMA sells Hyundai Products which are manufactured or approved by Hyundai Motor Company (FACTORY). HMA has established a network of authorized Hyundai Dealers, operating at approved locations and according to Hyundai standards, to sell and service Hyundai Products. HMA has selected its Dealers based on their experience and commitment that they will sell and service Hyundai Products in a manner which promotes and maintains Customer confidence and satisfaction, and increases product acceptance and awareness.

DEALER represents that its Owner(s) and General Manager identified herein have the skill, experience, capital and facilities to ensure that DEALER operates a first-class dealership. HMA enters into this Agreement upon DEALER's assurances of the continued personal services of said Owner(s) and General Manager. The purpose of this Agreement is to memorialize such assurances, to appoint DEALER as an authorized Hyundai Dealer, to provide for the effective representation of Hyundai Products and to set forth the rights and obligations of HMA and DEALER hereunder.

Accordingly, the parties agree as follows:

1. APPOINTMENT OF DEALER

Subject to the terms of this Agreement, HMA hereby grants DEALER the non-exclusive right:

To buy the Hyundai Products identified in the Hyundai Product Addendum attached hereto which HMA, in its sole discretion, may revise from time to time; and

To identify itself as an authorized Hyundai Dealer using Hyundai Marks in the promotion, sale and servicing of Hyundai Products and at the location(s) approved herein.

DEALER accepts its appointment as an authorized Hyundai Dealer and agrees to:

Conduct its business in a manner which will engender Customer confidence and satisfaction and reflect positively upon HMA;

Effectively promote and sell Hyundai Products;

Professionally service Hyundai Products; and

Establish and maintain satisfactory dealership facilities at the location(s) approved by HMA.

2. TERM OF THIS AGREEMENT

This Agreement will become effective on the date it is executed by HMA and with continue in effect for a period of 2 years, unless terminated as provided herein. This Agreement may not be extended or renewed except in writing signed by the President and Executive Vice President of HMA.

3. DEALER OWNERSHIP

HMA enters into this Agreement in reliance upon the personal qualifications and representations of the persons identified below and upon DEALER's assurances that the following persons, and only the following persons, will be the Owner(s) of DEALER.

NAME	ADDRESS	TITLE	OWNERSHIP INTEREST
Lithia Motors, Inc.			100%

4. DEALER MANAGEMENT

DEALER recognizes that the effective performance of its obligations hereunder requires that experienced DEALER management be actively involved at all times. HMA enters into this Agreement in reliance upon the qualifications of Joe Meyers to manage DEALER'S operations and upon DEALERS assurance that such person, and no other person, will at all times function as General Manager and be considered as Dealer Operator with complete authority to make all decisions on behalf of DEALER with respect to DEALER's operations. DEALER further agrees that the General Manager shall devote full time (100%) to the management of DEALER's operations.

5. CHANGE IN DEALER OWNERSHIP OR MANAGEMENT

This is a personal services agreement. HMA has entered into this Agreement in reliance upon DEALER's assurances of the active involvement of the Owners and General Manager identified herein in DEALER's operations. Accordingly, any change in ownership, regardless of the share or relationship between parties, or any change in General Manager, from the person(s) identified herein, requires the prior written consent of HMA, which HMA shall not unreasonably withhold.

6. DEALER LOCATION

DEALER is free to sell Hyundai Products to Customers wherever they may be located. However, in order for HMA to establish and maintain an effective network of authorized Hyundai Dealers for the sale and servicing of Hyundai Products and to maximize Customer convenience, HMA has approved the following facilities as the exclusive location(s) for the sale and servicing of Hyundai Products and for the display of Hyundai Marks:

HYUNDAI NEW VEHICLE SALES
AND SHOWROOM
5590 N. Blackstone Ave.
Fresno, CA 93710

PARTS AND SERVICE
155 E. Auto Center Dr.
Fresno, CA 93710

SALES AND GENERAL OFFICES
5590 N. Blackstone Ave.
Fresno, CA 93710

USED VEHICLE DISPLAY SALES
N/A

BODY AND PAINT
N/A

DEALER agrees not to display Hyundai Marks or to conduct any dealership operations, including the display, sale and/or service of Hyundai Products, at any location other than at the location(s) approved herein, without the prior written consent of HMA.

Moreover, each location is approved only for the activity indicated. DEALER may not alter the activity of any location approved herein or otherwise use such location for any activities other than the approved activity, without the prior written consent of HMA.

7. STANDARD PROVISIONS

The HMA Dealer Sales and Service Agreement Standard Provisions are incorporated herein

and made a part of this Agreement as if fully set forth herein.

8. ADDITIONAL PROVISIONS

In consideration of HMAs agreement to appoint DEALER as an authorized Hyundai Dealer, DEALER further agrees:

HMA has entered into this Agreement based upon DEALER!s promise to provide adequate representation in the current dealership facility, located at 5590 Blackstone Avenue, Fresno, CA 93710. DEALER acknowledges that adequate representation may include, but not be limited to, those standards set forth in HMA's "DEALERSHIP FINANCIAL/FACILITY/SIGNAGE STANDARDS", signed by DEALER on 12/1/97 and incorporated by reference herein.

DEALER further acknowledges that HMA's approval of DEALER's current operation, does not, in any way, constitute a promise by HMA that it will sell DEALER any particular number of vehicles or an assurance by HMA that, DEALER will achieve any particular level of sales, operate at a profit or realize any return on investment. The actual profits to be realized will depend to a great extent on the management of the dealership, as well as on business and economic conditions. DEALER acknowledges that, as in any investment in a competitive industry, there are no guarantees.

DEALER recognizes that the obligations incurred herein are material terms of this Agreement. Failure to comply with any or all of these provisions may be grounds for termination of this Agreement.

SERVICE WRITE-UP:

DEALER shall designate one (1) service write-up lane for the use of Hyundai service customers. Including appropriate signage to identify the service write-up lane as that for Hyundai service use.

SERVICE:

DEALER shall designate fourteen (14) service bays for the service of Hyundai vehicles.

PARTS:

DEALER shall provide a parts ' counter designated for the sale of Hyundai parts. Further DEALER shall provide a minimum of 3582 sq. ft. for the storage of Hyundai parts.

SIGNAGE: DEALER shall obtain all signage as recommended by HMA's sole authorized sip vendor including but not limited to the following:

1. One set of Hyundai building fascia letters (HL-24) shall be installed right hand justified on the front fascia of the showroom.

2. All signage work shall be effectuated by Hyundai's authorized sign vendor.

In recognition of his responsibilities hereunder, DEALER hereby agrees to display a minimum of (3) Hyundai vehicles on the Showroom floor at all times during the term of this Agreement.

DEALER is a corporation known as Lithia JEF, Inc. DEALER is owned by a corporate entity known as Lithia Motors, Inc. ("LITHIA"). A majority of the stock of LITHIA is held by Lithia Holding Company, L.L.C. ("LHC"), and the remainder by sale of stock to the public. LHC is in turn owned by three individuals, Sidney DeBoer, R. Bradford Gray, and M.L. Dick Heimann. All voting stock of LHC is owned by Sidney DeBoer.

Pursuant to this agreement, LITHIA, LHC, and Sidney DeBoer, as individuals through their respective Boards of Directors, appoint Sidney B. DeBoer as dealer principal of DEALER with complete authority to make all decisions and enter into all commitments on behalf of DEALER, and HMA will rely completely on the authority of such person. LITHIA and LHC agree that the foregoing person shall not be changed as dealer principal without prior consent of HMA. LITHIA, LHC, and DEALER further agree that there will be no change in majority direct ownership of DEALER without prior written consent of HMA. In the event that LHC reduces its ownership in LITHIA below 50%, such that the public shares own a majority of LHC, then DEALER, LITHIA, and LHC shall inform HMA so as to amend this agreement accordingly.

DEALER recognizes that the obligations incurred herein are material terms of this Agreement, and that failure to obtain such consent shall be grounds for termination under Paragraph 16 of this Dealer Agreement.

9. EXECUTION OF AGREEMENT

This Agreement shall be valid and binding only if it is signed:

On behalf of DEALER by a duly authorized person; and

On behalf of HMA by the President, the Executive Vice President and the General and/or Regional Manager, if any, of HMA.

By their signatures hereto, the parties agree to abide by the terms and conditions of this Agreement, including the Standard Provisions incorporated herein, in good faith and for their mutual benefit.

Lithia JEF, Inc. dba Lithia Hyundai of Fresno
(Dealer Entity Name)

Date:	*By:*	*/s/ Sidney B. DeBoer* *Signey B. DeBoer*	*President*
	Hyundai Motor America		
Date: 1/26/98	*By:*	*/s/ R. J. Lueders* *R. J. Lueders*	*General Manager*
Date: 1/26/98	*By:*	*/s/ R. A. Parker* *R. A. Parker*	*Executive Vice President*
Date: 1/26/98	*By:*	*/s/ M. Juhn* *M. Juhn*	*President*

PRODUCT ADDENDUM

TO

HYUNDAI MOTOR AMERICA

DEALER SALES AND SERVICE AGREEMENT

January 26, 1998

Pursuant to Paragraph 1 of the Hyundai Motor America (HMA) Dealer Sales and Service Agreement, HMA grants DEALER the non-exclusive right to buy the Hyundai Products identified below:

Accent, Elantra, Excel, Scoupe, Sonata, Tiburon

and all parts, accessories and equipment for such vehicle(s).

This Hyundai Product Addendum shall remain in effect unless and until superseded by a new Hyundai Product Addendum furnished by HMA.

EXHIBIT 10.15.1

NISSAN

DEALER TERM SALES AND SERVICE AGREEMENT

THIS AGREEMENT is entered into effective the day last set forth below by and between the Nissan Division of NISSAN MOTOR CORPORATION IN U.S.A., a California corporation, hereinafter called "Seller," and the entities and natural persons identified in the Final Article of this Agreement.

INTRODUCTION

The purpose of this Agreement is to establish Dealer as an authorized dealer of Nissan Products and to provide for the sale and servicing of Nissan Products in a manner that will best serve owners, potential owners and purchasers of Nissan Products as well as the interests of Seller, Dealer and other Authorized Nissan Dealers. This Agreement sets forth: the rights which Dealer will enjoy as an Authorized Nissan Dealer; the responsibilities which Dealer assumes in consideration of its receipt of these rights; and the respective conditions, rights and obligations of Seller and Dealer that apply to Seller's grant to Dealer of such rights and Dealer's assumption of such responsibilities. It is understood that each term and undertaking hereinafter described is material, and relied upon, as the quid pro quo and consideration for this Agreement.

This is a personal services Agreement. In entering into this Agreement and appointing Dealer as provided below, Seller is relying, among other things, upon the personal qualifications, expertise, reputation, integrity, experience, ability and representations of the individual named in the Final Article of this Agreement as Dealer Principal (the "Dealer Principal"), the individual named in the Final Article of this Agreement as Executive Manager, and the representations of Lithia Motors, Inc. ("Lithia") and Dealer. In addition to Dealer, Seller intends to look to Lithia, the Dealer Principal, and the Executive Manager for the performance of Dealer's obligations hereunder.

Nissan Products are intended for discriminate owners with the expectation that such owners will be loyal and proud, but also demanding toward Seller and Dealer with respect to Nissan Products and the manner in which they are sold and serviced. Owners, potential owners and purchasers of Nissan Products are expected to want, and are entitled to do business with, dealers who enjoy the highest reputation in their communities and have well located, attractive and efficient places of business, courteous personnel and outstanding service and parts facilities. Nissan Products must be sold by enthusiastic dealers who are not interested in short term results only but are willing to look toward long term goals and who are devoted to creating and maintaining a positive total ownership experience for owners of Nissan Products. Seller's standard of excellence for Nissan Products must be matched by the dealers who sell them to the public and who service them during their operative lives.

Achievement of the purposes of this Agreement is premised upon mutual understanding and cooperation between Seller and Dealer. Dealer has entered into this Agreement in reliance upon Seller's integrity and expressed intention to deal fairly with Dealer and the consuming public. Seller has entered into this Agreement in reliance upon the integrity and ability of the Dealer Principal and Executive Manager and their expressed intention to deal fairly with the consuming public and Seller.

It is the responsibility of Seller to market Nissan Products throughout the Territory. It is the responsibility of Dealer to actively promote the retail sale of Nissan Products and to provide courteous and efficient service of Nissan Products. The success of both Seller and Dealer will depend on how well they each fulfill their respective responsibilities under this Agreement. It is recognized that: Seller will endeavor to provide motor vehicles of excellent quality and workmanship and to establish a network of Authorized Nissan Dealers that can provide an outstanding sales and service effort at the retail level; and Dealer will endeavor to fulfill its responsibilities through aggressive, sound, ethical selling practices and through conscientious regard for customer service in all aspects of its Nissan Dealership Operations.

Seller and Dealer shall refrain from engaging in conduct or activities which might be detrimental to or reflect adversely upon the reputation of Seller, Dealer or Nissan Products and shall engage in no discourteous, deceptive, misleading or unethical practices or activities.

For consistency and clarity, terms which are used frequently in this Agreement have been defined in Section I of the Standard Provisions. All terms used herein which are defined in the Standard Provisions shall have the meaning stated in said Standard Provisions. These definitions should be read carefully for a proper understanding of the provisions in which they appear.

To achieve the purposes referred to above, Seller, Lithia, Dealer, the Dealer Principal and the Executive Manger agree as follows:

ARTICLE FIRST: Appointment of Dealer

Subject to the conditions and provisions of this Agreement, Seller:

(a) appoints Dealer as an Authorized Nissan Dealer and grants Dealer the non-exclusive right to buy from Seller those Nissan Products specified in Dealer's current Product Addendum hereto, for resale, rental or lease at or from the Dealership Locations established and described in accordance with
Section 2 of the Standard Provisions; and

(b) grants Dealer a non-exclusive right, subject to and in accordance with Section 6.K of the Standard Provisions, to identify itself as an Authorized Nissan Dealer, to display the Nissan Marks in the conduct of its Dealership Operations and to use the Nissan Marks in the advertising, promotion and sale of Nissan Products in the manner provided in this Agreement.

ARTICLE SECOND: Assumption of Responsibilities by Dealer

Dealer hereby accepts from Seller its appointment as an Authorized Nissan Dealer and, in consideration of its appointment and subject to the other conditions and provisions of this Agreement, hereby assumes the responsibility for:

(a) establishing and maintaining at the Dealership Location the Dealership Facilities in accordance with Section 2 of the Standard Provisions;

(b) actively and effectively promoting the sale at retail (and, if Dealer elects, the leasing and rental) of Nissan Vehicles within Dealer's Primary Market Area in accordance with Section 3 of the Standard Provisions;

(c) servicing Nissan Vehicles and for selling and servicing Nissan Parts and Accessories in accordance with Section 5 of the Standard Provisions;

(d) building and maintaining consumer confidence in Dealer and in Nissan Products in accordance with Section 5 of the Standard Provisions; and

(e) performance of the additional responsibilities set forth in this Agreement, including those specified in Section 6 of the Standard Provisions.

ARTICLE THIRD: Ownership

(a) Owners. This Agreement has been entered into by Seller in reliance upon, and in consideration of, among other things, the personal qualifications, expertise, reputation, integrity, experience, ability and representations with respect thereto of the Dealer Principal and Executive Manager named in the Final Article of this Agreement and in reliance upon the representations and agreements of Lithia and Dealer as follows:

(i) Lithia will at all times own I 00% of the capital stock of Dealer and Dealer will at all times be maintained as a separate entity.

(ii) Lithia Motors, Inc., ("Lithia") owns 100% of the outstanding stock of Lithia Inc. dba Nissan of Bakersfield ("Bakersfield" or "Dealer"). (See Attachment "A" attached.)

(b) Changes in Ownership. In view of the fact that this is a personal services agreement with the Dealer Principal and Executive Manager and in view of its objectives and purposes, this Agreement and the rights and privileges conferred on -Dealer hereunder are not assignable, transferable or salable by Lithia and Dealer, and no property right or interest is or shall be deemed to be sold, conveyed or transferred to Lithia and Dealer under this Agreement. Lithia, Dealer, the Dealer Principal and the Executive Manager agree that any change in the ownership of Dealer or in Lithia, other than specified herein, requires the prior written consent of Seller IF DEALER

DESIRES TO REMAIN AN AUTHORIZED NISSAN DEALER and that without the prior written consent of Seller:

(i) no sale, pledge, hypothecation or other transfer of any of the currently outstanding capital stock or partnership interest of Dealer will be made and no additional shares of capital stock, partnership interest or securities convertible into shares of capital stock of Dealer will be issued or sold.

(ii) no sale, pledge, hypothecation or other transfer of any of the currently outstanding capital stock of Dealer will be made and no additional shares of capital stock, partnership interest or securities convertible into shares of capital stock f Dealer will be issued or sold.

(iii) Dealer will not be merged with or into, or consolidate with, any other entity and none of the principal assets necessary for the performance of Dealer's obligations under this Agreement will be sold, transferred or assigned.

(iv) Lithia will not enter into any transaction, including, without limitation, any sale, pledge, hypothecation or other transfer of any of the currently outstanding capital stock of Dealer, the issuance or sale of additional shares of capital stock, partnership interest or securities convertible into shares of capital stock, of Dealer, or the merger of and Dealer with or into, or the consolidation of and Dealer with any other entity, if as a result of such transaction, Lithia will cease to own at least 100% of the capital stock or interest of Dealer.

(v) If any person or entity acquires more than 20% of Lithia's common stock issued and outstanding at any time and Nissan determines that such person or entity does not have interests compatible with those of Nissan, or is otherwise not qualified to have an ownership interest in a Nissan dealership (an "Adverse Person"), Lithia must terminate its dealer agreements with Nissan or transfer the Nissan dealerships to a third party acceptable to Nissan unless, within 90 days after Nissan's determination, the adverse Person's ownership interest is reduced to less than 20%.

Any transaction involving the capital stock of and Dealer which does not violate subparagraph (iv) above may be effected without obtaining the prior written consent of Seller and > without triggering a termination event under Section 12.A.(2) of the Standard Provisions.

Dealer shall give Seller prior notice of any proposed change in said ownership requiring the consent of Seller and immediate notice of the death or incapacity of any Dealer Principal or Executive Manager. No such change, and no assignment of this Agreement or of any right or interest herein, shall be effective against Seller unless and until embodied in an appropriate amendment to or assignment of this Agreement, as the case may be, duly executed and delivered by Seller and by Dealer. Seller shall not, however, unreasonably withhold its consent to any such change, subject to Seller's Rights of First Refusal set forth in Article Tenth of this Agreement. Seller shall have no obligation to transact business with any person who is not named either as a Dealer Principal or Executive Manager of Dealer hereunder or otherwise to give effect to any proposed sale or transfer of the ownership, partnership interest or management of Dealer and (other than changes in the ownership of and Dealer which are expressly permitted by this Article Third) prior to having concluded the evaluation of such a proposal as provided in Section 15 of the Standard Provisions. Dealer acknowledges Seller's right to require consent to any change in the ownership of Dealer, and agrees that any change or transfer without such consent from Seller is void, and of no force and effect, and grounds for termination. Lithia and Dealer further agree that they will not challenge, contest, dispute, or litigate, except in accordance with Article Fifteenth(c) hereunder:

(i) any action taken by Seller (including, without limitation, termination of this

Agreement) in response to an attempt to transfer ownership of Dealer (except as provided by this Agreement) without Seller's consent; or

(ii) any decisions by Seller to withhold consent to a proposed change in ownership of Dealer.

ARTICLE FOURTH: Management

(a) This Agreement has been entered into by Seller in reliance upon, and in consideration of, among other things, the personal qualifications, expertise, reputation, integrity, experience, ability and representations with respect thereto of the person named as Dealer Principal in the Final Article of this Agreement and in reliance on the following representations and agreements of and Dealer that:

(i) Dealer shall retain a qualified Executive Manager meeting Seller's approval to be named under the Final Article of this Agreement.

The qualifications and performance of the individual proposed to be named as the Executive Manager of Dealer shall be evaluated by Seller during the first six (6) months of the term of this Agreement pursuant to Seller's executive management evaluation program. If at the end of such six (6) month period, the candidate -Y s and Dealer's performance in all departments of the dealership (including sales, service, parts, and customer satisfaction) is not satisfactory to Seller under the evaluation program guidelines, Dealer shall be obligated to retain another individual who is a qualified Executive Manager to be named under the Final Article of this Agreement within sixty (60) days of the date that Seller notifies Dealer that the proposed individual has not met the executive management requirements of Seller as described above.

(ii) The Executive Manager of Dealer ("Executive Manager") will, subject to any other obligations set forth in this Agreement, devote 100% of his time to the day to day business operations of Dealer, and the Dealer Principal will devote his time to the business and day-today operations of the entity for which he is responsible.

(iii) Executive Manager will devote 100% of his time to the affairs of Dealer.

(b) Dealer. Seller and Dealer agree that the retention by Dealer of qualified management is of critical importance to the successful operation of Dealer and to the achievement of the purposes and objectives of this Agreement. This Agreement has been entered into by Seller in reliance upon, and in consideration of, among other things, the personal qualifications, expertise, reputation, integrity, experience, ability and representations with respect thereto of the persons named as Dealer Principal and Executive Manager in the Final Article of this Agreement and in reliance on the following representations and agreements of Lithia and Dealer, that:

(i) There must be an approved Executive Manager, acceptable to Nissan, employed by Dealer. As long as the Executive Manager is employed by Dealer, he will have full and complete control over the Dealership Operations, subject only to the powers of the Board of Directors of Dealer to manage the business and affairs of Dealer, and he will at all times be a member of the Board of Directors of Dealer. In addition, any replacements for Dealer Principal and Executive Manager will, so long as such replacements are employed by Lithia and Dealer, have full and complete control over the Dealership Operations, subject only to the powers of the Board of Directors of Dealer to manage the business and airs of Dealer, and such replacements will at all times be members of the Board of Directors of Dealer.

(ii) the Board of Directors of Dealer shall delegate the management of the Dealership Operations to the Executive Manager, and Lithia will not amend its Certificate of Incorporation or By-laws to provide that its Board of Directors is entitled to exercise any extraordinary powers or interfere unduly in the Dealership Operations.

(iii) Executive Manager, subject to any other obligations set forth in this Agreement, shall continually provide his personal services in operating the dealership and will be physically present at the Dealership Facilities on a full-time basis.

(c) Changes in Management. In view of the fact that this is a personal services Agreement with the Dealer Principal and Executive Manager and in view of its objectives and purposes, Dealer and agree that any change in the Dealer Principal or Executive Manager from that specified in the Final Article of this Agreement requires the prior written consent of Seller. In addition, Lithia and Dealer agree that no chief executive officer, or person performing services and having responsibilities similar to a chief executive officer, of Dealer will be appointed, directly or indirectly, without the prior written consent of Seller. Dealer shall give Seller prior notice of any proposed change in Dealer Principal or Executive Manager or the appointment of any chief executive or similar officer of and immediate notice of the death or incapacity of any Dealer Principal or Executive Manager. No change in Dealer Principal or Executive Manager and no appointment of a chief executive or similar officer of shall be effective unless and until embodied in an appropriate amendment to this Agreement duly executed and delivered by all of the parties hereto. Subject to the foregoing, Dealer and Dealer Principal shall make their own, independent decisions concerning the hiring and firing of its employees, including, without limitation, the Dealer Principal and Executive Manager.

Dealer shall give Seller prior written notice of any proposed change in Dealer Principal or Executive Manager and immediate notice of the death or incapacity of Dealer Principal or Executive Manager. No change in Dealer Principal or Executive Manager shall be effective unless and until embodied in an appropriate amendment to this Agreement duly executed and delivered by all of the parties hereto. Dealer acknowledges Seller's right (as set forth herein and in the Standard Provisions) to require consent to any change in the management of Dealer and agrees that a change without such consent from Seller is void, of no force and effect, and grounds for termination. Lithia and Dealer further agree that they will not challenge, contest, dispute, or litigate, except in accordance with the dispute resolution procedures contained in Article Fifteenth (c):

(i) any action taken by Seller (including, without limitation, termination of this Agreement) in response to an attempt to change the management of Dealer without Seller's consent;or

(ii) any decision by Seller to withhold consent to a proposed change in management of Dealer; or

(iii) any decision by Seller to withhold approval of a proposed management candidate.

To enable Seller to evaluate and respond to Dealer concerning any proposed change in Dealer Principal or Executive Manager or the appointment of any chief executive or similar officer of Lithia, Dealer agrees to provide, in the form requested by Seller and in a timely manner, all applications and information customarily requested by Seller to evaluate the proposed change. While Seller shall not unreasonably withhold its consent to any such change, it is agreed that any successor Dealer Principal, Executive Manager or chief executive or similar officer of must possess personal qualifications, expertise, reputation, integrity, experience and ability which are, in the opinion of Seller, satisfactory. Seller will determine whether, in its opinion, the proposed change or appointment is likely to result in a successful dealership operation with capable management that will satisfactorily perform Dealer's obligations under this Agreement. Seller shall have no obligation to transact business with any person who is not named as a Dealer Principal or Executive Manager of Dealer hereunder prior to having concluded its evaluation of such person.

Any successor Dealer Principal or Executive Manager and any chief executive or similar officer of must meet the following minimum requirements in order to be submitted to Seller for approval:

(i) At least three years of experience as a general manager of an automobile dealer in a major metropolitan area or similar position involving all aspects of the day-today operations of such an automobile dealership (including, without limitation, new and used vehicle sales, service, parts and administration); and

(ii) A demonstrated track record of success in his/her prior automobile dealership activities as measured by the dealerships' performance under his/her management. The dealership(s) shall have consistently demonstrated at least the following:

1. An above average level of sales performance when measured against regional or zone averages and as measured against sales performance objectives established by the manufacturer; and

2. An above average level of customer satisfaction when measured against regional or zone averages for the make; and

3. A history of cooperation and good relations with manufacturer(s) and/or distributor(s).

(d) Evaluation of Management. Dealer and Seller understand and acknowledge that the personal qualifications, expertise, reputation, integrity, experience and ability of the Dealer Principal and Executive Manager and their ability to effectively manage Dealer's day-today Dealership Operations is critical to the success of Dealer in performing its obligations under this Agreement. Seller may from time to time develop standards and/or procedures for evaluating the performance of the Dealer Principal and Executive Manager and of Dealer's personnel generally.

Seller may, from time to time, evaluate the performance of the Dealer Principal and Executive Manager and will advise Dealer, the Dealer Principal and the Executive Manager of the results of such evaluations and the way in which any deficiencies affect Dealer's performance of its obligations under this Agreement.

(e) Compensation of Executive Manager. Executive Manager will have a substantial portion of his compensation tied to Dealer's overall performance with respect to objectives for sales, market penetration and customer service which will be established at quarterly intervals.

ARTICLE FIFTH: Additional Provisions

The additional provisions set forth in the attached "Nissan Dealer Sales and Service Agreement Standard Provisions," bearing form number NDA-4S/9-88, as amended in Article Thirteenth of this Agreement, and excepting only the provisions contained in Sections 4, 14 and 16, are hereby incorporated in and made a part of this Agreement. The Notice of Primary Market Area, Dealership Facilities Addendum, Product Addendum, Dealership Identification Addendum, Holding Company Addendum, if applicable, and all Guides and Standards referred to in this Agreement (including references contained in the Standard Provisions referred to above) are hereby incorporated in and made a part of this Agreement. Dealer further agrees to be bound by and comply with: the Warranty Manual; Seller's Manuals or Instructions heretofore or hereafter issued by Seller to Dealer; any amendment, revision or supplement to any of the foregoing; and any other manuals heretofore or hereafter issued by Seller to Dealer.

ARTICLE SIXTH: Termination of Prior Agreements

This Agreement cancels, supersedes and annuls all prior contracts, agreements and understandings except as stated herein, all negotiations, representations and understandings being merged herein. No waiver, modification or change of any of the terms of this Agreement or change or erasure of any printed part of this Agreement or addition to it (except filling of blank spaces and lines) will be valid or binding on Seller unless approved in writing by the President or an authorized Vice President of Seller.

ARTICLE SEVENTH: Term

This Agreement shall have a term commencing on the effective date hereof and, subject to its earlier termination in accordance with the provisions of this Agreement, expiring on the expiration date indicated in the Final Article of this Agreement. Subject to other applicable provisions hereof, this Agreement shall automatically terminate at the end of such stipulated term without any action by Dealer, Seller or any of the other parties hereto.

ARTICLE EIGHTH: License of Dealer

If Dealer is required to secure or maintain a license for the conduct of its business as contemplated by this Agreement in any state or jurisdiction where any of its Dealership Operations are to be conducted or any of its Dealership Facilities are located, this Agreement shall not be valid until and unless Dealer shall have furnished Seller with written notice specifying the date and number, if any, of such license or licenses issued to Dealer, Dealer shall notify Seller immediately in writing if Dealer shall fail to secure or maintain any and all such licenses or renewal thereof or, if such license or licenses are suspended or revoked, specifying the effective date of any such suspension or revocation.

ARTICLE NINTH: Additional Representations and Warranties

(a) All of the representations and covenants made to Seller by the other parties to this Agreement have been made jointly and severally by each of the parties hereto which has made any such representation or covenant.

(b) In addition to the representations set forth elsewhere in this Agreement, Lithia and Dealer jointly and severally, represent to Seller that:

(i) All of the documents and correspondence provided to Seller by Lithia and Dealer, or any of their agents in connection with the solicitation of Seller's consent to this Agreement, are true and correct copies of such documents.

(c) In addition to the covenants set forth elsewhere in this Agreement, Lithia and Dealer, jointly and severally, agree with Seller that:

(i) Dealer will at all times be involved in the operation of the Nissan dealership currently operated by it and Dealer will not conduct any other type of business.

(ii) No distributions will be made to the stockholders or partners of Dealer and if such distributions would cause Dealer to fail to meet any of the Guides and Standards relating to the capitalization of

Dealer. In particular, will not be permitted to voluntarily redeem any of its preferred stock, if prior to and after giving effect to such redemption Dealer fails to meet any of the Guides and Standards relating to capitalization of Dealer.

(iii) Lithia and Dealer hereby, jointly and severally, indemnity and hold harmless, Seller, its officers, directors, affiliates and agents, and each person who controls Seller within the meaning of the Securities Act of 1933, as amended (the "Act"), from and against any and all losses, claims, damages or liabilities, to which they or any of them may become subject under the Act, the Securities Exchange Act of 1934, as amended, or any other federal or state securities law, rule or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities arise out of the sale by Lithia or Dealer of any securities. The indemnification provided for in this paragraph shall be exclusive of, and in addition to, any indemnification pursuant to Section 10 of the Standard Provisions.

(iv) One of the conditions to the effectiveness of this Agreement by Seller is the delivery of an opinion of counsel to all of the parties hereto (other than Seller) to the effect that this Agreement has been duly executed and delivered by each of the parties thereto (other than Seller) and is the legal, valid and binding obligation of each of such parties enforceable in accordance with its terms.

ARTICLE TENTH: Right of First Refusal, Exclusivity

A. Seller's Right of First Refusal

In addition to its rights under this Agreement, in the event that Lithia or Dealer should desire to enter into a transaction, which if not approved by Seller, would result in a breach of the covenants set forth in Article Third, Sections (a)(i), (a)(ii), (a)(iii), (a)(iv) or (b) of this Agreement or in the event that any of the covenants set forth in the fourth full paragraph of Article Third, Section (b), Article Fourth, Section (a)(vii) or Article Ninth, Section (c)(ii) of this Agreement are breached, Seller shall have the additional right and option to purchase the dealership assets or ownership interests pursuant to this Article Tenth.

(a) If Seller chooses to exercise its right of first refusal, it must do so in its written refusal to consent to the proposed sale or transfer pursuant to Section 15 of the Standard Provisions or, if Section 15 of the Standard Provisions does not apply, within sixty (60) days of receipt of notification that a event triggering Seller's right of first refusal hereunder has occurred. Dealer agrees not to complete any proposed change or sale prior to the expiration of the period for exercise of Seller's right of first refusal and without Seller's prior written consent. Such exercise shall be null and void if Dealer withdraws its proposal within thirty (30) days following Dealer's receipt of Seller's notice exercising its rights of first refusal.

(b) After being exercised, Seller's right to purchase may be assigned to any party, and Seller hereby agrees to guarantee the full payment of the purchase price by such assignee. Seller's rights under this Article Tenth shall be binding on and enforceable against any assignee or successor in interest of Dealer or purchaser of Dealer's assets. Seller shall have no obligation to exercise its rights hereunder.

(c) If Dealer has entered into a bona fide written buy/sell agreement respecting its Nissan dealership, Seller's right under this Article Tenth shall be a right of first refusal, enabling Seller to assume the prospective purchaser's purchase rights and obligations under such buy/sell agreement. The purchase price and other terms of sale shall be those set forth in such agreement and any related documents. Seller may request and Dealer agrees to provide all other documents relating to Dealer and the proposed transfer, including, but not limited to, those reflecting any other agreements or understandings between the parties to the buy/sell agreement. If Dealer refuses either to provide such documentation or to state in writing that no such document exists, it shall be presumed that the agreement is not bona fide.

(d) If Seller determines pursuant to paragraph (c) above that the buy/sell agreement is not bona fide, Seller will so notify Dealer. Dealer shall have ten (10) days from its receipt of such notice within which to withdraw its proposal. Seller's exercise of its rights hereunder shall be null and void if Dealer withdraws its proposal within such time period. If the proposal is not withdrawn, Seller shall have the option, but no obligation, under this Article Tenth to purchase the principal assets of Dealer utilized in the Dealership Operations, including real estate and leasehold interest or to purchase the ownership interests of Dealer, and to terminate this Agreement and all rights granted Dealer hereunder. If the Dealership Facilities are leased by Dealer from an affiliated company, the

right to purchase the principal assets, or the ownership interests, of Dealer, shall include the right to lease the Dealership Facilities. The purchase price shall be at the then fair market value as determined by an independent appraiser selected by Seller and reasonably acceptable to Dealer, and the other terms of sale shall be those agreed by Seller, Dealer, and Lithia.

(e) Dealer shall transfer the affected property free and clear of liens, claims, mortgages, and encumbrances.

(f) In addition to any other rights Seller may have at law, in equity or hereunder, any conveyance of the dealership in violation of this right of first refusal shall be voidable by Seller.

(g) In the event that Seller elects not to exercise its right to purchase the dealership assets or the ownership interests of the Dealer and Lithia, Dealer and Lithia agree that it will offer to sell such assets or interests to the Dealer's then current management team or to some other entity or persons acceptable to Seller. If such individuals are not interested in such a transaction and no other entity or individuals acceptable to Seller can be found then this Agreement will be terminable at Seller's option, by deliver of written notice to Dealer.

B. Right of First Re@ on Sale or Lease of Property to a Third Party.

(a) In addition to its rights under Articles Third and Fourth and
Section 15 of the Standard Provisions, Dealer agrees that should Dealer seek to sell or lease all or substantially all of the Approved Site to a third party for use as a Nissan New Motor Vehicle Dealership, Seller shall have the additional right and option, but not the obligation, to purchase or lease the Approved Site pursuant to this Article Thirteenth. A sale or lease for use other than a Nissan New Motor Vehicle Dealership is void.

(b) If Seller chooses to exercise its right of first refusal, it must do so by written notice delivered to Dealer within 60 days of Seller's receipt of notice of the proposed sale or lease by Dealer. Dealer agrees not to complete any proposed sale or lease prior to the expiration of the period for exercise of Seller's right of first refusal and without Seller's prior written consent, and agrees to allow Seller to perform an environmental study of the property. Such exercise shall be null and void if Dealer withdraws its sale or lease proposal within thirty (30) days following Dealer's receipt of Seller's notice exercising its right of first refusal.

(c) After being exercised, Seller's right to purchase or lease may be assigned to any party, and Seller hereby agrees to guarantee the full payment of the purchase price or the rental payment by such assignee. Seller's rights under this Article Thirteenth shall be binding on and enforceable against any assignee or successor in interest of Dealer or purchaser of Dealer's assets. Seller shall have no obligation to exercise its rights hereunder, and Seller may rescind its offer if the property is determined to be contaminated pursuant to an environmental study. Such contamination shall be deemed a breach of this agreement by dealer.

(d) Should Seller actually purchase or lease the facility, Dealer shall also furnish to Seller copies of any easements, licenses, environmental studies or other documents affecting the property.

(e) Dealer shall transfer the affected property by deed conveying marketable title free and clear of liens, claims, mortgages, encumbrances, tenancies and occupancies, or, if applicable, by an assignment of any existing lease. The Warranty Deed shall be in proper form for recording. Dealer shall deliver complete possession of the property at the time of delivery of the Deed or lease assignment. Dealer shall also furnish to Seller copies of any easements, licenses, or other documents affecting the property and shall assign any permits or licenses which are necessary for the conduct of the Dealership Operations.

(f) In addition to any other rights Seller may have at law, in equity or hereunder, any sale or lease of the Approved Site in violation of this right of first refusal shall be voidable by Seller

C. Exclusivity Provisions.

In order for Dealer to maintain competitive Dealership Facilities to effectively market Nissan Products, Dealer hereby agrees to abide by and never challenge the following provisions (hereinafter "Exclusivity Provisions"). These Exclusivity Provisions shall be effective on or before the execution of the Agreement, and continue in effect thereafter so long as Dealer (or its principals) are authorized Nissan dealers and these provisions shall be binding on any successors-in-interest, assigns or purchasers of Dealer:

(a) The only line-make of new, unused motor vehicles which Dealer shall display and sell at the Dealership Facilities shall be the Nissan line and make of motor vehicles. Dealer shall not conduct any dealership operations for any other make or line of new, unused vehicles from the Dealership Facilities throughout the term of this Agreement.

(b) Dealer shall sell and maintain a full line of Genuine Nissan Parts and Accessories at the Dealership Facilities and shall provide a full range of automotive servicing for Nissan vehicles at the Dealership Facilities pursuant to Section 5 of the Standard Provisions to the Agreement. Nothing contained herein, however, shall preclude Dealer from offering parts, accessories or servicing for vehicles of other lines or makes so long as such products or services are incidental to Dealer's Nissan Dealership Operations;

(c) Dealer shall not advertise or promote any make or line of new, unused vehicles from the Dealership Facilities other than the Nissan line; and

(d) Dealer shall not install or maintain any sign at or near the Dealership Facilities which would tend to lead the public into believing that any line or make of vehicles other than the Nissan line is sold at the Dealership Facilities.

ARTICLE ELEVENTH: Breach By Dealer

In the event (i) that any of the representations and warranties of Dealer, Lithia, Dealer Principle or Executive Manager, contained in this Agreement shall prove not to have been true and correct when made or (ii) of any breach or violation of any of the covenants made by Dealer and Lithia, Dealer Principal or Executive Manager, in Articles Third, Fourth and Ninth of this Agreement or (iii) of the occurrence of any of the events warranting termination of this Agreement as set forth in Section 12.A of the Standard Provisions, Seller may terminate this Agreement, prior to the expiration date hereof, by giving Dealer written notice thereof, such termination to be effective upon the date specified in such notice, or such latter date as may be required by any applicable statute with the effect set forth in Section 13 of the Standard Provisions.

ARTICLE TWELFTH: Execution of Agreement

This Agreement, and any Addendum or amendment or notice with respect thereto, shall be valid and binding on Seller only when it bears the signature of either the President or an authorized Vice President of Seller and, when such signature is a facsimile, the manual countersignature of an authorized employee of Seller at the Director level and a duplicate original thereof is delivered personally or by mail to the Dealership Location. This Agreement shall bind Dealer and the other parties hereto only when it is signed by: a duly authorized officer or executive of Dealer or such party if a corporation; one of the general partners of Dealer or such party if a partnership; or Dealer or such party if an individual.

ARTICLE THIRTEENTH: Amendments to Standard Provisions

(a) Section 1.0 of the Standard Provisions is hereby amended to read as follows:

"O. 'Principal Owners(s)' shall mean the persons named as Dealer Principal in the Final Article of this Agreement upon whose personal qualifications, expertise, integrity, experience, ability and representations Seller has relied in entering into this Agreement."

(b) Section 6.I of the Standard Provisions is hereby amended to read as follows:

"Seller shall have the right, at all reasonable times during regular business hours, to inspect the Dealership Facilities and to examine, audit and make and take copies of all records, accounts and supporting data relating to the sale, sales reporting, service and repair of Nissan Products by Dealer. Whenever possible, Seller shall attempt to provide Dealer with advance notice of an audit or examination of Dealers operations. Seller shall also have the right, at all reasonable times during regular business hours and upon advance notice, to examine, audit and make and take copies of all records, accounts and supporting data of and Dealer relating to the business, ownership or operations of Dealer."

(c) Section 12.A.(I) of the Standard Provisions is hereby amended to read as follows:

"(1) Any actual or attempted sale, transfer, assignment or delegation, whether by operation of law or otherwise, by Dealer or Inc., of any interest in or right, privilege or obligation under this Agreement, or of the principal assets necessary for the performance of

Dealer's responsibilities under this Agreement, without, in either case, the prior written consent of Seller having been obtained, which consent shall not be unreasonably withheld;"

(d) Section 12.A.(3) of the Standard Provisions is hereby amended to read as follows:

"(3) Removal, resignation, withdrawal or elimination from Dealer for any reason of the Executive Manager, or removal, resignation, withdrawal or elimination of Dealer Principal from operational control of Dealer, or removal, resignation, withdrawal or elimination from Dealer of Executive Manager; provided, however, in each case, Seller shall give Dealer a reasonable period of time within which to replace such person with a individual satisfactory to Dealer as the case may be, and Seller in accordance with Article Fourth of this Agreement; or the failure of Dealer to retain an Executive Manager who, in accordance with Article Fourth of this Agreement, in Seller's reasonable opinion, is competent, possesses the requisite qualifications for the position, and who will act in a manner consistent with the continued interests of both Seller and Dealer."

(e) Section 12.B.(2)(i) of the Standard Provisions is hereby amended to read as follows:

"(i) any dispute, disagreement or controversy between or among Dealer or Lithia and any third party or between the owners and management personnel of Dealer relating to the management or ownership of Dealer and Lithia develops or exists which, in the reasonable judgment of Seller, tends to adversely affect the conduct of the Dealership Operations or the interests of Dealer or Seller; or"

(f) Section 12.B.(2)(ii) of the Standard Provisions is hereby amended to read as follows:

"(ii) any other act or activity of Dealer, and/or Lithia, or any of their owners or management occurs, which substantially impairs the reputation or financial standing of Dealer or any of its management subsequent to the execution of this Agreement:"

(g) Exhibits A and B are hereby incorporated by reference.

ARTICLE FOURTEENTH: Branding / Business Name

The parties acknowledge and agree that Dealer shall do business as Lithia Nissan of Bakersfield. Dealer agrees to include in its promotional, marketing and advertising efforts the approved name of the Dealership or another name approved by Nissan that includes the Nissan name. In all television, radio, print and other advertising and marketing conducted by dealer, Dealer shall refer to itself as "Lithia Nissan of Bakersfield" or such other approved name. Dealer shall actively and effectively promote primarily the "Nissan" name. Under no circumstances shall the name "Nissan" be subordinated to or promoted less aggressively than any other name (e.g., "Lithia") by Dealer.

ARTICLE FIFTEENTH: Special Conditions

(a) Adequate Representation of Entire Line of Nissan Vehicles

Dealer shall actively and effectively promote the sale of Nissan's entire line of vehicles and products to customers located throughout the Primary Market Area. In evaluating Dealer's sales performance, in addition to those factors established in the Standard Provisions, Nissan will evaluate Dealer's performance by vehicle segment. Dealer is obligated to adequately represent Nissan in each and every model line. Adequate representation is the higher of national, regional, state or DMA average, adjusted for segment popularity, as set forth in the Business plan.

(b) Nissan Products

The definition of "Nissan Products" in the Standard Provisions is amended to mean Nissan Vehicles (defined as new Nissan Cars and new Nissan Trucks, as well as "near-new" Nissan Vehicles of the current and three prior model years), Genuine Parts and Accessories, Nissan Security+Plus and such other products and services offered by Nissan to Dealer and designated by Nissan as a Nissan Product. Dealer shall actively and effectively promote the sale of Nissan Products. Effectiveness with respect to Nissan Security+Plus sales is measured by the ratio of Security+Plus sales to new vehicles sales, compared to the higher of national, regional, state or DMA average as set forth in the Business plan.

(c) Dispute Resolution Process

The parties acknowledge that, at the state and federal level, various courts and agencies would, in the absence of this Article Fifteenth (c), be available to them to resolve claims or controversies which might arise between them. The parties agree that it is inconsistent with their relationship for either to use courts or governmental agencies to resolve such claims or controversies.

THEREFORE, CONSISTENT WITH THE PROVISIONS OF THE UNITED STATES ARBITRATION ACT (9 U.S.C. SEC. 1 ET SEQ.), THE PARTIES TO THIS AGREEMENT AGREE THAT THE DISPUTE RESOLUTION PROCESS OUTLINED IN THIS SECTION, WHICH INCLUDES BINDING ARBITRATION, SHALL BE THE EXCLUSIVE MECHANISM FOR RESOLVING ANY DISPUTE, CONTROVERSY OR CLAIM ARISING OUT OF OR RELATING IN ANY WAY TO THIS AGREEMENT OR TO THE RELATIONSHIP BETWEEN THE PARTIES, INCLUDING BUT NOT LIMITED TO CLAIMS UNDER ANY STATE OR FEDERAL STATUTES (HEREINAFTER "DISPUTES"). Section 16 of the Standard Provisions is deleted in its entirety.

There are two steps in the Dispute Resolution Process: Mediation and Binding Arbitration. All Disputes must first be submitted to Mediation, unless that step is waived by written agreement of the parties. Mediation is conducted by a panel consisting of an equal number of representatives of the parties designated by Nissan and selected by Dealer. The Mediation Panel will evaluate each position and recommend a solution. This recommended solution is not binding.

If a dispute has not been resolved after Mediation, or if Dealer and Nissan have agreed in writing to waive Mediation, the Dispute will be settled by Binding Arbitration. SPECIFICALLY, THE PARTIES AGREE TO RESOLVE ALL SUCH DISPUTES BY BINDING ARBITRATION CONDUCTED IN ACCORDANCE WITH THE COMMERCIAL ARBITRATION PROCEDURES OF THE AMERICAN ARBITRATION ASSOCIATION, WITH THE PREVAILING PARTY TO RECOVER ITS COSTS AND ATTORNEY'S FEES FROM THE OTHER PARTY. ALL ARBITRATION AWARDS ARE BINDING AND NONAPPEALABLE, EXCEPT AS OTHERWISE PROVIDED IN THE UNITED STATES ARBITRATION ACT. JUDGMENT UPON ANY SUCH AWARD MAY BE ENTERED AND ENFORCED IN ANY COURT HAVING JURISDICTION.

(d) Business Plan

Dealer and Nissan shall execute a Business Plan in the form specified in the Business Planning Process Workbook that describes how Dealer will fulfill it sales, service, customer relations and other commitments hereunder, including heightened performance standards that Dealer commits to meet;

(e) Option to Purchase

If the Dealer Agreement is to expire or be terminated: i) Voluntarily by Dealer; ii) By Nissan upon the occurrence of any of the events specified in Section 12A. of the Standard Provisions to the Agreement (as modified herein); or iii) As a result of the death or physical or mental incapacity of Principal Owners, Nissan has the option to Purchase the principal assets of Dealer utilized in the dealership business, including such real property as Nissan may elect to purchase, and cancel the Agreement and all rights granted Dealer thereunder. The purchase price of the dealership assets and real property and other terms will be determined by agreement between the parties or, if the parties are unable to reach agreement in a reasonable time, by arbitration pursuant to the Dispute Resolution Process established in Paragraph 12 hereof. Nissan must advise Dealer of its intent to exercise this option within 30 days after one party notifies the other of its intent to terminate the Agreement. Nissan may assign its right to exercise its option to purchase under this paragraph to any third party.

FINAL ARTICLE

The Dealer is LITHIA NB, INC. dba LITHIA NISSAN OF BAKERSFIELD a corporation formed under the laws of the CALIFORNIA. Dealer is located in Bakersfield, California.

The other parties to this Agreement are LITHIA MOTORS, INC. a corporation incorporated under the laws of the state of Oregon, and Sidney B. DeBoer.

The Dealer Principal is Sidney B. DeBoer

The Executive Manager is: See Article Fourth (a)(i) contained herein.

Expiration Date:	October 2, 2002
Working Capital Guide Requirement:	$ 1,050,000
Net Worth Guide Requirement:	$ 1,840,000
Flooring Line:	$ 4,943,200

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in triplicate effective as of the second day of October, 1997 at Carson, California.

SELLER:

NISSAN DIVISION
NISSAN MOTOR DIVISION CORPORATION IN USA

By: /s/ Thomas H. Eastwood
Thomas H. Eastwood
Vice President

By: /s/ Brad Bradshaw
Brad Bradshaw
Regional Vice President

LITHIA MOTORS, INC.

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer
President

LITHIA NB, INC. dba LITHIA NISSAN OF BAKERSFIELD

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer
Dealer Principal

NISSAN

HOLDING COMPANY ADDENDUM TO
NISSAN DEALER SALES AND SERVICE AGREEMENT

Pursuant to Article Third (b) of the Nissan Dealer Sales & Service Agreement (the "Agreement") in effect between the authorized Nissan Dealer named below and Nissan Motor Corporation in U.S.A. ("Seller"), Dealer represents and agrees the following Principal Owner(s) of Dealer named in the Final Article of the Agreement which is (are) a corporation, partnership, or other entity and not a natural person, is (are) owned as follows:

Name of Owner: Lithia NB, Inc., a corporation, incorporated or formed under the laws of the State of _____.

PRINCIPAL OWNERS(S)/SETTLOR(S)

NAME	RESIDENCE	PERCENTAGE INTEREST
Lithia Motors, Inc.	360 E. Jackson Street Medford, Oregon 97501	100%

OTHER OWNER(S)/SETTLOR(S)

NAME	RESIDENCE	PERCENTAGE INTEREST

TRUSTEE(S)

NAME	RESIDENCE	PERCENTAGE INTEREST

OTHER RELEVANT INFORMATION:

This Holding Company Addendum cancels and supersedes any previous Holding Company addendum between Dealer and Seller.

This Holding company Addendum is effective as of October 2, 1997.

DEALER:
Lithia NB of Bakersfield, Inc. dba Lithia Nissan of Bakersfield

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer, President
Bakersfield, California
Dealer Code: 3475

SELLER:
Nissan Division, Nissan Motor Corporation in U.S.A.

By: /s/ Vice President
Vice President, Nissan Division

By: /s/ Brad Bradshaw
Regional Vice President

(File this Addendum with Current Sales & Service Agreement)

NISSAN

HOLDING COMPANY ADDENDUM TO
NISSAN DEALER SALES AND SERVICE AGREEMENT

Pursuant to Article Third (b) of the Nissan Dealer Sales & Service Agreement (the "Agreement") in effect between the authorized Nissan Dealer named below and Nissan Motor Corporation in U.S.A. ("Seller"), Dealer represents and agrees the following Principal Owner(s) of Dealer named in the Final Article of the Agreement which is (are) a corporation, partnership, or other entity and not a natural person, is (are) owned as follows:

Name of Owner: Lithia Motors, Inc., a corporation, incorporated or formed under the laws of the State of _____.

PRINCIPAL OWNERS(S)/SETTLOR(S)

NAME	RESIDENCE	PERCENTAGE INTEREST
Lithia Holding Company, L.L.C.	360 E. Jackson Street Medford, Oregon 97501	53.5%

OTHER OWNER(S)/SETTLOR(S)

NAME	RESIDENCE	PERCENTAGE INTEREST
Public Ownership		46.5%

TRUSTEE(S)

NAME	RESIDENCE	PERCENTAGE INTEREST

OTHER RELEVANT INFORMATION:

This Holding Company Addendum cancels and supersedes any previous Holding Company addendum between Dealer and Seller.

This Holding company Addendum is effective as of October 2, 1997.

DEALER:
Lithia NB of Bakersfield, Inc. dba Lithia Nissan of Bakersfield

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer, President
Bakersfield, California
Dealer Code: 3475

SELLER:
Nissan Division, Nissan Motor Corporation in U.S.A.

By: /s/ Vice President
Vice President, Nissan Division

By: /s/ Brad Bradshaw
Regional Vice President

(File this Addendum with Current Sales & Service Agreement)

NISSAN

HOLDING COMPANY ADDENDUM TO
NISSAN DEALER SALES AND SERVICE AGREEMENT

Pursuant to Article Third (b) of the Nissan Dealer Sales & Service Agreement (the "Agreement") in effect between the authorized Nissan Dealer named below and Nissan Motor Corporation in U.S.A. ("Seller"), Dealer represents and agrees the following Principal Owner(s) of Dealer named in the Final Article of the Agreement which is (are) a corporation, partnership, or other entity and not a natural person, is (are) owned as follows:

Name of Owner: Lithia Holding Company, L.L.C., a limited liability company formed under the laws of the State of _____.

PRINCIPAL OWNERS(S)/SETTLOR(S)

NAME	RESIDENCE	PERCENTAGE INTEREST
Sidney B. DeBoer	234 Vista Ashland, OR 97520	58.125%

OTHER OWNER(S)/SETTLOR(S)

NAME	RESIDENCE	PERCENTAGE INTEREST
M.L. Dick Heimann	426 Roundelay Circle Medford, OR 97504	34.875%
R. Bradford Gray	6764 Laurel Crest Drive Medford, OR 97504	7.000%

TRUSTEE(S)

NAME	RESIDENCE

OTHER RELEVANT INFORMATION:

This Holding Company Addendum cancels and supersedes any previous Holding Company addendum between Dealer and Seller.

This Holding company Addendum is effective as of October 2, 1997.

DEALER:
Lithia NB of Bakersfield, Inc. dba Lithia Nissan of Bakersfield

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer, President
Bakersfield, California
Dealer Code: 3475

SELLER:
Nissan Division, Nissan Motor Corporation in U.S.A.

By: /s/ Vice President
Vice President, Nissan Division

By: /s/ Brad Bradshaw
Regional Vice President

(File this Addendum with Current Sales & Service Agreement)

EXHIBIT 10.15.2

NISSAN

DEALER SALES & SERVICE AGREEMENT

The following Standard Provisions have by reference been incorporated in and made a part of the Nissan Dealer Sales & Service Agreement which they accompany and which has been executed on behalf of Seller and Dealer.

1. Definitions

Seller and Dealer agree that the following terms, as used in this Agreement, shall be defined exclusively as set forth below.

A. "Authorized Nissan Dealers" shall mean dealers located in the Territory that are authorized by Seller to conduct Dealership Operations in connection with the sale of Nissan Products, pursuant to a duly executed Nissan Dealer Sales and Service Agreement.

B. "Nissan Cars" shall mean the new passenger cars specified in the current Product Addendum.

C. "Nissan Trucks" shall mean the new trucks, cab and chassis, utility vehicles, buses or vans specified in the current Product Addendum.

D. "Nissan Vehicles" shall mean Nissan Cars and Nissan Trucks.

E. "Genuine Nissan Parts and Accessories" shall mean such parts, accessories and other products for Nissan Vehicles as are from time to time offered for sale by Seller to Authorized Nissan Dealers for resale under this Agreement.

F. "Nissan Products" shall mean Nissan Vehicles and Genuine Nissan Parts and Accessories.

G. "Competitive Vehicles" shall mean those new vehicles which are considered by Seller to be directly competitive with Nissan Vehicles.

H. "Industry Cars" shall mean all new cars of all manufacturers which are sold and distributed within the United States, to the extent data relating to registration thereof are reasonably available.

I. "Competitive Truck Segment" shall include all compact pickup trucks, compact utility vehicles, and compact buses of all manufacturers which are sold and distributed within the United States, to the extent data relating to registration thereof are reasonably available.

J. "Dealership Location" shall mean the place or places of business of Dealer established and described in accordance with Section 2 of this Agreement.

K. "Dealership Facilities" shall mean the land areas at the Dealership Location and the buildings and improvements erected thereon provided by Dealer in accordance with Section 2 of this Agreement.

L. "Dealership Facilities Addendum" shall mean the addendum executed by Seller and Dealer pursuant to Section 2 of this Agreement.

M. "Dealership Operations" shall mean all dealer functions contemplated by this Agreement including, without limitation, sale and servicing of Nissan Products, use and display of Nissan Marks and Nissan Products, rental and leasing of Nissan Vehicles, sales of used vehicles, body shop work, financing or insurance services and any other activities undertaken by Dealer in connection with Nissan Products whether conducted directly or indirectly by Dealer.

N. "Primary Market Area" shall mean the geographic area which is designated from time to time as the area of Dealer's sales and service responsibility for Nissan Products in a Notice of Primary Market Area issued by Seller to Dealer. Seller reserves the right, in its reasonable discretion, to issue new, superseding "Notices of Primary Market Area" to Dealer from time to time. Such geographic area may at any time be applicable to Dealer and to other Authorized Nissan Dealers.

O. "Principal Owner(s)" shall mean the person(s) named as Principal Owner(s) in the Final Article of this Agreement upon whose personal qualifications, expertise, reputation, integrity, experience, ability and representations concerning the management and operation of Dealer, Seller has relied in entering this Agreement.

P. "Other Owner(s)" shall mean the person(s) named as Other Owner(s) in the Final Article of this Agreement who will not be involved in the operation or management of Dealer.

Q. "Executive Manager" shall mean the person named as Executive Manager in the Final Article of this Agreement upon whose personal qualifications, expertise, reputation, integrity, experience, ability and representations that he or she shall devote his or her primary efforts to and have full managerial authority and responsibility for the day-to-day management and performance of Dealer, Seller has relied in entering into this Agreement.

R. "Successor Addendum" shall mean the Successor Addendum, if any, executed by Seller and Dealer pursuant to Section 14 of this Agreement.

S. "Guides" shall mean such reasonable standards as may be established by Seller for Authorized Nissan Dealers from time to time under its standard procedures with respect to such matters as dealership facilities, tools, equipment, financing, capitalization, inventories, operations and personnel. The execution of this Agreement or of any addenda hereto (including, without limitation, any Dealership Facilities Addendum) shall not, however, be construed as evidence of Dealer's fulfillment of or compliance with said Guides or of Dealer's fulfillment of its responsibilities under this Agreement.

T. "Warranty Manual" shall mean the publication or publications of Seller, as the same may from time to time be amended, revised or supplemented, which set forth Seller's policies and procedures concerning the administration of Seller's warranties and related matters.

U. "Nissan Marks" shall mean those trademarks, service marks, names, logos and designs that Seller may, from time to time, use or authorize for use by Dealer in connection with Nissan Products or Dealership Operations including, without limitation, the name "Nissan."

V. "Seller's Manuals and Instructions" shall mean those bulletins, manuals or instructions issued by Seller to all Authorized Nissan Dealers advising them of Seller's policies or procedures under this Agreement including, without limitation, the Parts and Accessories Policy and Procedures Manual and the Nissan Dealer Accounting System Manual.

W. "Territory" shall mean the geographic area in which Seller has been authorized by Manufacturer to distribute Nissan Products.

X. "Product Addendum" shall mean the Product Addendum issued by Seller to Dealer which specifies those Nissan Vehicles which shall be offered for sale by Seller to Dealer for resale. Seller reserves the right, in its sole discretion, to issue new, superseding Product Addenda to Dealer from time to time.

Y. "Dealer Identification Addendum" shall mean the Dealer Identification Addendum executed by Seller and Dealer pursuant to Section 6.C of this Agreement.

2. Dealership Location and Dealership Facilities

A. Location and Facilities. Dealer shall provide, at the Dealership Location approved by Seller in accordance with Section 2.B hereof, Dealership Facilities that will enable Dealer to effectively perform its responsibilities under this Agreement and which are reasonably equivalent to those maintained by Dealer's principal competitors in the geographic area in which Dealer's Primary Market Area is located. In addition, the Dealership Facilities shall be satisfactory in space, appearance, layout, equipment, signage and otherwise be substantially in accordance with the Guides therefor established by Seller from time to time. Dealer shall conduct its Dealership Operations only from the Dealership Location specified in the Dealership Facilities Addendum. If the Dealership Location is comprised of more than one place of business, Dealer shall use each such place of business only for the purposes specified therefor in the current Dealership Facilities Addendum.

B. Dealership Facilities Addendum. Dealer and Seller will execute a Dealership Facilities Addendum which will include a description of the Dealership Location and the Dealership Facilities, the approved use for each such place of business and facility, and the current Guides therefor.

C. Changes and Additions. Dealer shall not move, relocate, or change the usage of the Dealership Location or any of the Dealership Facilities, or substantially modify any of the Dealership Facilities, nor shall Dealer or any person named in the Final Article of this Agreement

directly or indirectly establish or operate any other locations or facilities for the sale or servicing of Nissan Products or for the conduct of any other of the Dealership Operations contemplated by this Agreement, without the prior written consent of Seller. Any changes in the Dealership Location or the Dealership Facilities that may be agreed to by Seller and Dealer shall be reflected in a new, superseding Dealership Facilities Addendum executed by Seller and Dealer.

D. Assistance Provided by Seller. To assist Dealer in planning, establishing and maintaining the Dealership Facilities, Seller, at the request of Dealer, will from time to time make its representatives available to Dealer to provide standard building layout plans, facility planning recommendations, and counsel and advice concerning location and facility planning.

E. Evaluation of Dealership Facilities and Location. Seller will periodically evaluate Dealer's performance of its responsibilities under this Section 2. In making such evaluations, Seller will give consideration to:
the actual land and building space provided by Dealer for the performance of its responsibilities under this Agreement; the current Guides established by Seller for the Dealership Facilities; the appearance, condition and layout of the Dealership Facilities; the location of the Dealership Facilities relative to the sales opportunities and service requirements of the Primary Market Area; equivalence with facilities maintained by Dealer's principal competitors; and such other factors, if any, as may directly relate to Dealer's performance of its responsibilities under this Section 2. Evaluations prepared pursuant to this Section 2.E will be discussed with and provided to Dealer, and Dealer shall have an opportunity to comment, in writing, on such evaluations, and Seller will consider Dealer's comments. Dealer shall promptly take such action as may be required to correct any deficiencies in Dealer's performance of its responsibilities under this
Section 2.

3. Vehicle Sales Responsibilities of Dealer

A. General Obligations of Dealer. Dealer shall actively and effectively promote through its own advertising and sales promotion activities the sale at retail (and if Dealer elects, the leasing and rental) of Nissan Vehicles to customers located within Dealer's Primary Market Area. Dealer's Primary Market Area is a geographic area which Seller uses as a tool to evaluate Dealer's performance of its sales obligations hereunder. Dealer agrees: that it has no right or property interest in any such geographic area which Seller may designate; that, subject to Section 4 of this Agreement, Seller may add, relocate or replace dealers in Dealer's Primary Market Area; and that Seller may, in its reasonable discretion, change Dealer's Primary Market Area from time to time.

B. Sales of Nissan Cars and Nissan Trucks. Dealer's performance of it sales responsibility for Nissan Cars and Nissan Trucks will be evaluated by Seller on the basis of such reasonable criteria as Seller may develop from time to time, including for example:

1. Achievement of reasonable sales objectives which may be established from time to time by Seller for Dealer as standards for performance;

2. Dealer's sales of Nissan Cars and Nissan Trucks in Dealer's Primary Market Area and/or the metropolitan area in which Dealer is located, as applicable, or Dealer's sales as a percentage of:

(i) registrations of Nissan Cars and Nissan Trucks;

(ii) registrations of Competitive Vehicles;

(iii) registrations of Industry Cars;

(iv) registrations of vehicles in the Competitive Truck Segment;

3. A comparison of Dealer's sales and/or registrations to sales and/or registrations of all other Authorized Nissan Dealers combined in Seller's Sales Region and District in which Dealer is located and, where
Section 3.C applies, for all other Authorized Nissan Dealers combined in the metropolitan area in which Dealer is located; and

4. A comparison of sales and/or registrations achieved by Dealer to the sales or registrations of Dealer's competitors.

The sales and registration data referred to in this Section 3 shall be those utilized in Seller's records or in reports furnished to Seller by independent sources selected by it and generally available for such purpose in the automotive industry. If such reports of registration and/or sales are not generally available, Seller may rely on such other registration and/or sales data as can be reasonably obtained by Seller.

C. Metropolitan Markets. If Dealer is located in a metropolitan or other marketing area where there are located one or more Authorized Nissan Dealers other than Dealer, the combined sales performance of all Nissan Dealers in such metropolitan or other marketing area may be evaluated as indicated in Sections 3.B.2 and 3.B.3 above, and Dealer's sales performance may also be evaluated on the basis of the proportion of sales and potential sales of Nissan Vehicles in the metropolitan or other marketing area in which Dealer is located for which Dealer fairly may be held responsible.

D. Additional Factors for Consideration. Where appropriate in evaluating Dealer's sales performance, Seller will take into account such reasonable criteria as Seller may determine from time to time, including, for example, the following: the Dealership Location; the general shopping habits of the public in such market area; the availability of Nissan Vehicles to Dealer and to other Authorized Nissan Dealers; any special local marketing conditions that would affect Dealer's sales performance differently from the sale performance of other Authorized Nissan Dealers; the recent and long term trends in Dealer's sales performance; the manner in which Dealer has conducted its sales operations (including advertising, sales promotion, and treatment of customers); and the other factors, if any, directly affecting Dealer's sales opportunities and performance.

E. Used Motor Vehicle Sales. Dealer shall engage in used motor vehicle operations as and to the extent reasonably required for Dealer to effectively perform its responsibilities for the sale of Nissan Vehicles. Subject to requirements and guidelines established by Seller, Dealer shall be entitled to identify such used motor vehicle operations as a part of its Dealership Operations and to apply the Nissan Marks relating to used motor vehicle operations.

F. Dealer Sales Personnel. Dealer shall organize and maintain a sales organization that includes a sufficient number of qualified and trained sales managers and sales people to enable Dealer to effectively fulfill its responsibilities under this Section 3. Seller may, from time to time, comment on or advise Dealer concerning the qualifications, performance and ability of Dealer's sales personnel as the same affect Dealer's performance of its obligations under this Section 3.

G. Assistance Provided by Seller.

1. Sales Training Courses. Seller will offer from time to time sales training courses for Dealer sales personnel. Based on its need therefor, Dealer shall, without expense to Seller, have members of Dealer's sales organization attend such training courses and Dealer shall cooperate in such courses as may from time to time be offered by Seller.

2. Sales Personnel. To further assist Dealer, Seller will provide to Dealer advice and counsel on matters relating to new vehicle sales, sales personnel training and management, merchandising, and facilities used for Dealer's vehicle sales operations.

H. Evaluation of Dealer's Sales Performance. Seller will periodically evaluate Dealer's performance of its responsibilities under this Section 3. Evaluations prepared pursuant to this Section 3.H will be discussed with and provided to Dealer, and Dealer shall have an opportunity to comment, in writing, on such evaluations. Dealer shall promptly take such action as may be required to correct any deficiencies in Dealer's performance of its responsibilities under this Section 3.

4. Determination of Dealer Representation

A. Development of Market Studies. Seller may, from time to time and in its sole discretion, conduct studies of various geographic areas to evaluate market conditions. Such market studies may, where appropriate, take into account such factors as geographical characteristics, consumer shopping patterns, existence of other automobile retail outlets, sales opportunities and service requirements of the geographic area in which Dealer's Primary Market Area is located, trends in marketing conditions, current and prospective trends in population, income, occupation, and such other demographic characteristics as may be determined by Seller to be relevant to its study. Such studies will make recommendations concerning the market, the Dealership Facilities, and the Dealership Location. Prior to conducting a study which includes the geographic are in which Dealer's Primary Market Area is located, Seller will notify Dealer of its intention to conduct such a study. Dealer will be given the opportunity to present to Seller such information pertaining to such study as Dealer believes may be relevant. Seller will consider all relevant information timely provided by Dealer before concluding its study.

B. Appointment of New Authorized Nissan Dealers to Fill Open Points.

1. If any study conducted pursuant to Section 4.A recommends that an open point be established at a location that is within ten (10) miles driving distance, by the shortest publicly traveled route, of Dealer's main Dealership Location, Seller will so notify Dealer. Dealer will have thirty
(30) days from Dealer's receipt of notice of the recommendations of the study in which to object to them. Upon Dealer's request, Seller will review the results of the study with Dealer (excluding information considered by Seller to be confidential). Seller will consider all objections to the recommended open point timely made by Dealer. Prior to entering into a Nissan Dealer Sales and Service Agreement with a New Authorized Nissan Dealer filling such an open point, Seller will give Dealer written notice of its intent to fill the open point (hereinafter the "Notice of Appointment"). If Dealer timely files a Notice of Appeal (as defined in Section 16.B hereof) with the Policy Review Board (as defined in Section 16.A hereof) in accordance with the procedures established in Section 16.B therefor, Seller will not enter into a Nissan Dealer Sales and Service Agreement appointing such New Authorized Nissan Dealer until the Policy Review Board has rendered its decision on the matter.

2. Nissan reserves the right to sell Nissan Products to others to appoint Authorized Nissan Dealers within and outside the ten (10) miles driving distance described above. However, Seller agrees that it will not enter into a Nissan Dealer Sales and Service Agreement appointing a New Authorized Nissan Dealer filling an open point which is located within the ten (10) miles driving distance described above unless the study made pursuant to Section 4.A demonstrates in Seller's good faith opinion that the declaration of an open point is warranted by market or economic conditions.

3. Nothing in this Agreement shall be construed to require Dealer's consent to the appointment of a New Authorized Nissan Dealer at a location that is within the ten (10) miles driving distance described above. Nothing in this Agreement shall be construed to grant Dealer any rights in connection with the appointment of an Authorized Nissan Dealer at a location that is not within the ten (10) miles driving distance described above. In addition, this Section 4.B does not apply to, nor shall it be construed to grant Dealer any rights in connection with any of the events or transactions excluded from the definition of "New Authorized Nissan Dealer" in Section
4.B.4(a), (b) or (c) below.

4. "New Authorized Nissan Dealer" shall mean an Authorized Nissan Dealer that has not previously executed a Nissan Dealer Sales and Service Agreement or done business as an Authorized Nissan Dealer; provided, however, that "New Authorized Nissan Dealer" shall not include an Authorized Nissan Dealer who: (a) is a Successor Dealer appointed pursuant to Section 14, (b) is a purchaser or transferee of the assets of or ownership interests in an Authorized Nissan Dealer that is appointed as an Authorized Nissan Dealer pursuant to Section 15, or (c) who is approved as a Nissan Dealer following or resulting from:

(i) a change in name or form of an Authorized Nissan Dealer;

(ii) any other sale, exchange or other transfer of any ownership interests in or any assets of any other Authorized Nissan Dealer, by operation of law or otherwise and whether voluntary and involuntary;

(iii) an assignment, sale or other transfer of any interest in a Nissan Dealer Sales and Service Agreement, by operation of law or otherwise and whether voluntary or involuntary;

(iv) the relocation of an existing Authorized Nissan Dealer; or

(v) the replacement of a former Authorized Nissan Dealer where the appointment of such replacement Dealer takes place within two (2) years of the date on which the former Dealer ceased doing business and where such replacement Dealer's main Dealership Location is located within a five
(5) mile driving distance by the shortest publicly traveled route of the former Dealer's main Dealership Location; regardless of whether any of the foregoing actions, individually or collectively, result in the appointment of an Authorized Nissan Dealer at a location that is within or without the ten (10) miles driving distance described above.

5. Responsibilities of Dealer with Respect to Service and Parts

A. General Service Obligations of Dealer. Dealer understands and acknowledges that future sales of Nissan Products depend, in part, upon the satisfaction of Dealer's customers with its servicing of such Products. Dealer further recognizes that Seller has entered into this Agreement in

reliance upon Dealer's representations concerning its ability and commitment to fair dealing and professional servicing. Accordingly, Dealer shall develop and maintain a quality service organization and shall render at the Dealership Facilities prompt, efficient and courteous service to owners and users of Nissan Products, regardless of the origin of purchase, including, without limitation, the specific obligations described in Section 5.B. In this regard, Dealer shall take all reasonable steps to insure that: the service needs of its customer's Nissan Vehicles are accurately diagnosed; Dealer's customers are advised of such needs and that each customer's consent is obtained prior to initiation of any repairs; necessary repairs and maintenance are professionally performed; and Dealer's customers are treated courteously and fairly.

B. Specific Service Obligations of Dealer.

1. Pre-Delivery Inspections and Service. Dealer shall perform or be responsible for the performance of pre-delivery inspections and service on each Nissan Vehicle prior to sale and delivery thereof by Dealer, in accordance with the standards and procedures relating thereto set forth in the applicable pre-delivery inspection schedules furnished by Seller to Dealer from time to time. The completion of such inspection and service shall be verified by Dealer on forms supplied or approved by Seller for this purpose. Dealer shall retain the original or a legible copy of each such form in its records and shall furnish a copy to the purchaser.

2. Warranty Repairs and Goodwill Adjustments. Dealer shall promptly, courteously and efficiently perform: (i) warranty repairs on each Nissan Product which qualifies for such repairs under the provisions of any warranty furnished therewith by Seller, Manufacturer or the manufacturer of the Product; and (ii) such other inspections, repairs or corrections on Nissan Products as may be approved or authorized by Seller to be made at Seller's expense (hereinafter referred to as "goodwill adjustments"). Dealer shall perform such repairs and service on each such Nissan Product as and when required and requested by the owner or user (or in the case of goodwill adjustments when requested by Seller), without regard to its origin of purchase and in accordance with the provisions relating thereto set forth in the Warranty Manual or in Seller's Manuals or Instructions issued to Dealer from time to time. In performing such repairs and service on Nissan Products for which Seller has agreed to reimburse Dealer, Dealer shall use Genuine Nissan Parts and Accessories unless Dealer receives prior authorization from Seller to use non-genuine parts or accessories. Dealer will provide to each owner or user of a Nissan Product upon which any such repairs or service are performed a copy of the repair order reflecting all services performed.

3. Campaign Inspection and Corrections. Dealer shall promptly, courteously and efficiently perform such campaign inspections and/or corrections for owners and users of Nissan Products, regardless of their origin of purchase, as are (i) described in owner notifications and recall campaigns conducted by Seller in furtherance of any federal or state law, regulation, rule, or order; or (ii) requested by Seller on Nissan Products that qualify for such inspections and/or corrections. Once Dealer has been notified that a recall or service campaign affects a particular class or type of Nissan Product, Dealer shall perform such campaign inspections and/or corrections on all affected Nissan Products then in or which thereafter come into Dealer's inventory or which are delivered to Dealer for repair or service. Dealer shall inquire, through the Nissan Datanet system or otherwise, with respect to each such Nissan Product to determine whether all applicable campaign inspections and/or corrections have been performed on such Nissan Product and, if they have not been performed, Dealer shall perform them.

Dealer shall advise Seller as and when such campaign inspections and/or corrections are performed, in accordance with Seller's Manuals or Instructions relating thereto and in accordance with the provisions relating thereto set forth in the Warranty Manual. To enable Dealer to perform required corrections as promptly as practicable, parts and/or other materials required for each such campaign may be shipped in quantity and billed to Dealer. Dealer shall accept and retain such parts and/or other materials for use in such campaign. Upon completion of the campaign program, Dealer shall have the right to return excess parts shipped by Seller to Dealer for such campaign, but only to the extent that Dealer has not ordered and received additional parts from Seller, such a return of parts shall be apart from any other parts return policies or programs which may be instituted by Seller. In performing such campaign corrections for which Seller has agreed to reimburse Dealer for parts and materials used in making such corrections, Dealer shall use Genuine Nissan Parts and Accessories unless Dealer receives prior authorization from Seller to use non-genuine parts and accessories.

4. Maintenance and Repair Service. Dealer shall promptly, courteously and efficiently maintain and repair Nissan Products as and when required and requested by the owner or user thereof, without regard to their origin of purchase. Dealer shall provide all owners and users for whom Dealer provides maintenance and repair service itemized invoices reflecting all the services performed. In connection with its sale or offering for sale

of any maintenance services recommended by Seller for the maintenance of a Nissan Product, Dealer shall advise each customer requesting such recommended maintenance service of: (i) a description of the items included in maintenance recommended by Seller and Dealer's price therefor; and (ii) the price and description of such additional maintenance or repair being sold or recommended by Dealer which are in addition to that recommended by Seller in published owner's manual.

5. Payments by Seller to Dealer. For pre-delivery inspections and service, warranty repairs, goodwill adjustments, and campaign inspections and corrections performed by Dealer in accordance with this Section 5.B, Seller shall fairly and adequately reimburse Dealer for the parts and/or other materials (or shall provide Dealer with the parts and/or other materials) and the labor required and used in connection therewith in accordance with the provisions relating thereto set forth in the Warranty Manual. Dealer understands and acknowledges that such repairs are provided for the benefit of owners and users of Nissan Products, and Dealer shall not impose any charge on such owners or users for parts, materials, or labor for which Dealer has received or will receive compensation from Seller hereunder.

Dealer shall comply with the disposition instructions contained in the Warranty Manual with respect to any genuine Nissan Parts or Accessories acquired by Dealer as a result of its performance of warranty repairs, goodwill adjustments and campaign adjustments and/or corrections.

C. Service Operations of Dealer.

1. Dealer Personnel. Dealer shall organize and maintain, substantially in accordance with Seller's Guides, a complete service organization that includes a competent, trained service manager and a sufficient number of trained service and customer relations personnel to enable Dealer to fulfill its responsibilities for service and customer relations under this Section 5. Dealer shall designate at least one member of its staff who shall be responsible for resolving consumer complaints on behalf of Dealer. Dealer shall, without expense to Seller, have members of Dealer's service organization attend training courses offered by Seller and Dealer shall cooperate with and participate in such training courses as may from time to time be offered by Seller. Dealer agrees that its personnel will meet such educational, management and technical training standards as Seller may establish or approve. Seller may, from time to time, comment on or advise Dealer concerning the qualifications, performance and ability of Dealer's service personnel as the same affect Dealer's performance of its obligations under this Section 5.

2. Compliance with Laws. In performing the maintenance and service obligations specified in Section 5.B, Dealer shall comply with all applicable provisions of federal, state and local laws, ordinances, rules, regulations and orders affecting Nissan Products including, but not limited to, laws relating to safety, emissions control, noise control and customer service. Seller shall provide to Dealer, and Dealer shall provide to Seller, such information and assistance as may be reasonably requested by the other in connection with the performance of obligations of the parties under such laws, ordinances, rules, regulations and orders. If applicable law requires the installation or supply of equipment not installed or supplied as standard equipment by Seller or the manufacturer of a Nissan Vehicle, Dealer shall, prior to its sale of the Nissan Vehicles on or for which such equipment is required, install or supply such equipment at its own expense and in conformance with such standards as may be adopted by Seller. Dealer shall comply with all applicable laws pertaining to the installation or supply of such equipment including, without limitation, the reporting thereof.

3. Tools and Equipment. Dealer shall provide for use in its service operations such service equipment and special tools, comparable to the type and quality recommended by Seller from time to time, as are necessary to meet Dealer's service responsibilities hereunder and as are substantially in accordance with Seller's Guides. In addition, Dealer shall obtain and maintain for use in its service operations all tools which are essential to the proper service, repair and maintenance of Nissan Vehicles and are identified by Seller as essential tools. Seller shall ship such essential tools to Dealer as required due to new model and component introductions and Dealer shall pay Seller therefor as invoiced. If Dealer is in possession of a tool equivalent to any essential tool shipped by Seller, Dealer may so notify Seller and Seller will exempt Dealer from purchasing such essential tool from Seller upon Seller's determination that Dealer's tool will satisfy the need for the specific repair procedure or procedures for which the essential tool is intended. Dealer shall maintain all such equipment and tools in good repair and proper calibration so as to enable Dealer to meet its service responsibilities under this Section 5.

4. Owner Relations. In providing service on Nissan Products, Dealer shall make every effort to build and maintain good relations between Dealer and owners and users of Nissan Products. Dealer shall promptly investigate and handle all matters brought to its attention by Seller, owners or users of Nissan Products, or any public or private agency, relating to the sale or servicing of Nissan Products, so as to develop and maintain owner and user confidence in Dealer, Seller and Nissan Products.

Dealer shall promptly report to Seller the details of each inquiry or complaint received by Dealer relating to any Nissan Product which Dealer cannot handle promptly and satisfactorily. Dealer will take such other steps with respect to such customer complaints as Seller may reasonably require. Dealer will do nothing to affect adversely Seller's rights or obligations under applicable laws, rules and/or regulations. Furthermore, Dealer shall participate in and cooperate with such dispute resolution procedures as Seller may designate from time to time and such other procedures as may be required by law.

Seller will promptly investigate all matters brought to its attention by Dealer, owners or users of Nissan Products, or any public or private agency, relating to the design, manufacture or sale by Seller of Nissan Products, and Seller will take such action as it may deem necessary or appropriate so as to develop and maintain owner confidence in Seller, Dealer and Nissan Products.

D. Parts Operations of Dealer
1. Parts Sales Responsibility of Dealer. Dealer shall actively and effectively promote through its own advertising and sales promotion activities the sale of Genuine Nissan Parts and Accessories to service, wholesale, retail and other customers within Dealer's Primary Market Area.

2. Dealer Personnel. Dealer shall organize and maintain, substantially in accordance with Seller's recommendations with respect thereto, a complete parts organization that includes a competent, trained parts manager and a sufficient number of trained parts personnel to enable Dealer to fulfill its responsibilities under this Section 5. Based on its need therefor, Dealer shall, without expense to Seller, have members of Dealer's parts organization attend training courses offered by Seller and Dealer shall cooperate in such training courses as may from time to time be offered by Seller. Seller may, from time to time, comment on or advise Dealer concerning the qualifications, performance and ability of Dealer's parts personnel as the same affect Dealer's performance of its obligations under this Section 5.

3. Inventories of Parts and Accessories. Dealer shall maintain at all times a stock of parts and accessories which is adequate to meet its service and wholesale and retail parts sales responsibilities under this Section 5. Dealer shall also maintain, subject o the ability of Seller to supply the products ordered by Dealer, a stock of Genuine Nissan Parts and Accessories of an assortment and in quantities adequate to meet customer demand and for warranty repairs, goodwill adjustments and campaign corrections made pursuant to this Section 5.

E. Assistance Provided by Seller

1. Service and Parts Manuals. Seller will make available to Dealer, for use by Dealer's service and parts personnel, Seller's Manuals or Instructions concerning Dealer's service and parts operations and other sources of information and technical data as Seller deems necessary to permit Dealer to perform its service and parts responsibilities under this Section
5. Dealer shall keep such information and data current and available for consultation by Dealer's service and parts employees.

2. Service and Parts Field Personnel. To further assist Dealer, Seller will provide to Dealer the advice and counsel of its service and parts field personnel on matters relating to service, parts and accessories, including technical diagnosis, service and parts management, merchandising, personnel training, owner relations, and facilities used for Dealer's service and parts operations.

F. Evaluation of Dealer's Service and Parts Performance. Dealer's performance of its service and parts responsibilities will be evaluated by Seller on the basis of such reasonable criteria as Seller may develop from time to time, including for example:

1. Dealer's performance in building and maintaining consumer confidence in Dealer and in Nissan Products as measured by surveys or indices of consumer satisfaction as compared with performance levels achieved by

other Authorized Nissan Dealers in Seller's Region or District in which Dealer is located or such other means as may be deemed appropriate by Seller;

2. Reasonable parts purchase or sales performance objectives which may be established from time to time by Seller for Dealer;

3. Dealer's advertising and promotion of its parts and service operations;

4. Dealer's performance of it service responsibilities and Dealer's conduct of its service operations including, without limitation, the financial results of its service operations, labor sales, warranty claims practices training of service personnel, qualification, performance and ability of service personnel, and inventory of special and essential tools and service equipment, as compared with Seller's Guides therefor where such have been established and/or as compared with performance levels achieved by other Authorized Nissan Dealers in Seller's Region or District in which Dealer is located;

5. Dealer's performance of its parts sales responsibilities and Dealer's conduct of its parts operations including, without limitation, the financial results of its parts operations, training of parts personnel, and inventory of parts, as compared with Seller's Guides therefor where such have been established and/or as compared with performance levels achieved by other Authorized Nissan Dealers in Seller's Region or District in which Dealer is located; and

6. Evaluation reports resulting from any audit or review of Dealer's service or parts operations by Seller's representatives.

Seller will periodically evaluate Dealer's performance of its responsibilities under this Section 5. Evaluations prepared pursuant to this Section 5 will be discussed with and provided to Dealer, and Dealer shall have an opportunity to comment, in writing, on such evaluations. Dealer shall promptly take such action as may be required to correct any deficiencies in Dealer's performance of its responsibilities under this Section 5.

6. Other Seller and Dealer Responsibilities

A. Advertising and Promotion

1. Advertising Standards. Both Seller and Dealer recognize the need for maintaining the highest standards of ethical advertising which is of a quality and dignity consonant with the reputation and standing of Nissan Products. Accordingly, neither Seller nor Dealer shall publish or cause to be published any advertising relating to Nissan Products that is not in compliance with all applicable federal, state and local laws, ordinances, rules, regulations and orders or that is likely to mislead, confuse or deceive the public or impair the goodwill of Manufacturer, Seller or Dealer or the reputation of Nissan Products or the Nissan Marks.

2. Display by Dealer. Dealer shall prominently state upon its stationery and other printed matter that it is an Authorized Nissan Dealer.

3. Sales Promotion. Seller will establish and maintain comprehensive advertising programs to promote the sale of Nissan Vehicles and will from time to time offer advertising, sales promotion and sales campaign materials to Dealer. In addition, to effectively promote the sale of Nissan Products and the availability of service for Nissan Vehicles, Dealer shall establish and maintain its own advertising and sales promotion programs including, but not limited to, effective showroom displays, and Dealer will have available in showroom ready condition at least one vehicle in each model line of Nissan Vehicles for purposes of demonstration to potential customers.

B. Dealer Disclosures and Representations Concerning Nissan Products and Other Products or Services. Dealer understands and acknowledges that it is of vital importance to Seller that Nissan Products are sold and serviced in a manner which promotes consumer satisfaction and which meet the high quality standards associated with Seller, Manufacturer, the Nissan Marks and Nissan Products in general. Accordingly, Dealer shall fully and accurately disclose to its customers all material information concerning the products and services sold by Dealer and the terms of purchase and sale including, without limitation: the items making up the purchase price; the source of products sold; and all warranties affecting products sold. Dealer shall not make any misleading statements or misrepresentations concerning the products sold by Dealer, the terms of sale, the warranties applicable to such products, the source of the products, or the recommendations or approvals of Seller or Manufacturer.

Nothing in this Agreement shall limit or be construed to limit the products or services which Dealer may sell to its customers. Seller acknowledges that Dealer is free to sell whatever products or services Dealer may choose in connection with its sale and servicing of Nissan Products, subject to Dealer obligations under Section 5 and 6 of this Agreement.

C. Signs. Dealer shall, at its expense, display at its Dealership Location, in such number and at such locations as Seller may reasonably require, signs which are compatible with the design standards established by Seller and published in Seller's Manuals or Instructions from time to time. Dealer's use and operation of signs displayed by Dealer at the Dealership Location and Dealer's display of any Nissan Mark shall be subject to Seller's approval and shall be in accordance with the terms and conditions of Section
6.K and the Dealership Identification Addendum.

D. Hours of Operations. Dealer recognizes that the service and maintenance needs of the owners of Nissan Products and Dealer's own responsibilities to actively and effectively promote the sale of Nissan Products can be met properly only if Dealer keeps its Dealership Facilities open and conducts all of its Dealership Operations required by this Agreement during hours which are reasonable and convenient for Dealer's customers. Accordingly, Dealer shall maintain its Dealership Facilities open for business and shall conduct all Dealership Operations required under this Agreement during such days and hours as automobile dealers' sales and service facilities are customarily and lawfully open in Dealer's Primary Market Area or in the metropolitan area in which Dealer is located.

E. Capital and Financing. Dealer recognizes that its ability to conduct its Dealership Operations successfully on a day-to-day basis and to effectively perform its other obligations under this Agreement including, without limitation, its obligations with respect to Dealership Facilities, new vehicle sales, and service and parts sales, depends to a great extent upon the adequate capitalization of Dealer, including its maintaining sufficient net working capital and net worth and employing the same in its Dealership Operations. Dealer shall at all times maintain and employ such amount and allocation of net working capital and net worth as are substantially in accordance with Seller's Guides therefor and which will enable Dealer to fulfill all of its responsibilities under this Agreement. Dealer shall at all times during the term of this Agreement have flooring arrangements (wholesale financing) satisfactory to Seller, in an amount substantially in accordance with Seller's Guide therefor, with a financial institution acceptable to Seller, and which will enable Dealer to fulfill its obligations under this Agreement.

F. Accounting System. It is in the mutual interest of Seller and Dealer that all Authorized Nissan Dealers install and maintain uniform accounting systems and practices, so that Seller can develop standards of operating performance which will assist Dealer in obtaining satisfactory results from its Dealership Operations and which will assist Seller in formulating policies in the interests of Seller and all Authorized Nissan Dealers. Accordingly, Dealer shall install and maintain an accounting system, not exclusive of any other system, in accordance with Seller's Nissan Dealer Accounting System Manual, as the same may from time to time be amended, revised or supplemented.

G. Records and Reports

1. Financial Statements. Dealer shall furnish to Seller, on or before the tenth (10th) day of each month, in a manner acceptable to Seller, complete and accurate financial and operating statements which fairly present, in accordance with generally accepted accounting principles, Dealer's financial condition as of the end of the preceding month and the results of Dealer's Dealership Operations for the preceding month and for that portion of Dealer's fiscal year then ended. Dealer shall also furnish for such periods reports of Dealer's sales and inventory of Nissan Products. Dealer shall also promptly furnish to Seller a copy of any adjusted annual financial or operating statement prepared by or for Dealer.

2. Sales Records and Reports. Dealer shall prepare and retain for a minimum of two (2) years, complete and up-to-date records covering its sales of Nissan Products. To assist Seller in evaluating, among other things, current market trends, to provide information for use in the adjustment of production and distribution schedules, to provide information used by Seller in providing Nissan Vehicles to Dealer, and to provide Seller with accurate records of the ownership of Nissan Vehicles for various purposes including warranty records and ownership notification, Dealer shall accurately submit to Seller such information with respect to Dealer's sales of Nissan Products as Seller may reasonably require as and in the form or manner specified by Seller, at or as soon as possible after the close of each business day on which such Nissan Products are sold by Dealer. If Dealer becomes aware that any information submitted by Dealer to Seller hereunder is or has become inaccurate, Dealer will immediately take all steps necessary to

advise Seller of and to correct such inaccuracy. Should Seller determine or discover that any report submitted hereunder by Dealer is or has become inaccurate, Seller may take any steps it deems necessary or appropriate to correct such inaccuracy and to adjust its records, calculations or procedures with respect to Dealer's reported sales to correct the effect of such inaccuracy or to prevent additional inaccurate reports from being made.

3. Service Records. Dealer shall prepare and retain for a minimum of two (2) years, in accordance with the procedures specified in the Warranty Manual: records in support of applications for payment for pre-delivery inspection and service, warranty repairs and goodwill adjustments, and campaign inspections and corrections performed by Dealer; claims for parts compensation; and applications for discounts, allowances, refunds or credits.

4. Other Reports. Dealer shall furnish to Seller such other records or reports concerning its Dealership Operations as Seller may reasonably require from time to time.

H. Nissan Datanet System. Seller has developed the Nissan Datanet system, which is an electronic data communication and processing system designed to facilitate accurate and prompt reporting of dealership operational and financial data, submission of parts orders and warranty claims and processing of information with respect to the Dealership Operations. Such data is used by Seller, among other things, to develop composite operating statistics which are useful to Dealer and Seller in assessing Dealer's progress in meeting its obligations under this Agreement, to provide a basis for recommendations which Seller may make to Dealer from time to time to assist Dealer in improving Dealership Operations, to assist Seller in developing standards of operating performance which will assist Dealer in obtaining satisfactory results from its Dealership Operations, to assist Seller in formulating policies in the interest of Seller and all Authorized Nissan Dealers, and to provide sales reporting information relied upon by Seller in providing Nissan Vehicles to Dealer. Accordingly, Dealer shall install and maintain electronic data processing facilities which are compatible with the Nissan Datanet system.

I. Right of Inspection. Seller shall have the right, at all reasonable times during regular business hours, to inspect the Dealership facilities and to examine, audit and make and take copies of all records, accounts and supporting data relating to the sale, sales reporting, service and repair of Nissan Products by Dealer. When practicable, Seller shall attempt to provide Dealer with advance notice on an indealership audit of Dealer's records or accounts.

J. Confidentiality. Seller will not furnish to any third party financial statements or other confidential data, excluding sales records or reports, submitted by Dealer to Seller, except as an unidentified part of a composite or coded report, unless disclosure is authorized by Dealer or is required by law, or unless such information is pertinent to judicial or governmental administrative proceedings or to proceedings conducted pursuant to Section 16 of this Agreement.

K. Use of Nissan Marks. Seller grants Dealer the non-exclusive right to identify itself as an Authorized Nissan Dealer and to display at the Dealership Location and use, in connection with the sale and service of Nissan Products, the Nissan Marks. The Nissan Marks may not be used as part of Dealer's name or trade name without Seller's written consent. No entity owned by or affiliated with Dealer or any of its owners may use any Nissan Mark without Seller's prior written consent. Dealer shall not make any use of any Nissan Mark which is inconsistent with Seller's policies concerning trademark use. Dealer may not, either directly or indirectly, display any Nissan Marks at any location of facility other than those identified in the Dealership Facilities Addendum to this Agreement, without the prior written consent of Seller. Except as authorized herein, Dealer shall not make use of any Nissan Mark, and Dealer shall neither have nor claim any rights in respect of any Nissan Mark. Dealer shall comply with any of Seller's Manuals or Instructions regarding the use of Nissan Marks as may be issued to Dealer from time to time. Dealer shall promptly change or discontinue its use of any Nissan Marks upon Seller's request. Any authorization granted may be withdrawn by Seller at any time and, in any event, shall cease immediately upon the effective date of termination of this Agreement.

If Seller institutes litigation to effect or enforce compliance with this Section 6.K, the prevailing party in such litigation shall be entitled to reimbursement for its costs and expenses in such litigation, including reasonable attorney's fees.

7. Purchase and Delivery

A. Dealer Purchases

1. Nissan Vehicles. From time to time Seller will advise Dealer of the number and model lines of Nissan Vehicles which Seller has available for sale to Dealer and, subject to this Section 7, Dealer shall have the right to purchase such Nissan Vehicles. Seller will distribute Nissan Vehicles to Authorized Nissan Dealers in accordance with Seller's written distribution policies and procedures as the same may be in effect from time to time. Seller will provide to Dealer an explanation of the method used by Seller to distribute Nissan Vehicles to Authorized Nissan Dealers. Dealer recognized that there are numerous factors which affect the availability of Nissan Vehicles to Seller and to Dealer including, without limitation, production capacity, sales potential in Dealer's and other Primary Market Areas, varying consumer demand, weather and transportation conditions, and state and federal government requirements. Since such factors may affect individual dealers differently, Seller reserves to itself sole discretion to distribute Nissan Vehicles in a fair and consistent manner, and its decisions in such matters shall be final.

2. Genuine Nissan parts and Accessories. Dealer shall submit to Seller firm orders for Genuine Nissan Parts and Accessories in such quantity and variety as are reasonably necessary to fulfill Dealer's obligations under this Agreement. All orders shall be submitted by Dealer in the manner specified by Seller and in accordance with Seller's Parts and Accessories Policy and Procedures Manual, may be accepted in whole or in part by Seller, and shall be effective only upon acceptance thereof by Seller at its home office in California (but without necessity of any notice of acceptance by Seller to Dealer). Such orders shall not be cancellable by Dealer after acceptance and shipment by Seller, except in accordance with
Section 8 of this Agreement.

B. Delays in Delivery. Seller shall not be liable for failure or delay in delivery to Dealer of Nissan Products which Seller has previously agreed to deliver to Dealer where such failure or delay is due to cause or causes beyond the control or without the fault or negligence of Seller.

C. Shipment of Nissan Products

1. Nissan Vehicles. Seller will ship Nissan Vehicles to Dealer by whatever mode of transportation, by whatever route, and from whatever point Seller may select. Dealer shall pay to Seller in connection with Nissan Vehicles delivered to Dealer the applicable destination charges that are established for Dealer by Seller and that are in effect at the time of shipment. Dealer shall bear the risk of loss and damage to Nissan Vehicles during transportation from the point of shipment; however, Seller will, if requested by Dealer in such manner and within such time as Seller shall from time to time specify, prosecute claims for loss of or damage to Nissan Vehicles during said transportation against the responsible carrier for and on behalf of Dealer.

2. Genuine Nissan Parts and Accessories. Seller will ship Genuine Nissan Parts and Accessories to Dealer by whatever mode of transportation, by whatever route, and from whatever point Seller may select. Dealer shall bear the risk of loss and damage to Genuine Nissan Parts and Accessories during transportation from the point of shipment.

D. Passage of Title. Title to each Nissan Product shall pass from Seller to Dealer, or to the financial institution designated by Dealer, upon delivery of said Product to Dealer or to a carrier for transportation to Dealer, whichever occurs first.

E. Security Interest

1. Grant of Security Interest. As security for the full payment of all sums from time to time owed by Dealer to Seller under this Agreement, whether such sums are now, or hereafter become, due and owing, Dealer hereby grants to Seller a security interest in the following (collectively referred to as "Collateral"):

(i) All non-vehicle inventory of Dealer including, without limitation, all Genuine Nissan Parts and Accessories delivered by Seller to Dealer hereunder on account (all such inventory hereinafter referred to collectively as "Inventory" and individually as "Item of Inventory"); and

(ii) All proceeds from any of the foregoing including, without limitation, insurance payable by reason of the loss, damage or destruction of any Item of Inventory; and all accounts and chattel paper of Dealer arising from sale, lease, or other disposition of Inventory now existing or hereafter arising, and all liens, securities, guarantees, remedies and privileges pertaining thereto, together with all rights and liens of Dealer relating thereto.

2. Default in Payment. Dealer shall be in default of this
Section 7 if: (i) Dealer shall fail to pay any amounts secured hereby when due or fail to perform any obligations under this Section 7 in a timely manner; (ii) there shall occur any material adverse change in the financial condition of Dealer; (iii) Dealer shall dissolve or become insolvent or bankrupt; or (iv) Seller shall have determined in good faith that the prospect of such payment or performance is impaired; and in any such case Seller may declare all sums secured by this Section 7.E immediately due and payable and Seller shall have all rights and remedies afforded to a secured party after default under the Uniform Commercial Code or other applicable law in effect on the date of this Agreement.

3. Assembly of Collateral, Payment of Costs, Notices. Dealer shall, if requested by Seller upon the occurrence of any default under the foregoing Section 7.E.2 assemble the Collateral and make it available to Seller at a place or places designated by Seller. Dealer also shall pay all costs of Seller including, without limitation, attorneys' fees incurred with respect to the enforcement of any of Seller's rights under this Section 7.

4. Recording, Further Assurances. Dealer shall execute and deliver such financing statements and such other instruments or documents and take any other action as Seller may request in order to create or maintain the security interest intended to be created by this Section 7.E or to enable Seller to exercise and enforce its rights hereunder. A carbon, photographic or other reproduction of this Agreement shall be sufficient as a financing statement and may be filed in lieu of a financing statement in any and all jurisdictions which accept such reproductions.

5. Records and Schedules of Inventory. Dealer shall keep accurate records itemizing and describing the kind, type and quantity of Inventory and shall furnish to Seller within five (5) days of receipt of Seller's request therefor, with a current schedule of inventory in form and substance satisfactory to Seller ("Schedule of Inventory"), which shall be true and accurate in all respects. A physical inventory shall be conducted no less than annually in connection with preparation of year-end financial statements of Dealer and, at Seller's request, a report of such inventory shall be promptly provided to Seller.

F. Charges for Storage and Diversions. Dealer shall be responsible for and shall pay all charges for demurrage, storage and other expense accruing after shipment to Dealer or to a carrier for transportation to Dealer. If diversions of shipments are made upon Dealer's request or are made by Seller as a result of Dealer's failure or refusal to accept shipments made pursuant to Dealer's orders, Dealer agrees to pay all additional charges and expenses incident to such diversion.

G. Changes in Nissan Products. Seller shall have the right in its sole discretion to discontinue the supply, or make changes in the design or component materials, of any Nissan Product at any time. Seller shall be under no liability to Dealer on account of any such changes and shall not be required as a result of any such changes to make any changes to Nissan Products previously purchased by Dealer. No change shall be considered a model year change unless so specified by Seller.

8. Pricing

A. Nissan Vehicles. At any time prior to shipment (or delivery to a carrier for transportation to Dealer) of any Nissan Vehicle, Seller may, without prior notice and without incurring any liability to Dealer or anyone else, including any customer of Dealer, change at any time and from time to time the price, discount, allowance or other terms of sale of any Nissan Vehicle offered for sale by Seller. Except with respect to the establishment of initial prices for a new model year vehicle or for any new model or body type, Seller will notify Dealer by mailgram or other acceptable means of any such change in price as soon as reasonably practicable, and Dealer may, by notice to Seller within ten (10) days after such notification, cancel any offer to purchase Nissan Vehicles affected by such change, provided that Seller has not notified Dealer of its acceptance of Dealer's offer on or prior to the date such notification by Dealer is received by Seller.

B. Genuine Nissan Parts and Accessories. Seller may, without prior notice and without incurring any liability to Dealer or anyone else, including any customer of Dealer, change at any time and from time to time the price, discount, allowance or other terms of sale of any Genuine Nissan Part or Accessory offered for sale by Seller, and any such change in price, discount, allowance or other terms of sale shall apply to all such Genuine Nissan Parts and Accessories whether or not an order has been submitted by Dealer, but not by Genuine Nissan Parts and Accessories for which Seller has accepted and processed Dealer's order prior to the effective date of such change. Seller will notify Dealer of any such change in price as soon as is reasonably practicable. Dealer may, by notice to Seller, cancel any order for Genuine Nissan Parts and Accessories affected by such change which was placed before such notification was given, provided that such Genuine Nissan Parts and Accessories have not been shipped to Dealer or delivered to a carrier for transportation to Dealer on or prior to the date such notification by Dealer is received by Seller.

9. Payment

A. Payment for Vehicles. Payment by Dealer for Nissan Vehicles must be made in accordance with the applicable prices, charges, discounts, allowances and other terms of sale established by Seller either: (i) in accordance with the wholesale financing arrangements that at the time of delivery to Dealer or to a carrier for transportation to Dealer of such Nissan Vehicles, whichever shall first occur, are in effect between Seller, Dealer and a financing institution; or (ii) prior to delivery to Dealer or to a carrier for transportation to Dealer, whichever shall first occur, by cash or such other medium of payment as Seller may agree to accept.

B. Payment for Parts and Accessories. Parts, equipment, accessories and other products and services will normally be billed by Seller to Dealer on Seller's invoices which shall be due the tenth (10th) of the month following the month of shipment of such products and services; provided, however, Seller reserves the right to place any and all sales of such items on a C.O.D. or cash in advance basis, without notice; provided further, however, that Seller will endeavor to provide Dealer with prior notice if in Seller's sole judgement such notice would be practicable.

C. Accounts Payable.

1. Right of Set Off. In addition to any right of set off provided by law, all sums due Dealer shall be considered net of indebtedness of Dealer to Seller, and Seller may deduct any amounts due or to become due from Dealer to Seller or any amounts held by Seller from any sums or accounts due from Seller to Dealer.

2. Liquidated Damages.

(i) Liquidated Damages for Delinquent Payments. In the event that Dealer fails to pay Seller in full any amounts owed by Dealer or Seller when due, Dealer shall pay Seller a delinquency charge of one percent (1%) per month of such amount or amounts to compensate Seller for its costs of carrying and collection; provided, however, that Seller agrees that it will not assess any delinquency charge on an overdue account which has a total outstanding balance of less than $1,000.00, unless such account is more than ninety (90) days overdue. Dealer and Seller agree that such charge is to be assessed not as a penalty, but as liquidated damages under California Civil Code s. 1671(b) based on Seller's reasonable estimate of the losses which will be suffered by Seller as a result of such delinquent payment or payments. The imposition of such delinquency charges shall not imply or constitute any agreement to forbear collection of a delinquent account.

(ii) Liquidated Damages for Improper Payments to Dealer. Seller may, from time to time, conduct audits or reviews of Dealer's books and records pursuant to Section 6.I of this Agreement. If any such audit or review results in a determination by Seller that Dealer was or is not entitled to received payment from Seller, Seller may debit Dealer's account in such amounts as Seller shall determine were improperly paid to Dealer. Such a determination may be based on Dealer's failure to comply with applicable rules or procedures or on Dealer's submission of false or inaccurate information to Seller. In addition, Seller may assess and, if it does, Dealer will pay a delinquency charge of one percent (1%) per month of such amount or amounts improperly paid by Seller to Dealer to compensate Seller for its costs of auditing, loss of funds and collection. Dealer and Seller agree that such charge is to be assessed not as a penalty, but as liquidated damages under California Civil Code s. 1671(b) based on Seller's reasonable estimate of the losses which will be suffered by Seller as a result of such improper payment or payments. The imposition of such delinquency charges shall not imply or constitute any agreement to forbear collection of a delinquent account.

D. Collection of Taxes by Dealer. Dealer hereby represents and warrants that all Nissan Products purchased from Seller are purchased for resale in the ordinary course of Dealer's business. Dealer further represents and warrants that Dealer has obtained all licenses and complied with all other requirements to collect sales, use and or other taxes incurred in any such resale transaction, and that Dealer will furnish evidence thereof to Seller, at Seller's request. If Dealer purchases any Nissan Products other than for resale, or puts any Nissan Products to a taxable use, Dealer shall pay directly to the appropriate taxing authority any sales, use or similar taxes incurred as a result of such use or purchase, to file any tax returns required in connection therewith and to hold Seller harmless from any claims or demands with respect thereto.

10. Warranties

The only warranties that shall be applicable to Nissan Products (or any components thereof) shall be such written warranty or warranties as may be furnished by Seller and as stated in the Warranty Manual or Seller's Parts and Accessories Policy and Procedures Manual, as the same may be revised from time to time. Except for its express limited liability under such written warranties, neither Manufacturer nor Seller assumes, or authorizes any other person or party including, without limitation, Dealer, to assume on their behalf any other obligation or liability in connection with any Nissan Product (or component thereof). Any obligations or liabilities assumed by Dealer which are in addition to Seller's written warranties shall be solely the responsibility of Dealer. Dealer shall expressly incorporate in full and without modification any warranty furnished by Seller with a Nissan Vehicle as a conspicuous part of each order form or other contract for the sale of such Nissan Vehicle by Dealer to any buyer. Dealer shall make available to the buyer of each Nissan Product prior to the purchase of such Nissan Product, copies of such applicable warranties as may be furnished by Seller. Dealer shall also provide to the buyer of each Nissan Product, in full and without modification, any owner's manual, warranty booklet or other owner information which Seller may provide to Dealer for delivery with such Nissan Product. Dealer agrees to abide by and implement in all other respects Seller's warranty procedures then in effect.

11. Indemnification

A. Indemnification of Dealer. Subject to Section 11.C, and upon Dealer's written request, Seller shall:

1. Defend Dealer against any and all claims that during the term of this Agreement may arise, commence or be asserted against Dealer in any action concerning or alleging:

(a) Bodily injury or property damage arising out of an occurrence caused solely by a manufacturing defect or alleged manufacturing defect in a Nissan Product supplied by Seller, except for any manufacturing defect in tires, provided that the defect could not have reasonably been discovered by Dealer during the pre-delivery inspection of the product required by Section 5.B.1 of this Agreement;

(b) Bodily injury or property damage arising out of an occurrence caused solely by a defect or alleged defect in the design of a Nissan Product supplied by Seller, except for a defect or alleged defect in the design of tires; and

(c) Any substantial damage occurring to a new Nissan Product and repaired by Seller from the time the product left the manufacturer's assembly plant to the time it was delivered to Dealer's designated location or to a carrier for transportation to Dealer, whichever occurred first, provided Seller failed to notify Dealer of such damage and repair prior to delivery of the product to the first retail customer; and

(d) Breach of Seller's warranty of a Nissan Product which is not, in whole or part, the result of Dealer's sales, service or repair practices or conduct; and

2. Indemnify and hold Dealer harmless from any and all settlements made which are approved by Seller and final judgments rendered with respect to any claims described in Section 11.A.1; provided, however, that Seller shall have no obligation to indemnify or hold Dealer harmless unless Dealer: (i) promptly notifies Seller of the assertion of such claim and the commencement of such action against Dealer; (ii) cooperates fully in the defense of such action in such manner and to such extent as Seller may reasonably require; (iii) consents to the employment of attorneys selected by Seller and agrees to waive any conflict of interest then existent or which may later arise, thereby enabling Seller's selected attorneys to represent Seller and/or the manufacturer of a Nissan Product throughout the defense of the claim; and (iv) withdraws any actions (including cross-claims) filed against Seller or the manufacturer of a Nissan Product arising out of the circumstances for which Dealer seeks indemnity. Dealer shall pay all costs of its own defense incurred prior to Seller's assumption of Dealer's defense and thereafter to the extent that Dealer employs attorneys in addition to those selected by Seller.

3. Seller may offset any recovery on Dealer's behalf against any indemnification that may be required under this Section 11 including, without limitation, attorneys' fees paid by Seller pursuant to this Section 11.A and the amount of any settlement or judgment paid by Seller.

B. Indemnification of Seller. Subject to Section 11.C and upon Seller's written request, Dealer shall:

1. Defend Seller against any and all claims that during the term of this Agreement may arise, commense or be asserted against Seller in any action concerning or alleging:

(a) Dealer's failure to comply, in whole or in part, with any obligation of Dealer under this Agreement;

(b) Any negligence, error, omission or act of Dealer in connection with the preparation, repair or service (including warranty service, goodwill adjustments, and campaign inspections and corrections) by Dealer of Nissan Products;

(c) Any modification or alteration made by or on behalf of Dealer to a Nissan Product, except those made pursuant to the express written instruction or with the express written approval of Seller;

(d) Dealer's breach of any agreement between Dealer and Dealer's customer or other third party;

(e) Misleading, libelous or tortious statements, misrepresentations or deceptive or unfair practices by Dealer, directly or indirectly, to Seller, a customer or other third party including, without limitation, Dealer's failure to comply with Section 6.B of this Agreement;

(f) Dealer's breach of any contract or warranty other than a contract with or warranty of Seller or the manufacturer of a Nissan Product; or

(g) Any change in the employment status or in the terms of employment of any officer, employee or agent of Dealer or of any Principal Owner, Other Owner or Executive Manager including but not limited to, claims for breach of employment contract, wrongful termination or discharge, tortious interference with contract or economic advantage, and similar claims; and

2. Indemnify and hold Seller harmless from any and all settlements made and final judgments rendered with respect to any claims described in Section 11.B.1; provided, however, that Dealer shall have no obligation to indemnify or hold Seller harmless unless Seller: (i) promptly notifies Dealer of the assertion of such claim and the commencement of such action against Seller; (ii) cooperates fully in the defense of such action in such manner and to such extent as Dealer may reasonably required; (iii) consents to the employment of attorneys selected by Dealer and agrees to waive any conflict of interest then existent or which may later arise, thereby enabling Dealer's selected attorneys to represent Dealer throughout the defense of the claim; and (iv) withdraws any actions (including cross-claims) filed against Dealer arising out of the circumstances for which Seller seeks indemnity. Seller shall pay all costs of its own defense incurred prior to Dealer's assumption of Seller's defense and thereafter to the extent that Seller employs attorneys in addition to those selected by Dealer.

C. Conditions and Exceptions to Indemnification.

1. If the allegations asserted in any action or if any facts established during or with respect to any action would require Seller to defend and indemnify Dealer under Section 11.A and Dealer to defend and indemnify Seller under Section 11.B, Seller and Dealer shall each be responsible for its own defense in such an action and there shall be no obligation or responsibility in connection with any defense, judgment, settlement or expenses of such action as between Seller and Dealer.

2. In undertaking its obligations to defend and/or indemnify each other, Dealer and Seller may make their defense and/or indemnification conditional not be continued existence of the state of facts as then known to such party and may provide for the withdrawal of such defense and/or indemnification at such time as facts arise which, if known at the time of the original request for a defense and/or indemnification, would have caused either Dealer or Seller to refuse such request. In the event that subsequent developments in a case make clear that the allegations which initially justified acceptance of a request for a defense and/or indemnification are no longer at issue therein or that the claims no longer meet the description of those for which indemnification is required hereunder, any party providing a defense and/or indemnification hereunder may terminate such defense and/or indemnification of the other party. The party withdrawing from its defense and/or indemnification to defend and/or indemnify shall give notice of its withdrawal to the indemnifying party. Moreover, the withdrawing party shall be responsible for all costs and expenses of defense up to the date of the other party's receipt of the notice of withdrawal.

12. Termination

A. Termination Due to Certain Acts or Events. The following represent events which are within the control of or originate from actions taken by Dealer or its management or owners and which are so contrary to the intent and purpose of this Agreement that they warrant its termination:

1. Any actual or attempted sale, transfer, assignment or delegation,whether by operation of law or otherwise, by Dealer of an interest in or right, privilege or obligation under this Agreement, or of the principal assets necessary for the performance of Dealer's responsibilities under this Agreement, without, in either case, the prior written consent of Seller having been obtained, which consent shall not be unreasonably withheld;

2. Subject to the provisions of Section 14 hereof, a change, by operation of law or otherwise, in the direct or indirect ownership of Dealer, whether voluntary or involuntary, from that set forth in the Final Article of this Agreement, except as expressly permitted herein, without the prior written consent of Seller having been obtained, which consent shall not be unreasonably withheld;

3. Removal, resignation, withdrawal or elimination from Dealer for any reason of the Executive Manager of Dealer; provided, however, Seller shall give Dealer a reasonable period of time within which to replace such person with an Executive Manager satisfactory to Dealer and Seller in accordance with Article Fourth of this Agreement; or the failure of Dealer to retain an Executive Manager who, in accordance with Article Fourth of this Agreement, in Seller's reasonable opinion, is competent, possesses the requisite qualifications for the position, and who will act in a manner consistent with the continued best interests of both Seller and Dealer;

4. The failure of Dealer to maintain the Dealership Facilities open for business or to conduct all the Dealership Operations required by this Agreement during and for not less than the hours customary and lawful in Dealer's Primary Market Area or in the metropolitan area in which Dealer is located for seven (7) consecutive days, unless such failure is caused by fire, flood, earthquake or other act of God;

5. Any undertaking by Dealer to conduct, directly or indirectly, any of the Dealership Operations at a location or facility other than that which is specified in the current Dealership Facilities Addendum for that Dealership Operation;

6. The failure of Dealer to establish or maintain wholesale financing arrangements which are in accordance with Seller's Guides and which are reasonably acceptable to Seller with banks or other financial institutions approved by Seller of ruse in connection with Dealer's purchase of Nissan Vehicles, unless Seller shall have agreed to accept another medium of payment;

7. Insolvency of Dealer; voluntary institution by Dealer of any proceeding under the federal bankruptcy laws or under any state insolvency law; institution against Dealer of any proceeding under the federal bankruptcy laws or under any state insolvency law which is not vacated within thirty (30) days from the institution thereof; appointment of a receiver, trustee or other officer having similar powers for Dealer or Dealer's business, provided such appointment is not vacated within thirty
(30) days of the date of such appointment; execution by Dealer of an assignment for the benefit of creditors; or any levy under attachment, foreclosure, execution or similar process whereby a third party acquires rights to a significant portion of the assets of Dealer necessary for the performance of Dealer's responsibilities under this Agreement or to the operation or ownership of Dealer, which is not within thirty (30) days from the date of such levy vacated or removed by payment or bonding;

8. Any material misrepresentation by Dealer or any person named in the Final Article of this Agreement as to any fact relied on by Seller in entering into, amending or continuing with this Agreement including, without limitation, any representation concerning the ownership, management or capitalization of Dealer;

9. The conviction in a court of original jurisdiction of Dealer or of any Principal Owner of Executive Manager of a crime affecting the Dealership Operations or of any felony; provided, however, that a convicted Executive Manager's ownership interest in Dealer shall not be an event warranting termination of this Agreement if the individual is no longer employed by Dealer or involved in any way in the management or operation of Dealer and Dealer has made reasonable efforts to obtain the individual's divestiture of his ownership interest in Dealer; or any willful failure of Dealer to comply with the provisions of any laws, ordinances, rules, regulation, or orders relating to the conduct of its Dealership Operations including, without limitation, the sale and servicing of Nissan Products.

10. Knowing submission by Dealer to Seller of: (i) a false or fraudulent report or statement; (ii) a false or fraudulent claim (or statement in support thereof), for payment, reimbursement or for any discount, allowance, refund, rebate, credit or other incentive under any plan that may be offered by Seller, whether or not Dealer offers or makes restitution; (iii) false financial information; (iv) false sales reporting date; or (v) any false report or statement relating to pre-delivery inspection, testing, warranties, service, repair or maintenance required to be performed by Dealer.

Upon the occurrence of any of the foregoing events, Seller may terminate this Agreement by giving Dealer notice thereof, such termination to be effective upon the date specified in such notice, or such later date as may be required by any applicable statute.

B. Termination by Seller for Non-Performance by Dealer.

1. If, based upon the evaluations thereof made by Seller, Dealer shall fail to substantially fulfill its responsibilities with respect to:

a. Sales of new Nissan Vehicles and the other responsibilities of Dealer set forth in Section 3 of this Agreement;

b. Maintenance of the Dealership Facilities and the Dealership Location set forth in Section 2 of this Agreement;

c. Service of Nissan Vehicles and sale and service of Genuine Nissan Parts and Accessories and the other responsibilities of Dealer set forth in Section 5 of this Agreement;

d. The other responsibilities assumed by Dealer in this Agreement including, without limitation, Dealer's failure to:

(i) Timely submit accurate sales, service and financial information concerning its Dealership Operations, ownership or management and related supporting data, as required under this Agreement or as may be reasonably requested by Seller;

(ii) Permit Seller to make an examination or audit of Dealer's accounts and records concerning its Dealership Operations after receipt of notice from Seller requesting such permission or information;

(iii) Pay Seller for any Nissan Products or any other products or services purchased by Dealer from Seller, in accordance with the terms and conditions of sale; or

(iv) Maintain net worth and working capital substantially in accordance with Seller's Guides therefor; or

2. In the event that any of the following occur:

(i) any dispute, disagreement or controversy between or among Dealer and any third party or between or among the owners or management personnel of Dealer relating to the management or ownership of Dealer develops or exists which, in the reasonable opinion of Seller, tends to adversely affect the conduct of the Dealership Operations or the interests of Dealer or Seller; or

(ii) any other act or activity of Dealer, or any of its owners or management occurs, which substantially impairs the reputation or financial standing of Dealer or of any of its management subsequent to the execution of this Agreement.

Seller will notify Dealer of such failure and will review with Dealer the nature and extent of such failure and the reasons which, in Seller's or Dealer's opinion, account for such failure.

Thereafter, Seller will provide Dealer with a reasonable opportunity to correct the failure. If Dealer fails to make substantial progress towards remedying such failure before the expiration of such period, Seller may terminate this Agreement by giving Dealer notice of termination, such termination to be effective at least ninety (90) days after such notice is given.

During such period Dealer will commence such actions as may be necessary so that the termination obligations of Seller and Dealer set forth in this Agreement may be fulfilled as promptly as practicable.

C. Termination Because of Death or Physical or Mental Incapacity of Principal Owner. This Agreement is a personal services agreement and has been entered into by Seller in reliance on Dealer's being owned by the Principal Owner(s). Seller (subject to Section 14 hereof) may terminate this Agreement by giving notice to Dealer upon the death of any of the Principal Owner(s) or if Seller in good faith determines that any Principal Owner is so physically or mentally incapacitated as to be unable to discharge his or her responsibility to the operating management of Dealer. Unless deferred as hereinafter provided, the effective date of such termination shall be not less than ninety (90) days from the date of such notice is given to Dealer.

To facilitate the orderly termination of the business relationship between Seller and Dealer and of the Dealership Operations, Seller may, in its sole discretion, defer the effective date of such termination and continue to operate with Dealer under the terms of this Agreement for a period of time, to be determined by Seller, of up to one (1) year from the date such notice of termination is given it within sixty (60) days from the date of said notice, the executor or representative of the deceased or incapacitated Principal Owner or a surviving Principal Owner shall give to Seller written request for such deferment. This Agreement shall automatically terminate without further notice or action by Seller upon the expiration of any such deferment.

D. Termination for Failure of Seller or Dealer to be Licensed. If Seller or Dealer shall fail to secure or maintain any license, permit or authorization required by either of them for their performance of any obligation under or in connection with this Agreement, or if such license, permit or authorization is suspended or revoked, irrespective of the cause, and such suspension or revocation continues for a period of seven (7) days, either party may immediately terminate this Agreement by giving notice to the other party.

E. Termination by Dealer. Dealer has the right to terminate this Agreement at any time by giving notice to Seller, such termination to be effective thirty (30) days after the giving of such notice (unless the thirty
(30) day notice period is waived in writing by Seller) or on such other date as may be mutually agreed to in writing by Seller and Dealer.

F. Termination by Seller Because of a Change of Seller's Method of Distribution or Decision by Seller to Cease Distribution of Nissan Vehicles. If Seller should elect or be required to discontinue its present method of distributing Nissan Vehicles, or if Seller should elect or be required to cease selling or distributing Nissan Vehicles, Seller may terminate this Agreement by giving Dealer notice and such termination will be effective not less than one (1) year after such notice is given.

G. Termination Upon Entering Into a New Sales and Service Agreement. Seller may terminate this Agreement at any time by giving Dealer at lease ninety (90) days prior notice thereof and offering to enter into a new or amended form of Agreement with Dealer in a form being offered generally to Authorized Nissan Dealers.

Unless otherwise agreed in writing, the rights and obligations of Dealer that may otherwise become applicable upon termination or expiration of the term of this Agreement shall not be applicable if Seller and Dealer enter into a new or superseding Dealer Sales and Service Agreement, and the rights and obligations of the parties hereunder shall continue under the terms and provisions of the new agreement.

Dealer's performance under any prior agreement may be considered by Seller in evaluating Dealer's performance under this, or any succeeding, agreement.

13. Rights and Liabilities Upon Termination

A. Termination Procedures

1. Upon termination of this Agreement by either Seller or Dealer for any reason, Dealer shall cease to be an Authorized Nissan Dealer, and Dealer shall: (i) immediately discontinue the distribution and sale of Nissan Products as an Authorized Nissan Dealer; and (ii) at its own expense
(a) erase or obliterate all Nissan Marks and any word or words indicating that Dealer is an Authorized Nissan Dealer from the stationery, forms and other papers used by Dealer or any business associated or affiliated with Dealer; (b) discontinue all advertising of Dealer as an Authorized Nissan Dealer; (c) take all steps necessary to remove any listing in any telephone directory yellow pages advertisement indicating that Dealer is an Authorized Nissan Dealer; (d) discontinue any use of any Nissan Mark in Dealer's firm or

trade name and take all steps necessary or appropriate in the opinion of Seller to change such firm or trade name to eliminate any Nissan Mark therefrom; (e) discontinue or cause to be discontinued all other use of the Nissan Marks; (f) refrain from doing anything,whether or not specified above, that would indicate that Dealer is or was an Authorized Nissan Dealer; and
(g) refrain from using, either directly or indirectly, any Nissan Marks or any other confusingly similar marks, names, logos or designs in a manner likely to cause confusion or mistake or to deceive the public. If Dealer fails to comply with any requirement of this Section 13.A.1, Dealer shall reimburse Seller for all costs and expenses, including reasonable attorney's fees, incurred by Seller in effecting or enforcing compliance;

2. Termination of this Agreement will not release Dealer or Seller from the obligation to pay any amounts owing the other;

3. Subject to Section 13.E, Seller shall process all claims and make all payments due for all labor provided and all parts and/or other materials used by Dealer pursuant to Sections 5.B.2 and 5.B.3 prior to the effective date of termination as provided in the Warranty Manual. Dealer shall cease, as of the effective date of termination, to be eligible to receive reimbursement for any work thereafter performed or parts thereafter supplied under any warranty, campaign inspections or corrections and any other adjustment previously authorized by Seller.

4. Dealer shall, upon Seller's request, deliver to Seller or its designee copies of Dealer's records with respect to pre-delivery, warranty, goodwill campaign and other service work of Dealer.

B. Repurchases by Seller Upon Termination. Upon termination other than pursuant to a sale or transfer, Seller shall buy from Dealer and Dealer shall sell to Seller, within ninety (90) days after the effective date of termination:

1. All new, unused, undamaged, unlicensed, then current and immediate previous model year Nissan Vehicles which were purchased by Dealer from Seller and are then the unencumbered property of and in the possession of Dealer or Dealer's flooring and/or financing institution. The price for such vehicles shall be the invoice price previously paid by Dealer therefor, less Seller's destination charges, all allowances paid or applicable allowances offered thereon by Seller, any amount paid by Seller to Dealer for pre-delivery inspection and service with respect to such vehicles pursuant to
Section 5.B, any dealer association collection, and any other charge for taxes or special items or service. Seller shall also repurchase Genuine Nissan Accessories which have been installed in such Nissan Vehicles which accessories are listed in the current parts and accessories price list (except those items marked "not eligible") at the prices set forth on Seller's then current parts and accessories price list.

2. Subject to Section 13.C, all new, unused, undamaged and resalable Genuine Nissan Parts and Accessories which are still in the original undamaged packages, were purchased from Seller, are listed in the current parts and accessories price list (except those items marked "not eligible"), and are then the unencumbered property of and in the possession of Dealer. The prices for such Genuine Nissan Parts and Accessories shall be the prices set forth on Seller's then current parts and accessories price list.

3. Subject to Section 13.C, all special tools and equipment owned by Dealer and which are unencumbered and in the possession of Dealer on the effective date of termination which were designed especially for servicing Nissan Vehicles, are of the type recommended in writing by Seller and designated as "essential" tools in accordance with Seller's Guides or other notices pertaining thereto from Seller, are in usable and good condition, except for reasonable wear and tear, and were purchased by Dealer from Seller with the three (3) year period preceding the date of termination. Seller's purchase provide for such essential tools shall be calculated at Dealer's purchase price reduced by straight-line depreciation on the basis of a useful life of thirty-six (36) months.

Dealer's and Seller's obligations with respect to the signs located at the Dealership Facilities shall be determined in accordance with the Dealership Identification Addendum between Seller and Dealer.

C. Dealer's Responsibilities with Respect to Repurchase. Seller's obligation to repurchase Genuine Nissan Vehicles, Genuine Nissan Parts and Accessories, and essential tools from Dealer is conditioned on Dealer's fulfilling its responsibilities under this Section 13.C as follows:

1. Immediately following the effective date of termination of this Agreement, Dealer shall furnish to Seller a list of vehicle identification numbers and such other information and documents as Seller may require pertaining to the Nissan Vehicles subject to the repurchase obligations of Section 13.B.1. Dealer shall deliver all such vehicles in accordance with Seller's instructions.

2. Within thirty (30) days after the effective date of termination of this Agreement, Dealer shall deliver or mail to Seller a detailed inventory of all of the items referred to in Sections 13.B.2 and 13.B.3. Within thirty (30) days of its receipt of such inventory, Seller shall provide Dealer with instructions as to the procedures to be followed in returning such items to Seller. Dealer shall, at its expense, tag, pack and deliver all such items to Seller at Seller's designated parts distribution center in accordance with such instructions.

Should Dealer fail to comply with the responsibilities listed above, Seller shall have no obligation to repurchase any such items from dealer; provided, however, that Seller shall have the right, but no obligation, to enter into the Dealership Facilities for the purpose of compiling an inventory, tagging, packing and shipping such items to Seller's designated parts distribution center. If Seller undertakes any such responsibilities of Dealer, the repurchase prices of such items shall be fifteen percent (15%) less than the repurchase prices otherwise applicable under Section 13.B.

D. Title to Repurchased Property. With respect to any items of property repurchased by Seller pursuant to this Section 13, Dealer shall take such action and shall execute and deliver such instruments as may be necessary: (i) to convey good and marketable title to all such items of property; (ii) to comply with the requirements of any applicable law relating to bulk sales and transfers; and (iii) to satisfy and discharge any liens or encumbrances on such items of property prior to delivery thereof to Seller.

E. Payment. Seller shall make all payments to Dealer pursuant to this Section 13 within ninety (90) days after Seller's receipt of all items to be repurchased by it and provided Dealer has fulfilled all of its obligations under this Section 13; provided, however, that Seller shall be entitled to offset against such payments any and all indebtedness or other obligations of Dealer to Seller. Seller may make any payment for any property repurchased pursuant to this Section 13 directly to anyone having a security or ownership interest therein.

F. Cancellation of Deliveries. Upon termination of this Agreement Seller shall have the right to cancel all shipments of Nissan Products scheduled for delivery to Dealer. After the effective date of termination, if Seller shall voluntarily ship any Nissan Products to Dealer, or otherwise transact business with Dealer, all such transactions will be governed by the same terms provided in this Agreement, insofar as those terms would have been applicable had the Agreement not been terminated. Nevertheless, neither the shipping of such Nissan Products nor any other acts by Seller shall be construed as a waiver of the termination or a renewal or extension of this Agreement.

14. Establishment of Successor Dealer

A. Because of Death of Principal Owner. If Seller shall terminate this Agreement pursuant to Section 12.C because of the death of a Principal Owner, the following provisions shall apply:

1. Subject to the other provisions of this Section 14, Seller shall offer a two (2) year Term Sales and Service Agreement to a successor dealership ("Successor Dealership") comprised of the person nominated by such deceased Principal Owner as his or her successor, together with the other Principal Owner(s) and Other Owner(s), provided that:

(a) The nomination was submitted to Seller on a Successor Addendum, was consented to by the remaining Principal Owner(s) and Other Owner(s), and was approved by Seller prior to the death of such Principal Owner;

(b) Either (i) there has been no change in the Executive Manager of Seller; or (ii) Seller has approved a candidate for Executive Manager having the required qualifications, expertise, integrity, experience and ability to successfully operate the dealership and perform Dealer's obligations under this Agreement; and

(c) The Successor Dealership has capital and facilities substantially in accordance with Seller's Guides therefor at the time the Term Sales and Service Agreement is offered.

2. If the deceased Principal Owner has not nominated a successor in accordance with Section 14.A.1(a) above, but all of the beneficial interest of the deceased Principal Owner has passed by will or the laws of intestate succession directly to the deceased Principal Owner's spouse and/or children or to one (1) or more other Principal Owners who each held not less than a twenty-five percent (25%) beneficial ownership interest in the dealership prior to the death of the deceased Principal Owner

(collectively "proposed New Owners"), subject to the other provisions of this
Section 14, Seller shall offer a two (2) year Term Sales and Service Agreement to a Successor Dealership composed of the Proposed New Owner(s), together with the other Principal Owner(s) and Other Owner(s), provided that:

(a) Either (i) there has been no change in the Executive Manager of Dealer; or (ii) Seller has approved a candidate for Executive Manager having the required qualifications, expertise, integrity, experience and ability to successfully operate the dealership and perform Dealer's obligations under this Agreement; and

(b) The Successor Dealership has capital and facilities substantially in accordance with Seller's Guides therefor at the time the Term Sales and Service Agreement is offered.

B. Consideration of Successor Addendum. To be named in the Successor Addendum, a proposed Principal Owner or Executive Manager must (i) be employed by Dealer or a comparable automotive dealership as his principal place of employment; (ii) be already qualified as a Principal Owner or Executive Manager, as the case may be; and (iii) otherwise be acceptable to Seller as provided below.

Upon receipt of a request from Dealer that one or more individuals be named in a Successor Addendum, Seller shall request those named to submit an application and to provide all personal and financial information that Seller may reasonably and customarily require in connection with the review of such applications. Seller, upon the submission of all requested information, will determine whether to consent to a Successor Addendum naming such individuals by applying its criteria for considering the qualifications of Principal Owners or Executive Managers, as the case may be.

C. Termination of Successor Addendum. Dealer may, at any time, withdraw a nomination of a Successor even if Seller previously has qualified the candidate, or cancel an executed Successor Addendum by giving notice to Seller of such withdrawal at any time prior to the death or incapacity of any Principal Owner named in this Agreement. Seller may cancel an executed Successor Addendum only if the proposed Principal Owner or Executive Manager no longer complies with the requirements of this Section 14.

D. Evaluation of Successor Dealership. During the term of the Term Sales and Service Agreement, Seller will evaluate the performance of the Successor Dealership and periodically review with the new Dealer this evaluation. If the Successor Dealership's performance is deemed to be satisfactory to Seller during the Term Sales and Service Agreement, Seller will give first consideration to such Successor Dealership with respect to a new Sales and Service Agreement.

E. Termination of Market Representation. Notwithstanding anything stated or implied to the contrary in this Section 14, Seller shall not be obligated to offer a Term Sales and Service Agreement to any Successor Dealership if Seller notified Dealer prior to the event causing the termination of this Agreement that Seller's market representation plans do not provide for continuation of representation in Dealer's Primary Market Area.

F. Termination of Offer. If the person or persons comprising a proposed Successor Dealership to which any offer of a Term Sales and Service Agreement for Nissan Products shall have been made pursuant to this Section 14 do not accept same within thirty (30) days after notification to them of such offer, such offer shall automatically expire.

15. Sale of Assets or Ownership Interests in Dealer.

A. Sale or Transfer. Article Third of this Agreement provides that neither this Agreement nor any right or interest herein may be assigned without the prior written consent of Seller. However, during the term of this Agreement, Dealer may negotiate for the sale of the assets of Dealer, or the owners of Dealer may negotiate the sale of their ownership interests in Dealer, upon such terms as may be agreed upon by them and the prospective purchaser. With respect to any sale or transfer which requires Seller's prior written consent under Article Third of this Agreement, Dealer shall notify Seller prior to any closing of this transaction called for by the purchase and sale agreement, and the prospective purchaser shall apply to Seller for a Sales and Service Agreement.

B. Seller's Evaluation. Seller is responsible for establishing and maintaining an effective body of Authorized Nissan Dealers to promote the sale and servicing of Nissan Products. Accordingly, Seller has the right and obligation to evaluate each prospective dealer, its owner(s) and executive manager, the dealership location and the dealership facilities to ensure that each of the foregoing is adequate to enable Dealer to meet its responsibilities hereunder. Seller will evaluate each prospective purchaser's qualifications and proposal for the conduct of the Dealership

Operations by applying the standards set forth or referred to in this Agreement. In determining whether it shall consent to such a sale or transfer, Seller will take into account factors such as the personal, business and financial qualifications, expertise, reputation, integrity, experience and ability of the proposed Principal Owner(s) and Executive Manager as referred to in Articles Third and Fourth of this Agreement, the capitalization and financial structure of the prospective dealer, the prospective purchaser's proposal for conducting the Dealership Operations, and Seller's interest in promoting and preserving competition.

In evaluating the prospective purchaser's application for a Sales and Service Agreement, Seller may, without liability to Dealer, Dealer's Owners or the prospective purchaser, consult with the prospective purchaser regarding any matter relating to the proposed dealership.

Seller shall notify Dealer of Seller's consent or refusal to consent to Dealer's proposed sale or transfer within sixty (60) days after Seller has received from Dealer (i) Dealer's written request for Seller's approval; and
(ii) all applications and information customarily or reasonably requested by Seller to evaluate such a proposal including without limitation, information concerning each proposed owner's and/or the replacement dealer's identity, character, business affiliations, business experience, financial qualifications and proposals for conducting the Dealership Operations. Any material change in such a proposal including, without limitation, any change in the financial terms or in the proposed ownership or management of any proposed replacement dealer, shall be treated as a new proposal for purposes of this Section 15.B. If Seller does not consent to Dealer's proposed sale or transfer, Seller will specify in its notice to Dealer the reasons for its refusal to consent.

If Seller determines that the proposed dealership would not, at the commencement of its operations, have capital or facilities in accordance with Seller's Guides therefor and otherwise satisfactory to Seller, or if Seller reasonably determines that the proposed dealership might not meet Seller's performance standards in sales or service, Seller may, in its sole discretion and in lieu of refusing to consent to the proposed sale or transfer, agree to enter into a Term Sales and Service Agreement with the prospective purchaser. If Seller has recommended, pursuant to a market study conducted in accordance with Section 4.A, that Dealer relocate its Dealership Facilities, Seller may offer to the proposed dealer a Term Sales and Service Agreement subject to the condition that its Dealership Facilities shall be relocated within a reasonable time to a location and in facilities acceptable to Seller and in accordance with the market study recommendations.

Notwithstanding anything stated or implied to the contrary in this
Section 15, Seller shall not be obligated to enter into a Sales and Service Agreement with any purchaser of the assets or ownership interests of Dealer if Seller has notified Dealer prior to its having received notice of the proposed sale or transfer that Seller's market representation plans do not provide for continuation of representation in Dealer's Primary Market Area.

C. Effect of Termination. This Agreement shall end on the effective date of termination and, except as otherwise set forth in Section 13, all rights, obligations, duties and responsibilities of Dealer and Seller under this Agreement shall cease as of the effective date of termination. No assignment, transfer or sale of Dealer's right or interest in this Agreement shall have the effect of granting the assignee, transferee or buyer any right or interest in this Agreement that is greater than or in addition to that then held by Dealer. Any such assignment, transfer or sale shall be subject to the terms of any written notice of deficiency under Section 12.B or any written notice of termination under Sections 12.A, 12.B, 12.C, 12.D, 12.E or 12.F that was previously received by Dealer, including but not limited to Dealer's obligation to correct any failure before the expiration date of any period established in any such notice of deficiency. No such assignment, transfer or sale shall correct any such deficiency or extend the effective date of termination specified in any written notice of termination.

16. Policy Review Board

A. Establishment of Policy Review Board. In the interest of maintaining harmonious relations between Seller and Dealer and to provide for the resolution of certain protests, controversies and claims with respect to or arising out of Section 4, Section 12 or Section 13 of this Agreement, Seller has established the Nissan Motor Corporation in U.S.A. Policy Review Board ("Policy Review Board"). The procedures of the Policy Review Board, as they may be revised by Seller from time to time, are incorporated herein by reference. At the time of execution of this Agreement, Seller will have furnished to Dealer such procedures, and Seller will furnish to Dealer a copy of each revision or modification that Seller may thereafter make to such procedures. Any decision of the Policy Review Board shall represent the independent decision of Seller and shall be binding on Seller but not on Dealer.

B. Appeal of Dealer Appointment to Policy Review Board. Any objections by Dealer to the proposed appointment of an additional Nissan dealer within the ten (10) mile driving distance described in Section 4.B shall be appealed to the Policy Review Board by filing a Notice of Appeal in accordance with the procedures established therefor within thirty (30) days from the date of Dealer's receipt of the Notice of Appointment.

C. Appeal of a Termination to Policy Review Board. Any protests, controversies or claims by Dealer (whether for damages, stay of action, or otherwise) with respect to any termination of this Agreement or the settlement of the accounts of Dealer with Seller after termination of this Agreement has become effective shall be appealed to the Policy Review Board by filing an appeal in accordance with the procedures established therefor within thirty (30) days after Dealer's receipt of notice of termination or, as to settlement of accounts after termination, within one (1) year after the termination has become effective.

D. Effect of Other Proceedings. Because the purpose of the Policy Review Board is to assist in resolving issues between Seller and Dealer in a non-adversarial setting and to avoid litigation, if Dealer institutes or seeks any relief or remedy through legal, administrative or other proceedings as to any matter that is or could be the subject of an appeal to the Policy Review Board, then the Policy Review Board may, in its sole discretion, elect to refuse to consider any appeal to the Policy Review Board then pending or thereafter filed by Dealer relating to such subject matter.

Dealer further agrees that Dealer's seeking such relief or remedy shall constitute a waiver of any right to an appeal to the Policy Review Board with respect to such subject matter and Seller and the Policy Review Board shall be forever released from any obligation that might otherwise have had to conduct any proceedings, render any decision or take any other action in connection with such subject matter.

17. General

A. Notices. All notices or notifications required or permitted to be given by this Agreement to either party shall be sufficient only if given in writing and delivered personally or by mail to Dealer at the address set forth on the Dealership Facilities Addendum to this Agreement and to Seller at its national headquarters, or at such other address as the party to be addressed may have previously designated by written notice to the other party. Unless otherwise specified in the Notice, such notices shall be effective upon receipt.

B. No Implied Waivers. The waiver by either party, or the delay or failure by either party to claim a breach, of any provision of this Agreement shall not affect the right to require full performance thereafter, nor shall it constitute a wavier of any subsequent breach, or affect in any way the effectiveness of such provision.

C. No Agency. Dealer is an independently operated business entity in which Seller has no ownership interest. This Agreement does not constitute Dealer the agent or legal representative of Seller or Manufacturer for any purpose whatsoever. Dealer is not granted any express or implied right or authority to assume or create any obligation on behalf of or in the name of Seller or Manufacturer or to bind Seller or Manufacturer in any manner or thing whatsoever.

D. Limitations of Seller's Liability. This Agreement contemplates that all investments by or in Dealer shall be made, and Dealer shall purchase and resell Nissan Products, in conformity with the provisions hereof, but otherwise in the discretion of Dealer. Except as herein specified, nothing herein contained shall impose any liability on Seller in connection with the business of Dealer or otherwise or for any expenditures made or incurred by Dealer in preparation for performance or in performance of Dealer's responsibilities under this Agreement.

E. Entire Agreement. This agreement contains the entire understanding of the parties hereto with respect to the subject matter contained herein and may be amended only by a written instrument executed by each of the parties or their respective personal representatives, successors and/or assigns. This Agreement supersedes any and all prior agreements with respect to the subject matter hereof, and there are no restrictions, promises, warranties, covenants or undertakings between the parties other than those expressly set forth in this Agreement, provided, however, Seller shall have the right to amend, modify or change this Agreement in case of legislation, government regulations or changes in circumstances beyond the control of Seller that might affect materially the relationship between Seller and Dealer as further provided in Section 17.G.

F. California Law. This Agreement shall be deemed to have been entered into in the State of California, and all questions concerning the validity, interpretation or performance of any of its terms or provisions, or of any rights or obligations of the parties hereof, shall be governed by and resolved in accordance with the internal laws of the State of California including, without limitation, the statute of limitations.

G. Changes Required by Law. Should Seller determine that any federal or state legislation or regulation or any condition referred to in Section 17.E requires a change or changes in any of the provisions of this Agreement, Seller may offer to Dealer an amendment or an amended Agreement embodying such change or changes. If Dealer shall fail to execute such amendment or amended Agreement and return it to Seller within thirty (30) days after it is offered Dealer, Seller may terminate this Agreement by giving notice to Dealer, such termination to effective upon receipt by Dealer of such notice.

H. Severability. If any term or provision of this Agreement, or the application thereof to any person or circumstance, shall to any extent be found to be invalid, void or unenforceable, the remaining provisions and any application thereof shall nevertheless continue in full force and effect without being impaired or invalidated in any way.

I. Assignment. Dealer shall not transfer or assign any right or transfer or delegate any obligation of Dealer under this Agreement without the prior written approval of Seller. Any purported transfer, assignment or delegation made without the prior written approval of Seller shall be null and void.

J. No Franchise Fee. Dealer represents and warrants that it has paid no fee, nor has it provided any goods or services in lieu of a fee, as consideration for Seller's entering into this Agreement and that the sole consideration for Seller's entering into this Agreement was Dealer's Principal Owners' and Executive Manager's abilities, integrity, assurances of personal services and expressed intention to deal fairly and equitably with Seller and the public and any other promises recited in this Agreement.

K. Captions. The captions of the sections of this Agreement are for convenience and reference only and shall in no way be construed to explain, modify, amplify, or aid in the interpretation, construction or meaning of the provisions of this Agreement or to be a part of this Agreement.

L. Benefit. This Agreement is entered into by and between Seller and Dealer for their sole and mutual benefit. Neither this Agreement nor any specific provision contained in it is intended or shall be construed to be for the benefit of any third party.

EXHIBIT 10.16.1

VOLKSWAGEN DEALER AGREEMENT

1. Appointment. Volkswagen United States, Inc. a division of Volkswagen of America, Inc. ("Distributor"), having a place of business at 3800 Hamlin Road, Auburn Hills, MI 48326 appoints Lithia Motors, Inc. ("Dealer") doing business under the fictitious name Lithia Volkswagen, having its place of business at 700 North Central, Medford, OR 97501, as an authorized dealer in Volkswagen brand motor vehicles and genuine parts and accessories therefor. Accordingly, the parties agree as follows:

2. Standard Provisions. The Dealer Agreement Standard Provisions (the "Standard Provisions") (Form No. Deal 92VB) are part of this Agreement. Any term not defined in this Agreement has the meaning given such term in the Standard Provisions.

3. Ownership and Management. To induce Distributor to enter into this Agreement, Dealer represents that the persons identified in the Statement of Ownership and Management, which is attached as Exhibit A, are Dealer's Owners and Executives. Distributor is entering into this Agreement in reliance upon these representations, and upon the continued provision by such persons of their personal services in fulfillment of Dealer's obligations under this Agreement. Accordingly, Dealer agrees there will be no charge in Dealer's Owners without Distributor's prior written consent, and no change in Dealer's Executives without prior notice to Distributor.

4. Minimum Financial Requirements. Dealer agrees to comply and maintain compliance with the minimum financial requirements established for Dealer from time to time in accordance with the Operating Standards. Throughout the term of this Agreement those minimum financial requirements are subject to revision by Distributor, after review with Dealer, in light of operating conditions and the development of Dealer's business and business potential.

5. Dealer's Premises. Distributor has approved the location of Dealer's Premises as specified in the Dealer Premises Addendum, attached as Exhibit B. Dealer agrees that, without Distributor's prior written consent, it will not (a) make any major structural change in any of Dealer's Premises,
(b) change the location of any of Dealer's Premises or (c) establish any additional premises for Dealer's Operations.

6. EXCLUSION OF WARRANTIES. EXCEPT FOR DISTRIBUTOR'S WARRANTIES, AND EXCEPT AS PROVIDED IN ARTICLE 9(1) OF THE STANDARD PROVISIONS, THERE ARE NO EXPENSES OR IMPLIED WARRANTIES OR OBLIGATIONS OF THE MANUFACTURER OR DISTRIBUTOR AS TO THE QUALITY OR CONDITION OF AUTHORIZED PRODUCTS, OR AS TO THEIR MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE, AND, TO THE EXTENT PERMITTED BY LAW, DEALER WILL EXCLUDE ANY AND ALL SUCH WARRANTIES AND OBLIGATIONS IN ITS SALES OF AUTHORIZED PRODUCTS.

7. Term. The term of this Agreement begins on the date of its delivery to Dealer or on January 1, 1992, whichever is later. This Agreement shall continue in effect until December 31, 1996, or XXXXXXXXXX, 19XX, whichever is earlier, unless sooner terminated by either party or superseded by a new Dealer Agreement with Distributor.

8. Governing Law. This Agreement will be construed in accordance with the laws of the State of Oregon. Should the performance of any obligation under this Agreement violate any valid law of such jurisdiction, then this Agreement shall be deemed modified to the minimum extent necessary to comply with such law.

9. Additional Terms and Conditions. This Addenda attached hereto as Exhibits A through B are part of this Agreement, and are incorporated into this Agreement by this reference.

Dated: April 5, 1996

VOLKSWAGEN UNITED STATES, INC.

By: /s/ Colin Gour
Zone Manager -- Colin Gour

DEALER - LITHIA VOLKSWAGEN

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer, President

EXHIBIT A TO

VOLKSWAGEN DEALER AGREEMENT

Dated April 5, 1996

Statement of Ownership and Management

1. Dealer firm name: Lithia Motors, Inc., d/b/a Lithia Volkswagen

2. Principal place of business: 700 North Central, Medford, OR 97501

3. Dealer is ( ) proprietorship

( ) partnership

(x) corporation, incorporated on December 23, 1995 under the laws of the State of Oregon

4. The following persons are the beneficial and record owners of Dealer:

Name and Address of Each Record and Beneficial Owner of Dealer	If a Corporation, Number and Class of Shares		Percentage of Ownership of Record In Dealer
	Number	Class	
Sidney B. DeBoer 234 Vista Ashland, OR 97520	75		62.5%
Manfred L. Heimann 426 Roundelay Circle Medford, OR	45		37.5%

5. The following persons are Dealer's Officers:

Name and Address	Title
Sidney B. DeBoer (same as above)	President
Manfred L. Heimann (same as above)	Vice President

6. The following person functions as General Manager of Dealer. As such, he is an agent of Dealer and is authorized, and Distributor is entitled to rely on his authority, to make all decisions on behalf of Dealer with respect to Dealer's Operations.

Name and Address	Title
Bryan DeBoer 1 Eastwood Drive Medford, OR 97504	General Manager

Dealer hereby certifies that the forgoing information is true and complete as of the date below. Distributor has entered into this Agreement in reliance upon the qualifications, and the continued provision of personal services in the ownership and management of Dealer by, the persons identified above.

This Exhibit cancels any prior Statement of Ownership and Management.

Dated: April 5, 1998

Volkswagen United States, Inc.

By: /s/ Colin Gour
Zone Manager -- Colin Gour

Dealer - Lithia Volkswagen

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer, President

EXHIBIT B TO

VOLKSWAGEN DEALER AGREEMENT

Dated April 5, 1996

Dealer Premises Addendum

1. Dealer firm name: Lithia Motors, Inc., dba Lithia Volkswagen

2. Distributor has approved the location of the following premises, and no others, for Dealer's Operations:

a. Sales Facilities: 700 North Central, Medford, Oregon 97501.

b. Authorized Automobile Storage Facilities: Same as above.

c. Service Facilities: Same as above.

d. Genuine Parts Storage Facilities: Same as above.

e. Used Car Lot: Same as above.

Dealer hereby certifies that the foregoing information is true and complete as of the date below. The Exhibit cancels any prior Dealer Premises Addendum.

Dated: April 5, 1996

Volkswagen United States, Inc.

By: /s/ Colin Gour
Zone Manager -- Colin Gour

Dealer -- Lithia Volkswagen

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer, President

Exhibit 10.16.2

Article 1

Basic Obligations of VWoA

Supply of Authorized Products

(1) VWoA will sell and deliver Authorized Products to Dealer in accordance with this Agreement.

Assistance

(2) VWoA will actively assist Dealer in all aspects of Dealer's Operations through such means as VWoA considers appropriate, including:

(a) Annual reviews of Dealer's compliance with this Agreement, the Operating Standards;

(b) Recommendations; and

(c) Schools, special training and meetings for Dealer's personnel.

Compliance with Ethical Standards

(3) In the conduct of its business, VWoA will:

(a) Safeguard and promote the reputation of Authorized Products and the Manufacturer;

(b) Refrain from all conduct which might be harmful to the reputation or marketing of Authorized Products or inconsistent with the public interest; and

(c) Avoid all discourteous, deceptive, misleading, unprofessional or unethical practices.

Article 2

Basic Obligations of Dealer

Sales, Service and Parts Supply

(1) Dealer assumes the responsibility in Dealer's Area for the promotion and sale of Authorized Products and for the supply of Genuine Parts and customer service for Authorized Products. This Agreement does not give Dealer any exclusive right to sell or service Authorized Products in any area or territory.

Compliance with Ethical Standards

(2) In the conduct of its business, Dealer will:

(a) Safeguard and promote the reputation of Authorized Products, the Manufacturer and VWoA;

(b) Refrain from all conduct which might be harmful to the reputation or marketing of Authorized Products or inconsistent with the public interest; and

(c) Avoid all discourteous, deceptive, misleading, unprofessional or unethical practices.

Operating Standards and Operating Plan

(3) The Operating Standards and Operating Plan are part of this Agreement and are incorporated herein by this reference.

Disclaimer of Further Liability by VWoA

(4) Except as expressly provided in this Agreement, VWoA is not liable for any expenditure made or liability incurred by Dealer in connection with Dealer's performance of its obligations under this Agreement.

Article 3

General Management and Facility Requirements

Dealer's General Management

(1) In the conduct of its business, Dealer will have the following minimum staff:

(a) An Authorized Representative (provided, that such Authorized Representative may be one of Dealer's Owners); and

(b) Such additional department managers and other employees as set forth in the Operating Standards and the Operating Plan.

Dealer's Premises

(2) Dealer's Premises, in sales, service and parts, will conform to the requirements of this Agreement, the Operating Standards, the Operating Plan and such other reasonable standards as VWoA may prescribe from time to time, after review with Dealer.

(3) Unless otherwise agreed by VWoA in writing, Dealer will operate Dealer's Premises during the customary business hours of the trade in Dealer's Area.

Article 4

Identification; Advertising

Use of Authorized Trademarks

(1) VWoA will supply Dealer, from time to time, with trademark standards to assist Dealer in the proper usage of Authorized Trademarks. Dealer will use Authorized Trademarks only in connection with the promotion and sale of new Authorized Products and customer service for Authorized Products pursuant to this Agreement, and only in the manner and for the purposes VWoA specifies. Dealer will not use any Authorized Trademark as part of its corporate or business name without the prior written consent of VWoA. Dealer also may use Authorized Trademarks in connection with the sale of used automobiles if Dealer complies fully with VWoA's requirements relating to used car sales under the Authorized Trademarks. If Dealer does not comply fully with these requirements, Dealer may not use any Authorized Trademarks in connection with its used car sales, except that Dealer may use the word "Volkswagen" to describe Authorized Automobiles, if this word appears in characters and colors different from those usually employed by the Manufacturer, VWoA and authorized dealers of VWoA. This Agreement does not grant Dealer any license or permission to use Authorized Trademarks except as mentioned herein, and Dealer has no right to grant any such permission or interest.

Signs

(2) Dealer will display conspicuously at Dealer's Premises such Authorized Signs at such locations as VWoA reasonably may require. Dealer will use its best efforts to obtain all governmental approvals necessary for such display. If Dealer transfers any of Dealer's Premises to another location, Dealer immediately will remove all Authorized Signs and other references to Authorized Products displayed at or around the prior location.

Stationery

(3) All stationery and business forms used in Dealer's Operations will be prepared in accordance with Recommendations. Dealer's use of Authorized Trademarks on stationery and business forms will be in accordance with trademark standards supplied by VWoA.

Advertising

(4) Dealer will advertise Authorized Products and customer service for Authorized Products only in accordance with reasonable guidelines and policies established by VWoA. Dealer will refrain from all false, deceptive, misleading or unlawful advertising. Dealer's advertising will include, among other things, a listing in a principal local classified telephone directory in Dealer's Area. Authorized Trademarks will be used for identification in all

product and customer service advertising, in accordance with the provisions of this Agreement. VWoA will provide or sell to Dealer sufficient quantities of all legally required brochures, as well as all current sales, service and parts literature and promotional materials, and Dealer shall prominently display them and make them readily available.

Article 5

Sales

Sales Promotion

(1) Dealer will use its best efforts to promote the sale of Authorized Automobiles in Dealer's Area, through regular contacts with owners, users, and prospective owners and users of Authorized Products; through promotion, prospecting, and follow-up programs; and through such means and at such levels as may be indicated from time to time by the Operating Standards, Operating Plan and Recommendations.

Sales Performance

(2) Dealer will achieve the best sales performance possible in Dealer's Area for each model and type of Authorized Automobile. The measurement for Dealer's yearly sales performance will be the objective established in the applicable annual Operating Plan.

Sales Outside Area

(3) Subject to Dealer's performance of its obligations under Article 5(2), VWoA does not restrict Dealer's sale of Authorized Products within the 50 United States. VWoA hereby informs Dealer, however, that VWoA has no authority to sell any products for distribution outside the United States, and it is VWoA's policy not to do so. Dealer acknowledges its understanding that this is intended to preserve the integrity of the orderly worldwide distribution network for the products supplied to VWoA, and to maximize customer satisfaction by ensuring that Authorized Products meet the certification and operational standards to which they were designed. Dealer therefore is authorized to sell new Authorized Products only in the 50 United States, and is not authorized to, and agrees it will not, sell any new Authorized Product for sale or use elsewhere.

Defective or Damaged Authorized Products

(4) If any Authorized Product sold by VWoA to Dealer should become defective or damaged prior to its delivery by Dealer to a customer, Dealer agrees to repair such defect or damage so that such Authorized Product is placed in first-class salable condition prior to such delivery. Dealer immediately will notify VWoA of any substantial defects or damage and will follow such procedures for making damage claims as VWoA may establish from time to time. VWoA shall have the option to repurchase any Authorized Products with substantial defects or damage at the price at which they were originally sold by VWoA, less any prior refunds or allowances made by VWoA and less any insurance proceeds received by Dealer in respect of such defect or damage. VWoA will make an equitable adjustment with respect to damage which Dealer can demonstrate occurred prior to the time of delivery to Dealer. VWoA will disclose to Dealer as may be required any damage which VWoA repaired before delivering an Authorized Automobile to Dealer. Dealer will properly disclose such repair prior to delivering such Authorized Automobile to a customer, and will hold VWoA harmless from any claims that required disclosure was not made.

Changes by Dealer to Authorized Products

(5) VWoA may request Dealer to make changes, or not to make changes, to Authorized Products, and Dealer agrees to comply promptly with such requests. Dealer also agrees to take such steps as VWoA may direct it to take to comply with any law or regulation pertaining to safety, emissions, noise, fuel economy or vehicle labeling. VWoA will reimburse Dealer at the then-current rate of reimbursement specified by VWoA for Dealer for Genuine Parts and for labor which may be used by Dealer in making such required changes on Authorized Products. Parts and other materials necessary to make such changes may be shipped to Dealer without Dealer's authorization and Dealer will accept them. Dealer will receive credit for parts so shipped which prove unnecessary, provided they are returned or disposed of in accordance with VWoA's instructions. If the laws of the state in which Dealer is located or a vehicle is to be registered require motor vehicles to carry equipment not installed or supplied as standard equipment by the Manufacturer

or VWoA, upon VWoA's request Dealer will, prior to selling any Authorized Automobiles on which such installation is required, properly install at its own or its customers' expense equipment conforming to such laws and to VWoA's standards. Dealer agrees to indemnity the Manufacturer and VWoA and hold them harmless against and from any and all liabilities that may arise out of Dealer's failure or alleged failure to comply with any obligation assumed by Dealer in this paragraph.

Product Changes by Dealer Neither Requested by VWoA nor Required by Law

(6) If Dealer installs on a new Authorized Automobile any equipment, accessory or part other than a Genuine Part; sells any new Authorized Automobile which has been modified; or sells in conjunction with a new Authorized Automobile a service contract not offered or specifically endorsed in writing by VWoA, then Dealer will advise the customer of the identity of the warranter of such modification, equipment, accessory or part, or, in the case of a service contract, of the identity of the provider of its coverage. Dealer will indemnity VWoA against claims that may be asserted against VWoA in any action by reason of such modification, equipment, accessory, part or service contract. ANY UNAUTHORIZED MODIFICATION TO AUTHORIZED PRODUCTS BY DEALER WHICH ADVERSELY AFFECTS THE SAFETY OR EMISSIONS OF AN AUTHORIZED AUTOMOBILE WILL BE A VIOLATION OF THIS AGREEMENT AND CAUSE FOR TERMINATION PURSUANT To ARTICLE 14(3).

Used Car Operations

(7) Dealer will use its best efforts to acquire, promote, and sell at retail used Authorized Automobiles and other used automobiles. Dealer's used car operations will conform to the requirements of the Operating Standards, Operating Plan, Recommendations and such other reasonable standards as VWoA may prescribe, after review with Dealer.

Article 6

Parts

Parts Promotion

(1) Dealer will use its best efforts to promote the sale of Genuine Parts in Dealer's Area, through regular contacts with owners, users, and prospective owners and users of Authorized Products; through promotion, prospecting and follow-up programs; and through such means as may be indicated from time to time by Recommendations.

Parts Department

(2) Dealer's parts department will conform to the requirements of the Operating Standards, the Operating Plan and such other reasonable standards as VWoA may prescribe, after review with Dealer.

Sales of Non-genuine Parts

(3) Dealer will not sell any parts which are not equivalent in quality and design to Genuine Parts, if such parts are necessary to the mechanical operation of Authorized Automobiles. Dealer will not represent as new Genuine Parts any parts which are not new Genuine Parts. If Dealer sells a part or accessory which is not a Genuine Part, Dealer will advise the customer of the identity of the warrantor of such part or accessory.

Parts Inventory

(4) Dealer will maintain an inventory of Genuine Parts which is sufficient to perform reasonably anticipated warranty -service and wholesale trade requirements in Dealer's Area for Genuine Parts. VWoA will make Recommendations for Dealer's inventory of Genuine Parts based on particular conditions in Dealer's Area, and Dealer will give due consideration to such Recommendations.

Article 7

Service

Quality and Promotion of Service

(1) Dealer will provide the best possible customer service for all owners of Authorized Automobiles and automobiles of the same make formerly sold by VWoA, and will use its best efforts to promote its customer service. Dealer's service facilities, equipment, and personnel will conform to the requirements of the Operating Standards, Operating Plan and such other reasonable standards as VWoA may prescribe, after review with Dealer.

Tools and Equipment

(2) Special tools and general workshop equipment meeting VWoA's standards shall be available at Dealer's Premises in working condition. VWoA's minimum standards shall be found in the Operating Standards and the Operating Plan, which will be updated from time to time.

Use of Non-genuine Parts

(3) Dealer will not use in the repair or servicing of Authorized Automobiles any parts which are not equivalent in quality and design to Genuine Parts, if such parts are necessary to the mechanical operation of such Authorized Automobiles. DEALER WILL USE ONLY GENUINE PARTS IN PERFORMING WARRANTY SERVICE ON AUTHORIZED AUTOMOBILES DEALER WILL NOT REPRESENT AS NEW GENUINE PARTS ANY PARTS USED BY IT IN THE REPAIR OR SERVICING OF AUTHORIZED AUTOMOBILES WHICH ARE NOT NEW GENUINE PARTS.

Owner's Documents

(4) Upon delivering a new Authorized Automobile to a customer, Dealer will provide the Owner's Documents supplied by VWoA for such Authorized Automobile, properly completed by Dealer. Dealer will take all steps required prior to delivery of the Authorized Automobile, and, in particular, will perform properly the pre-delivery services specified by VWoA.

Maintenance and Other Services Without Customer Charge

(5) In accordance with bulletins, issued from time to time by VWoA and VWoA's Warranties, certain maintenance services and other repairs following delivery of a new Authorized Automobile may be free of charge to the customer. Upon presentation of an appropriate Owner's Document, Dealer will perform properly the services required, whether or not the Authorized Automobile to be serviced was sold by Dealer. Upon the submission of appropriate claims, VWoA will reimburse Dealer for performing such services at the then-current rate of reimbursement specified by VWoA for Dealer. VWoA will establish procedures for submitting and processing such claims and transmitting reimbursements to Dealer. Dealer agrees to comply with these procedures.

Requested Repairs

(6) Dealer will notify VWoA in writing or by electronic mail of repairs to Authorized Automobiles pursuant to VWoA's Warranties under each of the following circumstances:

(a) The Authorized Automobile has been brought to Dealer a specified number of times for the same complaint; or

(b) The Authorized Automobile has been in Dealer's custody for all repairs pursuant to VWoA's Warranties a specified number of days.

Such notification shall be made at the times and by the means VWoA may have instructed in any then-current dealer warranty manual issued by VWoA.

Article 8

Dealer's Purchases and Inventories

Purchase Prices

(1) VWoA will sell Authorized Products to Dealer at places and upon terms established by VWoA from time to time. If VWoA increases its established prices, Dealer may cancel all orders for Authorized Products affected by the increase which are unfilled at the time Dealer receives notice of the increase, by giving VWoA written notice of cancellation within ten days from the time Dealer receives notice of the price increase.

Orders and Acceptance

(2) Dealer will transmit orders for Authorized Products to VWoA electronically, at the times and for the periods, that VWoA reasonably requires. With each order, Dealer represents that it is solvent. VWoA may accept orders in whole or in part. Except as otherwise expressly provided in Article 8(1), all orders of Dealer will be binding upon it until they are rejected in writing by VWoA; however, in the event of a partial acceptance by VWoA, Dealer will not be bound by the portion of the order not accepted.

Inventories

(3) Dealer will maintain in inventory at all times the assortment and quantity of Authorized Products required by the Operating Standards, Operating Plan or Recommendations.

Product Allocation

(4) Dealer recognizes that certain Authorized Products may not be available in sufficient supply from time to time because of factors such as product importation, consumer demand, component shortages, manufacturing constraints, governmental regulations, or other causes. VWoA will endeavor to make a fair and equitable allocation and distribution of the Authorized Products available to it.

Taxes

(5) Dealer is responsible for any and all sales taxes, use taxes, excise taxes (including luxury taxes) and other governmental charges imposed, levied, or based upon the sale of Authorized Products by VWoA to Dealer. Dealer represents and warrants, as of the date of the purchase of each Authorized Product, that all Authorized Products purchased from VWoA are purchased by Dealer for resale in the ordinary course of Dealer's business and that Dealer has complied with all laws relating to the collection and payment of all sales taxes, use taxes, excise taxes (including luxury taxes) and other governmental charges applicable to the purchase of such products and will furnish evidence thereof upon request. If any Authorized Products are put to taxable use by Dealer, or are purchased by Dealer for purposes other than resale in the ordinary course of Dealer's business, Dealer will make timely return and payment to the appropriate taxing authorities of all applicable taxes and other governmental charges imposed, levied, or based upon the sale of such Authorized Products by VWoA to Dealer and will hold VWoA harmless with respect thereto.

Payments to Dealer or Dealer's Personnel

(6) From time to time, VWoA may conduct incentive programs which involve payments to Dealer or to Dealer's personnel. Dealer acknowledges that regardless of the nature of such programs or payments, Dealer's personnel are not employees, contractors or agents of VWoA. All matters relating to the employment or retention of Dealer's personnel are solely Dealer's responsibility. In the case of payments by VWoA to Dealer, Dealer alone will be responsible for the payment of any and all applicable taxes. In the case of payments to Dealer's personnel, VWoA will make appropriate information or other returns to appropriate taxing authorities. In the event Dealer does not want VWoA to make direct payments to Dealer's personnel, Dealer will notify VWoA to that effect in writing. After receiving such written notice, VWoA will pay directly to Dealer any subsequent payments coming due Dealer's personnel. Dealer represents and warrants that it will pass such payments directly through to Dealer's personnel as intended; that it will make any necessary returns to any taxing authority; and that it will hold VWoA harmless from any claims whatsoever that such payments were not received by the intended recipients or that appropriate withholdings were not made. In the event it is determined by any taxing authority that VWoA should not have made payments to Dealer's personnel or that VWoA should have collected taxes in respect of such payments, then VWoA will be responsible for such taxes.

Payment by Dealer

(7) Dealer will pay for Authorized Products in the manner, at the time, and upon the conditions specified in the terms of payment established from time to time by VWoA. Delivery of instruments of payment other than cash will not constitute payment until VWoA has collected the full amount in cash. Dealer will pay all collection charges, including reasonable attorney's fees, and costs of exchange, if any, incurred in connection with its payments.

Passing of Title; Security Interest

(8) Title to Authorized Products will remain with VWoA until VWoA has collected their full purchase price in cash. Dealer will execute and deliver, and VWoA is authorized to execute and deliver on behalf of Dealer or, to the extent permitted by law, to file without the signature of Dealer, all financing statements and other instruments which VWoA may deem necessary to evidence its ownership of such Authorized Products. Dealer hereby grants VWoA a purchase money security interest in all Authorized Products for which VWoA has not collected in full, authorizes VWoA to take such steps as VWoA deems necessary to perfect such security interests, and agrees to cooperate fully with VWoA in connection therewith. VWoA may take possession at any time of Authorized Products to which it has title.

Passing of Risks

(9) Authorized Products will be at Dealer's risk and peril from the time of their delivery to Dealer or Dealer's agent. It will be up to Dealer to insure such risks for its benefit and at its expense.

Responsibility for Defects and Damage

(10) VWoA assumes responsibility for the quality and condition of Authorized Products, to the extent of (a) defects caused by its own negligence and (b) damage caused or repaired prior to delivery of the Authorized Products to Dealer or Dealer's agent. VWoA will make any required disclosure thereof to Dealer. If VWoA has insured against such defects in or damage to Authorized Products, VWoA's liability to Dealer for such damage will be limited to the amount actually paid by the insurance carrier to VWoA by reason of such defect of damage, together with any deductible amount applicable to such claim. Dealer may decline to accept any Authorized Products delivered to Dealer in damaged condition or with respect to which VWoA has notified Dealer that VWoA has repaired damage; however, should Dealer accept such Authorized Product Dealer will, subject to the provisions of Article 5(5), repair all such defects and damage fully as required by VWoA before any defective or damaged Authorized Product is delivered to a customer. Dealer will make any required disclosure to Dealer's customers of damage or repairs, and will hold VWoA harmless with respect thereto. VWoA will notify Dealer promptly of the amount thereof, or any other amount due from VWoA pursuant to this paragraph, following Dealer's submission of such proof of repair as VWoA may require.

Claims for Incomplete Delivery

(11) Dealer will make all claims for incomplete delivery of Authorized Products (including the delivery of Authorized Products with damage) in writing not later than three business days after Dealer's receipt of shipment; provided, however, that Dealer will make claims as to Genuine Parts within the period specified in policies established by VWoA from time to time; and provided, further, that Dealer will note claims for visible damage to Authorized Automobiles on the delivery receipt.

Changes of Specifications

(12) VWoA will deliver Authorized Products to Dealer in accordance with specifications applicable at the time of their manufacture. In the event of any change or modification with respect to any Authorized Products, Dealer will not be entitled to have such change or modification made to any Authorized Products manufactured prior to the introduction of such change or modification. VWoA expressly reserves, and Dealer acknowledges, the right to make such changes and modifications, and Dealer's only right in such event shall be the cancellation of any orders for Authorized Products affected by the change or modification and not yet accepted by VWoA-

Failure of or Delay in Delivery by VWoA

(13) VWoA will not be liable to Dealer for failure of or delay in delivery under orders of Dealer accepted by VWoA, other than failure or delay resulting from willful misconduct or gross negligence of VWoA.

Return or Diversion on Dealer's Failure to Accept

(14) If Dealer fails or refuses for any reason to accept delivery of any Authorized Products ordered by Dealer (except as permitted under Article 8(11)), Dealer will be liable to VWoA for all expenses incurred as a result of such failure or refusal, and will store such Authorized Products at no charge to VWoA until VWoA can arrange for their removal. Dealer's liability pursuant to this paragraph will be in addition to, and not in lieu of any other liabilities which may arise from Dealer's failure or refusal to accept delivery.

Article 9

Warranty to Customers

VWoA's Warranties

(1) VWoA warrants each new Authorized Product as set forth in VWoA's Warranties.

Incorporation of VWoA's Warranties in Dealer's Sales

(2) Dealer will make all sales of Authorized Automobiles and Genuine Parts in such a way that its customers acquire all rights in accordance with VWoA's Warranties and, to the extent permitted by law, no other express or implied warranties. Dealer will make the text of VWoA's Warranties part of its contracts for the sale of Authorized Products and will display the text of the warranties of all products it sells in customer contact areas where Authorized Products are offered.

Warranty Procedures

(3) Dealer agrees to comply with the provisions of the various dealer warranty manuals which VWoA may issue from time to time, and will follow the procedures established by VWoA for processing warranty claims and returning and disposing of defective Genuine Parts. Dealer will also comply with all requests of VWoA for the performance of services pursuant to warranty claims and will maintain detailed records of time and parts consumption and any other records used as the basis for submitting warranty claims. Dealer will submit warranty claims to VWoA electronically, and in accordance with procedures established by VWoA. Upon Dealer's compliance with such requests and maintenance of such records, VWoA will reimburse Dealer within a reasonable time for warranty claims at the then-current rate of reimbursement specified by VWoA for Dealer. Strict adherence to the procedures and means established for processing warranty claims is necessary for VWoA to process such claims fairly and expeditiously. VWoA will be under no obligation with respect to warranty claims not submitted electronically and not made strictly in accordance with such procedures.

Article 10

Dealer's Record Keeping and Reports; Inspection of Dealer's Operations

Dealer's Forms, Business Machines, Office Equipment and Bookkeeping

(1) Dealer will use accounting, sales, bookkeeping and service workshop forms; business machines; data processing and transmission equipment; and other office equipment which meets specifications, and which enables Dealer and VWoA to communicate electronically for all purposes and which otherwise provides information and functions in the manner prescribed by VWoA and its affiliates in the Operating Standards, the Operating Plan and by other means. VWoA will advise Dealer, or ensure that suppliers to VWoA advise Dealer, periodically of the hardware and software requirements, communications protocols, and other specifications which Dealer's data processing and transmission equipment must meet in order to satisfy the requirements of this paragraph, and Dealer will timely adhere to such requirements, protocols and specifications. Dealer will keep accurate and current records in accordance with VWoA's uniform accounting system and with accounting practices and procedures reasonably satisfactory to VWoA, in order to enable VWoA to develop comparative data and to furnish Dealer business management assistance.

Financial Statements to be Supplied by Dealer,

(2) Dealer will transmit to VWoA (a) on or before the tenth day of each calendar month, in such form and by such methods as VWoA reasonably may require, a financial and operating statement reflecting the consolidated operations of Dealer for the preceding month and from the beginning of the calendar year to the end of the preceding month and (b) within three and one-half months after the close of Dealer's fiscal or calendar year, a consolidated balance sheet and profit and loss statement of Dealer, which documents shall be certified by a certified public accountant if so requested by VWoA at least 30 days prior to the close of Dealer's fiscal or calendar year. DEALER'S FAILURE TO PROVIDE FINANCIAL AND OPERATING STATEMENTS IN THE FORMAT AND BY THE METHOD REQUIRED BY VWoA MAY RESULT IN THE REVOCATION OF DEALER'S OPEN PARTS AND ACCESSORIES ACCOUNT.

Reports to be Supplied by Dealer

(3) Dealer will furnish to VWoA, on such forms and by such methods as VwoA reasonably may require, accurate timely reports of dealer's sales and transfers of new Authorized Automobiles. Dealer also will furnish to VWoA, on a timely and accurate basis, such other reports and financial statements as VWoA reasonably may require.

Inspection of Dealer's Operations and Records

(4) Until the expiration or termination of this Agreement, and thereafter until consummation of all transactions referred to in Article 15, VWoA, through its employees and other designees, at all reasonable times during regular business hours, may inspect Dealer's Operations, Dealer's Premises and the methods, records and accounts of Dealer relating to Dealer's Operations.

Article I 1

Dealer Performance Review

Evaluation and Assistance

(1) Each year, VWoA will prepare objectives for Dealer and will use them as a basis for evaluating Dealer's performance of its obligations in each of the areas described in this Article 11 and in the Operating Standards and the Operating Plan. VWoA may evaluate Dealer's performance during the year through periodic reviews. VWoA's evaluations of Dealer shall take place at least annually. VWoA will review its evaluations with Dealer, so that Dealer may take prompt action, if necessary, to improve its performance to such levels as VWoA reasonably may require. Any written comments received from Dealer on VWoA's evaluation of Dealer will become a part of such evaluation.

Evaluation of Dealer's Vehicle Sales, Service and Parts Performance

(2) VWoA will evaluate the effectiveness of Dealer's vehicle sales, service and parts performance in accordance with factors and measures set forth in the Operating Standards, the Operating Plan and Recommendations.

Evaluation of Dealer's Promises

(3) VWoA will evaluate Dealer's performance of its responsibilities pertaining to Dealer's Premises, analyzing both separately and collectively Dealer's sales facilities, service facilities, parts facilities, administrative offices, storage, parking and signage. In making such evaluation, VWoA will consider the factors set forth in the Operating Standards, the Operating Plan and Recommendations.

Evaluation of Dealer's Customer Satisfaction

(4) VWoA will evaluate Dealer's performance of its responsibilities pertaining to customer satisfaction, analyzing both separately and collectively the satisfaction of customers with Dealer's sales activities and service activities. In making such evaluation, VWoA will utilize a uniform measure of customer satisfaction, which will be disclosed to Dealer, and will consider the factors set forth in the Operating Standards, the Operating Plan and Recommendations.

Dealer's Evaluation of VWoA

(5) VWoA will implement measures by which Dealer may periodically evaluate the performance of VWoA, and in particular the performance of those VWoA employees who are responsible for administering VWoA's relationship with Dealer.

Article 12

Succeeding Dealers

Procedure

(1) If Dealer chooses to transfer its principal assets or change owners, VWoA has the right to approve the proposed transferees, the new owners and executives and, if different from Dealer's, their premises. VWoA will consider in good faith any such proposal Dealer may submit to it during the term of this Agreement. In determining whether the proposal is acceptable to it, VWoA will take into account factors such as the personal, business and financial qualifications of the proposed new owners and executives as well as the proposal's effect on competition. In such evaluation, VWoA may consult with the proposed new owners and executives on any aspect of the transaction of their proposed dealership operations. Notwithstanding anything set forth in this paragraph to the contrary, VWoA shall not be obligated to consider such proposal if it previously had notified Dealer in writing that it would not appoint a succeeding dealer in Dealer's Area; provided, however, that such notice shall be given only if there is good cause for discontinuing representation of Authorized Automobiles in Dealer's Area.

Approvals

(2) VWoA will notify Dealer in writing of the approval or disapproval of a proposal by Dealer for transfer of principal assets or change of owners within 45 business days, or the exercise by VWoA of its right of first refusal under Article 12(3) within 30 calendar days, after Dealer has furnished to VWoA all applications and information reasonably requested by VWoA to evaluate such proposal. If VWoA approves Dealer's proposal, VWoA shall be obligated to grant the proposed transferees only a Dealer Agreement in substantially the same form as this Agreement. If VWoA had previously notified Dealer in writing that VWoA would not appoint a succeeding dealer in Dealer's Premises, then VWoA's approval of Dealer's proposal may be conditioned on the proposed transferees agreeing to provide different facilities for their dealership operations. Upon the consummation of Dealer's approved proposal, Dealer will deliver to VWoA a voluntary termination of this Agreement, a general release in favor of VWoA and payment in full for any net balance then owing from Dealer to VWoA.

Right of First Refusal

(3) Whenever Dealer proposes to transfer its principal assets or change owners of a majority interest, VWoA shall have the right to purchase such assets or ownership interest, as follows:

(a) VWoA may elect to exercise its purchase right by written notice to Dealer within 30 calendar days after Dealer has furnished to VWoA all applications and information reasonably requested by VWoA to evaluate Dealer's proposal.

(b) If Dealer's proposed sale or transfer was to a successor approved in advance by VWoA, to any of Dealer's Owners, to Dealer's employees as a group or to Dealer's spouse, children or heirs, then Dealer may withdraw its proposal within 30 calendar days following receipt of VWoA's notice of election of its purchase right.

(c) VWoA's right under this Article 12(3) shall be a right of first refusal, permitting VWoA to:

(i) assume the proposed transferee's rights and obligations under its agreement with Dealer; and

(ii) cancel this Agreement and all rights granted Dealer hereunder., except to the extent specifically inconsistent with the terms of this Agreement, the price and all other terms of VWoA's purchase shall be as set forth in any bona fide written purchase and sale agreement between Dealer and its proposed transferee and in any related documents.

(d) Dealer shall furnish to VWoA copies of all applicable liens, mortgages, encumbrances, leases, easements, licenses or other documents affecting any of the property to be transferred, and shall assign to VWoA any permits or licenses necessary for the continued conduct of Dealer's Operations.

(e) VWOA may assign its right of first refusal to any party it chooses, but in that event VWoA will remain primarily liable for payment of the purchase price to Dealer.

(f) If VWoA exercises its purchase right, VWoA will reimburse Dealer's proposed transferee for reasonable documented actual expenses which such proposed transferee incurred through the date of such exercise which are directly and solely attributable to the transaction Dealer proposed.

(g) Nothing contained in this Article 12(3) shall require VWoA to exercise its right of first refusal in any case, nor restrict any right VWoA may have to refuse to approve Dealer's proposed transfer.

Succession

(4) Article 14(l)(a) notwithstanding, in the event of the death of any of Dealer's Owners, VWoA will not terminate this Agreement by reason of such death if:

(a) The owner's interest in Dealer passes directly as specified in any Successor Addendum to this Agreement; or

(b) The owner's interest in Dealer passes directly to his or her surviving spouse or children, or any of them, and (i) Dealer's Authorized Representative remains as stated in the Statement of Ownership and Management or (ii) within 90 days after the death of such owner Dealer appoints another qualified individual as Dealer's Authorized Representative; provided, however, that in this event VWoA will evaluate Dealer's performance during the 12 months following the owner's death. After the expiration of this 12-month period and VWoA's evaluation of the performance of Dealer's management during such period, VWoA will review with Dealer the changes, if any, in the management or equity interests of Dealer required by VWoA as a condition of extending this Dealer Agreement with Dealer. Any new Dealer Agreement entered into pursuant to this paragraph will be in substantially the same form as the Dealer Agreements then currently offered by VWoA to its dealers in Authorized Automobiles generally.

Modification of Terms of Payment

(5) Upon receipt of an application for a replacement dealer agreement, VWoA may modify its terms of payment with respect to Dealer to the extent VWoA deems appropriate, irrespective of Dealer's credit standing or payment history.

Article 13

Dispute Resolution

General Policy

(1) VWoA and Dealer agree as a general matter to work together to minimize disputes between them. While understanding that certain Federal and state courts and agencies may be available to resolve any disputes, VWoA and Dealer agree that it is in their mutual best interest to attempt to resolve certain controversies first through arbitration. VWoA and Dealer therefore agree that the dispute resolution process outlined in this Article shall be used before seeking legal redress in a court of law or before an administrative agency, for all disputes arising under the following: Article
9(3) (Warranty Procedures), Article 12 (Succeeding Dealers), Article 14 (Termination), Article 15 (Rights and Liabilities Upon Termination) and payments to Dealer in connection with VWoA incentive programs. In the event that a dispute arises in connection with any other provision of this Agreement, VwoA and Dealer may mutually agree to first submit the dispute to arbitration, in accordance with the provisions of this Article. Both VWoA and Dealer agree that the ultimate mutual goal of arbitration is to obtain a fair hearing and prompt decision of the dispute, in an efficient and cost-effective manner, and both agree to work toward that goal at all times hereunder.

Involuntary Non-Binding Arbitration

(2) Upon the written request of either VWoA or Dealer, a dispute arising in connection with this Agreement may be submitted to non-binding arbitration.

Voluntary Binding Arbitration

(3) As an alternative to Article 13(2) above, upon the written request of Dealer, a dispute arising in connection with this Agreement will be submitted to binding arbitration.

Rules of Conduct

(4) Arbitrations will be adjudicated under the auspices and in accordance with the rules of the American Arbitration Association or another mutually acceptable arbitration service, as well as the following provisions:

(a) Written requests for arbitration shall set forth a clear and complete statement of the nature of the claim and its basis; the amount involved, if any; and the remedy sought.

(b) The place of arbitration shall be the state in which Dealer's Premises are located, or such other place as may be agreed upon by the parties.

(c) Both parties shall make every reasonable attempt to agree upon one arbitrator, but if they are unable to agree each shall appoint an arbitrator and these two shall appoint a third arbitrator.

(d) Expenses of arbitration shall be divided equally between the parties. The prevailing party shall not be entitled to reasonable attorneys fees.

(e) The arbitrator(s) shall pass finally upon all questions, both of law and fact, and his or her (or their) findings shall be conclusive.

(f) Pre-arbitration discovery shall be available to both parties and shall be governed by the Federal Rules of Civil Procedure. Information obtained by either party during the course of discovery shall be kept confidential, shall not be disclosed to any third party, shall not be used except in connection with the arbitration proceeding, and at the conclusion of the proceeding, shall be returned to the other party. Both Dealer and VWoA shall make their agents and employees available upon reasonable times and places for pre-trial depositions without the necessity of subpoenas or other court orders. Such discovery may be used as evidence in the arbitration proceeding to the same extent as if it were a court proceeding.

Time for Decision

(5) Unless VWoA and Dealer specifically agree to the contrary, and subject to the rules and procedures of the arbitration service chosen, the arbitration hearing shall be concluded not more than 60 days after the date of the written request to arbitrate, and the arbitration decision shall be rendered not more than 90 days after the written request to arbitrate.

Provisional Remedies

(6) Either VWoA or Dealer may, without prejudice to the above procedures, file a complaint if in its sole judgment such action is necessary to avoid irreparable damage or to preserve the status quo.

Despite such action the parties will continue to participate in good faith in the procedures specified in this Article 13.

Tolling Statute of Limitations

(7) All applicable statutes of limitation and defenses based upon passage of time shall be tolled while the procedures specified in this Article 13 are pending. The parties will take such action, if any, required to effectuate such tolling.

Performance to Continue

(8) VWoA and Dealer agree to continue to perform their respective obligations under this Agreement ending final resolution of any dispute arising out of or relating to this Agreement.

Article 14

Termination

Immediate Termination by VWoA

(1) Except to the extent a greater notice period is required by any applicable statute, VwoA has the right to terminate this Agreement for cause, with immediate effect, by sending notice of termination to Dealer, if any of the following should occur:

(a) Death of any of Dealer's Owners or any change, whether voluntary or by operation of law, in the record or beneficial ownership of Dealer without VWoA!s prior written consent; any change in Dealer's Executives without prior notice to VWoA; or the failure of Dealer's Executives to continue to manage Dealer's Operations (unless, in any of these cases, the provisions of Article 12(4) above have been satisfied);

(b) Dissolution or liquidation of Dealer, if a partnership or corporation;

(c) Insolvency of Dealer or voluntary institution by Dealer of any proceeding under the Bankruptcy Act or state insolvency law; or the involuntary institution against Dealer of any proceeding under the Bankruptcy Act or state insolvency law which is not vacated within ten days from the institution thereof; or the appointment of a receiver or other officer having similar powers for Dealer or Dealer's business who is not removed within ten days of his appointment; or any levy under attachment, execution or similar process which is not within ten days vacated or removed by payment or bonding.

(d) Any attempted transfer of this Agreement by Dealer, in whole or in part, without VWoAs prior written consent;

(e) Any change in the location of any of Dealer's Premises or the establishment of any additional premises for Dealer's Operations without VWoAs prior written consent;

(f) Failure of Dealer to continue to operate any of Dealer's Premises in the usual manner for a period of five consecutive business days, unless caused by an Act of God, war, riot, strike, lockout, fire, explosion or similar event;

(g) Dealer's failure, for a period of ten consecutive business days, to have any license necessary for the conduct of Dealer's Operations;

(h) Conviction of Dealer or any of Dealer's Owners or Executives of a felony or any misdemeanor involving fraud, deceit or an unfair business practice, if in VWoAs opinion such conviction may adversely affect the conduct of Dealer's business, or be harmful to the good will of the Manufacturer or VWoA or to the reputation and marketing of Authorized Products;

(i) Any material misrepresentation by any of Dealer's Owners or Executives as to any fact relied upon by VWoA in entering into this Agreement;

Submission by Dealer of fraudulent or knowingly false report or statement or claim for reimbursement, refund or credit; or

(k) Failure or refusal of Dealer or Dealer's Owners, Executives, agents or employees to provide VWoA, upon request, with access to and the opportunity to inspect and copy all books, papers, instruments, certificates or other documents evidencing the record or beneficial ownership of Dealer.

Termination by VWoA on 30 Days' Notice

(2) Except to the extent a greater notice period is required by any applicable statute, VWoA has the right to terminate this Agreement upon 30 days' notice if any of the following shall occur:

(a) Any disagreement or personal difficulties of Dealer's Owners or Executives which in VWoA's opinion may adversely affect the conduct of Dealer's business, or the presence in the management of Dealer of any person who in VWoA's opinion does not have appropriate qualifications for their position;

(b) impairment of the reputation or financial standing of Dealer or any of Dealer's Owners or Executives or ascertainment by VWoA of any fact existing at or prior to the time of execution of this Agreement which tends to impair such reputation or financial standing; or

(c) The failure of Dealer to meet its minimum customer satisfaction requirements, including, but not necessarily limited to, measures for sales satisfaction and service satisfaction, as established by VWoA for its dealers generally, from time to time, and as set forth in then current Operating Standards issued by VWoA to its dealers generally, within 180 days after notice by VWoA to Dealer that Dealer has not met such requirements.

Termination by VWoA on 90 Days' Notice

(3) Except to the extent a greater notice period is required by any applicable statute, VWoA has the right to terminate this Agreement upon 90 days' notice in the event of the breach by Dealer of any obligation of Dealer pursuant to this Agreement or any other agreement between VWoA or any of its subsidiaries or affiliates and Dealer, other than those enumerated in Articles 14(1) or 14(2) above.

Discussions with Dealer

(4) Upon learning that any event or situation which would give VWoA grounds to terminate this Agreement has occurred, VWoA will endeavor to discuss such event or situation with Dealer. Thereafter, VWoA may give Dealer written notice of termination.

Modification of Terms of Payment

(5) During the period a situation specified in Article 14(1), 14(2) or 14(3) continues to exist, VwoA may modify its terms of payment with respect to Dealer to such extent as VWoA may consider appropriate, irrespective of Dealer's credit standing or payment record.

No Waiver by Failure to Terminate

(6) Should VWoA be entitled to terminate this Agreement but fail to do so, such failure shall not be considered a waiver of VWoA's right to terminate this Agreement unless the situation entitling VWoA to terminate this Agreement has ceased to exist and (a) six months have elapsed from the time VWoA obtained knowledge of such situation or (b) VWoA has entered into a subsequent written agreement with Dealer superseding this Agreement. Nevertheless, any situation entitling VWoA to terminate this Agreement may be considered at any subsequent time together with any subsequent events in determining VWoA's right to terminate this Agreement.

Termination by Dealer

(7) Dealer has the right to terminate this Agreement without cause by VWoA giving 60 days' written notice of such termination. Upon receipt of Dealer's notice of termination, VWoA may, at VWoA's option, waive in writing the 60 day notice period. In the event Dealer, in connection with its termination of this Agreement, also wishes to terminate any other agreement between Dealer and VWoA or any of VWoA's subsidiaries or affiliates, Dealer must do so separately and subject to the provisions of Article 14(10) below.

Continuation of Business Relations after Termination

(8) Any business relations between VWoA and Dealer after the termination of this Agreement without a written extension or renewal or a new written dealer agreement will not operate as an extension or renewal of this Agreement or as a new dealer agreement. Nevertheless, all such business relations, so long as they are continued, will be governed by terms identical with the provisions of this Agreement.

Superseding Agreements

(9) If any superseding form of Dealer Agreement is offered by VWoA to its authorized dealers generally at any time, VWoA may, by written notice to Dealer, terminate this Agreement and replace it with a Dealer Agreement in the superseding form.

Agreement with Affiliates of VWoA

(10) The termination of this Agreement by either party does not necessarily waive or terminate any other agreement between Dealer and VWoA or any of its subsidiaries or affiliates. Such other agreements may be terminated only in accordance with their terms, and the parties' respective obligations under any such other agreements will continue in accordance with their terms until terminated.

Article 15

Rights and Liabilities upon Termination

VWoA's Obligations

(1) Within 90 days after the termination of this Agreement pursuant to Article 14, VWoA will purchase from Dealer and (subject to the provisions of Article 1 5(4) below) Dealer will sell to VWoA all the following:

Now Authorized Automobile Inventory

(a) All new, undamaged current model year Authorized Automobiles (introduced in the United States no earlier than 12 months prior to the date of such expiration or termination and not superseded by a later model year) in Dealer's inventory on the date of such expiration or termination which are in first-class salable condition, provided they (i) have 200 or fewer actual miles; (ii) were sold by VWoA and purchased by Dealer from VWoA (or in the ordinary course of business from other dealers of Authorized Automobiles appointed by VWoA) and (iii) have never been sold by Dealer. The price for such Authorized Automobiles will be the price at which they were originally sold by VWoA, less all prior refunds or allowances made by VWoA, if any.

New Genuine Parts Inventory

(b) All the following new, unused and undamaged articles listed in VWoA's current Genuine Parts Price List (other than articles listed as obsolete) in Dealer's inventory on the date of such expiration or termination which are in first-class salable condition and complete, provided they were purchased by Dealer from VwoA and never sold by Dealer:

(i) New parts and new factory remanufactured replacement parts supplied by VWoA for Authorized Automobiles;

(ii) Accessories considered by VWoA to be suitable for installation in the current model year Authorized Automobiles specified in Article 1 5 (l)(a); and

(iii) other accessories, provided that VWoA has made sales of identical articles during six of the last twelve full calendar months immediately preceding such expiration or termination.

The price for all such articles will be the price then last established by VWoA for the sale of identical articles, less a handling charge equal to ten percent of such amount and less all prior refunds or allowances made by VWoA;

Tools and Equipment

(c) All special tools and equipment for servicing Authorized Automobiles owned by Dealer on the date of expiration or termination which are in operating condition and complete, provided they were purchased by Dealer from VWoA or pursuant to written requests of VWoA. The price for such tools and equipment will be the fair market value thereof; and

Authorized Signs

(d) All Authorized Signs which Dealer displayed publicly or at Dealer's Premises. The price for such Authorized Signs will be the fair market value thereof.

Terms of Sale

(2) Any and all items to be sold by Dealer to VWoA pursuant to this paragraph will be delivered by Dealer to VWoA at Dealer's place of business suitably packed for transportation. For such periods of time as VWoA reasonably may determine, VWoA may enter Dealer's Premises for the purpose of taking an inventory of all or any part of Dealer's stock of Authorized Products and special tools and equipment. At the request of VWoA, Dealer will comply in all respects with the provisions of all applicable bulk sales acts or similar statutes protecting a transferee of personal property with respect to liabilities of the transferor. Promptly following performance by Dealer of all its obligations pursuant to this Article 15, the completion by VWoA of all steps required to obtain possession of such items and the delivery to VWoA of a bill of sale, documents of title and a general release of VWoA and the Manufacturer from Dealer and Dealer's Owners, all in form satisfactory to VWoA, WoA will pay Dealer the specified prices for the said items, less all amounts owed by Dealer to VWoA, its subsidiaries or affiliates. VWoA will not be required to purchase any item from Dealer pursuant to this paragraph unless Dealer is able to convey to VWoA, within such 90-day period, title to such item free and clear of all liens, claims, encumbrances and security interests.

Pending Orders and Dealer's Obligations

(3) Upon the expiration or termination of this Agreement, all pending orders of Dealer for Authorized Products previously accepted by VWoA will be canceled and Dealer immediately will:

Removal of Authorized Signs

(a) Remove at its own expense all Authorized Signs which it displayed publicly or at its premises;

Authorized Trademarks

(b) Cease all usage of the Authorized Trademarks, cease to hold itself out as an authorized dealer in Authorized Automobiles, destroy all stationery and other printed material bearing any Authorized Trademark, and, if its corporate or business name contains any Authorized Trademark, take all steps to remove the same therefrom;

Orders and Files

(c) Transfer to VwoA

(i) all orders for sale by Dealer of Authorized Products then pending with Dealer,

(ii) all deposits made thereon, whether in cash or property;

(iii) all Dealer's warranty records for Authorized Products or complete copies of all such records and files; and

(iv) all Dealer's customer service files. Upon the written request of Dealer, VWoA will return such customer service files to Dealer after VWoA has made copies of such flies at VWoA's expense;

Customer Lists

(d) Make available to VWoA in writing the names and addresses of all its service customers and prospective customers for Authorized Products; and

Literature

(e) Deliver to VWoA at Dealer's place of business, free of charge, all technical or service literature, advertising and other printed material relating to Authorized Products, including sales instruction manuals or promotional material, then in Dealer's possession and which were acquired by Dealer from VWoA.

None of the foregoing will result in any liability of VWoA to Dealer for damages, commissions, loss of profits or compensation for services, or in any other liability of VWoA to Dealer of any kind of nature whatsoever.

Direct Sales by Dealer

(4) Upon Dealer's written request, VWoA may waive Dealer's obligation to sell certain assets to VWoA and will consent to Dealer's sale of any of or all its assets to any party of Dealer's choosing; provided, however, that Dealer may not sell any new Authorized Automobile, Authorized Sign nor any new Genuine Parts to any person or entity other than another dealer in the same line-make authorized by VWoA.

Specific Performance

(5) Since Dealer's obligations under this Article 15 are of such a nature that it is impossible to measure in money the damages which will be suffered by VWoA if Dealer should fail to perform any of them, Dealer agrees that, in the event of any such failure of performance on its part, VWoA will be entitled to maintain an action to compel the specific performance by Dealer of these obligations and Dealer agrees not to assert in any such action the defense that VWoA has an adequate remedy at law.

Article 16

Definitions

Throughout this Agreement various abbreviations and abbreviated phrases have been used. Their meanings are:

Authorized Automobiles

(1) "Authorized Automobiles" means motor vehicles of the Volkswagen brand and comprising such models and types as may be supplied by VWoA during the term of this Agreement.

Authorized Products

(2) "Authorized Products" means Authorized Automobiles and Genuine Parts.

Authorized Representative

(3) "Authorized Representative" means a qualified representative of Dealer whose full-time professional efforts are devoted to the conduct of Dealer's Operations and who is authorized on behalf of Dealer to execute documents, make all operational decisions with respect to Dealer's Operations, and on whose authority VWoA is entitled to rely.

Authorized Signs

(4) "Authorized Signs" means displays of any Authorized Trademark, in such material, type, presentation and colors as VWoA may prescribe from time to time.

Authorized Trademarks

(5) "Authorized Trademarks" means any trademark, service mark or trade name now or any other time hereafter used or claimed by the Manufacturer or VWoA.

Dealer's Area

(6) "Dealer's Area" means the area designated by VWoA in the Operating Plan for Dealer's Operations, corresponding to U.S. census tract information.

Dealer's Executives

(7) "Dealer's Executives" means all the persons named in Paragraphs 5 and 6 of the Statement of Ownership and Management as officers or the Authorized Representative of Dealer, as well as any other person who succeeds to any position in Dealer referred to in such paragraphs in accordance with the provisions of this Agreement.

Dealer's Operations

(8) "Dealer's Operations" means all activities of Dealer relating to the promotion and sale of Authorized Products, the supply of Genuine Parts, customer service for Authorized Products and all other activities of Dealer pursuant to this Agreement.

Dealer's Owners

(9) "Dealer's Owners" means all the persons named in Paragraph 4 of the Statement of Ownership and Management as beneficial or record owners of Dealer, as well as any other person who acquires or succeeds to any beneficial interest or record ownership in Dealer in accordance with the provisions of this Agreement.

Dealer's Promises

(10) "Dealer's Premises" means all premises referred to in the Dealer Premises Addendum and used by Dealer for or in connection with Dealer's Operations, including sales facilities, service workshops, offices, facilities for storage of Authorized Automobiles and Genuine Parts, used car sales facilities and parking facilities.

Genuine Parts

(11) "Genuine Parts" means new and factory rebuilt replacement parts, accessories and optional equipment for Authorized Automobiles if such parts, accessories and optional equipment are supplied by VWoA.

Manufacturer

(12) "Manufacturer" means any supplier of Authorized Products to VWoA, including as appropriate, but not limited to, Audi AG, a German corporation, and Volkswagen AG, a German corporation.

Not Working Capital, Owner's Equity and Wholesale Credit

(13) "Net Working Capital," "Owner's Equity" and "Wholesale Credit" shall have the meanings set forth in the Operating Standards, the Operating Plan and in accordance with generally accepted accounting principles.

Operating Plan

(14) "Operating Plan" means the Dealer Operating Plan then-currently established by VWoA for dealers of Authorized products, determined in cooperation with Dealer, as well as any amendments thereof or additions thereto by VWoA during the term of this Agreement.

Operating Standards

(15) "Operating Standards" means the Volkswagen Dealer Operating Standards issued by VWoA to its Volkswagen dealers, including any amendments, revisions or additions, from time to time during the term of this Agreement.

Owner's Documents

(16) "Owner's Documents" means all the documents which are supplied by VWoA in respect of each Authorized Automobile and which are intended for the customer, including, but not limited to, the Owner's Manual, Warranty Booklet and Maintenance Booklet.

Recommendations

(17) "Recommendations" means written suggestions provided by VWoA to Dealer from time to time during the term of this Agreement, as well as all currently applicable written suggestions previously provided by VWoA.

VWoA

(18) "VWoA" means Volkswagen of America, Inc., a New Jersey corporation, and includes, as appropriate, all divisions of that corporation.

VWoAs Warranties

(19) "VWoAs Warranties" means, with respect to each Authorized Product, those express written warranties provided with such product or as set forth in the Dealer Warranty Manual for Authorized Products in effect at the time such product is first sold at retail, as well as any express written warranties which VWoA may issue with respect to any product during the course of its service life.

Article 17

General Provisions

Dealer Not an Agent

(1) Dealer will conduct all Dealer's Operations on its own behalf and for its own account. Dealer has no power or authority to act for the Manufacturer or VWoA.

Authority to Sign

(2) Dealer acknowledges that only an Area Executive is authorized on behalf of VWoA to execute this Agreement or to agree to any variation, modification or amendment of any of its provisions or to sign any notice of termination, and that such Agreement, variation, modification, amendment or notice of termination must be countersigned by the President, a Vice President, the Secretary, an Assistant Secretary or a Regional Team Leader of VWoA.

Variations; Modifications; Amendments

(3) This Agreement may not be varied, modified or amended except by an express instrument in wilting to that effect signed on behalf of both VWoA and Dealer.

Entire Agreement

(4) This instrument contains the entire agreement between the parties. No representations or statements other than those expressly set forth or referred to herein were made or relied upon in entering into this Agreement.

Release of Claims under Prior Agreement

(5) This Agreement terminates and supersedes all prior agreements with respect to Authorized Products between the parties, if any. The parties hereby waive, abandon and relinquish any and all claims of any kind and nature arising out of or in connection with any such prior agreement, except for any accounts payable by one party to the other as a result of the purchase of any Authorized Products, audit adjustments or reimbursement for any services.

Agreement Non-transferable

(6) No part of this Agreement nor any interest in this Agreement may be transferred by Dealer without the prior written consent of VWoA.

Defense and Indemnification

(7) VWoA will, upon Dealer's written request:

(a) Defend Dealer against any and all claims for breach of VWoAs Warranties, bodily injury or death, or for physical damage to or destruction of property, that. during the term of this Agreement, may be asserted against Dealer in any action solely by reason of a manufacturing defect or design deficiency in

(i) an Authorized Product; or

(ii) a product of the same line-make formerly supplied by VWoA pursuant to a former dealer agreement; and

(b) Hold Dealer harmless from any and all settlements made and final judgments rendered with respect to such claims; provided, that in each case Dealer promptly notifies VWoA in writing of the commencement of such action against Dealer and cooperates fully in the defense of such action in such manner and to such extent as VWoA may require. However, such defense and indemnification by VWoA will not be required if any fact indicates that any negligence, error, omission, act, failure, breach, statement or representation of Dealer may have caused or contributed to the claim asserted against Dealer or if VWoA determines that such action seeks recovery for allegations other than those described in Article 17(7)(a).

Notices

(8) Any notices under or pursuant to the provisions of this Agreement will be directed to the respective addresses of the parties stated herein, or, if either party shall have specified another address by notice in writing to the other party, to the address thus last specified. Unless otherwise provided herein, notices shall be deemed effective if sent by certified mail with return receipt requested; by overnight service having a reliable means of confirming delivery; or by personal delivery to any of Dealer's Owners or Executives. Notices shall be deemed effective when received.

Waivers

(9) The waiver by either party of any breach or violation of or default under any provision of this Agreement will not operate as a waiver of such provision or of any subsequent breach or violation thereof or default thereunder. The failure or refusal of VWoA to exercise any right or remedy shall not be deemed to be a waiver or abandonment of any such right or remedy.

Titles

(10) The titles appearing in this Agreement have been inserted for convenient reference only and do not in any way affect the construction, interpretation or -meaning of the text.

EXHIBIT 10.23.2

LEASE

THIS AGREEMENT OF LEASE made and entered into by and between PAUL H. SNIDER ("Lessor" hereinafter) and DICK DONNELLY AUTOMOTIVE ENTERPRISES, INC., a Delaware corporation ("Lessee" hereinafter).

NOW THEREFORE, the parties agree as follows:

1. PREMISES:

Lessor hereby leases to Lessee and Lessee hereby leases from Lessor that certain real property and improvements in the County of Washoe, State of Nevada, and more particularly described in Exhibit "A", attached hereto and made a part hereof ("Leased Premises" hereinafter) also known as 7175 S. Virginia, Reno, Nevada.

2. TERMS AND POSSESSION:

The term of the within lease shall be for ten (10) years, and shall commence on October 17, 1989, and end on October 16, 1999.

3. RENT:

(a) Lessee shall pay to Lessor the sum of Thirty Thousand Dollars ($30,000) as and for minimum monthly rent during the term hereof, together with such additional amounts as are otherwise provided herein. Minimum monthly rent shall be payable in advance, in monthly installments of Thirty Thousand Dollars ($30,000) per month, on the first day of each month, without abatement, deduction, or offset. Prorated rent for the portion of the term hereof commencing October 17, 1989 and ending October 31, 1989, in the sum of Fourteen Thousand Seven Hundred Ninety Five Dollars ($14,795.00), shall be due and payable on October 17, 1989. Minimum monthly rental installments of Thirty Thousand Dollars ($30,000.00) shall be payable on the first day of each month thereafter during the remainder of the term hereof.

(b) The minimum monthly rent provided for herein shall be subject to adjustment at the commencement of the third, fifth, seventh and ninth years (every two years) of the term hereof ("the Adjustment Date" hereinafter) as follows:

The base for computing the adjustment is The Consumer Price Index for All Urban Consumers (base year 1983-1984 = 100) for San Francisco-Oakland-San Jose, California, published by the United States Department of Labor, Bureau of Labor Statistics ("Index" hereinafter), which is in effect on the date of the commencement of the original term ("Beginning Index" hereinafter). The Index published most immediately preceding the Adjustment Date in question ("Extension Index" hereinafter) is to be used in determining the amount of the adjustment. If the Extension Index has increased over the Beginning Index, the minimum monthly rent for the third and fourth, fifth and sixth, seventh and eighth, and ninth and tenth year periods of the term hereof, shall be set by multiplying the minimum monthly rent for the month immediately preceding the Adjustment Date by a fraction, the numerator of which is the Extension Index and the denominator of which is the Beginning Index. In no case shall the minimum monthly rent be less than the then existing minimum monthly rent. On adjustment of the minimum monthly rent as provided in this lease, the parties shall immediately execute an amendment of this lease stating the new minimum monthly rent.

If the Index is changed so that the base year differs from that in effect when the term commences, the Index shall be converted in accordance with the conversion factor published by the United States Department of Labor, Bureau of Labor Statistics. If the Index is discontinued or revised during the term, such other government index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

4. ENTRY AND INSPECTION.

The Lessee shall permit Lessor and his agents, upon one day's prior written notice to enter the demised premises at all reasonable times for any of the following purposes: To inspect the same; to maintain the building in which the said premises are located; to make such repairs to the demised premises as Lessor is obligated or may elect to make; to post notices of nonresponsibility for alterations or additions or repairs. Lessor shall have

such right of entry and the right to fulfill the purpose thereof without any rebate of rent to Lessee for any loss of occupancy or quiet enjoyment of the demised premises thereby occasioned.

5. REPAIRS.

By entry hereunder, Lessee accepts the leased premises and leased improvements as being in good and sanitary order, condition and repair, and agrees on the last day of the term hereof, or sooner termination of this Lease, to surrender unto Lessor all singular said premises and improvements with the appurtenances in the same condition as when received, reasonable use and wear thereof excepted. Throughout the term, Lessee shall, at Lessee's sole cost and expense, maintain the premises and all improvements in good condition and repair, required through misuse and ordinary wear and tear, and in accordance with all applicable environmental laws, laws, rules, ordinances, orders and regulations of (1) federal, state county, municipal, and other governmental agencies and bodies having or claiming jurisdiction and all their respective departments, bureaus, and officials; (2) the insurance underwriting board or insurance inspection bureau having or claiming jurisdiction; and (3) all insurance companies insuring all or any part of the premises or improvements or both. In the event Lessee fails to so keep and maintain the leased premises, Lessor may cause the same to be done at the expense of Lessee, and Lessee shall reimburse Lessor upon written demand. Lessor shall make and pay for all repairs required because of original construction defects.

Nothing in this provision defining the duty of maintenance shall be construed as limiting or enlarging any right given elsewhere in this lease to alter, modify, demolish, remove, or replace any improvement, or as limiting provision relating to condemnation or to damage or destruction of the premises. No deprivation, impairment, or limitation or use resulting from an event or work contemplated by this paragraph shall entitle Lessee to offset, abatement, or reduction in rent nor to any termination or extension of the term.

6. INSURANCE:

At all times during the original and any extended term hereof, Lessor shall keep the leased premises so insured (and Lessee shall reimburse and pay to Lessor) the premiums for all casualty loss with extended coverage, full replacement cost insurance, on the building and improvements of the leased premises. Annually, after the first insurance year, prior to the renewal date of any such insurance, Lessor shall notify Lessee in writing of the full replacement value as determined by Lessor, in Lessor's sole discretion, and the anticipated premium for the insurance. Lessee shall have the option of obtaining the required insurance at a more favorable premium, and, if successful, shall so notify Lessor and obtain such insurance. Lessor shall cause the insurance carrier to provide to Lessee a certificate of insurance showing the coverage and limits, which shall name Lessor as a loss payee.

7. TAXES:

At all times during the term or any extension hereof, Lessor shall pay all annual county taxes and assessments and/or any other taxes or assessments of any governmental authority now or hereafter created, levied, or assessed against the real property and/or improvements of which the leased premises are a part. Lessee shall pay to Lessor as additional rental a sum equal to the amount of such taxes and assessments. Said sum shall be paid by Lessee to Lessor, on demand, at the option of Lessor, either in full or monthly in twelve equal installments during the fiscal year when the same are incurred. Lessee shall pay all taxes levied or assessed against its property, located on the leased premises.

8. UTILITIES:

Lessee shall pay for all utilities and other services supplied to the leased premises.

9. ASSIGNMENT AND SUBLETTING.

Except as hereinafter provided in an assignment or sublease to a related entity or to a former stockholder or stockholders of Lessee, said Lessee shall not voluntarily assign or encumber its interest in this lease or in the premises, or sublease all or any part of the premises, or allow any other person or entity (except Lessee's authorized representatives) to occupy or use all or any part of the premises, without first obtaining Lessor's consent. Except as hereinafter provided, any such assignment, encumbrance, or sublease without Lessor's consent shall be voidable and, at Lessor's election, shall constitute a default. The Lessor shall not unreasonably withhold such consent. No consent to any assignment, encumbrance, or

sublease shall constitute a further waiver of the provisions of this paragraph. Lessee may assign, sublease all or any part of the premises, or otherwise transfer the within lease to a corporation or partnership in which Lessee or its shareholders maintain controlling interest.

Any dissolution, merger, consolidation, or other reorganization Lessee, or the sale or other transfer of a controlling percentage of the capital stock of Lessee, or the sale of Fifty One Percent (51%) of the value of the assets of Lessee, shall be deemed a voluntary assignment. The phrase "controlling percentage" means the ownership of, and the right to vote, stock possessing at least Fifty One Percent (51%) of the total combined voting power of all class of Lessee's capital stock issued, outstanding, and entitled to vote for the election of directors.

10. INSOLVENCY:

If any proceedings in bankruptcy or insolvency be filed against Lessee, or if any Writ of Attachment or Execution be levied upon the interest herein of Lessee, and such proceedings or levy shall not be released or dismissed within sixty (60) days thereafter, or if any sale of the leasehold interest hereby created or any part thereof should be made under any execution or other judicial process, or if Lessee shall make any assignment for benefit of creditors, or shall voluntarily institute bankruptcy or insolvency proceedings, Lessor at his election, may re-enter and take possession of said premises and remove all persons therefrom, and may at this option terminate this Lease.

11. NONWAIVER OF DEFAULT:

The subsequent acceptance of rent hereunder by Lessor shall not be deemed a waiver of any preceding breach of any obligation hereunder by Lessee other than the failure to pay the particular rental so accepted, and the waiver of any breach of any covenant or condition by Lessor shall not constitute a waiver of any other breach regardless of knowledge thereof.

12. INDEMNITY:

Except for claims arising out of the acts of the Lessor or its agents, servants, employees or representatives, Lessee hereby agrees to indemnify and defend Lessor against and to hold Lessor harmless from any and all claims or demands for loss of or damage to property or for injury or death of any person from any cause whatsoever (except the negligent or intentional act of Lessor) and claims, demands, costs and expenses relating to all laws, environmental laws, regulations, and court or administrative orders, arising out of the Lessee's use or occupancy of the leased premises. Upon the commencement of the term provided for herein, or sooner at the option of Lessee, Lessee shall secure and maintain at his own expense at all times during the term hereof, public liability insurance, insuring both Lessor and Lessee against any claims for damages arising out of or connected with said leased premises, with policy limits in the usual form in the sum of Three Million Dollars ($3,000,000) single limit for personal injury, and the sum of Five Hundred Thousand Dollars ($500,000) for property damage. Such policy or policies for certificates for duplicates of existing policies shall immediately upon their issuance be delivered by Lessee to Lessor and thereafter held by Lessor.

13. ALTERATIONS:

(a) The Lessee shall not make, or suffer to be made, any alterations of the said premises, or any part thereof, without the written consent of the Lessor first had and obtained, and any additions to or alterations of, the said premises shall become at once a part of the realty and belong to the Lessor. Lessee shall retain title to all movable furniture and trade fixtures and equipment placed in the property by it. Provided Lessee is not in default hereunder, upon a surrender or expiration of the lease, Lessee may remove such items of personal property owned and installed by Lessee. Upon such removal, Lessee shall leave the leased premises in an undamaged condition. If written consent of the Lessor to any proposed alterations by Lessee shall have been obtained, Lessee agrees to advise Lessor in writing of the date upon which such alterations will commence in order to permit Lessor to post notice of nonresponsibility. Lessee shall keep the demised premises free from any and all liens arising out of any work performed, materials furnished, or obligations incurred by Lessee.

(b) Upon prior written notice to Lessor, Lessee may remove any buildings or improvements constructed by it on the Leased Premises at the end of the lease term if the real property can be restored to its condition prior to such construction and without otherwise harming or devaluing the real property.

14. LAWS AND REGULATIONS:

(a) Lessee at its own cost and expense shall comply promptly with all laws, rules, and orders, environmental or otherwise, of all federal, state, and municipal governments, or departments, which may be applicable to its use of the leased premises and any and all business and enterprises conducted thereon by Lessee, and shall likewise promptly comply with the requirements of the Fire Department of the City of Reno concerning the premises.

(b) Lessee shall at its own cost petition all the appropriate governmental agencies for the purpose of obtaining all variances, use, and other permits necessary for the conduct of Lessee's intended business at the premises, and Lessee's use and occupancy of the leased premises.

15. HOLDING OVER:

Any holding over after the expiration of the said term, with the consent of the Lessor, shall be construed to be a tenancy from month to month, and shall be on the terms and conditions herein specified, so far as applicable.

16. SUBORDINATION AGREEMENT:

This lease shall be subject and subordinate at all times to the lien of any mortgage or mortgages or trust deed or trust deeds which may now exist upon or which may be placed upon the leased premises or the property of which the leased premises are a part, and Lessee agrees that it will execute and deliver to Lessor, or to the nominee of Lessor, property subordination agreements to this effect at any time upon the request of Lessor and without payment being made therefor. Provided, however, so long as Lessee performs its obligations under this Lease, its interest shall be recognized by the holder of any such mortgage or trust deed, and no foreclosure of, deed given in lieu of foreclosure of, or sale under the encumbrance, and no steps or procedures taken under the encumbrance, shall affect Lessee's rights under this Lease provided Lessee attorns to the holder of such encumbrance, or the purchaser at any foreclosure sale, or to any grantee or transferee designated in any deed given in lieu of foreclosure. Lessee agrees to execute any written agreement and other documents required by any lender, purchaser, or transferee, to accomplish the purpose of this paragraph.

17. SECURITY NOT A DEFENSE:

Nothing herein contained and no security or guarantee which may now or hereafter be furnished to Lessor for the payment of the rental provided herein or for the performance by the Lessee of the other terms or covenants of this lease shall in any way be a bar or defense to any action in unlawful detainer or for the recovery of said premises, or in any action which Lessor may at any time commence for breach of any of the terms and covenants of this Lease.

18. WAIVER OF DAMAGE AND INDEMNITY OF LESSOR:

Lessor shall not be liable for any failure of any heating or air-conditioning apparatus of the leased premises, nor for the failure of the supply of water, gas, electricity or power, nor for the stoppage of any or all of the other machinery and equipment, if any, in the building in which the leased premises are situated, nor for the stoppage, leakage or bursting of any gas, water, steam, sewer or other pipe, tank, underground tank, line, water closet or other fixture, nor for any annoyance, inconvenience or damage caused by any electric or other wire, whether upon the said leased premises or in other parts of the building, nor for any damage arising from any act or neglect of any other tenant or occupant of said leased premises for any cause whatever, and Lessee shall indemnify and save Lessor free and harmless from any liability, damage, or expense by reason of the negligence of Lessee, his agents, employees, patrons or invitees, and from all liability, damage or expense by anything brought upon the leased premises by Lessee.

19. ATTORNEY'S FEES:

In the event of any action or proceeding between the parties hereto to interpret, to enforce, for the breach or default of, or arising out of, this lease, or the leased premises, the prevailing party therein shall be allowed all reasonable attorney's fees and costs expended or incurred in such action or proceeding.

20. NOTICES:

All notices to be given to the Lessee may be given in writing personally or be depositing the same in the United States mail, postage prepaid, and addressed to the Lessee at the said premises, whether or not the

Lessee has departed from, abandoned, or vacated the premises. Notices by Lessee to Lessor shall be in writing and served personally, or by depositing the same in the United States mail, postage prepaid, addressed to Lessor at 5150 Madison Avenue, Sacramento, California 95841.

21. DESTRUCTION OF THE PREMISES:

(a) If, during the term, the premises are totally or partially destroyed from a risk not covered by the insurance described in paragraph 6, rendering the premises totally or partially inaccessible or unusable, Lessee shall restore the premises to substantially the same condition as they were in immediately before destruction. Such destruction shall not terminate this lease. If the existing laws do not permit the restoration, either party can terminate this lease immediately by giving notice to the other party.

(b) If the cost of restoration exceeds Fifty Percent (50%) of the then replacement value of the premises destroyed, Lessee can elect to terminate this lease by giving notice to Lessor within fifteen (15) days after determining the restoration cost and replacement value. If Lessee elects to terminate this lease, Lessor, within thirty (30) days after receiving Lessee's notice to terminate, can elect to pay to Lessor, at the time Lessor notifies Lessee of its election, the difference between Fifty Percent (50%) in which case Lessee shall restore the premises.

22. USE OF PREMISES:

Lessee shall not use the lease premises, or any part thereof, for any other purpose or purposes than those hereinafter designated without the prior written consent of the Lessor obtained in writing, which consent shall not unreasonably be withheld. Lessee shall use the premises for sales and service of new and used vehicles and related activities or any other lawful purpose. Lessee shall be responsible at this expense to obtain and maintain all zoning and permits for such use.

23. REMEDIES ON DEFAULT:

In the event Lessee breaches the within lease, abandons the property, or breaches the lease and abandons the property or in the event the Lessor terminates the Lessee's right to possession because of this lease, Lessor may, at his sole option, pursue one of the following remedies:

(a) Terminate the lease, declare it forfeited, remove all persons and the Lessee's property therefrom, and recover from the Lessee:

(i) The worth at the time of award of the unpaid rent which had been earned at the time of termination;

(ii) The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; and

(iii) The worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and

(iv) Any other amount necessary to compensate the Lessor for all the detriment proximately caused by Lessee's failure to perform his obligations under the lease or which in the ordinary course of things would be likely to result therefrom.

(b) Not terminate the lease, or the Lessee's right to possession, but allow the same to continue in full force and effect, and Lessor may thereby enforce all rights and remedies under this lease, including, but not limited to, the right to recover rent as it becomes due hereunder. No act of Lessor in the maintenance or preservation of the property, or in efforts to relet the property, or in the appointment of a receiver to protect the Lessor's interest hereunder, shall be deemed to constitute a termination of the lease or of the Lessee's right to possession; or

(c) Not terminate the lease, or the Lessee's right to possession, and enter into and upon and take possession of said leased premises as agent and for the account of said Lessee, and if said Lessor so elects to lease or rent the whole or any part of said premises for the balance or any part of the term of this lease, and retain all rents thus received, and, after deducting therefrom all expenses incurred in the collection of said rents, apply the balance of the payment of the rents payable hereunder by said Lessee, but the

performance of all or any of the said acts by the said Lessor shall in nowise release or discharge said Lessee from a full and strict compliance with and performance of all of the terms, conditions and covenants of this lease on the part of said amount of rent which said Lessee promised to pay as rental for the said leased premises for and during the whole term of this lease;

(d) Terminate the lease whereupon the Lessor, at his option, shall be entitled to recover from the Lessee the worth at the time of such termination, of the excess, if any, of the amount of rent and charges equivalent to rent reserved in the lease for the balance of the stated term or any shorter period of time over the then reasonable rental value of the property for the same period.

24. TIME IS OF THE ESSENCE:

Time is of the essence in this Agreement of Lease

25. CONDEMNATION:

If the premises or any portion thereof are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than Twenty Percent (20%) of the floor area of the buildings on the premises, or more than Twenty Five Percent (25%) of the land area of the premises which is not occupied by any building, is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing only within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten
(10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the premises remaining, except that the rent shall be reduced in the proportion that the floor area of the building taken bears to the total floor area of the building situated on the premises. No reduction of rent shall occur if the only area taken is that which does not have a building located thereon. Any award for the taking of all or any part of the premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any award for loss of or damage to Lessee's trade fixtures and removable personal property. Lessee shall not be entitled to any sum for leasehold bonus value. In the event that this lease is not terminated by reason of such condemnation, Lessor shall to the extent of severance damages received by Lessor in connection with such condemnation, repair any damage to the premises caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall pay any amount in excess of such severance damages required to complete such repair.

26. COMMON AREA EXPENSES:

Lessee shall at all times at its own expense keep the walks, yard, parking areas and driveways in and abut the Leased Premises neat, clean, and free of all debris and obstructions. Lessor reserves the right at anytime and during all times of the within Lease to control and direct the maintenance and cleaning of such walkways, yard areas, driveway areas, and parking areas, and to hire others to perform the same, with the cost thereof to be borne and paid by Lessee upon receipt of a billing from Lessor for Lessee's proportionate share of such common area expenses to be prorated according to the portion of the common area occupied by the Lessee in relation to the entire common area.

27. LESSOR'S USE OF ADJOINING REAL PROPERTY:

The parties to this Lease acknowledge that the leased premises constitute only a portion of a larger parcel of real property owned by the Lessor and that Lessor has retained all rights with regard to his use, sale or lease of said remaining property, which remaining property (Lessor's remaining property) is depicted in that certain map attached hereto as Exhibit "B". The parties hereto further acknowledge that the use, sale or lease of Lessor's remaining property for the purposes of conducting a new automobile dealership thereon would be inimical to the interests of both the Lessor and the Lessee. In view of such fact, and in consideration of execution of this Lease by each of the parties hereto, the Lessor hereby agrees that, prior to commencing such use, and prior to any sale or lease of said Lessor's remaining property for the purpose of conducting a business thereupon for the sale of new automobiles, said Lessor shall first obtain the written permission of the Lessee as to any and all makes, models or brands of automobiles which may be sold of leased on Lessor's remaining property by any person or party whatsoever. This condition is for the benefit of both the Lessor and Lessee hereunder.

28. OPTION TO RENEW:

In the event Lessee is not in default in any of the terms, covenants or condition herein contained, or in the payment of any sum or sums due hereunder, Lessee shall be privileged to extend the within lease for an additional period of ten (10) years, such renewal to be upon all of the same terms, covenants and conditions hereof, except rent and option to renew. Rent shall be such sum as the parties shall mutually agree upon. Lessee may exercise this option by giving Lessor notice thereof not less than one hundred twenty (120) days prior to the expiration of the term hereof. In the event the parties are unable to agree, rent shall be fixed by arbitration. Each party shall appoint an arbitrator, and the two arbitrators shall select a third arbitrator. Rent shall be set by the decision of a majority of the arbitrators. In the event the arbitrators are unable to agree, rent shall be that sum fixed by the arbitrator who is neither highest nor lowest. The arbitrators shall be selected not later than sixty (60) days prior to the expiration of the Lease and rent shall be fixed by the arbitrators prior to the expiration of the Lease. The decision of the arbitrators shall be binding. The parties shall each pay one-half of the cost of the arbitration.

IN WITNESS WHEREOF, the parties have entered into this Lease on the ___ day of October, 1989.

PAUL H. SNIDER (LESSOR)

By: /s/ Paul H. Snider

DICK DONNELLY AUTOMOTIVE ENTERPRISES, INC. (LESSEE)
a Delaware corporation

By: /s/ Richard M. Donnelly
Richard M. Donnelly, President

DESCRIPTION

All that real property situate in the City of Reno, County of Washoe, State of Nevada, described as follows:

Parcel 4 of Parcel Map 991 for COUNTRY ESTATES, filed in the office of the County Recorder of Washoe County, Nevada, on November 27, 1979, as Filed No. 643822.

EXCEPTING THEREFROM that portion of the hereinabove described parcel that certain strip of land along the Easterly boundary dedicated to the City of Reno for South Virginia Street as dedicated by Parcel Map 1161 entitled "2nd Parcel Map of COUNTRY ESTATES" filed in the office of the County Recorder of Washoe County, on September 24, 1980 as File No. 696068.

MEMORANDUM AND ACKNOWLEDGEMENT OF EXISTENCE OF LEASE

This Memorandum and Acknowledgement of Existence of Lease is made and entered into this _____ day of October, 1989, by and between PAUL H. SNIDER ("Lessor" hereinafter), and DICK DONNELLY AUTOMOTIVE ENTERPRISES, INC., a Delaware Corporation, ("Lessee" hereinafter).

W I T N E S S E T H:

WHEREAS, the parties hereto have heretofore entered into a Lease effective the 17th day of October, 1989, in which said Lease, the Lessor has leased unto the Lessee certain real property and improvements thereon, located in the County of Washoe, State of Nevada, and more particularly described in Exhibit "A", attached hereto and made a part hereof ("Leased Premises" hereinafter), also known as 7175 South Virginia Street, Reno, Washoe County, Nevada, and

WHEREAS, the parties to said Lease desire to enter into this Memorandum and Acknowledgement of Existence of Lease in order that such document may be recorded, in the Office of the County Recorder of Washoe County, Nevada, for the purpose of informing all interested parties of the existence of such Lease, as well as the length of the term thereof;

NOW THEREFORE, the parties hereto hereby agree as follows:

1. Leased Premises.

Lessor has leased unto the Lessee and Lessee has leased from the Lessor, that certain real property and the improvements thereon, located in County of Washoe, State of Nevada, more particularly described in Exhibit "A" and attached hereto and made part hereof.

2. Term.

The term of said Lease commences on the 17th day of October, 1989, and ends on the 16th day of October, 1989.

3. Subordination Agreement.

The parties hereto hereby acknowledge that a Subordination Agreement exists relative to the Leasehold Interest created by the aforementioned mentioned Lease, under which the said Lease is subject and subordinate to the lien of any Deeds of Trust now existing upon or which may be placed upon the leased premises. In this regard, said Lease Agreement provides that, so long as Lessee performs its obligations under said Lease, its interest shall be recognized by the holder of any Deed of Trust relative to same, and no foreclosure of, deed given in lieu of foreclosure, or sale under the encumbrance, and no steps or procedures taken under the encumbrance, shall affect Lessee's rights under this Lease, provided Lessee attorns to the holder of such encumbrance, or the Purchaser at any foreclosure sale, or to any Grantee or Transferee designated in any deed given in lieu of foreclosure.

4. Notices.

All notices given pursuant to the aforementioned Lease, or this Memorandum and Acknowledgement of Lease, shall be given in writing and served personally, or by depositing the same in United States mail, postage prepaid, addressed to

Lessee at:

7175 South Virginia Street,
Reno, Nevada 89511.

and to Lessor at:

5150 Madison Avenue
Sacramento, CA 95841.

5. Option to Renew.

The parties here do further acknowledge that, pursuant to the aforementioned Lease, Lessee has the privilege to extend the said Lease for an addition Ten (10) years, based upon certain terms and conditions contained in said Lease.

6. Recording of This Document.

The parties hereto acknowledge that it is their intention to cause to be recorded this Memorandum and Acknowledgement of Lease, with the office of the Recorder of the County of Washoe, State of Nevada.

IN WITNESS WHEREOF, the parties hereto have executed the this Memorandum and Acknowledgement of Existence of Lease on the _____ day of October, 1989.

PAUL H. SNIDER (LESSOR)

By: /s/ Paul H. Snider

DICK DONNELLY AUTOMOTIVE ENTERPRISES, INC. (LESSEE)
a Delaware corporation

By: /s/ Richard M. Donnelly
Richard M. Donnelly, President

STATE OF CALIFORNIA)
) ss.
COUNTY OF SACRAMENTO)

On October _____, 1989, personally appeared before me, a Notary Public, PAUL H. SNIDER, who acknowledged that he executerd the above-instrument.

NOTARY PUBLIC

STATE OF NEVADA)
) ss.
COUNTY OF WASHOE)

On October _____, 1989, personally appeared before me, a Notary Public, RICHARD M. DONNELLY, who acknowledged that he executed the above-instrument.

NOTARY PUBLIC

DESCRIPTION

All that real property situate in the City of Reno, County of Washoe, State of Nevada, described as follows:

Parcel 4 of Parcel Map 991 for COUNTRY ESTATES, filed in the office of the County Recorder of Washoe County, Nevada, on November 27, 1979, as Filed No. 643822.

EXCEPTING THEREFROM that portion of the hereinabove described parcel that certain strip of land along the Easterly boundary dedicated to the City of Reno for South Virginia Street as dedicated by Parcel Map 1161 entitled "2nd Parcel Map of COUNTRY ESTATES" filed in the office of the County Recorder of Washoe County, on September 24, 1980 as File No. 696068.

EXHIBIT 10.23.3

COMMERCIAL LEASE AGREEMENT

THIS COMMERICAL LEASE AGREEMENT ("Lease") dated the 1st day of October, 1997 (the "Commencement Date"), is entered into by and between RICHARD M. DONNELLY and SUSAN K. DONNELLY, husband and wife, of the County of Washoe, State of Nevada (collectively referred to herein as "Landlord"), and LITHIA REAL ESTATE, INC., an Oregon corporation qualified to do business in the State of Nevada ("Tenant").

Section 1. Real Property and Improvement

1.1 Lease of Property. Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, that certain 1.78 acre parcel of real property located at 40 Victorian Avenue, Sparks, Nevada, and more particularly described in Exhibit A attached hereto and made a part hereof (the "Real Property"), which Real Property contains an automotive sales and service facility comprising approximately _____ sq. ft. (the "Premises"). The Real Property and the Premises are sometimes collectively referred to herein as the "Property."

1.2 Purchase of Assets. The parties acknowledge that, concurrently herewith, Tenant's affiliate is acquiring from Landlord certain assets used by Landlord in connection with the operation of its business on the Premises pursuant to the terms of that certain Agreement for purchase and Sale of Business Assets, dated July 8, 1997 ("Asset Purchase Agreement"), between Landlord (and Landlord's affiliate) and Tenant's affiliate. Capitalized terms not specifically defined herein shall have the meanings set forth in the Asset Purchase Agreement. This commencement of this Lease is conditioned upon the closing of the Asset Purchase Agreement, and this Lease shall have no effect unless and until the Asset Purchase Agreement is closed.

Section 2. Term

2.1 Initial Term. The initial term of this Lease (the "Initial Term") is five (5) full years, unless terminated earlier or extended pursuant to the provisions of this Lease. If the Commencement Date of this Lease is other than the first (1st) day of a calendar month, then the Initial Term shall be adjusted to include the initial partial month and the five (5) full years beginning on the first day of the subsequent calendar month.

2.2 Renewal Option. Tenant shall have options to renew this Lease (the "Renewal Options") for nine (9) successive periods of five (5) years each (the "Renewal Terms"), for a total Lease term of fifty (50) years (plus the partial month provided for in Section 2.1 above) if all Renewal Options are exercised by Tenant.

2.3 Renewal Option Period. Tenant shall have the right to exercise each Renewal Option granted hereunder at any time during the period (the "Renewal Option Period") beginning on the Commencement Date and ending six
(6) months prior to the first day of that relevant Renewal Term.

2.4 Delivery of Notice. The Renewal Option may be exercised and is effective only if (i) Landlord receives from Tenant written notice of the exercise of the Renewal Option prior to the expiration of the applicable Renewal Option Period, and (ii) Tenant is not in material default under the terms of the Lease either on the date of the exercise of the Renewal Option or on the date of the commencement of the Renewal Term. If Landlord wishes to assert that Tenant's written notice of exercise of a Renewal Option is ineffective on the grounds that Tenant is in material default under the terms of the Lease, then Landlord shall be obligated to so notify Tenant in writing, and Tenant thereafter shall have either 10 days (in case of a default in payment) or 30 days (in case of any other form of default) within which to cure the default; if Tenant so cures the default within said 10 day or 30 day period, then notwithstanding the preceding sentence, Tenant's exercise of the Renewal Option shall be effective as of the date when originally exercised.

2.5 Terms on Conditions on Renewal. The terms and conditions set forth in this Lease shall constitute the lease terms and conditions during each Renewal Term, and the adjustments in the Base Rent set forth in Section 3.3 below shall apply, except that no additional renewals beyond the ninth
(9th) Renewal Term provided in Section 2.2 above shall be permitted, unless agreed to in a writing by Landlord.

Section 3. Rent

Tenant shall pay to Landlord, as rent for the Property, the following amounts, determined and payable in the manner and at the times set forth below:

3.1 Security Deposit. Initially, no security deposit shall be required of Tenant. However, should Tenant commit a material default under the terms of this Lease, Landlord shall then have the right to require Tenant to pay to Landlord a security deposit equal to two (2) months' rent. If a security deposit is paid, Landlord may use all or any part of the security deposit for the payment of any loss or damage occasioned by Tenant's default. If any portion of the security deposit is so used, Tenant shall, upon receipt of notice from Landlord, deposit cash with Landlord in an amount sufficient to restore the security deposit to its original amount. No interest shall be paid on the security deposit, and Landlord shall not be required to keep it separate from Landlord's general funds. Upon full and timely performance of Tenant's obligations under this Lease, the security deposit (or remaining balance thereof) shall be returned to Tenant at the expiration of the Initial Term or Renewal Term (as applicable) and after Tenant has vacated the Property. If Landlord sells the Property, the security deposit shall be transferred to Landlord's successor, in which event Tenant agrees that Landlord shall thereafter be released from all liability with respect thereto. In the event Tenant exercises its option to purchase the Property as provided in Exhibit C hereto (see Section 22.1 of this Lease), the security deposit shall be applied to the purchase price of the Property.

3.2 Rent. Tenant shall pay to Landlord, as annual rent, without abatement or off-set unless expressly allowed by this Lease, the amount of $192,000 ("Base Rent"), payable in twelve (12) equal monthly installments of $16,000 each. Each monthly installment of Base Rent shall be payable in advance on the first (1st) day of each calendar month beginning on the Commencement Date. If the Commencement Date of this Lease is other than the first (1st) day of a calendar month, Base Rent for the first (1st) month shall be pro rated on a per diem basis for the remaining days of that month. All rent shall be in lawful money of the United States of America. Each monthly payment of Basic Rent is due on the first (1st) calendar day of each month during the Lease term without the requirement of any notice or other reminder from Landlord to Tenant.

3.3 Rent Escalation. The Base Rent shall be increased for each Renewal Term in accordance with the provisions of Exhibit B attached hereto and made a part hereof.

3.4 Additional Rent. All amounts in addition to Base Rent which, pursuant to this Lease are to be paid by Tenant to or on behalf of Landlord, shall be considered "additional rent" for all purposes under this Lease.

3.5 Place of Payment. Unless and until otherwise directed by Landlord in writing, or except as otherwise specifically provided in this Lease, Tenant shall deliver all notices and pay all rent to the order of Landlord at the address and in the manner set forth in Section 20 hereof.

3.6 Late Fee. If a monthly Base Rent payment is not received by Landlord by the tenth (10th) calendar day of the month, Tenant shall be charged a late fee of $25.00 per day (but not to exceed $750.00) per monthly payment) retroactive to the first (1st) day of the month for each separate monthly Base Rent payment that is late. Late fees shall be additional rent due with the monthly Base Rent payment. Tenant agrees that the late fee:
(i) is a reasonable estimate of the costs that Landlord would incur by reason of a late payment, and (ii) is in addition to all other rights of Landlord and shall not prevent Landlord from exercising any other right or remedy available to Landlord by reason of Tenant's failure to pay rent when due.

3.7 Interest on Past Due Amounts. All rent or other payments becoming due under this Lease and all amounts expended by Landlord for the account of Tenant shall bear interest at the rate of one percent (1%) per month (annual percentage rate of 12%) compounded monthly, or the highest rate permitted by law, whichever is less. Interest shall be calculated from the due date or the date of expense, whichever is earlier, until paid.

3.8 Application of Payments. Payments made by Tenant to Landlord shall firs be applied to late fees, if any, then to additional rent, if any, then to any other amounts due from Tenant to Landlord, if any, and last to Base Rent, as adjusted.

3.9 Net Lease. The parties intend that this shall be a net Lease and that all rent payable by Tenant to Landlord hereunder shall be net of all costs and expenses relating to the Property, and that all such costs and

expenses paid or incurred during the term of this Lease, including but not limited to taxes, insurance, utilities, repairs and maintenance, shall be paid by Tenant, unless otherwise expressly provided in this Lease.

Section 4. Use of the Property

4.1 Permitted Use. Initially, the sole permitted use of the Property under this Lease shall be the operation of an automotive sales and service dealership (the "Permitted Use"). Any different use of the Property by Tenant shall require the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed.

4.2 Limitations on Use. Except with the prior written consent of Landlord (which consent shall not be unreasonably withheld, conditioned or delayed), no industrial, manufacturing or processing activity (except as is usual and incidental to the Permitted Use) shall be conducted on the Premises. Tenant shall not: (i) use the Property in any manner that would constitute waste nor shall Tenant allow the same to be committed thereon;
(ii) abuse walls, ceilings, partitions, floors, wood, stone, iron work, landscaping or other parts of the Property; (iii) use plumbing, fire control, fire sprinkler, electrical, security, telecommunications, heating, cooling, ventilation, elevator or other Property services, systems or facilities for any purpose other than that for which it was constructed; (iv) make or permit any noise or odor objectionable to the public emit from the Property; (v) create, maintain or permit a nuisance in or about the Property; (vi) permit or do anything that is contrary to any statutes, ordinances, rules, regulations and laws of any federal, state, or local governmental body or agency; (vii) permit or do anything that is contrary to any applicable rules and regulations of the National Fire Protection Association, the applicable Fire Rating Bureau and any similar bodies; or (viii) permit or do anything that is contrary to any covenant, condition or restriction contained in this Lease.

4.3 Hazardous Material Use. Tenant shall not cause or permit any Hazardous Material to be brought upon, kept, or used in or about the Premises or Real Property by Tenant, its agents, employees, contractors, customers, clients, guests or invitees, except as incidental to Tenant's Permitted Use of the Property. Tenant shall comply with all applicable laws and regulations regulating the use, reporting, storage, and disposal of Hazardous Material.

4.4 Hazardous Material Definition. As used in this Lease, the term "Hazardous Material" means any hazardous or toxic substance, material or waste which is or becomes regulated by any federal, state or local governmental authority or political subdivision. The term "Hazardous Material" includes, without limitation, any material or substance that is (i) defined as a "hazardous substance" under applicable federal, state or local law, (ii) petroleum, (iii) asbestos, (iv) polychlorinated biphenyl ("PCB"),
(v) designated as a "hazardous substance" pursuant to Section 311 of the Federal Water Pollution Control Act (33 U.S.C. S 1321), (vi) defined as a "hazardous waste" pursuant to Section 1004 of the Solid Waste Disposal Act (42 U.S.C. S6908), (vii) defined as a "hazardous substance" pursuant to
Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. S9601), (viii) defined as a "regulated substance" pursuant to Section 9001 of the Solid Waste Disposal Act (Regulation of Underground Storage Tanks), 42 U.S.C. S6991, (ix) considered a "hazardous chemical substance and mixture" pursuant to Section 6 of the Toxic Substance Control Act (15 U.S.C. S2605), or (x) defined as a "pesticide" pursuant to
Section 2 of the Federal Insecticide, Fungicide and Rodenticide Act (7 U.S.C. S136).

4.5 Disposal of Refuse. Tenant shall store all trash and garbage within the Leased Property or in an area designated as appropriate therefor by Landlord. Tenant shall arrange for and bear the expense of prompt and regular removal of trash and garbage from the Leased Property.

4.6 Approvals, Permits and Easements. During the term of this Lease, Tenant shall have the right to apply for and obtain any approvals, permits or licenses from any governmental entity required for the use of the Premises as contemplated herein and, in connection therewith, Landlord agrees to cooperate, provided that all costs and expenses therefor shall be the sole obligation of Tenant.

4.7 Security Services.

(a) Limited Landlord Responsibility. Tenant acknowledges and agrees that, except as specifically provided in this Section 4.7(a), Landlord has no responsibility for security at the Property, and is not responsible for providing armed or unarmed guards or watchmen, monitoring systems,

security systems, fences, gates or any other security or security systems. Landlord's sole responsibility for security for the Premises is to provide a means to securely lock all doors to the Premises, and to provide lockable entry doors to the Premises using a key lock system. If Tenant wished to rekey the Premises, then the cost of such rekeying shall be paid by Tenant and a copy of the new keys shall be provided to the Landlord.

(b) Tenant Obligations. Tenant is responsible for providing all security except key locks provided by Landlord. Tenant shall provide and maintain Security Services for the Property that are appropriate for Tenant's use. The term "Security Services" includes, but is not limited to, any watchmen, locks, fences, alarms, doors, or other services, devices, procedures, barriers or other measures for the purpose of protecting, safeguarding, defending, or policing persons or property from any theft, vandalism or other loss or damage. Tenant may use or install fences, locks, alarms, doors or other devices to provide Security Services, and the installation of any Security Services shall be (i) consistent with the overall design and use of the Premises and Real Property, and (ii) subject to the terms of this Lease regarding "alterations, improvements and additions" in Section 5 below.

Section 5. Improvements by Tenant. Tenant shall not make any alteration, improvement or addition to the Property without the prior written consent of Landlord which consent may not be unreasonably withheld, conditioned or delayed. All alterations, improvements, and additions: (i) shall be performed at the sole cost and expense of Tenant in compliance with all laws and regulations of any federal, state, or local governmental body, and (ii) shall become and remain the property of Landlord. In contracting for any alterations, improvements or additions, Tenant shall not act as agent of Landlord.

Section 6. Quiet Enjoyment. Landlord agrees that Tenant, upon paying the rent and performing the terms of this Lease, may quietly have, hold and enjoy the Property during the term hereof.

Section 7. Taxes and Assessments.

7.1 Payment of Taxes and Assessments. During the term of this Lease, Tenant shall pay when due and before delinquency all ad valorem real property taxes levied and assessed against the value of the Real Property and improvements thereon, and all personal property taxes levied and assessed against Tenant's trade fixtures and equipment and other personal property placed upon, or owned by Tenant in, on or about the Premises or the Real Property.

7.2 Right to Contest. Tenant, at Tenant's expense, shall have the right to contest the amount or validity of all or any part of the ad valorem real property taxes and assessments required to be paid by Tenant hereunder; provided, however, that Tenant shall indemnify Landlord against any loss or liability by reason of such contest. Notwithstanding such a contest, all taxes otherwise due and payable to Landlord by Tenant shall be paid upon demand, but any refund thereof by any taxing authority shall be the property of Tenant.

7.3 New Taxes. Tenant shall reimburse to Landlord promptly upon demand any and all taxes and other charges payable by Landlord to any governmental entity (other than net income, estate and inheritance taxes) whether or not now customarily paid or within the contemplation of the parties hereto, by reason of or measured by the rent payable under this Lease, or allocable to or measured by the area or value of the Premises and/or Real Property, or upon the use and occupancy by Tenant of the Premises and/or Real Property, or levied for services rendered by or on behalf of any public, quasi-public or governmental entity.

Section 8. Maintenance of Property; Utilities

8.1 Routine Maintenance and Repair. Tenant shall, at its sole cost and expense, at all times be responsible for routine repairs and maintenance of the Property as shall be necessary to maintain the Property in the condition not less than the condition of the Property existing as of the Commencement Date, normal wear and tear excepted.

8.2 Structural and Systems Maintenance. In addition to routine repairs and maintenance as provided in Section 8.1 above, Tenant shall be responsible for paying for the structural and systems maintenance of the Property and, in connection therewith, shall (i) make the repairs and replacements necessary to maintain the structural integrity of the Premises, including repairs and maintenance of the foundations and load-bearing walls,
(ii) repair and maintain in good working order the roof, paved parking areas, and the heating, ventilating, air conditioning, plumbing, and electrical systems, and (iii) maintain the light ballasts.

8.3 Tenant's Liability for Repairs and Maintenance. Notwithstanding any other provisions of this Lease, Tenant shall be liable for and shall promptly repair all damage to the Premises or Real Property caused by Tenant or Tenant's partners, officers, directors, employees, invitees, guests, customers, clients or licensees, regardless whether the damage is caused by the negligence of Tenant or such other persons. All repairs made by Tenant shall be at least equal to the original work in class and quality. If Tenant fails to so maintain or repair, (i) Landlord (or its agents) may, but is not required to, enter the Premises at any reasonable time to perform maintenance or make repairs, and (ii) Tenant shall pay to Landlord the cost of the maintenance or repairs performed by Landlord as additional rent due with the next monthly Base Rent payment.

8.4 Utilities. Tenant shall pay for all heat, air conditioning, water, light, power and/or other utility service, including garbage and trash removal and sewage disposal, including all hookup fees or charges in connection therewith, used by Tenant in or about the Premises and Real Property during the term of this Lease. Tenant shall not be liable for any interruption or failure in the supply of any utility or service to the Property.

Section 9. Insurance

9.1 Tenant's Obligations. Tenant shall purchase and keep in force the following types of insurance in the amounts specified and in the form hereafter provided:

(a) Fire and Extended Coverage. A policy or policies of fire and extended coverage insurance covering the Real Property and the Premises, in an amount not less than ninety percent (90%) of the full replacement cost (exclusive of the cost of excavations, foundations and roofing), against any peril within the classification "fire and extended coverage" or, at Landlord's election, "all-risk coverage." In addition, Tenant shall purchase and keep in force rent insurance insuring Landlord against loss of rent during the period of repair or replacement of all or any portion of the Premises in the event of loss or damage. The insurance provided for in this
Section 9.1(a) may be brought within the coverage of a blanket policy or policies of insurance carried and maintained by Tenant.

(b) Public Liability and Property Damage. A policy or policies of comprehensive general liability insurance with broad form general liability endorsement or equivalent, with limits of not less than $1,000,000 per person and $1,000,000 per occurrence of bodily injury and property damage combined. The policy or policies shall also insure against liability arising out of the use, occupancy or maintenance of the Premises and the Real Property. Said policy or policies shall designate Landlord as an additional insured and shall specifically insure the performance by Tenant of the indemnity agreement(s) contained in Section 16.5 of this Lease.

(c) Tenant's Leasehold Improvements and Personal Property. Insurance covering all the items comprising Tenant's leasehold improvements, trade fixtures, equipment and personal property from time-to-time, in, on or upon the Real Property and the Premises in an amount not less than ninety percent (90%) of their full replacement cost from time-to-time, providing protection against any peril included within the classification "fire and extended coverage," together with insurance against sprinkler damage, vandalism and malicious mischief and earthquakes. Any policy proceeds shall be used for the repair or replacement of the property damaged or destroyed. Landlord shall have no obligation to provide any insurance with respect to the Real Property or the Premises. Except as provided herein, each of Landlord and Tenant (i) is not obligated to obtain, (ii) is not obligated to be named in, (iii) shall have no right to any proceeds of, and (iv) waives all claims on, insurance purchased by or for the benefit of the other party.

9.2 Policy Form. All policies required to be provided by Tenant shall be issued in the names of Landlord and Tenant and evidence thereof shall be delivered to Landlord within ten (10) days after the Commencement Date of this Lease and thereafter within thirty (30) days prior to the expiration of the term of each policy. All policies shall be with an insurer with a Best's rating of B+ or higher, and shall contain a provision hat the insurer shall give Landlord twenty (20) days notice in writing in advance of any cancellation or lapse or the effective date of any reduction in the amounts of the insurance. All public liability, property damage and other casualty policies required to be provided by Tenant shall be written as primary policies, not contributing with and not in excess of coverage which Landlord may carry.

9.3 Adjustment of Coverage. Not more frequently than every five (5) years during the term of this Lease if, in the opinion of Landlord based on industry and local standards and Tenant's use of the Premises, the amount of

public liability and property damage insurance required to be provided by Tenant is at that time not adequate, Tenant shall increase the insurance coverage as reasonably determined by Landlord to be adequate.

9.5 Waiver of Subrogation. To the extent permitted by their respective insurers, Landlord and Tenant (and each person claiming an interest in the Property through Landlord or Tenant, including all subtenants of Tenant) release and waive their entire right of recovery against the other for direct, incidental or consequential or other loss or damage arising out of, or incident to, the perils covered by insurance carried by each party, whether due to the negligence of Landlord or Tenant. If necessary, all insurance policies shall be endorsed to evidence this waiver.

9.6 Failure to Insure. If Tenant shall fail to purchase and keep in force the insurance required by this Lease, (i) Tenant shall be in default hereunder, shall be deemed to be self-insured and shall bear all risk of loss or damage, and (ii) Landlord may, but shall not be required to, purchase and keep in force the required insurance, or any portion thereof, in which event Tenant shall reimburse Landlord the full amount of Landlord's cost with respect thereto within five (5) days after written demand therefor is delivered to Tenant.

Section 10. Damage or Destruction

10.1 Termination or Repair. If all or any portion of the Premises or Real Property are damaged or destroyed by fire or other casualty, Landlord shall deliver to Tenant written notice within thirty (30) days of the damage or destruction stating whether the Premises and Real Property can be restored within one hundred and eighty (180) days of the damage or destruction. Landlord shall have no obligation to expend more in repairing, restoring or rebuilding than the proceeds of insurance available for such purposes. If, in Landlord's reasonable judgment, the insurance settlement, permit and construction work for repairing and rebuilding the damaged or destroyed portion of the Premises or Real Property can be completed within the 180-day period with the available insurance proceeds, Landlord shall promptly proceed to repair or rebuild the damaged or destroyed portion of the Premises or Real Property. If, in Landlord's reasonable judgment, the insurance settlement, permit and construction work for repairing and rebuilding the damaged or destroyed portion of the Premises or Real Property cannot be completed within the 180-day period with the available insurance proceeds, either Landlord or Tenant may terminate this Lease upon thirty (30) days' written notice to the other party.

10.2 Abatement or Apportionment of Rent. If the Lease is not terminated, and if the damage or destruction to the Premises or Real Property is not caused by the act or failure to act of Tenant, its partners, officers, employees, agents, guests, customers, clients or invitees, then a just portion of the rent shall abate as of the date of the damage or destruction until the Premises and Real Property are repaired or rebuilt. If the Lease is terminated, the rent shall be apportioned as of the date of the damage or destruction.

10.3 Alterations, Improvements and Additions. With respect to any damage or destruction of Tenant's alterations, improvements or additions made to the Premises, (i) this Section 10 shall be inapplicable, (ii) no abatement of rent shall occur, and (iii) Landlord shall not be obligated to repair or rebuild Tenant's alterations, improvements, or additions.

Section 11. Condemnation. If all of the Premises and/or Real Property are taken or condemned by any authority for any use or purposes, this Lease shall terminate upon, and the rent shall be apportioned as of, the date when actual possession of the Premises and/or Real Property is required for the condemned use or purpose. If less than all of the Premises are taken or condemned by any authority for any use of purpose, then (i) if the remainder of the Property is not reasonably sufficient for Tenant's business purposes, then either Landlord or Tenant may terminate this Lease upon thirty (30) days' written notice of termination, or (ii) the parties may continue the Lease and a just portion of the rent will abate as of the date when actual possession of condemned portion of the Premises and/or Real Property is required for the condemned use or purpose. All compensation and damages awarded for the taking of all or any portion of the Property shall be apportioned between Landlord and Tenant on the following basis: (i) if awarded separately and not as part of the general award to landlord, Tenant shall be entitled to receive a sum equal to the excess (if any) of the rental market value of the Property for the remainder of the Lease term over the present value (as of the date of taking) of the rent which is then payable for the remainder of the Lease term, plus compensation for the loss of Tenant's trade fixtures, removable personal property, loss of business and good will, and relocation expenses, and (ii) Landlord shall be entitled to the balance of the award.

Section 12. Landlord's Entry on Property

12.1 Right of Entry. Landlord, and Landlord's authorized representatives, shall have the right to enter the Property at all reasonable times during normal business hours for any of the following purposes:

(a) To determine whether the Property is in good condition and whether Tenant is complying with this Lease;

(b) To serve, post and keep posted any notice required or allowed under the provisions of this Lease;

(c) To show the Property to prospective brokers, agents, buyers or tenants at any time during the term of this Lease.

12.2 No Liability. Landlord shall not be liable in any manner for any inconvenience, disturbance, loss of business, nuisance or other damage arising out of Landlord's entry on the Property as set forth herein; provided, however, Landlord shall conduct its activities on the Property as allowed herein in a manner that will cause the least possible inconvenience, annoyance or disturbance to Tenant.

Section 13. Covenant Against Liens

13.1 Liens Prohibited. Tenant agrees not to suffer or permit any lien (including, but not limited to, tax liens and liens of mechanics or materialmen) to be placed against the Premises or Real Property. If a lien is placed against the Premises or Real Property that is directly or indirectly related to an act or failure to act of Tenant, Tenant agrees to pay off and remove such lien within five (5) days of receipt by Tenant of notice of the lien, regardless whether Tenant contests the validity of the lien. Tenant has no authority or power to cause or permit any lien or other encumbrance created by act of Tenant, operation of laws, or otherwise to attach to or be placed upon Landlord's title or interest in the Premises or Real Property. Any lien or encumbrance shall attach only to Tenant's leasehold interest in the Property.

13.3 Failure to Pay Lien. If Tenant shall default in the paying of a prohibited lien and a suit to foreclose the same is filed, and if Tenant has not given Landlord acceptable security to protect Landlord against any loss, damage and expense with respect to such lien, Landlord may, but shall not be required to, pay the lien and any related costs, and the amount so paid, together with reasonable attorney's fees incurred in connection therewith, shall be immediately paid by Tenant to Landlord together with interest thereon at the rate provided in Section 3.7 hereof.

Section 14. Default

14.1 Default by Tenant. Tenant shall be in default under this Lease if any of the following shall occur (any one or more of the following herein constituting an "Event of Default"):

(a) Tenant fails to pay when due any monthly rent or other payment required to be paid by Tenant under this Lease within ten (10) days of its due date; provided, however, that before declaring any default in the making of any payment required under this Lease, Landlord shall provide to Tenant a written notice specifying that there has been a default in the making of a required payment, and Tenant shall have three (3) business days after receipt of that notice within which to pay the delinquent amount and prevent a default hereunder, or

(b) Tenant shall default in the observance or performance of any of Tenant's other covenants hereunder (other than the covenant to pay rent or any other sum herein specified to be paid by Tenant) and such default shall not have been cured within thirty (30) days after Landlord shall have given to Tenant written notice specifying such default; provided, however, that if the default complained of shall be of such a nature that the same cannot be completely remedied or cured with such 30-day period, then such default shall not be a default against Tenant for the purposes of this paragraph so long as Tenant shall have promptly commenced curing such default and shall proceed with all due diligence and in good faith to remedy the default complained of; or

(c) Tenant shall have (i) file a voluntary petition in bankruptcy, or (ii) be adjudicated bankrupt or insolvent, or (ii) have a receiver or trustee appointed for all or substantially all of its business or

assets on the ground of Tenant's insolvency, or (iv) suffer an order to be entered approving a petition filed against Tenant seeking reorganization of Tenant under the federal bankruptcy laws or any other applicable law or statute of the United States or any state thereof, or (v) Tenant shall make a general assignment or general arrangement for the benefit of its creditors, or (vi) bankruptcy proceedings shall have been instituted against Tenant which are not withdrawn or dismissed with sixty (60) days after the institution of said proceedings; or

(d) Tenant shall remove or attempt to remove, with the prior authorization of Landlord, any of Tenant's fixtures, equipment, appliances or personal property from the Premises for any reason other than the normal and usual operation of Tenant's business; or

(e) Tenant shall abandon the Premises.

14.2 Remedies of Landlord. In the event that Tenant commits, or allows to occur, an Event of Default, Landlord shall have the following remedies:

(a) Legal and Equitable Remedies. Landlord shall have all remedies available at law or in equity.

(b) Termination. Landlord shall have the immediate right, but not the obligation, to terminate Tenant's right of possession of the Property and/or, at Landlord's election, this Lease and all rights of Tenant hereunder, by giving Tenant written notice of Landlord's election to terminate. In the event that Landlord shall elect to so terminate this Lease, said election by Landlord shall, without being so expressly stated, be deemed an election by Landlord to accelerate all future rents payable under this Lease for the Initial Term or then-applicable Renewal Term to be immediately due and payable, if such acceleration shall be required to permit Landlord to enforce any of the rights and remedies hereafter provided. In the event of such termination (and acceleration), Tenant agrees to pay to Landlord and Landlord shall have the right to recover from Tenant the following:

(i) The worth at the time of award of any unpaid rent which has been earned at the time of such termination; plus

(ii) The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss Tenant proves could have been reasonably avoided; plus
(iii) The worth at the time of award of the amount by which the unpaid rent for the balance of the Initial Term or Renewal Term (as applicable) after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(iv) Any other amount necessary to compensate Landlord for all detriment, expense, loss or damage, including, but not limited to, all costs and expenses to re-lease or sublet the Property, including the cost of alterations and remodeling required by a new tenant, attorneys' fees and real estate commissions paid or payable for this Lease or to re-lease or sublet the Property, proximately caused by Tenant's failure to perform its obligations under this Lease; plus

(v) Any other amount necessary to compensate Landlord for all other detriment, expense, loss or damage proximately caused by Tenant's failure to perform its obligations under this Lease (including, without limitation, the payment of taxes, insurance, and operating costs to the extent provided by this Lease); plus

(vi) Any other amounts owed to Landlord by Tenant, including, without limitation, any sums of money or damages provided in Sections 15.3, 15.4 or 21 of this Lease.

As used in this Section 14.2(b), the term "rent" shall be deemed to be and to mean the monthly Basic Rent and all other sums required to be paid by Tenant pursuant to the terms of this Lease. As used in paragraphs (i), (ii) and
(iii) of this Section, the "worth at the time of award" is computed by allowing interest or discounting, as the case may be, at the rate equal to the discount rate of the Federal Reserve Bank of San Francisco at the time of award. All rental amounts received from any re-letting of the Property during the balance of the then-applicable term of this Lease (had termination not occurred) shall be the property of Landlord, and Tenant shall have no

right or claim to such rental amounts. The rental amounts received by Landlord prior to the time of the award of damages as provided above shall constitute rental loss avoided by Landlord.

(c) Advances. In the event of Tenant's breach hereof, Landlord may remedy the breach for the account and at the expense of Tenant. If Landlord at any time, by reason of such breach, is compelled to pay, or elects to pay, any moneys or do any act which will require the payment of any moneys, or is compelled to incur any expense, including reasonable attorneys' fees and costs, in instituting or prosecuting any action or proceeding to enforce Landlord's rights under this Lease, the moneys so paid by Landlord, with interest from the date of payment, shall be additional rent and shall be due from Tenant to Landlord as provided in Section 3 hereof.

14.3 Re-Entry on Termination. In the event of the termination of Tenant's right of possession and/or this Lease by Landlord hereunder, Landlord shall have the right to re-enter the Property and remove therefrom all persons and property.

14.4 Re-Entry on Non-Termination. In addition to the other rights of Landlord herein provided, Landlord shall have the right without terminating this Lease, to re-enter and retake possession of the Property and collect rents from any subtenants and/or sublet in the name of Landlord or Tenant the whole or any part of the Property for the account of Tenant, upon any terms or conditions determined by Landlord. In the event of such subleasing, Landlord shall have the right to collect any rent which may become payable under any sublease, and apply the same first to the payment of expenses incurred by Landlord in dispossessing the Tenant and in subletting the Property, including attorneys' fees, real estate commissions and repairs and, thereafter, to the payment of the rent herein required to be paid by Tenant, in fulfillment of Tenant's covenants hereunder, and Tenant shall be liable to Landlord for the rent herein require to be paid, less any amount actually received by Landlord from a sublease and, after payment of expenses incurred, applied on account of the rent due hereunder. In the event of such election, Landlord shall not be deemed to have terminated this Lease by taking possession of the Property unless notice of termination, in writing, has been given by Landlord to Tenant.

14.5 Right of Entry-Lien for Performance. In addition to any other rights of Landlord as provided in this Section 14, upon the default of Tenant, Landlord shall have the right to enter the Property, change the locks on doors to the Premises and exclude Tenant therefrom and, in addition, take and retain possession of any property on the Premises or Real Property owned by or in the possession of Tenant as and for security for Tenant's performance. Tenant hereby grants to Landlord a lien under applicable Nevada law on all of said property, which lien shall secure the future performance by Tenant of this Lease. No property subject to said lien shall be removed by Tenant from the Property so long as Tenant is in default of any monetary obligation under this Lease. No action taken by Landlord in connection with the enforcement of its rights as provided in this Section 14 shall constitute a trespass or conversion except as to persons holding prior security interests in said property, and Tenant shall indemnify, save and hold Landlord harmless from and against any such claim or demand on account thereof.

14.6 Enforcement. In the event of a default by Tenant under this Lease, Landlord may at any time, and from time-to-time, without terminating this Lease, enforce all of its rights and remedies under this Lease, or allowed by law or equity, including the right to recover all rent as it becomes due. The enforcement by Landlord of any rights or remedies provided in this Section 14, or allowed by law or equity, shall not constitute the election by Landlord to terminate this Lease unless such election is in a writing signed by Landlord (or Landlord's authorized agent) and delivered to Tenant.

14.7 Security Deposits. If Landlord terminates this Lease because of the default of Tenant as provided in this Section 14, or if Landlord exercises its right of possession under Section 14.4 above, without terminating this Lease, then Tenant shall immediately transfer to the Owner all security deposits previously paid to Tenant by subtenants having a right to occupy the Property at the date of said termination.

14.8 Additional Security. As additional security for Tenant's performance of this Lease, Tenant hereby assigns and sets over to Landlord, as security for the performance of Tenant's obligations under this Lease, all subleases entered into by Tenant with respect to the Property, and all rents due or to become due under said subleases, subject to the right of Tenant by license granted to Tenant by Landlord, to collect and retain said rents, so long as Tenant is not in default under this Lease.

14.9 Mitigation. Nothing herein contained shall relieve Landlord from the obligation to make reasonable efforts to mitigate the loss or damage occasioned by a default of Tenant, provided that said obligation to mitigate shall not relieve Tenant of the burden of proof as required in this Section 14 or otherwise affect the rights and remedies available to landlord in the event of a default by Tenant as provided in this Section or otherwise allowed by law or equity.

14.10 Default by Landlord. Landlord shall be in default under this Lease if Landlord fails to perform or observe any covenant, agreement or condition which Landlord is required to perform or observe and the failure shall not be cured within thirty (30) days after delivery of written notice to Landlord by Tenant of the failure.

14.11 Remedies of Tenant. In the event of Landlord's default as set forth in Section 14.3, Tenant shall have all rights provided at law or in equity, except Tenant expressly waives any right to the abatement or withholding of rent payable to Landlord under this Lease. Tenant's obligation to pay rent is independent of all other rights, and Tenant may not withhold rent payments to Landlord or pay rent to other parties or into any escrow or holding account because of the default or alleged default of Landlord.

Section 15. Termination

15.1 Events of Termination. This Lease shall terminate upon the occurrence of one or more of the following events: (i) by mutual agreement of Landlord and Tenant; (ii) by Landlord pursuant to this Lease; (iii) by Tenant pursuant to this Lease; (iv) upon lapse of the Initial Term or any Renewal Term without Tenant exercising its Renewal Option related thereto; or
(v) by reason of Sections 10 or 11 relating to destruction or condemnation of the Property.

15.2 Surrender of Possession. Upon termination of this Lease, Tenant will immediately surrender possession of the Property to Landlord. If possession is not immediately surrendered, Landlord may re-enter and repossess the Property and remove all persons or property using such force as may be necessary without being deemed guilty of, or liable for, any trespass, forcible entry, detainer, breach of the peace, or damage to persons or property.

15.3 Condition of Property Upon Termination or Abandonment. Tenant, upon termination or abandonment of this Lease or termination of Tenant's right of possession, agrees as follows:

(a) Remove Alterations. Tenant shall not remove any alterations, improvements or additions made to the Property be Tenant or others without the prior written consent of Landlord, which consent shall not be unreasonably withheld. Tenant shall immediately remove, in a good and workmanlike manner (i) all personal property of Tenant, and (ii) the alterations, improvements and additions made to the Property by Tenant as Landlord may request in writing to be removed. All damage occasioned by the removal shall be promptly repaired by Tenant in a good and workmanlike manner. If Tenant fails to remove any property, Landlord may (i) accept the title to the property without credit or compensation to Tenant, or (ii) remove and store the property, at Tenant's expense, in any reasonable manner that Landlord may choose.

(b) Restore Premises. Tenant shall restore the Property to the condition existing on the Commencement Date, with the exception of (i) ordinary wear and tear, and (ii) alterations, improvements and additions which Landlord has not directed to Tenant in writing to remove. If Tenant fails to properly restore the Property, Landlord, at Tenant's expense, may restore the Property in any reasonable manner that Landlord may choose.

15.4 Holding Over. Should Tenant continue to occupy the Property, or any part thereof, after the expiration or earlier termination of this Lease, whether with or against the consent of Landlord, such tenancy shall be from month to month. In the event of such a holding over, the obligations of Tenant shall be the same as were in effect at the date of said expiration or termination and the monthly rent to be paid by Tenant to Landlord shall be equal to one hundred twenty-five percent (125%) of the monthly rent in force and effect for the last month of the term expired or terminated.

Section 16. Claims and Disputes

16.1 Rights and Remedies Cumulative. Except as expressly provided in this Lease, each party's rights and remedies described in this Lease are cumulative and not alternative remedies.

16.2 Nonwaiver of Remedies. A waiver of any condition stated in this Lease shall not be implied by the neglect of a party to enforce any remedy available by reason of the failure to observe or perform the condition. A waiver by a party shall not affect any condition other than the one specified in the waiver and a waiver shall waive a specified condition only for the time and in the manner specifically stated in the waiver. The acceptance by Landlord of rent or other money from Tenant after termination of the Lease, after termination of Tenant's right of possession, after the occurrence of a default, or after institution of any remedy by Landlord shall not alter, diminish, affect or waive the Lease termination, termination of possession, default or remedy.

16.3 Waiver of Notice. Except as provided in Section 14.1(a), Tenant expressly waives the services of any demand for payment of rent or for possession.

16.4 Waiver of Claims. Exclusive of direct damages caused by the negligence or willful misconduct of Landlord, Landlord and Landlord's partners, directors, officers, agents, servants and employees shall not be liable for any direct or consequential damages (including damages claimed for actual or construction eviction) either to the person or property sustained by Tenant or Tenant's partners, officers, directors, employees, invitees, guests, customers, clients or licensees due to (i) any part of the Premises or Real Property not being in repair, or (ii) the happening of any incident on the Premises or Real Property. This waiver shall include, but not be limited to, damage caused by cold, heat, water, snow, frost, sewage, gas, or the malfunction of any plumbing, fire control, fire detection, fire sprinkler, electrical, electronic, computer, security, telecommunication, heating, cooling or ventilation systems, facilities or installations on the Premises or Real Property.

16.5 Indemnification. To the extent caused by an act or failure to act of Tenant or Tenant's partners, officers, employees, invitees, guests, customers, clients or licensees, and regardless whether the act or failure to act is negligent, Tenant shall defend, indemnify and hold harmless Landlord and Landlord's partners, officers, directors, agents and employees from any liabilities, damages and expenses (including attorneys' fees and costs) arising out of or relating to (i) the Premises or Real Property, or (ii) Tenant's use or occupancy of the Property.

16.6 Hazardous Material Indemnification. Tenant shall indemnify, defend and hold Landlord harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses (including, without limitation, diminution in value of the Premises or Real Property, damages for the loss or restriction on use of rentable or useable space or any amenity of the Premises or Real Property, damages arising from any adverse impact on marketing of space, and sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees) which arise during or after the Term as a result of Tenant's breach of the obligations stated in this Lease regarding Hazardous Material. This indemnification of Landlord by Tenant includes, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal, or restoration work required by any federal, state, or local governmental agency or political subdivision because of Hazardous Material introduced during the Lease term into the soil or ground water on or under the Premises or Real Property. Without limiting the preceding, if the presence of any Hazardous Material on the Premises or Property caused or permitted by Tenant results in any contamination of the Premises or Real Property, Tenant shall promptly take all actions at Tenant's sole expense as are necessary to return the Premises or Property to the condition existing prior to the introduction of any Hazardous Material to the Premises or Real Property.

(a) Notwithstanding any other provision of this Agreement or any contrary provision of law, the obligations of Tenant pursuant to this Section 16.6 shall remain in full force and effect until the expiration of the latest period stated in any applicable statute of limitations during which a claim, cause of action or prosecution relating to the matters described herein may be brought, and until payment in full or satisfaction of any and all losses, claims, causes of action, damages, liabilities, charges, costs and expenses for which Tenant is liable hereunder shall have been accomplished.

(b) If any claim, demand, action or proceeding is brought against Landlord which is or may be subject to Tenant's obligation to indemnify Landlord as set forth under this Section 16.6 Landlord shall provide to Tenant immediate notice of that claim, demand, action or proceeding, and Tenant thereafter shall defend Landlord at Tenant's expense using attorneys and other counsel selected by Tenant and reasonably acceptable to Landlord.

16.7 Effect of Landlord Insurance on Tenant Obligations. From time to time and without obligation to do so, Landlord may purchase insurance against damage or liability arising out of or related to the Premises or Real

Property. The purchase or failure to purchase insurance shall not release or waive the obligations of Tenant set forth in this Lease. Tenant waives all claims on insurance purchased by Landlord.

16.8 Disputes. This Lease shall be governed by the laws of the State of Nevada, without regard to conflicts of laws principles. The Nevada courts have exclusive jurisdiction and Washoe County is the proper venue.

16.9 Landlord's Responsibility For Prior Contamination By Hazardous Substances.

(a) Except as otherwise expressly disclosed in Exhibit D, Landlord represents and warrants to Tenant that to the best of Landlord's actual knowledge: (i) at all times prior to the commencement of the Lease, Landlord and all of Landlord's predecessors in title, and all lessees, tenants, employees, agents, sublessees, franchisees, licensees, permitees, contractors, vendees and customers of Landlord and/or Landlord's predecessors in title, and all other persons permitted by Landlord and/or Landlord's predecessors in title to have access to the Property, shall have used, stored, transported, disposed of and treated Hazardous Materials in strict accordance with all applicable federal, state and local laws and regulations (collectively referred to for the remainder of this Section 16.9 as the "Laws"), and
(ii) the Property shall not, as of the commencement of the Lease, be contaminated by the Presence on, under or about the Property of any Hazardous Material.

(b) Landlord agrees to indemnify, defend, protect and hold harmless Tenant and each of Tenant's members, partners, stockholders (if any), employees, agents, successors and assigns (collectively referred to for the remainder of this Section 16.9 as "Tenant"), from and against any and all criminal and civil claims and causes of action (including but not limited to claims resulting from, or causes of action incurred in connection with, the death of or injury to any person or damage to any property), liabilities (including but not limited to liabilities arising by reason of actions taken by any governmental agency), penalties, forfeitures, prosecutions, losses and expenses (including reasonable attorney fees) which directly or indirectly arise from or are caused by either: (i) the presence, prior to the commencement of the Lease, in, on, under or about the Real Property or the Premises, of any Hazardous Materials, or (ii) any breach of the warranties made by landlord in Section 16.9(a). Landlord's obligations under this
Section 16.9(b) shall include, but not be limited to, the obligation to bear the expense of any and all costs, whether foreseeable or unforeseeable, of any necessary (as required by the Laws) repair, cleanup, detoxification or decontamination of all or any portion of the Property (or any improvements located thereon), and the preparation and implementation of any closure, remedial action or other required plan or plans in connection therewith. Notwithstanding the preceding provisions of this Section 16.9(b), Landlord shall have no obligation to indemnify, defend, protect and/or hold harmless Tenant with respect to any release, spill, leak or discharge of Hazardous Materials on the Property which occurs solely after the commencement of the Lease.

(c) Notwithstanding any other provision of this Agreement or any contrary provision of law, the obligations of Landlord pursuant to this Section 16.9 shall remain in full force and effect after any closing of the purchase of the Property by Tenant and until the expiration of the latest period stated in any applicable statute of limitations during which a claim, cause of action or prosecution relating to the matters described herein may be brought, and until payment in full or satisfaction of any and all losses, claims, causes of action, damages, liabilities, charges, costs and expenses for which Landlord is liable hereunder shall have been accomplished.

(d) For purposes of this Section 16.9, any act or omission, prior to the commencement of the Lease, of or by any one or more employees, agents, assignees, sublessees, franchisees, licensee, permitees, customers, vendees, contractors, successors-in-interest or other persons permitted by Landlord or any of Landlord's predecessors in title to have access to the Property or acting for or on behalf of Landlord or any of Landlord's predecessors in title (whether or not the actions of such persons are negligent, intentional, willful of unlawful) shall be strictly attributable to Landlord.

(e) If any claim, demand, action or proceeding is brought against Tenant which is or may be subject to Landlord's obligation to indemnify Tenant as set forth under this Section 16.9, Tenant shall provide

to Landlord immediate notice of that claim, demand, action or proceeding, and Landlord thereafter shall defend Tenant at Landlord's expense using attorneys and other counsel selected by Landlord and reasonably acceptable to Tenant.

Section 17. Assignment and Subletting

17.1 Restrictions on Assignment and Subletting. Except as expressly provided in Section 17.2 below, Tenant shall not transfer, assign, sublet, enter into license or concession agreements, change ownership or hypothecate this Lease or Tenant's interest in and to the Property (hereafter "transfer") without first obtaining the written consent of Landlord, which consent may not be unreasonably withheld, conditioned or delayed. Any transfer of this Lease, the leasehold estate created hereby, or the Property or any portion thereof, either voluntarily or involuntarily, whether by operation of law or otherwise, without the prior written consent of Landlord, shall be null and void and shall, at the option of Landlord, constitute a material default under this Lease. Tenant agrees to reimburse Landlord's reasonable attorney's fees and other necessary costs incurred in connection with the processing and documentation of any such requested transfer of this Lease or Tenant's interest in and to the Property. The transfer of a majority of the issued and outstanding capital stock of Tenant, however, accomplished, shall be deemed an assignment of this Lease.

17.2 Permitted Assigns. Notwithstanding the provisions of Section 17.1 above, Tenant may assign this Lease to an Affiliate. For purposes hereof, an "Affiliate" shall mean, with respect to Tenant, any other corporation which directly or indirectly, through one or more intermediaries controls or is controlled by or under common control with Tenant; and the term "control" (including the terms "controlling", "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a corporation, whether through the ownership of voting securities or otherwise.

17.3 Consent to Modifications. The assignment of this Lease by Tenant with the consent of Landlord shall, without being specifically so stated or agreed, constitute the express agreement by Tenant that subsequent modifications of this Lease by Landlord and the assignee shall not (i) require the prior consent or approval of Tenant (assignor), or (ii) release or relieve Tenant (assignor) from liability hereunder; provided, however, that if such modifications increase the rent or other obligations of Tenant hereunder, Tenant's (assignor's) liability shall be limited to the terms of this Lease as the same existed on the date of assignment.

Section 18. Waiver. The waiver by landlord of any breach of any term, covenant or condition of this Lease shall not be deemed to be a waiver of any past, present or future breach of the same or any other term, covenant or condition of this Lease. The acceptance of rent by Landlord hereunder shall not be construed to be a waiver of any term of this Lease. No payment by Tenant of a lesser amount than shall be due according to the terms of this Lease shall be deemed or construed to be other than a part payment on account of the most recent rent due, nor shall any endorsement or statement on any check or letter accompanying any payment be deemed to create an accord and satisfaction.

Section 19. Relationship of Parties

19.1 Relationship of Parties. Nothing contained in this Lease shall be construed as creating the relationship of principal or agent, partnership or joint venture between Landlord and Tenant. Neither the method of computation of rent nor any other provision of this Lease, nor any act of the parties, shall be deemed to create any relationship other than that of Landlord and Tenant.

19.2 Designation of Representative. Each party shall designate, in writing, one representative to coordinate and implement the party's obligations hereunder and to accept responsibility for that party's compliance with this Lease. The representative shall have full authority to represent the party. Initially, the person signing this Lease for the party shall be the party's representative. If the representative is changed, then the party shall notify the other party in writing and the other party shall not be charged with knowledge of that change until receipt of that written notice.

Section 20 Notices. Any notice or demand given under the terms of this Lease shall be in writing and shall be deemed to be delivered on the date of delivery if delivered in person or by facsimile, or on the date of receipt if delivered by U.S. Mail or express courier. Proof of delivery shall be by

affidavit of personal delivery, machine-generated confirmation of facsimile transmission, or return receipt issued by the U.S. Postal Service or by express courier. Until changed by notice in writing, notices, demands and communications shall be addressed as follows:

LANDLORD:	TENANT:
Richard M. Donnelly and Susan K. Donnelly P.O. Box 7120 Reno, Nevada 89510	Lithia Real Estate, Inc. 360 E. Jackson Medford, Oregon 97501 Attn: Stephen Matthews
with copy to:	
Paul M. Boyd	Stephen G. Jamieson, Esq.

Hawley Troxell Ennis & Hawley, LLP 2592 East Barnett Road 877 Main Street, Suite 1000 Medford, Oregon 97501 Boise, Idaho 83701-1617

Either party shall have the right to change its above address by notice in writing delivered to the other party in accordance with the provisions of this Section 20.

Section 21. Attorney Fees and Costs

21.1 General Default. If either party shall default in the payment to the other party of any sum of money specified in this Lease to be paid, or if either party shall default with respect to any other obligations in this Lease, all attorneys' fees incurred by the other party shall be paid by the defaulting party, and if said sum is collected or the default is cured before the commencement of a suit thereon, as a part of curing said default, reasonable attorneys' fees incurred by the other party shall be added to the balance due and payable or, in the case of a non-monetary default, shall be reimbursed to the other party upon demand.

21.2 Litigation. In the event either party to this Lease shall interpret or enforce any of the provisions hereof by any action at law or in equity, the non-prevailing party to such litigation agrees to pay to the prevailing party all costs and expenses, including reasonable attorneys', accountants' and appraisers' fees incurred therein by the prevailing party, including all such costs and expenses incurred with respect to an appeal and such may be included in the judgment entered in such action.

Section 22. Miscellaneous

22.1 Option to Purchase Property. Tenant shall have the option to purchase the Property on the terms and conditions set forth on Exhibit C attached hereto and made a part hereof.

22.2 Estoppel Certificate. Either party shall, at any time upon not less than ten (10) days prior written notice from the other party (the "requesting party"), execute, acknowledge and deliver to the other party a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, (ii) acknowledging that there are not, to the other party's knowledge, any uncured defaults on the part of the requesting party hereunder, or specifying such defaults if they are claimed, and (iii) containing any other certifications, acknowledgments and representations as may be reasonably requested by the requesting party or the party for whose benefit such estoppel certificate is requested by the requesting party or the party for whose benefit such estoppel certificate is requested. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrances of the Property or Tenant's leasehold estate therein. A party's failure to deliver such statement within said time shall be conclusive upon the said party (i) that this Lease is in full force and effect, without modification except as may be represented by the requesting party, (ii) that there are no uncured defaults in the requesting party's performance, (iii) that not more than an amount equal to one (1) month's rent has been paid in advance, and (iv) that such additional certifications, acknowledgments and representations as are requested under clause (iii) of the preceding sentence are valid, true and correct as shall be represented by the requesting party. If Landlord desires to finance or refinance the Property, Tenant hereby agrees to deliver to any

lender designated by Landlord such financial statements of Tenant as may be reasonably required by such lender, and all such financial statements shall be received by Landlord in confidence and shall be used only for the purpose herein set forth.

22.3 Transfer of Landlord's Interest. In the event of a sale or conveyance by Landlord of the Property, other than a transfer for security purposes only, Landlord shall be relieved from all obligations and liabilities accruing thereafter on the part of Landlord (with the exception of the obligations imposed on Landlord under Section 16.9, which shall be continuing), provided that any funds in the hands of Landlord at the time of transfer in which Tenant has an interest shall be delivered to the successor of Landlord. This Lease shall not be affected by any such sale and Tenant agrees to attorn to the purchaser or assignee, provided all Landlord obligations hereunder are assumed in writing by Landlord successor, including, without limitation, the obligation of Landlord to sell the Property to Tenant in the event Tenant exercises its option to purchase as set forth in Exhibit C hereto.

23.4 Severability. If any term or provision of this Lease shall be determined by a court of competent jurisdiction to be invalid or unenforceable, the remainder of this Lease shall not be affected thereby and each term and provision of this Lease shall be valid and be enforceable to the fullest extent permitted by law; and it is the intention of the parties that if any provision of this Lease is capable of two construction, one of which would render the provision void and the other of which would render the provision valid, then the provision shall be interpreted to have the meaning which renders it valid.

23.5 Force Majeure. Any prevention, delay or stoppage due to strikes, lockouts, labor disputes, court orders, acts of God, inability to obtain labor and materials or reasonable substitutes therefor, governmental restrictions, governmental regulations, government controls, enemy or hostile government action, civil commotion, fire or other casualty and other causes beyond the reasonable control of the party obligated to perform shall excuse the performance by such party for a period equal to any such prevention, delay or stoppage, provided that this Section 23.5 shall not be applicable to the obligations imposed with regard to rent and other charges to be paid by Tenant pursuant to this Lease.

23.6 Construction. All parties hereto have either (i) been represented by separate legal counsel or (ii) have had the opportunity to be so represented. Thus, in all cases, the language herein shall be construed simply and in accordance with its fair meaning and not strictly for or against a party, regardless of which party prepared or caused the preparation of this Lease.

23.7 Deleted by agreement of the parties.

23.8 Succession. This Lease and all obligations contained herein shall be binding upon and shall inure to the benefit of the respective heirs, personal representatives, successors and assigns of the parties hereto; provided, however, that any assignment of this Lease or any part hereof shall be subject to the provisions of Section 17, above.

23.9 Recording. Landlord shall, promptly upon request by Tenant, execute a memorandum of lease which may be recorded by Tenant in Washoe County, Nevada.

23.10 General. The words "Landlord" and "Tenant" as used herein, shall include the plural as well as the singular. Words used in the neuter gender include the masculine and feminine, and words in the masculine or feminine gender include the neuter. If there be more than one Tenant, the obligations hereunder imposed upon Landlord and Tenant shall be joint and several. The term "Landlord" shall mean only the owner or owners at the time in question of the fee title to the Property (except for purposes of Section 16.9, which applies to those persons initially executing this Lease as Landlord). With the exception of the obligations imposed under Section 16.9 (which shall continue to be binding on the persons initially executing this Lease as Landlord), the obligations contained in this Lease to be performed by Landlord shall be binding only during Landlord's respective period of ownership.

23.11 Section Headings. The Section headings titles and captions used in this Lease are for convenience only and are not part of this Lease.

23.12 Entire Agreement. This Lease, including the Exhibits attached hereto, and the Asset Purchase Agreement between Landlord (and Landlord's affiliate) and Tenant's affiliate of even date herewith, contain the entire agreement between the parties as of this date concerning the subject matter

hereof and supersede any and all prior agreements, oral or written, between the parties concerning the subject matter hereof. The execution hereof has not been induced by either party, or any agent of either party, by representations, promises or undertakings not expressed herein or in the Asset Purchase Agreement and, further, there are no collateral agreements, stipulations, covenants, promises, inducements or undertakings whatsoever between the respective parties concerning the subject matter of this Lease or the Property which are not expressly contained herein or in the Asset Purchase Agreement.

23.13 Time is of the Essence. Time is of the essence with respect to the obligations to be performed under this Lease.

IN WITNESS WHEREOF the parties have hereunto executed this Commercial Lease Agreement

the day and year first above written.

LANDLORD: RICHARD and SUSAN K. DONNELLY

/s/ Richard M. Donnelly
Richard M. Donnelly

/s/ Susan K. Donnelly
Susan K. Donnelly

TENANT: LITHIA MOTORS, INC.

By: /s/ Brad Berg
Print Name:
Title:

Exhibit A

DESCRIPTION OF REAL PROPERTY

Exhibit B

RENT ESCALATION PROVISIONS

On the first (1st) day of the first Renewal Term, and on the first (1st) day of each Renewal Term thereafter (hereafter "Rent Adjustment Date"), the annual Base Rent to be paid by Tenant to Landlord under the Lease shall be adjusted as follows:

The Base Rent, as adjusted, shall be equal to the greater of (i) the Base Rent (as previously adjusted, if any) in the month prior to the applicable Rent Adjustment Date, or (ii) the Base Rent (as previously adjusted, if any) plus the CPI Adjustment. For purposes of this Exhibit B, "CPI" refers to the Consumer Price Index for All Urban Consumers, U.S. City Average. All items, compiled by the Bureau of Labor Statistics, United States Department of Labor, using the index for January, 1988 as a base of 100. In the event the CPI is replaced or revised, a comparable or replacement index shall be based upon or adjusted to January 1988 base of 100. The "CPI Adjustment" is computed using the following formula:

New period Base Rent, as adjusted = Prior period Base Rent +

(Percentage of CPI Increase x prior period Base Rent)

The "Percentage of CPI Increase" shall be determined by the following formula:

Current CPI -- Prior Period CPI

Prior Period CPI

The Initial Term and each Renewal Term of the Lease is five (5) years. The Prior Period CPI shall be the CPI for the first calendar month of the Initial Term or prior Renewal Term, as applicable. The Current CPI shall be the CPI for the last calendar month immediately preceding the Rent Adjustment Date. The maximum adjustment in the Base Rent at each time of adjustment (i.e. over each five year Renewal Term) shall be ten percent (10%).

Exhibit C

OPTION TO PURCHASE PROPERTY

IN CONSIDERATION of the agreement by Tenant to lease from Landlord the Property covered by the foregoing Lease, and for other good and valuable consideration, THE PARTIES AGREE AS FOLLOWS:

1. Option to Purchase. Landlord hereby grants to Tenant an irrevocable exclusive option (the "Option") to purchase the Property pursuant to the terms set forth in this Exhibit C. The Option shall commence on the Commencement Date of the Lease and shall terminate when the term of the Lease terminates pursuant to its terms, either upon the expiration of the Initial Term or any Renewal Term, as applicable (the "Option Period").

2. Exercise of Option. At any time during the Option Period, and provided that this Option is in full force and effect, and provided further that Tenant is not in default under the Lease, Tenant may elect to exercise the Option to purchase the Property by delivering to Landlord a written notice to that effect (the "Notice of Purchase").

3. Purchase Price. If Tenant exercises the Option herein granted during the Initial Term of the Lease, the purchase price for the Property shall be the sum of $1,850,000. If Tenant exercises the Option herein granted during any Renewal Term of the Lease, the purchase price of the Property shall be the fair market value of the Property, as determined by an MAI appraisal, conducted by a state-certified appraiser acceptable to Landlord and Tenant, the cost of which shall be borne equally by Landlord and Tenant. The full purchase price for the Property shall be paid by Tenant to Landlord in cash at the closing of the purchase.

4. Right of First Refusal. Notwithstanding anything to the contrary in this Exhibit C, if Landlord receives a bona fide offer to purchase the Property from an unaffiliated third party during the Option Period, Landlord shall give written notice to Tenant of such offer ("Offer Notice"), which such Offer Notice shall include (i) a description of the offer, (ii) the identity of the real party in interest making the offer, (iii) the proposed purchase price for the Property, and (iv) the other terms and conditions of the offer. Tenant shall have thirty (30) days from receipt of such Offer Notice from Landlord to exercise its Option to purchase the Property by delivering to Landlord a Notice of Purchase in accordance with the provisions of Paragraph 2 above. The purchase price of the Property in such event shall be the lesser of the purchase price set forth in the offer or the amount payable by Tenant pursuant to the provisions of Paragraph 3 above (e.g. $1,850,000 during the Initial Term of the Lease, and fair market value during any Renewal Term).

5. Commitment for Title Insurance. Within ten (10) business days after Tenant delivers to Landlord a Notice of Purchase pursuant to Paragraph 2 or 4 above, Landlord shall obtain, at Landlord's cost and expense, and deliver to Tenant a current commitment for title insurance ("Commitment") issued by a title company selected by Landlord doing business in Washoe County, Nevada (the "Title Company"). Such Commitment shall evidence that the Property is free and clear of all liens, encumbrances or exceptions, excepting current general taxes, assessments, easements of record, covenants and restrictions of record, zoning regulations, and such other exceptions to title as are usual and normal on property of the type and in the vicinity of the Property and which have been specifically approved by Tenant in writing. Said Commitment may also evidence an encumbrance or encumbrances which shall be paid in full by Landlord at the closing of the purchase.

6. Condition of Property. The parties acknowledge that Tenant, having been in possession of the property pursuant to the Lease, is fully familiar with and knowledgeable of the physical condition of the land and improvements comprising the Property and shall purchase the same in an "AS IS" condition, with all faults and without representation or warranty of any kind from Landlord concerning condition, suitability or otherwise.

7. Closing of the Purchase.

(a) The closing of the purchase by Tenant shall occur not earlier than six (6) months nor more than nine (9) months after the date of the Notice of Purchase as provided in Paragraph 2 or 4 above.

(b) At the closing, which shall be conducted by the Title Company issuing the Commitment described in Paragraph 5 above, Landlord shall deliver a good and sufficient, executed and acknowledged Limited Warranty Deed in favor of Tenant, and Tenant shall deliver to the Title Company as

escrow/closing agent the purchase price, plus all rent and other amounts payable to Tenant. Each party shall pay one-half (1/2) of the fee charged by the Title Company for closing the transaction.

(c) Real estate taxes and assessments for the then current year shall be paid by Tenant (as required under the Lease) and Landlord shall purchase and provide to Tenant a Standard Coverage Owner's Policy of Title Insurance (the "Title Policy"), which shall be in an amount equal to the purchase price, insuring Tenant's title to the Property, subject only usual printed exceptions, and the exceptions to title as set forth in the Commitment (excluding any encumbrance which is to be paid by Landlord at closing), which exceptions have been specifically approved by Tenant in writing, and any encumbrance or other exception caused by or attributable to Tenant. In the event the Title Policy as provided by this Paragraph 7(c) cannot, following the closing, be issued by the Title Company in the form herein required, this Option and any subsequent agreement between Landlord and Tenant obligating Landlord to sell and Tenant to Purchase the Property shall be null and void, Landlord shall be released from the obligation to sell, and Tenant shall be released from the obligation to purchase and pay for the Property. In such event, the Lease shall continue in full force and effect for the remainder of its term; provided, however, that in that event the provisions of Section 3.3 and Exhibit B of the Lease relating to CPI indexed increases in the rental amount payable under the Lease thereafter shall be void and of no effect, and the monthly rent payable by Tenant for each and every month throughout the remainder of the Lease term shall be the Base Rent in effect at the time of exercise by Tenant of its option to purchase the Property.

(d) If the transaction fails to close because of the default of a party, in addition to any other remedies at law or in equity available to the other party, the defaulting party shall reimburse the other party for all costs and expenses incurred by the other party in connection with the transaction, including, but not limited to, reasonable attorneys' fees, appraisal fees and Title Company charges, and the Lease shall continue in full force and effect for the remainder of its term, if any.

8. Termination of Option. The Option shall terminate and be of no further force or effect upon the occurrence of the following:

(a) The termination of the Lease between Landlord and Tenant, as described above, for any reason, including, but not limited to, the default of Tenant thereunder, prior to the exercise of the Option.

(b) The failure of Tenant to deliver to Landlord the Notice of Purchase during the Option Period as provided in Paragraph 2 above or within the time period described in Paragraph 4 above.

Upon such termination, the Option shall end and the rights and obligations of the parties hereunder shall terminate and be of no further force and effect. In the event the Option terminates as provided herein, the privilege to purchase the Property shall no longer be available to Tenant and Landlord shall have no obligation to sell or convey the Property to Tenant.

9. Notices. Any notice required to be given hereunder shall be in writing and shall be mailed or delivered in the manner provided in Section 20 of the Lease.

10. Assignment. Tenant shall not have the right to assign the Option or any interest herein, without the prior written consent of Landlord, which consent by not be unreasonably withheld. In no event, however, shall any rights hereunder be assigned by Tenant, unless the same are assigned in connection with the assignment of the Lease, the assignment of which Lease must also be approved by Landlord in accordance with the terms of the Lease. Notwithstanding any other provision of this paragraph to the contrary, Tenant may transfer and assign the Option to an "Affiliate" (as defined in the Lease) without Landlord's prior consent; provided, that such transfer and assignment is made in connection with the assignment of the Lease to the same Affiliate.

11. Time. Time is of the essence of the Option granted by Landlord to Tenant hereunder.

12. Certificate of Non-Foreign Status. Landlord is not a foreign person, nonresident alien, foreign corporation, foreign partnership, foreign trust or foreign estate, as those terms are defined in the Internal Revenue Code of 1986, as amended (the "Code") and the Income Tax Regulations promulgated thereunder. At the close of escrow, Landlord shall deliver to

Tenant a certificate of non-foreign status in a form satisfactory to Tenant ("Non-Foreign Certification"). In the event Landlord shall not deliver such Non-Foreign Certification to Tenant at the close of escrow, Tenant may withhold 10% of the purchase price and pay such withholding to the Internal Revenue Service pursuant to Section 1445 of the Code.

13. Escrow. On or before the date of the closing (as above provided), the parties shall deposit the funds and documents hereafter described into escrow:

(a) Landlord. Landlord shall deposit the following:

(i) The duly executed and acknowledged Landlord's limited warranty deed;

(ii) The Non-Foreign Certification duly executed by Landlord under penalty of perjury;

(iii) Evidence reasonably satisfactory to Tenant that all necessary action on the part of Landlord has been taken with respect to the execution and delivery of the limited warranty deed and the other ancillary documents and instruments so that all of said documents are or will be validly executed and delivered and will be binding on Landlord; and

(iv) Such other instruments and/or documents as may be required to effect the agreement herein made.

(b) Tenant. Tenant shall deposit the following:

(i) The purchase price of the Property;

(ii) Additional cash in the amount necessary to pay all amounts due and payable under the Lease and Tenant's share of the closing costs and pro-rations, as above set fort; and

(iii) Such other instruments and/or documents as may be required to effect the agreement herein made.

14. Close of Escrow. When the Title Company is in a position to issue the Title Policy and all documents and funds have been deposited with the Title Company as escrow holder, the Title Company shall immediately close the escrow as provided for hereafter. The failure of Landlord or Tenant to be in a position to close the escrow by the time for closing shall constitute a default hereunder.

The Title Company as escrow holder and closing agent shall close the escrow as follows:

(a) Record Landlord's Limited Warranty Deed with instructions for the Washoe County Recorder to deliver such Deed to Tenant;

(b) Pay the purchase price to be paid at the close of escrow, plus any amounts due and payable under the Lease, to Landlord (reduced by any amount paid to release all monetary encumbrances on the Property and by Landlord's share of the closing costs);

(c) Deliver the Title Policy to Tenant;

(d) Deliver the Non-Foreign Certification to Tenant; and

(e) Forward to Landlord and Tenant, in duplicate, a separate accounting of all funds received and disbursed for each party and copies of all executed and recorded or filed documents deposited into escrow, with such recording and file data endorsed thereon.

Exhibit D

ENVIRONMENTAL MATTERS

See the matters discussed in that certain Phase I Environmental Site Assessment, dated as of August 1997, prepared by SEA Incorporated, relating to 40 Victorian Avenue (APN 033-316-03), in the City of Sparks, Nevada

EXHIBIT 10.24.2

REAL PROPERTY LEASE AGREEMENT WITH OPTION TO PURCHASE

THIS LEASE AGREEMENT is entered into by and between ELOY C. RENFROW (hereinafter referred to as "Lessor") and LITHIA REAL ESTATE, INC. (hereinafter referred to as "Lessee").

RECITALS:

Lessor is the owner of parcels of real property of located at 3101 and 3201 Cattle Drive and 2800 and 2808 Pacheco Road in Bakersfield, California (the "Leased Property"), which is being leased to and used by Nissan - BMW of Bakersfield, Inc. in connection with the business of selling and servicing new and used motor vehicles and selling parts and accessories for new and used motor vehicles. By separate agreement, Lithia Motors, Inc. (or its nominee) is agreeing to purchase all of the business assets owned and used by Nissan - BMW of Bakersfield, Inc. As a condition concurrent to that sale of assets, the Lessor is agreeing to lease the Leased Property to Lessee.

NOW, THEREFORE, IN CONSIDERATION OF the mutual promises, covenants and agreements set forth herein, and for other good and valuable consideration, Lessor and Lessee agree as follows:

1. Definitions. As used in this Agreement, the following words or phrases shall have the indicated meanings:

(a) "Leased Property" shall refer both to the following parcels of real property located in Bakersfield, California, which properties are more fully described on Exhibit "A" attached hereto, together with all buildings, improvements and fixtures constructed and existing on those properties and all easements, rights, privileges and appurtenances attaching to those properties: a parcel of approximately 4.02 acres which is commonly identified as 3101 Cattle Drive, a parcel of approximately 1.50 acres which is commonly identified as 3201 Cattle Drive; a parcel of approximately 1.26 acres which is commonly identified as 2800 Pacheco Road and a parcel of approximately 1.04 acres which is commonly identified as 2808 Pacheco Road.

(b) "Lease Term" shall refer to the entire term of the lease, including any extension elected by Lessee pursuant to Paragraph 3. "Lease Month" shall refer to each of the successive one month periods during the Lease Term which begin on the 1st day of a calendar month and end on the last day of that month. "Initial Lease Date" shall refer to the first day of the Lease Term, and shall be that certain date upon which Lessee closes the purchase of all business assets of Nissan - BMW of Bakersfield, Inc. in accordance with the terms of the Agreement for Purchase and Sale of Business Assets which is attached hereto as Exhibit "B".

(c) "Base Rental Amount" shall have the meaning set forth in Paragraph 4.

(d) "Index" shall refer to the following index published by the Bureau of Labor Statistics of the United States Department of Labor, Consumer Price Index, All Urban Consumers (CPI-U), Los Angeles/Anaheim/Riverside Area, CPI-All Items ("standard reference base period" (1982-84 = 100). "Base CPI Index Figure" shall refer to the index number indicated for the month in which occurs the Initial Lease Date, and the "CPI Index Figure" for any other month shall refer to the Index number for that month. If the "Index" is no longer being published as of any date in the future, then the "CPI Index Figure" for that date shall be the figure reported in the U.S. Department of Labor's most recent comprehensive official index then in use and most nearly answering the description of the Index (or, if the U.S. Department of Labor is not then publishing any such similar index, shall be determined under another comparable, authoritative, generally recognized index to be selected by Lessor). If the index is calculated from a base different from the base 1982-84 - 100, then the figures to be used in calculating any adjustment mandated under this Agreement first shall be converted (if possible, under a formula supplied by the Bureau of Labor Statistics of the U.S. Department of Labor) to account for that difference.

(e) "Hazardous Materials" shall refer to and include: (i) any and all substances defined as "hazardous substances", "hazardous materials", or "toxic substances" in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 USC Section 9601, et. seq.), the Hazardous Materials Transportation Act (49 USC Section 1801, et. Seq.), and the Resource Conservation and Recovery Act (42 USC Section 6901, et. Seq.); and (ii) any and all substances which now or in the future are deemed to be pollutants, toxic materials or hazardous materials under any other California or federal law.

(f) "Date of this Agreement" shall mean the date when this Agreement has been executed by both of the parties.

2. Lease. Lessor hereby leases the Leased Property to Lessee, and Lessee leases the Leased Property from Lessor, subject to all of the terms and conditions contained in this Agreement.

3. Term of Lease. The initial term of the lease (approximately fifteen years) shall commence on the Initial Lease Date and shall terminate on December 31, 2012, unless sooner terminated as provided in this Agreement.

(a) At any time during the 180 day period immediately preceding December 31, 2012, Lessee shall have the right, if the lease has not theretofore been terminated and if Lessee is not then in default with respect to any material obligation under this Agreement, to notify Lessor in writing that the term of the lease shall be extended for an additional five
(5) years, until December 31, 2017, in which case the term of the lease shall be so extended.

(b) At any time during the 180 day period immediately preceding December 31, 2017, Lessee shall have the right, if the lease has not theretofore been terminated and if Lessee is not then in default with respect to any material obligation under this Agreement, to notify Lessor in writing that the term of the lease shall be extended for an additional five
(5) years, until December 31, 2022, in which case the term of the lease shall be so extended.

(c) At any time during the 180 day period immediately preceding December 31, 2022, Lessee shall have the right, if the lease has not theretofore been terminated and if Lessee is not then in default with respect to any material obligation under this Agreement, to notify Lessor in writing that the term of the lease shall be extended for an additional five
(5) years, until December 31, 2027, in which case the term of the lease shall be so extended.

(d) At any time during the 180 day period immediately preceding December 31, 2027, Lessee shall have the right, if the lease has not theretofore been terminated and if Lessee is not then in default with respect to any material obligation under this Agreement, to notify Lessor in writing that the term of the lease shall be extended for an additional five
(5) years, until December 31, 2032, in which case the term of the lease shall be so.

(e) At any time during the 180 day period immediately preceding December 31, 2032, Lessee shall have the right, if the lease has not theretofore been terminated and if Lessee is not then in default with respect to any material obligation under this Agreement, to notify Lessor in writing that the term of the lease shall be extended for an additional five
(5) years, until December 31, 2037, in which case the term of the lease shall be so extended.

4. Rental Payments Required.

(a) With respect to each Lease Month during the period beginning with the Initial Lease Date and ending on December 31, 2002, Lessee shall pay to Lessor a rental amount of Thirty-Six Thousand Five Hundred and 00/100 ($36,500.00) per month (hereinafter the "Base Rental Amount").

(b) With respect to each Lease Month during the period beginning on January 1, 2003 and ending December 31, 2007, Lessee shall pay to Lessor a monthly rental amount equal to the greater of: (i) the Base Rental Amount, or (ii) the lesser of: (A) one hundred and ten percent (110%) of the monthly rental amount in effect for the month of December, 2002, or (B) the amount determined by multiplying the monthly rental amount in effect for the month of December, 2002 by a fraction, the denominator of which is the Base CPI Index Figure, and the numerator of which is the CPI Index Figure for the month of December, 2002.

(c) With respect to each Lease Month during the period beginning on January 1, 2008 and ending December 31, 2012, Lessee shall pay to Lessor a monthly rental amount equal to the greater of: (i) the monthly rental amount in effect for the month of December, 2007, or (ii) the lesser of: (A) one hundred and ten percent (110%) of the monthly rental amount in effect for the month of December, 2007, or(B) the amount determined by multiplying the monthly rental amount in effect for the month of December,

2007 by a fraction, the denominator of which is the CPI Index Figure for the month of December, 2002, and the numerator of which is the CPI Index Figure for the month of December, 2007.

(d) With respect to each Lease Month during the period beginning on January 1, 2013 and ending December 31, 2017, Lessee shall pay to Lessor a monthly rental amount equal to the greater of: (i) the monthly rental amount in effect for the month of December, 2012, or (ii) the lesser of: (A) one hundred ten percent (110%) of the monthly rental amount in effect for the month of December, 2012, or (B) the amount determined by multiplying the monthly rental amount in effect for the month of December, 2007, and the numerator of which is the CPI Index Figure for the month of December, 2012.

(e) With respect to each Lease Month during the period beginning on January 1, 2018 and ending December 31, 2022, Lessee shall pay to Lessor a monthly rental amount equal to the greater of: (i) the monthly rental amount in effect for the month of December, 2017, or (ii) the lesser of: (A) one hundred and ten percent (110%) of the monthly rental amount in effect for the month of December, 2017; or (B) the amount determined by multiplying the monthly rental amount in effect for the month of December, 2017 by a fraction, the denominator of which is the CPI Index Figure for the month of December, 2012, and the numerator of which is the CPI Index Figure for the month of December, 2017.

(f) With respect to each Lease Month during the period beginning on January 1, 2023 and ending December 31, 2027, Lessee shall pay to Lessor a monthly rental amount equal to the greater of: (i) the monthly rental amount in effect for the month of December, 2022, or (ii) the lesser of: (A) one hundred and ten percent (110%) of the monthly rental amount in effect for the month of December, 2022, or (B) the amount determined by multiplying the monthly rental amount in effect for the month of December, 2022 by a fraction, the denominator of which is the CPI Index Figure for the month of December, 2017, and the numerator of which is the CPI Index Figure for the month of December, 2022.

(g) With respect to each Lease Month during the period beginning on January 1, 2028 and ending December 31, 2032, Lessee shall pay to Lessor a monthly rental amount equal to the greater of: (i) the monthly rental amount in effect for the month of December, 2027, or (ii) the lesser of: (A) one hundred and ten percent (110%) of the monthly rental amount in effect for the month of December, 2027, or (B) the amount determined by multiplying the monthly rental amount in effect for the month of December, 2027 by a fraction, the denominator of which is the CPI Index Figure for the month of December, 2022, and the numerator of which is the CPI Index Figure for the month of December, 2027.

(h) With respect to each Lease Month during the period beginning on January 1, 2033 and ending December 31, 2037, Lessee shall pay to Lessor a monthly rental amount equal to the greater of: (i) the monthly rental amount in effect for the month of December, 2032, or (ii) the lesser of: (A) one hundred and ten percent (110%) of the monthly rental amount in effect for the month of December, 2032, or (B) the amount determined by multiplying the monthly rental amount in effect for the month of December, 2032 by a fraction, the denominator of which is the CPI Index Figure for the month of December, 2027, and the numerator of which is the CPI Index Figure for the month of December, 2032.

(i) If the CPI Index Figure for the month of December in any year identified in subparagraphs (b) through (h) is not available in time to make the adjustment required under those subparagraphs, then Lessee agrees that any deficiencies in rent resulting from the failure to make the adjustment on a timely basis shall be paid by Lessor as soon as the applicable CPI Index Figure is available to the parties.

(j) All amounts of monthly rent payable under this Agreement shall be payable in advance on the first day of each calendar month, in lawful money of the United States, and without notice, demand, offset or deduction, at whatever address Lessor may specify in writing from time to time.

(k) Lessee agrees that all amounts which Lessee is required to pay under this Agreement (including but not limited to taxes, utility costs, insurance premiums and maintenance expenses) shall be payable as additional rent, and shall be paid promptly when due. This Lease is intended to be a "triple net lease", and the rent received by lessor shall be net of all other costs or expenses relating to ownership or operation of the Leased Property.

(l) If Lessee fails to pay any installment of rent (including but not limited to taxes, utility costs, insurance premiums and maintenance expenses) within ten (10) days after the date when due, Lessee shall pay to Lessor a late fee equal to five percent (5%) of the past-due amount. The amount payable by Lessee to Lessor under the preceding sentence shall be treated for all purposes under this Lease as additional rent. The provisions of this subparagraph shall not limit Lessor's right to treat any late payment as an event of default as provided in Paragraph 21.

5. Utilities. Lessee shall be responsible for and shall pay the cost of all water, electricity, natural gas, heating oil, telephone service, refuse collection, sewage and other utilities and services provided to the Leased Property, or used on or in connection with the Leased Property, during the Lease Term. Lessor shall not be liable to Lessee in the event of any interruption in the supply of any utility or service to the Leased Property (other than an interruption caused by the Lessor). In the event of any interruption in the supply of any utility or service to the Leased Property (other than an interruption caused by the Lessor), Lessee shall not be entitled to an abatement of rent, and Lessee shall not be entitled to claim constructive eviction or otherwise terminate the Lease. Lessee agrees that it shall not install any equipment which will exceed or overload the capacity of the existing utility facilities supplying the Leased Property. If any equipment installed by Lessee shall require additional utility facilities, those additional facilities shall be installed at Lessee's expense in accordance with plans and specifications approved in advance and in writing by Lessor (with lessor having the right to refuse to consent to any installation which Lessor reasonably believes might adversely effect the value of the Leased Property).

6. Taxes on Real and Personal Property. Lessee shall pay all real property taxes, general and special assessments, supplemental taxes assessed by reason of any change in ownership of the Leased Property, and other taxes and charges which are levied on or assessed during the Lease Term against the Leased Property or improvements located on the Leased Property (all of which taxes, assessments and charges shall hereinafter be referred to as the "Real Estate Taxes") as those taxes become due an payable, and before delinquency. Lessee also shall pay all personal property taxes and other taxes and charges which are levied on or assessed against leasehold improvements, fixtures, equipment, furniture, inventories, merchandise and any other personal property installed or located on the Leased Property during the Lease Term (all of which taxes, assessments and charges shall hereinafter be referred to as the "Personal Property Taxes"), as those taxes become due and payable, and before delinquency, and regardless of whether the property has been installed by Lessee or Lessor. Lessee shall make all personal property tax payments directly to the taxing authorities. If any Real Estate Tax or Personal Property Tax is permitted by a taxing authority to be paid in installments, Lessee may elect to do so as long as each installment (together with any interest charged) is paid before it becomes delinquent, and provided that Lessee only shall be obligated to pay those installments due and payable during the Lease Term. Lessee may contest in good faith the validity or amount of any Real Estate Tax or Personal Property Tax in accordance with the procedures established by applicable statute or administrative rule, as long as the Leased Property is not subjected to any lien as a result of the contest. Lessee shall furnish to Lessor receipts or other proof of payment of all Real Estate Taxes or Personal Property Taxes payable by Lessee hereunder, within ten (10) days after Lessor's written request for such proof. If Lessee shall fail to pay any such Taxes, Lessor shall have the right to pay the same, in which case Lessee shall repay such amount to Lessor with Lessee's next rent installment, together with interest at the maximum legal rate and any penalties against Lessor as a result of the delinquent payment.

7. Use Of Leased Property. During the initial 15 year term of the Lease, Lessee must operate a Nissan and BMW franchise, or one or more other new car franchises, from the Leased Property. Throughout the entire Lease Term, Lessee shall have the right to use the Leased Property for the purpose of operating a facility for the sale and servicing of new and used motor vehicles and motor vehicle parts. Lessee shall have the right to use the Leased Property for any other reasonable purpose, without any requirement of consent from Lessor.

(a) Lessee shall not use, or permit any other person or entity to use, the Leased Property in any manner which would create or tend to create waste or a nuisance or would be unreasonably offensive to owners or users of neighboring premises. Lessee shall refrain from any activity which would make it impossible for Lessee to insure against loss or damage to the Leased Property or against personal injury or property damage. Lessee shall not overload the floors of the improvements located upon the Leased Property so as to cause any undue or serious stress or strain upon the improvements located upon the Leased Property. Lessee shall not conduct any fire sale,

bankruptcy sale or going-out-of-business sale on the Leased Property without the prior consent of Lessor, which consent shall not be withheld unreasonably.

(b) Lessee shall promptly comply with all statutes and laws, ordinances, orders, judgments, decrees, injunctions, rules, regulations, licenses, directives and requirements of all federal, state, county, municipal and other governments, commissions, boards, courts, authorities, officials and companies or associations insuring the premises, which now or at any time hereafter may be applicable to the Leased Property or any part thereof, or to any use of or condition of the Leased Property or any part thereof. Lessee shall remedy at Lessee's expense any failure of compliance created through Lessee's fault or by reason of Lessee's use. Notwithstanding the two preceding sentences, Lessee shall have no obligation to take any action to bring the Leased Property into compliance with the Americans with Disabilities Act of 1990 unless specifically directed to do so by the administrative agency having responsibility for enforcement of that Act.

(c) Lessee shall be permitted to display on or about the Leased Property, or affix to any improvement located on the Leased Property, any signs or advertisements or notices relating to any business interests of Lithia Motors, Inc. or its affiliates. Any such signs, advertisements or notices shall comply with all applicable governmental rules and regulations relating thereto. Upon expiration or sooner termination of the Lease. Lessee shall be obligated to remove all signs from the Leased Property and repair any damage to the Leased Property resulting from the installation or removal of those signs.

8. Repairs And Maintenance. Lessee shall be responsible for maintaining the roof, foundation and bearing walls of the Leased Property. Lessee shall maintain in safe, workable and neat condition (free and clear of foreign objects, papers, debris, obstructions, standing water, snow and ice), all other elements and aspects of the Leased Property, including but not limited to the lights, windows, plate glass, plumbing fixtures, electrical fixtures, heating and air conditioning systems, doors, door frames, door closures, floor coverings, showcases and fixtures, walls, floors, landscaping and parking surfaces. Lessor shall have no responsibility to perform any repairs or maintenance with respect to the Leased Property or any structures or improvements located thereon. Lessor and its authorized agents shall have the right to inspect the Leased Property during regular working hours upon reasonable written notice to Lessee to determine whether Lessee is complying with its obligations under this Agreement. If Lessor determines that Lessee is failing to make any repairs which are necessary to protect the Leased Property from waste or damage, then Lessor shall be authorized to cause those repairs to be made and to charge the cost of those repairs to Lessee as additional rent. Lessee waives the provisions of California Civil Code Sections 1941 and 1942.

9. Lessor's Responsibility For Prior Contamination By Hazardous Substances

(a) Except as otherwise expressly disclosed in Exhibit "D" or in the Phase One Environmental Report on the Leased Property being provided to Lessee by Nissan - BMW of Bakersfield, Inc. (the "Phase One Report"), Lessor represents and warrants to Lessee that: (i) no business activities of Nissan - BMW of Bakersfield, Inc. prior to the Initial Lease Date shall have produced any Hazardous Materials, the presence or use of which upon the Leased Property would violate any federal, state, local or other governmental law, regulation or order or would require reporting to any governmental authority, and (ii) there are no in-ground hoists, underground gas tanks, underground fuel tanks, or underground waste oil tanks located on the Leased Property, and (iii) the Leased Property is otherwise free and clear of any Hazardous Materials.

(b) Lessor agrees to indemnify, defend, protect and hold harmless Lessee and each of Lessee's members, partners, stockholders (if any), employees, agents, successors and assigns (collectively referred to for the remainder of this Paragraph 9 as "Lessee"), from and against any and all criminal and civil claims and causes of action (including but not limited to claims resulting from, or causes of action incurred in connection with, the death of or injury to any person, or damage to any property), liabilities (including but not limited to liabilities arising by reason of actions taken by any governmental agency), penalties, forfeitures, prosecutions, losses and expenses (including reasonable attorney fees) which directly or indirectly arise from or are caused by either: (i) the presence, prior to the Initial Lease Date, in, on, under or about the Leased Property or any improvements located thereon, of any Hazardous Materials, or (ii) any breach of the warranties made by Lessor in subparagraph 9(a). Lessor's obligations under this subparagraph 9(b) shall include, but not be limited to, the obligation to bear the expense of any and all costs, whether foreseeable or unforeseeable, of any necessary (as required by the Laws) repair, cleanup, detoxification or decontamination of all or any portion of the Leased

Property (or any improvements located thereon), and the preparation and implementation of any closure, remedial action or other required plan or plans in connection therewith. Notwithstanding the preceding provisions of this subparagraph 9(b), Lessor shall have no obligation to indemnify, defend, protect and/or hold harmless Lessee with respect to any release, spill, leak or discharge of Hazardous Materials on the Leased Property which occurs solely after the Initial Lease Date.

(c) Notwithstanding any other provision of this Agreement or any contrary provision of law, the obligations of Lessor pursuant to this Paragraph 9 shall remain in full force and effect after any closing of the purchase of the Leased Property by Lessee and until the expiration of the latest period stated in any applicable statute of limitations during which a claim, cause of action or prosecution relating to the matters described herein may be brought, and until payment in full or satisfaction of any and all losses, claims, causes of action, damages, liabilities, charges, costs and expenses for which Lessor is liable hereunder shall have been accomplished.

(d) For purposes of this Paragraph 9, any act or omission, prior to the Initial Lease Date, of or by any one or more employees, agents, assignees, sublessees, franchisees, licensees, permitees, customers, vendees, contractors, successors-in-interest or other persons permitted by Lessor or any of Lessor's predecessors in title to have access to the Leased Property or acting for or on behalf of Lessor or any of Lessor's predecessors in title (whether or not the actions of such persons are negligent, intentional, willful or unlawful) shall be strictly attributable to Lessor.

(e) If any claim, demand, action or proceeding is brought against Lessee which is or may be subject to Lessor's obligation to indemnify Lessee as set forth under this Paragraph 9, Lessee shall provide to Lessor immediate notice of that claim, demand, action or proceeding, and Lessor thereafter shall defend Lessee at Lessor's expense using attorneys and other counsel selected by Lessor and reasonably acceptable to Lessee.

10. Limited Warranties By Lessor. Except as provided in this Paragraph 10 and in Paragraphs 9, 18 and 26, Lessor makes no warranty, either express or implied, as to the condition, merchantability or fitness of the Leased Property, or the suitability of the Leased Property for Lessee's purposes or needs. Lessee agrees that neither Lessor nor any agent of Lessor has made any representations or warranties as to any of the following: (i) the suitability of the Leased Property for the conduct of Lessee's business, or (ii) the expenses of operation of the Leased Property or any improvements located thereon.

(a) Within thirty (30) days after executing this Agreement, Lessor shall provide to Lessee a Disclosure Statement, in the form of Exhibit "E" attached hereto, disclosing any and all defects with respect to the Leased Property which are known to Lessor. Except as provided in the preceding sentence, Lessee is entering into this Agreement in reliance upon Lessee's own business judgment, after a full opportunity to inspect the Leased Property, and after careful consultation with Lessee's own advisors, accountants and attorneys, and not in reliance upon any statements, representations or warranties made to Lessor other than as set forth in this Agreement. Prior to the Initial Lease Date, Lessee shall inspect the Leased Property and become thoroughly acquainted with the condition of the Leased Property. Lessee shall have the right, at any time within 30 days after completing its inspection of the Leased Property (but in no event later than the Initial Lease Date) to notify Lessor in writing that Lessee is reasonably dissatisfied with the results of its inspection and to terminate all further obligations of Lessee under this Agreement. If Lessee does not so notify Lessor as provided in the preceding sentence, then Lessee agrees to take and accept the Leased Property "AS IS". The taking of possession of the Leased Property by Lessee shall be a conclusive acknowledgment by Lessee that the Leased Property is in good and satisfactory condition as of the date when possession is taken. Lessor shall not be required to make any alterations or improvements of any kind to the Leased Property.

(b) Lessor warrants to Lessee that all mechanical equipment affixed to the Leased Property shall be in good working condition on the Initial Lease Date, and that the Leased Property will be in the same condition on the Initial Lease Date as on the Date of this Agreement (ordinary wear and tear excepted).

11. No Liens. Lessee shall not allow the Leased Property to be subjected to any mortgage or other lien as security for a loan or other obligation of Lessee, without first obtaining the express written consent of Lessor. Lessee shall keep the Leased Property free and clear of all personal property tax liens and encumbrances. Lessee shall pay as due all claims for

labor or work done on, and for services rendered or material furnished to, the Leased Property, and Lessee shall keep the Leased Property free from any mechanic's, workman's or materials lien of any kind. If Lessee receives notice of the filing of any claim or lien against the Leased Property or the commencement of any action which might affect the title to the Leased Property, Lessee shall give prompt written notice thereof to Lessor.

12. Insurance.

(a) Lessee shall maintain and shall pay all premiums with respect to insurance protecting Lessor and Lessee as the named insureds against loss or liabilities arising from personal injury or death or damage to property caused by any accident or occurrence in connection with the use, operation or condition of the Leased Property, with limits of not less than $1,000,000 per accident or occurrence on account of personal injury or death, and $1,000,000 per accident or occurrence on account of damage to property, together with a blanket excess liability policy in an amount of not less than $5,000,000. Such insurance also shall include contractual liability coverage in a form satisfactory to Lessor. In addition to the foregoing, Lessee shall obtain and maintain during the Lease Term workers' compensation insurance as required by the laws of the State of California. Any proceeds of the insurance referred to in this subparagraph shall be applied towards extinguishment or satisfaction of the liabilities with respect to which those insurance proceeds are paid.

(b) Lessee shall maintain and pay for all premiums for insurance against loss or damage to the improvements located on the Leased Property by fire, lightning, vandalism, malicious mischief, sprinkler leakage, breakage of plate glass, or other perils or casualties, with an all risk endorsement. Such insurance shall be in an amount not less than the full replacement cost of the improvements. All such insurance shall be for the benefit of Lessee and Lessor, and any proceeds shall be equitably apportioned between them in accordance with their respective interests in the Leased Property.

(c) Lessee hereby releases Lessor and Lessor's agents and employees from responsibility and liability for loss or damage occurring to, or in connection with the use of, the Leased Property, if and to the extent that said loss or damage is covered under any insurance policy maintained by Lessee with respect to the Leased Property, and Lessee waives all right of recovery against Lessor and Lessor's agents and employees for such loss or damage. Lessee agrees to: (i) notify Lessee's insurance carrier(s) of the release and waiver set forth in the preceding sentence, and (ii) obtain from Lessee's insurance carrier(s), at Lessee's sole cost, a written waiver of all subrogation rights against Lessor and Lessor's agents and employees.

(d) Lessor hereby releases Lessee and Lessee's agents and employees from responsibility and liability for loss or damage occurring to, or in connection with the use of, the Leased Property, if and to the extent that said loss or damage is covered under any insurance policy maintained by Lessor with respect to the Leased Property, and Lessor waives all right of recovery against Lessee and Lessee's agents and employees for such loss or damage. Lessor agrees to: (i) notify Lessor's insurance carrier(s), at Lessor's sole cost, a written waiver of all subrogation rights against Lessee and Lessee's agents and employees.

(e) All insurance required to be carried by Lessee under subparagraph 12(a) shall be issued by responsible insurance companies, qualified to do business in the state of California. Each insurance policy shall name Lessor and his lienholder as an additional insured. No insurance policy shall be subject to cancellation or modification except after ten (10) days prior written notice to Lessor. At least ten (10) days prior to the expiration of any insurance policy, Lessee shall obtain renewals or binders for the issuance of one or more replacement insurance policies.

(f) Nothing in this Paragraph 12 shall limit in any way Lessee's liability under this Lease or affect Lessee's indemnification obligations to Lessor as set forth in Paragraph 16.

13. Destruction Of Improvements. Except as specifically provided in this Paragraph 13, Lessee shall not be entitled to any abatement of rent on account of any damage to or destruction of improvements on the Leased Property, and no other obligations of Lessee shall be altered or terminated as a result of such damage or destruction.

(a) In the event of any damage or destruction to the improvements located on the Leased Property which causes the fair market value of the improvements located on the Leased Property to be reduced by twenty-five percent (25%) or more, Lessee shall have the right to elect whether to terminate the Lease or to cause Lessor to repair the damage.

(1) If Lessee elects to terminate this lease, Lessee shall so notify Lessor by written notice delivered to Lessor within forty-five (45) days after the date of the damage or destruction. If Lessee does not elect to terminate this Lease as provided in the preceding sentence, then Lessor shall have the option at any time within (sixty) 60 days after the date of the damage or destruction to elect to terminate the Lease. If either Lessee or Lessor terminates the Lease as provided in the two preceding sentences, then the termination shall be effective as of the date of damage or destruction. In the event of any termination of the Lease under this subparagraph, Lessee's right of possession and obligation to pay rent in connection with the tenancy created hereunder shall cease as of the date of termination, and Lessee shall be entitled to reimbursement of any prepaid rent, security deposits or other amounts paid by Lessee and attributable to the portion of the anticipated Lease Term which is subsequent to the termination date.

(2) If neither Lessee nor Lessor elects to terminate this Lease as provided in subparagraph 13(a)(1), then Lessor shall proceed to restore the improvements located on the Leased Property to substantially the same form and condition as prior to the damage or destruction, so as to provide Lessee with usable space equivalent in quantity and in character to the space available prior to the damage or destruction. Repairs shall be accomplished with all reasonable dispatch, subject to interruptions and delays from labor disputes and matters beyond the control of lessor. Lessee's obligation to pay rent shall be abated during any period of time when the Leased Property is so damaged as to not be usable by Lessee for Lessee's normal business purposes.

(b) In the event of any damage or destruction to the improvements located on the Leased Property which causes the fair market value of the improvements located on the Leased Property to be reduced by less than twenty-five percent (25%), Lessor shall be obligated to restore the damaged improvements to substantially the same form and condition as prior to the damage or destruction, so as to provide Lessee with usable space equivalent in quantity and in character to the space available prior to the damage or destruction. Repairs shall be accomplished with all reasonable dispatch, subject to interruptions and delays from labor disputes and matters beyond the control of Lessor.

(c) Lessee waives the provisions of California Civil Code Sections 1932(2) and 1933(4).

14. Eminent Domain. If, during the Lease Term, there shall be a total taking of the Leased Property by any public authority under the power of eminent domain, then the leasehold estate of Lessee in and to the Leased Property shall cease and terminate as of the date when the condemning authority takes possession of or title to (which ever occurs first) all or any portion of the Leased Property. If, during the Lease Term, there shall be a partial taking of the Leased Property by any public authority under the power of eminent domain, then the leasehold estate of Lessee in and to the portion of the Leased Property so taken shall terminate on the date when the condemning authority takes possession of or title to (whichever occurs first) that portion, but Lessee's leasehold estate shall continue in full force and effect as to the reaminder of the Leased Property; in such event, the monthly rent payable by Lessee for the balance of the Lease Term shall be equitably abated by Lessor (based on the ratio between the value of the portion taken and the value of the Leased Property prior to the taking), and Lessor shall be responsible for applying all condemnation proceeds received by Lessor to make all necessary repairs or alterations to the improvements located on the Leased Property in order to continue using the Leased Property for the purposes permitted to Lessee. Notwithstanding the preceding sentence, if there is a partial taking of the Leased Property, and if the total cost of making all necessary repairs or alterations to the Leased Property would exceed the condemnation proceeds received by Lessor, then Lessor shall have the right to terminate the Lease (effective as of the date of the partial taking) unless Lessee agrees to bear the full amount of those excess costs for repairing or altering the Leased Property. For purposes of the preceding sentences of this Paragraph 14, the term "total taking" shall mean the taking of such much of the Leased Property that the remainder of the Leased Property is not suitable to conduct the business which Lessee intends to conduct on the Leased Property, and the term "partial taking" shall mean the taking of a portion of the Leased Property which does not constitute a total taking, and the Lessee shall be responsible for making a reasonable determination as to whether a taking is "total" or "partial". All compensation and damages awarded for the taking of all or any portion of the Leased Property shall be apportioned between Lessor and Lessee on the following basis: (i) Lessee shall be entitled to receive a sum equal to the excess (if any) of the market value of the Leased Property for the remainder of the Lease Term over the present value (as of the date of taking) of the rent which is then payable for the remainder of the Lease Term, plus compensation for the loss of Lessee's trade fixtures, removable personal property, loss of business and good will, and relocation expenses, and (ii) Lessor shall be entitled to the balance of the award.

(a) Sale of all or part of the Leased Property to a purchaser with power of eminent domain, in the face of the threat or probability of the exercise of the power of eminent domain, shall be treated for purposes of this Agreement as a taking by condemnation.

(b) Lessee shall have the right, at its sole cost and expense, to assert a separate claim in any condemnation proceedings for the value of Lessee's leasehold interest. Whenever notice of a taking of all or any portion of the Leased Property is received by either party, that party shall notify the other party thereof, and Lessor and Lessee thereafter shall jointly negotiate with the taking authority as to the value of their respective interests in the Leased Property or the improvements located thereon to the end of being fairly compensated therefor.

15. Alterations. Lessee shall not have the right to make alterations, improvements, changes, modifications, utility installations and other alterations (hereinafter referred to in the aggregate as "Alterations") in, on or to all or any portion of the Leased Property without the written consent of Lessor (which approval may not be withheld unreasonably). If Lessee notifies Lessor in writing of Lessee's intention to make particular Alterations to the Leased Property, and if Lessor does not, within ten days after delivery of that notice from Lessee, notify Lessee in writing of Lessor's reasonable objections to all or any portion of those Alterations, then Lessor shall for all purposes be conclusively deemed to have consented to all of those Alterations to which lessor has not so objected. No Alterations shall be made to the Leased Property unless and until all required permits have been obtained, and all Alterations shall comply with all applicable governmental regulations. Any Alterations (excluding Lessee's trade fixtures, furniture and equipment and any signs placed by Lessee on the Leased Property) shall remain on and be surrendered with the leased Property upon the expiration or earlier termination of the Lease Term, except that Lessor can elect, within 30 days before expiration of the Lease Term (or within five days after any earlier termination of the Lease Term) to require Lessee to remove any Alterations which Lessee has made to the Leased Property. Lessee shall be obligated to repair any damage to the Leased Property caused by Lessee's removal of its trade fixtures, furniture, equipment and signs.

16. Indemnification Against Damage Or Injury. Lessee hereby releases Lessor from, agrees that Lessor shall not be liable for, and agrees to defend, indemnify and hold Lessor harmless from and against, any and all losses, claims, causes of action, damages, liabilities (including, without limitation, strict or absolute liability in tort or imposed by statute), charges, costs, or expenses (including, without limitation, reasonable counsel fees), incurred in connection with or arising out of any loss or damage to property or injury or death to a person or persons, that may be occasioned by any cause whatsoever pertaining to the Leased Property during the Lease Term (other than the grossly negligent or intentional acts of Lessor, its agents, employees, licensees and invitees)., The defense and indemnities provided in this Paragraph 16 shall apply whether or not the loss, claim, cause of action, damage, liability, charge, cost or expense is based upon the breach of a statutory duty or obligation or any theory or rule of comparative liability, subject to any specific prohibition relating to the scope of indemnities imposed by statutory law (and except to the extent that Lessor shall be liable as provided above). If any action or proceeding is brought against Lessor which is or may be subject to Lessee's obligation to indemnify Lessor as set forth under this Paragraph 16, Lessee shall, upon notice from Lessor, defend that claim at Lessee's expense using attorneys and other counsel satisfactory to Lessor. Any loss, liability, damage, claim or cause of action arising by reason of contamination of the Leased Property by a hazardous substance shall be subject to the indemnification provisions of Paragraph 23, and shall not be subject to the indemnification provisions of this Paragraph 16.

17. Surrender Upon Termination. Upon expiration of the Lease Term, or upon earlier termination of the lease for any reason, Lessee promptly and peaceably shall remove any of Lessee's equipment and property (and shall repair any damage caused by that removal), and shall surrender the Leased Property in good condition. Depreciation and wear and tear from ordinary use permitted under this Agreement need not be restored by Lessee. All repairs for which Lessee is responsible shall be completed prior to the surrender of the Leased Property. If Lessee remains in occupancy of the Leased Property after termination of the Lease Term, then Lessor shall have the option to treat Lessee as a tenant from month-to-month, subject to all of the provisions of this Agreement except the provisions for rental amounts, term, and renewal, and in that event Lessee shall be obligated to pay monthly rent to Lessor at a rate equal to the monthly rental amount in effect as of the last month of the Lease Term. Acceptance by Lessor of rent subsequent to termination of the Lease Term shall not result in a renewal of the lease and shall not constitute a waiver of Lessor's right to re-enter the Leased Property, remove Lessee or exercise any other rights available to Lessor under this Agreement or provided by law. If Lessee fails to surrender the Leased Property in accordance herewith upon termination of the Lease Term, Lessee shall indemnify and hold Lessor harmless from all losses and liabilities, including but not limited to any claims made by any succeeding tenant, which result from or are based upon Lessee's failure to so surrender the Leased Property.

18. Good Title. Lessor warrants that it has good right to leased the Leased Property and will defend Lessee's right to quiet enjoyment of the Leased Property against the lawful claims of all persons during the Lease Term.

19. Limitation On Assignment Or Sublease By Lessee. Lessee shall have the right to assign all of its rights and obligations under this Agreement to Lithia Motors, Inc. or any subsidiary of Lithia Motors, Inc. Except as provided in the preceding sentence, Lessee shall not voluntarily or by operation of law assign this Lease or sublease any portion of the Leased Property, or enter into any license agreement, franchise agreement, or concession agreement with respect to the Leased property, or mortgage, hypothecate or otherwise encumber all or any portion of Lessee's interest in this Agreement or in the Leased Property, or in any other manner permit the occupation of or shared possession of all or any portion of the Leased Property, without obtaining in each instance the written consent of Lessor, which consent may not be unreasonably withheld by Lessor. The sale of greater than 50% of the stock of Lessee (or of Lithia Motors, Inc. or any subsidiary of Lithia Motors, Inc. to whom this Lease is assigned under the first sentence of this Paragraph 19) shall constitute an assignment of this Lease subject to the provisions of this Paragraph 19. Consent by Lessor in any one instance shall not constitute a waiver or consent to any subsequent instance. Unless otherwise agreed by Lessor, the consent by Lessor to any assignment, sublease, or encumbrance shall not relieve or otherwise affect the continuing primary liability of Lessee under this Agreement, and Lessee shall not be released from performing any of the terms, covenants and conditions of this Agreement. If, during the Lease Term, Lessee shall receive from any sublessee of all or a portion of the Leased Property an amount which exceeds the regular monthly rental amount as determined under Paragraph 4, then Lessee shall, in addition to the payment of that regular monthly rental amount, pay to Lessor 50% of such excess received for each remaining month of the Lease Term, less any amounts which Lessee shall incur in collecting such rentals (including, without limitation, attorney's fees).

20. Landlord's Lien. Lessee hereby grants to Lessor a lien upon the improvements, trade fixtures and furnishings of Lessee to secure full and faithful performance of all of the terms of this Agreement.

21. Lessee's Default. The following shall be the "events of default" under this Agreement, and the terms "event of default" or "default" shall mean, whenever used in this Agreement, any one or more of the following events: (i) the failure by Lessee to pay or cause to be paid the full amount of any rent or other charge specified in this Agreement, within three (3) days after the date when due, subject to the notice requirement set forth in subparagraph 21(b);
(ii) the insolvency of Lessee, an assignment by Lessee for the benefit of creditors, the filing by Lessee of a voluntary petition of bankruptcy, an adjudication that Lessee is bankrupt, the appointment of a receiver for the properties of Lessee, the filing of an involuntary petition of bankruptcy and the failure of Lessee to secure dismissal of the petition within thirty (30) days after filing, or the attachment of or levying of execution upon Lessee's leasehold interest and the failure of Lessee to secure discharge of the attachment or release of the levy or execution within ten (10) days; (iii) any abandonment of the Leased Property by Lessee (which shall include any absence of Lessee from the Leased Property for a period of five (5) or more continuous days); or (iv) the failure by Lessee to comply with any term or condition, or fulfill any obligation of this Agreement (other than the payment of rent or other charge) within thirty (30) days after written notice by Lessor specifying the nature of the default with reasonable particularity and requesting that the default be remedies; if the default is of such a nature that it cannot be completely remedies within the 30-day period, this provision shall be complied with if Lessee begins correction of the default within the thirty-day period and thereafter proceeds with reasonable diligence and good faith to affect the remedy as soon as possible.

(a) In the event of any default by Lessee, then Lessor shall have the right either to terminate Lessee's right to possession of the Leased Property, by giving notice of termination to Lessee, and thereby terminate this Lease, or to have this Lease continue in full force and effect with Lessee at all times having the right to possession of the Leased Property.

(i) If Lessor elects to have this Lease continue in full force and effect, Lessee shall remain liable to perform all of its obligations under this Lease, and Lessor may enforce all of Lessor's rights and remedies, including the right to recover rent when it falls due, specifically intending to mean that Lessor has the remedy described in Section 1951.4 of the California Civil Code, as such section reads as of the date of this Lease. If Lessee abandons the Leased Property or fails to maintain and protect the same as herein provided, Lessor shall have the right (A) to do all things necessary or appropriate to maintain, preserve and protect the Leased Property, including,

without limitation, the installation of keepers or guards or the appointment of a receiver, and (B) to relet the Leased Property as the agent of Lessee and for Lessee's account and to do all things appropriate for such reletting. In the event of such reletting, rent received by Lessor shall be credited to Lessee's account. None of the foregoing acts shall be deemed to terminate Lessee's right of possession, and Lessee agrees to reimburse Lessor on demand for all amounts reasonably expended by Lessor in connection with the foregoing acts, together with interest on all amounts expended by Lessor from time to time at the maximum legal rate. Notwithstanding any such election to have this Lease remain in full force and effect, Lessor may at any time thereafter elect to terminate Lessee's right to possession of the Leased Property and thereby terminate this Lease for any previous breach or default hereunder by Lessee which remains uncured or for any subsequent breach of default.

(ii) If Lessor gives notice of election to terminate Lessee's possession of the Leased Property, Lessor shall be entitled to recover from Lessee the amounts specified in paragraphs (a)(1), (a)(2), and (a)(4) of Section 1951.2 of the California Civil Code, as such section reads as of the date of this Lease, together with interest on said amounts at the maximum legal rate from the dates they were due, computed as of the date the award, together with the worth at the time of the award of the amount by which the unpaid rent for the balance of the Lease Term after the time of the award exceeds the amount of such rental loss for the same period that Lessee proves should be reasonably avoided, in accordance with paragraph (a)(3) of Section 1951.2 of the California Civil Code.

(iii) No right or remedy herein conferred upon or reserved to Lessor is intended to be exclusive of any other right or remedy herein or by law, provided that each shall be cumulative and in addition to every other right or remedy given herein, or now or hereafter existing at law or in equity or by statute.

(iv) In addition to the above remedies upon default, upon 10 days' prior written notice to Lessee by Lessor, Lessor may cure any default by Lessee and, if necessary, may enter upon the Leased Property for such purpose, and in such event the cost thereof with interest shall be deemed additional rent payable by Lessee to Lessor and shall become immediately due and payable.

(v) In the event of any default by Lessor under this Lease, Lessee may sue for damages or injunctive or other equitable relief, but Lessee hereby waives and relinquishes any right which Lessee may have to terminate this Lease or to withhold, reduce or offset any rent or other payment payable by Lessee under this Lease, on account of Lessor's default.

(b) Before declaring any default in the making of any payment required under this Agreement, Lessor shall provide to Lessee, by United States certified mail and ordinary first class mail addressed to Lessee, a written notice specifying that there has been a default in the making of a required payment, and Lessee shall have three (3) business days from the date of mailing that notice in which to pay the delinquent amount and prevent a default hereunder.

22. Time of Essence. Time is of the essence in the performance of all obligations of Lessor and/or Lessee under this Agreement.

23. Lessee's Responsibility For Contamination By Hazardous Substances

(a) Lessee shall at all times during the Lease Term use, sell, store, transport, dispose of and treat Hazardous Materials (as defined in Paragraph 1(e) of this Agreement) in strict accordance with all applicable federal, state and local laws and regulations (collectively referred to in this Paragraph 23 as the "Laws"). If, during the Lease Term and prior to completion by Lessee of the obligations imposed under Paragraph 17, there occurs upon the Leased Property any release, spill, leak or discharge of hazardous materials which is in violation of any of the Laws and is caused by any activity or activities of Lessee on or with respect to the Leased Property, then Lessee shall be obligated to cause and complete the repair, cleanup, detoxification and/or decontamination of the Leased Property (or any improvements thereon) and the preparation and implementation of any closure, remedial action or other required plan or plans in connection therewith, all as required by the Laws.

(b) Lessee shall indemnify, defend, protect and hold harmless Lessor and each of Lessor's partners, employees, agents, successors and assigns (collectively referred to in this Paragraph 23 as "Lessor"), from and against any and all criminal and civil claims and causes of action (including but not limited to claims resulting from, or causes of action incurred in connection with, the death of or injury to any person, or damage to any property), liabilities (including but not limited to liabilities arising by reason of

actions taken by any governmental agency), penalties, forfeitures, prosecutions, losses and expenses (including reasonable attorney fees) which directly or indirectly arise from or are caused by the use, sale, storage, transportation, disposal, release, threatened release, discharge or generation of Hazardous Materials to, in, on, under, about or from the Leased Property or any improvements located thereon during the Lease Term. Lessee's obligations under this subparagraph 23(b) shall include, but not be limited to, the obligation to bear the expense of any and all costs, whether foreseeable or unforeseeable, of any necessary (as required by the Laws) repair, cleanup, detoxification or decontamination of all or any portion of the Leased Property (or any improvements located thereon), and the preparation and implementation of any closure, remedial action or other required plan or plans in connection therewith.

(c) Notwithstanding any other provision of this Agreement, the obligations of Lessee pursuant to this Paragraph 23 shall remain in full force and effect after the termination of the Lease Term and until the expiration of the latest period stated in any applicable statute of limitations during which a claim, cause of action or prosecution relating to the matters described herein may be brought and until payment in full or satisfaction of any and all losses, claims, causes of action, damages, liabilities, charges, costs and expenses for which Lessee is liable hereunder shall have been accomplished.

(d) For purposes of subparagraph 23(a), any acts or omissions of or by any one or more employees, agents, assignees, sublessees, franchisees, licensees, permitees, customers, contractors, successors-in-interest or other persons permitted by Lessee to have access to the property (other than Lessor or Lessor's agents) or acting for or on behalf of Lessee (whether or not the actions of such persons are negligent, intentional, willful or unlawful) shall be strictly attributable to Lessee.

(e) If any claim, demand, action or proceeding is brought against Lessor which is or may be subject to Lessee's obligation to indemnify Lessor as set forth under this Paragraph 23, Lessor shall provide to Lessee immediate notice of that claim, demand, action or proceeding, and Lessee thereafter shall defend Lessor at Lessee's expense using attorneys and other counsel selected by Lessee and reasonably acceptable to Lessor.

24. Expenses. Each of the parties shall pay its own expenses incidental to the preparation and consummation of this Agreement, including but not limited to the attorney fees and expenses.

25. Notices. Any notice required or permitted under this Agreement shall be deemed to have been duly given when actually delivered or when deposited in the United States mail, certified and return receipt requested, postage prepaid, addressed to such addresses as may be specified from time to time by the parties in writing.

26. Lessor's Option To Purchase. At any time during the Option Period (as defined in subparagraph 25(a)), Lessee shall have the option to purchase the Leased Property from Lessor, under the terms and conditions set forth in this Paragraph 26.

(a) Definitions. For purposes of this Paragraph 26, "Closing" shall refer to the consummation of the purchase and sale of the Leased Property pursuant to this Paragraph 26, and "Closing Date" shall refer to the actual date of Closing. "Option Period" shall mean and refer to the period beginning on the Initial Lease Date and ending on December 31, 2002.

(b) Option may be Exercised Only during Option Period. Lessee shall have no right to exercise the purchase option granted under this Paragraph 26 after the last day of the Option Period. If Lessee exercises the purchase option granted under this Paragraph 26 on or before the last day of the Option Period, then Lessee shall have the right to close the purchase of the Leased Property at any time during the period beginning six (6) months and ending nine (9) months after the date of the notice exercising the option (even if that closing does not occur during the Option Period).

(c) Notice of Exercise. If Lessee wishes to exercise the right and option to purchase the Leased Property from Lessor pursuant to this Paragraph 26, Lessee shall be required to deliver to Lessor a written notice specifying: (i) Lessee's desire to exercise its right and option to purchase the Leased Property pursuant to this Paragraph 26, and (ii) the proposed closing date for the purchase (which closing date shall be not less than 6 months and not more than 9 months after the date of the written notice exercising the option). Lessee shall be deemed to have exercised the option to purchase the Leased Property pursuant to this Paragraph 26 when the written notice referred to in the preceding sentence is delivered to Lessor. If Lessee exercises the option to purchase the Leased Property from Lessor as provided in this Paragraph 26, and if the purchase and sale of the Leased Property subsequently closes in accordance with this Paragraph 26, then Lessee shall be obligated to pay rent with respect to the Leased Property through the date of closing of the purchase and sale.

(d) Lessor's Obligation to Sell. If Lessee exercises the option to purchase the Leased Property from Lessor as provided in this Paragraph 26, and if Lessee tenders to Lessor (on or before the proposed closing date) full payment of the Leased Property as provided in this Paragraph 26, then Lessor shall be obligated to sell and deliver to Lessee good and marketable title to the Leased Property, free and clear of all liens and encumbrances not accepted by Lessee as provided in subparagraph 26(f).

(e) Purchase Price and Payment. If Lessee exercises the option to purchase the Leased Property pursuant to this Paragraph 26, the price for the Leased Property shall be Four Million Eight Hundred Thousand And 00/100 Dollars ($4,800,000.00). The $4,800,000.00 purchase price shall be payable by Lessee at the closing of the purchase by cashier's check drawn against a bank of Lessee's choice having offices located in Kern County, California, or by any other method acceptable to Lessor.

(f) Title Report. Promptly after the Date of this Agreement, Lessor shall furnish to Lessee a preliminary title report with respect to the Leased Property. A copy of that preliminary title report shall be attached to this Agreement as Exhibit "C". Lessee shall have ten (10) days after receipt of the preliminary title report within which to examine that report and notify Lessor of any objection(s) to any one or more of the exceptions set forth on the preliminary title report. If Lessee does not notify Lessor in writing, within that ten (10) day period, of Lessee's disapproval of any one or more of the exceptions set forth on the preliminary title report, then that exception (or those exceptions) shall be deemed to have been accepted and approved by Lessee. If Lessee provides written notification to Lessor, within that ten (10) day period, of Lessee's disapproval of any exception set forth in the preliminary title report, then Lessor shall be obligated to remove the disapproved exception prior to Closing. At Closing, Lessor shall furnish to Lessee, at Lessor's expense, a C.L.T.A. policy of title insurance (or an A.L.T.A. policy of title insurance if Lessee is willing to pay the excess of the cost of an A.L.T.A. policy over the cost of a C.L.T.A. policy) in the full amount of the purchase price ($4,800,000.00), showing title to the Leased Property to be good and marketable, subject only to the usual endorsements and exceptions contained in such policies and the specific additional exceptions accepted by Lessee as provided in the preceding sentences of this subparagraph (f).

(1) If Lessee does not elect to purchase the Leased Property pursuant to this Paragraph 26, then Lessor shall be obligated to pay all title insurance cancellation fees.

(2) If Lessor is unable at Closing to provide good and marketable title to the Leased Property as provided in this subparagraph (f), then (in addition to any and all other remedies which may be available to Lessee at law or in equity by reason of that breach) the provisions of subparagraphs 4(b) through 4(h) relating to a CPI indexed increase in the rental amount payable under this Agreement shall be void and of no effect, and the monthly rent payable by Lessee for each and every month throughout the entire Lease Term shall be the Base Rental Amount. If, subsequent to the date of Closing, Lessor is able to cure any title defects and provide good and marketable title to the Leased Property as provided in this subparagraph
(f), then the provisions of the preceding sentence shall be void and of no effect from and after the date when said defect(s) is/are cured.

(g) Closing Escrow. If Lessee elects to purchase the Leased Property pursuant to this Paragraph 26, the parties agree to establish a closing escrow account at Capital City Escrow, Inc., in Sacramento, California (the "Closing Escrow Agent"). Lessee shall pay for the insurance premiums and documentary transfer taxes, and Lessee and Lessor each shall pay one-half (1/2) of all other closing costs and escrow fees. Lessee and Lessor agree to execute whatever reasonable escrow instructions may be required by Closing Escrow Agent in connection with the consummation of the purchase of the Leased Property pursuant to this Paragraph 26. In the event of any conflict between those escrow instructions and this Agreement, the terms of this Agreement shall prevail, and nothing contained in the escrow instructions shall be deemed to change or modify the terms, provisions or conditions of this Agreement unless the parties expressly so state in writing.

(h) Closing. If Lessee elects to purchase the Leased Property pursuant to this Paragraph 26, then:

(1) The parties agree to close the purchase and sale hereunder at the offices of the Closing Escrow Agent, or at such other location as shall be selected by mutual agreement of the parties.

(2) Actual possession of the Leased Property, and all risk of loss, damage or destruction with respect to all or any portion of the Leased Property, is passing to Lessee under the terms of this Lease.

(3) At Closing, Lessor shall deliver to Lessee a grant deed which conveys the Leased Property free and clear of all encumbrances, except those encumbrances identified in the preliminary title report which have been accepted and approved by Lessee pursuant to subparagraph 26(f), fully executed by Lessor and naming Lessee as the grantee.

(4) Real property taxes, personal property taxes, operating expenses, rental income, prepaid rents and deposits, and other income and expenses with respect to the Leased Property shall be the responsibility of Lessee.

(5) If Closing does not take place on or before the Final Closing Date because of Lessor's failure or refusal to convey to Lessee good title to the Leased Property, then Lessee shall be entitled to: (i) the remedy specified in subparagraph 26(f)(2), and (ii) any and all other rights and remedies for that breach which may be provided at law or in equity.

(6) Lessee shall have the right at Closing to convey and assign its rights and obligations with respect to the purchase of the Leased Property pursuant to this Paragraph 26 to Lithia Motors, Inc. or any subsidiary of Lithia Motors, Inc.

(7) Prior to Closing, Lessor shall furnish to Lessee any and all documentation required under Section 1445 of the Internal Code, including but not limited to a "Certificate of Non-Foreign Status". If Lessor fails to furnish Lessee a Certificate of Non-Foreign Status, Lessee shall be authorized to withhold and deduct from the purchase price any and all amounts which are required to be withheld under IRC S1445, and to transfer those sums to the Internal Revenue Service in accordance with the provisions of IRC S1445. Lessor also shall furnish to Lessee a duly completed and executed Form 590 in compliance with California Revenue and Taxation Code SS18805 and 26131.

(8) Each party shall pay its own attorney fees incurred in connection with the Closing of the purchase and sale of the Leased Property.

(9) Lessee will cooperate with Lessor (at no cost to Lessor) in enabling Lessor to complete a tax-free exchange of the Leased Property under IRC Section 1031.

(10) Any material default under this Lease must be cured by Lessee prior to Closing.

(i) No Brokerage Commissions. Lessee and Lessor each warrants to the other party that no brokerage commissions will be payable in connection with the purchase and sale of the Leased Property in accordance with Paragraph 26.

27. Lessee's Right To Terminate Obligation to Lease. Lessee shall have the right, at any time prior to the Initial Lease Date, to rescind Lessee's obligation to lease the Leased Property under this Agreement if Lessee is dissatisfied for any reason with either of the following matters: (i) any studies or tests concerning the presence or possible presence on the Leased Property of Hazardous Materials, and Lessee's determination as to the possible financial impact on Lessee of any Hazardous Materials which are present on the Leased Property; or (ii) the results of any examinations or inspections completed by Lessee with respect to the Leased Property. Lessee shall be responsible for the cost of all Hazardous Materials tests, reports, surveys, studies, inspections and examinations conducted by Lessee pursuant to this Paragraph 27. Lessor shall cooperate with Lessee in allowing Lessee and Lessee's agents to fully inspect and examine the Leased Property for the presence of Hazardous Materials Notwithstanding Lessee's right to inspect the Leased Property for the presence of Hazardous Materials pursuant to this Paragraph 27, Lessee is relying on, and Lessor agrees that Lessee has the right to rely on the representations, warranties and agreements made by Lessor in Paragraph 9. All inspections performed by Lessee pursuant to this Paragraph 27 shall be subject to Lessee's indemnification obligations to Lessor as set forth in Paragraph 16, and Lessee shall return the Leased Property to its original condition upon the completion of any tests or inspections performed pursuant to this Paragraph 27.

28. Additional Conditions Precedent To Lessee's Obligations. In addition of all other conditions to Lessee's obligation to close which are set forth in this Agreement, the obligation of Lessee to lease the Leased Property from Lessor pursuant to this Agreement is subject to the fulfillment, prior to the Initial Lease Date, of each of the following conditions, each of which is for the benefit of Lessee and may be waived by Lessee:

(a) Lessee shall have obtained from Nissan Motor Corporation in USA and BMW of North American, Inc. prior to the Initial Lease Date, exclusive franchises to sell new Nissan and BMW vehicles in Bakersfield, California (as

evidenced by the issuance to Lessee of appropriate Dealership Sales and Service Agreements, and the approval of Lessee as the publicly owned Dealer-Operator of the franchises); and

(b) Lessee shall be reasonably satisfied with any facility improvement requirements which are imposed by Nissan Motor Corporation in USA and BMW of North America, Inc. in connection with the issuance to Lessee of franchises to sell new Nissan and BMW vehicles in Bakersfield, California; and

(c) The purchase of business assets of Nissan - BMW of Bakersfield, Inc. by Lessee shall be closed on or before the Initial Lease Date; and

(d) Lessee shall be reasonably satisfied that there have been no material changes in the condition of the Leased Property between the Date of this Agreement and the Initial Lease Date; and

(e) Lessee shall be reasonably satisfied that all of Lessor's agreements, representations and warranties set forth in this Agreement shall be true, correct, complete and not misleading as of the date of Initial Lease Date; provided, however, that Lessee's decision to close this transaction shall not excuse or release Lessor from liability to Lessee for any representation or warranty which is subsequently determined to be incorrect, incomplete or misleading.

29. Attornment And Subordination.

(a) Lessee shall execute, without further consideration, any and all instruments desired by Lessor (or Lessor's mortgagee) subordinating this Agreement in the manner requested by Lessor to the lien of any mortgage and/or deed of trust or other encumbrance which may now or hereafter affect the Leased Property, together with all renewals, modifications, consolidations, replacements or extensions thereof; provided, however, that any lienor or encumbrancer relying on such subordination of such additional agreements will covenant with Lessee that Lessee's leasehold interests hereunder shall remain in full force and effect, and that Lessee shall not be disturbed in the event of sale, foreclosure or other action so long as Lessee is not in default hereunder. Lessor is irrevocably appointed and authorized as agent and attorney-in-fact of Lessee to execute all subordination instruments in the event Lessee fails to execute said instruments within fifteen (15) days after notice from Lessor demanding the execution thereof.

(b) If Lessor's interest is transferred to and owned by any lender as a result of a foreclosure or other proceeding brought by the lender in lieu of or pursuant to a foreclosure or in any other manner, and if the lender thereby succeeds to the interest of Lessor hereunder, then Lessee shall be bound to the lender under all of the terms, covenants and conditions hereof for the balance of the remaining Lease Term, with the same force and effect as if the lender was the original Lessor hereunder. Lessee hereby attorns to any such lender, with the attornment to be effective and self-operative immediately upon the lender succeeding to the interest of Lessor, and without the necessity of the execution of any further instrument. If a lender shall succeed to the interest of Lessor, the lender shall not be liable for any act or omission of Lessor, and shall not be subject to any offsets or defenses which Lessee might assert against Lessor.

30. Estoppel Certificates. Within ten (10) days after request by Lessor, Lessee shall execute and deliver to Lessor and estoppel certificate in such form as Lessor may reasonably request, or as a prospective purchaser or encumbrancer of the Leased Property may reasonably request, relating to the then current status of the Lease and stating any claims, offsets or defenses asserted by Lessee with respect to the Lease. Any such estoppel certificate may be conclusively relied upon by any prospective purchaser or encumbrancer of the Leased Property. If Lessee fails to deliver a requested estoppel certificate within ten (10) days after Lessor's written request therefor, then Lessee shall be deemed conclusively to have agreed that: (i) this Agreement is in full force and effect, without modification except as may be represented by Lessor, (ii) there are no uncured defaults in Lessor's performance under this Agreement,
(iii) not more than one monthly installment of the rental due under this Agreement has been paid in advance, and (iv) any terms or conditions of an estoppel certificate required by a prospective purchaser or encumbrances of the Leased Property are satisfied and agreed to by Lessee. Any failure by Lessee to deliver an estoppel statement (showing any exceptions to any of the statements of fact required thereby) shall be material breach of this Agreement.

31. Corporate Authority. Lessee's board of directors and shareholders have authorized the execution and delivery of this Agreement to Lessor and the carrying out of its provisions. This Agreement will not conflict with Seller's bylaws.

32. Miscellaneous.

(a) No Waiver of Performance. The failure of any party at any time to require performance of any provision hereof shall in no way affect that party's right to enforce the same provision or any other provision at any subsequent time. The consent or approval of either party to any act by the other party of a nature requiring consent or approval should not be deemed to waive or render unnecessary the consent to or approval of any subsequent similar act. All rights and remedies provided under this Agreement are cumulative to one another and to all other rights and remedies under applicable law or in equity, and no exercise of any one right or remedy shall in any manner operate to prejudice or impair any other right or remedy provided at law or in equity.

(b) Entire Agreement. This Agreement sets forth the entire, final and complete agreement of the parties, and supersedes, replaces and integrates all of the prior written and oral agreements of the parties. Any modifications, amendments or supplements to this Agreement shall be executed in writing and signed by all of the parties. Multiple copies of this Agreement may be executed by the parties, each of which shall be deemed to be an original when signed by all of the parties. The captions set forth in this Agreement are for reference purposes only, and shall not be considered in construing the meaning of the terms and conditions of this Agreement. Subject to the provisions of Paragraph 19, this Agreement shall be binding upon, and shall inure to the benefit of, the respective successors, representatives and assigns of the parties. The documents identified or referenced in this Agreement are all of the agreements respecting the proposed sale or transfer, and there are no other oral or written side agreements affecting the transaction. True copies of all documents identified or referenced in this Agreement are attached hereto.

(c) Governing Law. This Agreement shall be governed by, construed and enforced in accordance with the laws of the state of California. Any legal proceedings relating to this Agreement shall be filed in the appropriate court in Kern County, California, and the parties hereby irrevocably submit to the jurisdiction of the Municipal or Superior Court of Kern County, California.

(d) Severability. If any provision of this Agreement shall be determined to be void by any court of competent jurisdiction, then that determination shall not affect any other provisions of this Agreement, and all such other provisions shall remain in full force and effect. It is the intention of the parties that if any provision of this Agreement is capable of two constructions, only one of which would render the provision valid, then the provision shall have the meaning which renders it valid.

(e) Attorney Fees in Event Of Dispute. If action is instituted to enforce any term of this Agreement, the prevailing party shall recover from the losing party reasonable attorney fees incurred in that action as set by the appellate courts.

30. Memorandum To Be Recorded. Simultaneously with the execution of this Agreement the parties shall execute a Memorandum evidencing the execution of this Agreement for purposes of recordation in Kern County, California, which Memorandum shall be recordable by Lessee on or after the Initial Lease Date.

IN WITNESS WHEREOF, each of the parties has executed this Agreement on the respective dates indicated below.

LESSEE: LITHIA REAL ESTATE, INC.

By: /s/ Lithia
Authorized Agent
Date 10-2-97

LESSOR: ELOY C. RENFROW

By /s/ Eloy C. Renfrow
Eloy C. Renfrow
Date 10-2-97

EXHIBIT "B" TO REAL PROPERTY LEASE AGREEMENT WITH OPTION TO PURCHASE

Between ELOY C. RENFROW, as "Lessor", and

LITHIA REAL ESTATE, INC., as Lessee

COPY OF AGREEMENT FOR PURCHASE AND SALE OF BUSINESS ASSETS

[See ____ page(s) attached hereto.]

DISCLOSURE STATEMENT

Lessor hereby notifies Lessee that the Leased Property has the following defects, which constitute all of the Leased Property defects which are known to Lessor.

1.

EXHIBIT 10.25.2

LEASE

THIS LEASE (hereinafter the "Lease") is entered into this 3 day of September, 1997, at Redding, California, between BR ENTERPRISES, a General Partnership, hereinafter referred to as "Lessor", and LITHIA MOTORS, INC., a(n) Oregon corporation, hereinafter referred to as "Lessee";

RECITALS

WHEREAS, Lessor is the owner of certain real property described as Assessor's Parcel Number 418-050-50 and more commonly known as 155, 165, 175 and 195 East Auto Center Drive, Fresno, California, upon which has been constructed buildings and improvements, hereinafter designated the "Premises", as more fully described on Exhibit "A" which is attached hereto and incorporated herein by reference;

WHEREAS, Lessee is desirous of obtaining a triple net lease of the Premises from Lessor pursuant to the terms of this Lease;

AGREEMENT

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto do hereby agree as follows:

ARTICLE 1. PREMISES

Premises

Section 1.01 Lessor hereby leases to Lessee, and Lessee hereby hires from Lessor, for the term, at the rental and upon the conditions hereinafter set forth, the Premises as heretofore described.

Quiet Enjoyment

Section 1.02. Lessor covenants and agrees that Lessee, upon payment of the rent and performance of the covenants herein contained, shall and may peaceably and quietly hold and enjoy the Premises for the term of this Lease without hindrance from Lessor, Lessor's agent or other person claiming under Lessor.

ARTICLE 2. USE

Permitted Use

Section 2.01. The Premises are to be used for an automobile dealership and associated uses and for no other use without the prior written consent of Lessor, not to be unreasonably withheld.

Use To Comply With All Laws

Section 2.02. Lessee shall not do or permit anything to be done on or about the Premises which shall in any way conflict with any law, ordinance, rule or regulation affecting the occupancy and use of the Premises, which is or may hereafter be enacted or promulgated by any public authority. Lessee shall comply with all laws concerning the Premises or Lessee's use of the Premises including, without limitation, the obligation at Lessee's cost to alter, maintain, or restore the Premises in compliance and conformity with all laws relating to the condition, use or occupancy of the Premises during the term.

Within ten (10) days after receipt, Lessee shall advise Lessor in writing, and provide Lessor with copies of (as applicable), any notice, claim or action relating to or alleging violation of any State, Federal or other governmental or quasi-governmental law, rule or regulation (including, but not limited to, the Americans with Disabilities Act of 1990 ("ADA") relating to the Premises.

Prohibition Against Assignment or Subletting

Section 2.03. Lessee shall not assign or encumber this Lease, or any interest therein, or sublet the Premises or any of its parts, or permit the Premises to be used by any person, persons, or entity other than Lessee, Lessee's employees, customers or clients without the prior written consent of Lessor, which consent shall not be unreasonably withheld. Lessor's consent to any such assignment, subletting, encumbrance or use shall not operate as a

waiver of the necessity for Lessee to obtain Lessor's consent to any subsequent assignment, subletting, encumbrance or use and the terms of such consent shall be binding upon any person or entity holding by, under or through Lessee.

Any assignment, subletting, encumbrance or use without such consent shall be voidable and shall, at the option of Lessor, constitute a default of this Lease. This Lease shall not, nor shall any interest therein, be assignable as to the interest of Lessee by operation of law without the prior written consent of Lessor.

Lessee immediately and irrevocably assigns to Lessor, as security for Lessee's obligations under this Lease, all rent from any subletting of all or a part of the Premises as permitted by this Lease and Lessor, as assignee and as attorney-in-fact for Lessee, or a receiver for Lessee appointed on Lessor's application may, upon the occurrence of an act of default by Lessee, collect such rent and apply it toward Lessee's obligations under this Lease; except that, until the occurrence of an act of default by Lessee, Lessee shall have the right to collect and retain such rent for Lessee's account.

Signs by Lessor

Section 2.04. During the last one hundred eighty (180) days of the term of this Lease, Lessor shall have the right to place signs on or about the Premises for the purpose of notifying prospective lessees that such Premises may be rented or leased.

Signs by Lessee

Section 2.05. Lessee may permit or suffer any signs, advertisements, or notices to be displayed, inscribed upon, or affixed to any part of the Premises or the exterior of the building of which they are part, provided that any such sign, advertisement, or notice shall comply with any/all applicable government and/or quasi-governmental rules or regulations affecting the Premises and/or such sign, advertisement or notice.

Waste

Section 2.06. Lessee shall not commit waste on the Premises, or any public or private nuisance, or any act or thing which will interfere with or disturb the quiet enjoyment of any other lessee or person, whether such person or lessee shall be located about or adjacent to the Premises or the surrounding real property.

ARTICLE 3. TERM

Term

Section 3.01 The term of this Lease shall be for a period of fifteen (15) years. The term shall commence on the date of the Closing with respect to that certain Agreement for the Sale of Certain Assets of Century Ford, Inc., a California corporation, entered into between Century Ford, Inc., and Lithia Motors, Inc., a(n) Oregon corporation, dated August 30, 1997, and shall expire fifteen (15) years subsequent thereto, unless otherwise terminated as provided within this Lease.

Surrender of Premises

Section 3.02. Lessee agrees to surrender the Premises at the termination of the tenancy herein created in the same condition as they have been received, reasonable use and wear thereof excepted, along with any improvements, modifications, or structures constructed thereon.

ARTICLE 4. LEASE PAYMENTS

Lease Payments

Section 4.01. Lessee shall pay monthly lease payments during the term of this Lease, in advance, on or before the first day of each month, to Lessor at 400 Redcliff Drive, Redding, California, 96002. In the event the Closing (referenced in Section 3.01) shall occur on a date other than the first day of a month, Lessee shall pay Lessor at the Closing a prorated amount reflecting that portion of the monthly lease payment from the date of the Closing until the final day of that month, along with the following month's monthly lease payment.

Subject to further adjustment as provided within this Lease, the monthly lease payment during the term of this Lease shall be as follows:

LEASE YEAR	MONTHLY LEASE PAYMENT
1	$39,000.00
2	76,000.00
3	76,000.00
4	76,000.00
5	76,000.00
6	79,000.00
7	79,000.00
8	79,000.00
9	79,000.00
10	79,000.00
11-15	See (a) Below

(a) The monthly lease payment shall be subject to an increase at the commencement of the eleventh year of the term, as follows:

The Consumer Price Index-California, All Urban Consumers, All Items (1982-84), San Francisco/Oakland Average, published by the United States Department of Labor, Bureau of Labor Statistics, hereinafter designated "Index," which is in effect on the date of the commencement of the sixth year of the term, hereinafter designated "Beginning Index", shall be compared with the Index figure which is in effect on the date of the commencement of the eleventh year of the term, hereinafter designated "Adjustment Index". If the Adjustment Index has increased over the Beginning Index, the monthly lease payment shall be determined by multiplying the monthly lease payment provided in Section 4.01 by a fraction, the numerator of which is the Adjustment Index and the denominator of which is the Beginning Index.

Should the Index be changed such that the base year differs from that in effect at the commencement of the initial term, the Index shall be converted in accordance with the conversion factor published by the United States Department of Labor, Bureau of Labor Statistics. If the Index is discontinued or revised during the term, such other government index or computation with which is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

In no event shall the monthly lease payment, as adjusted, be less than the monthly lease payment in effect during the immediately preceding year of the term.

Not withstanding the foregoing, subject to further adjustment as provided in this lease, the monthly lease payment as adjusted pursuant to this Section 4.01 shall not exceed Eighty-Six Thousand Nine Hundred Dollars ($86,900).

(b) In the event that Lessee become delinquent in the payment of the monthly lease payment due hereunder, such amount shall bear interest from the date of delinquency until paid at the rate of two percent (2%) above the Prime rate as quoted by Bank of America on the first day of the preceding month.

Costs and Assessments

Section 4.02. If during the term of this Lease any improvements are made by a public agency which result in the imposition of a general or special assessment against the Premises or the land upon which the Premises are located, Lessee shall pay such accrued costs or assessments as additional rent.

ARTICLE 5. TAXES, UTILITIES AND SERVICES

Taxes

Section 5.01. Lessee agrees to pay to Lessor not less than ten (10) days prior to the delinquency date all taxes, fees and assessments of whatever nature that are levied upon the Premises, or otherwise, including, but not limited to, fees, taxes and assessments levied by any governmental agency or agencies as reflected on statements provided by Lessor.

The taxes, fees and assessments levied against the Premises during the first and last years of this Lease shall be prorated between Lessor and Lessee for purposes of this Section as of 12:01 a.m., on the date of commencement and termination, respectively, of this Lease.

Lessee shall pay before delinquency all taxes, assessments, fees and other charges that are levied and assessed against Lessee's personal property installed or located in or on the Premises and that become payable during the term. Upon demand of Lessor, Lessee shall furnish Lessor with satisfactory evidence of these payments.

Utilities

Section 5.02. Lessee shall pay, in addition to the rents above specified, all gas, electricity, sewer, water, trash disposal and any and all other utility charges levied, taxed or charged against the Premises during the term of this Lease. Lessor shall have no obligation to provide or make available utility services of any nature. Lessor shall not be liable to Lessee for the interruption of utility services.

ARTICLE 6. IMPROVEMENTS AND REPAIRS

Mechanics' Liens

Section 6.01. Lessee shall not suffer or permit any mechanic's liens or materialmen's liens to be filed against the Premises nor against Lessee's leasehold interest in the Premises. Lessor shall have the right at all reasonable times to post and keep posted on the Premises such reasonable notices which it deems necessary for protection from such liens. If any such liens are so filed Lessor, at its election, may pay and satisfy the same and, in such event, the sums so paid by Lessor, with interest at the maximum rate an individual is permitted by law to charge per annum from the date of payment, shall be deemed to be an additional lease payment due and payable by Lessee at once without notice or demand.

Maintenance and Repairs by Lessee

Section 6.02. Lessee shall, at its own cost and expense, maintain the Premises so that at all times the Premises and appurtenances thereto shall be in good order, condition and repair. Lessee shall not make alterations, modifications, additions or improvements to the Premises without the prior written consent of Lessor, which consent shall not be unreasonably withheld.

Should the Premises or any building or improvement thereon be damaged or destroyed during the term of this Lease, Lessee shall, subject to the provisions of this Section, at its own cost, forthwith rebuild, restore and reconstruct the same to substantially the condition in which the same existed immediately prior to such damage or destruction, and all insurance proceeds received by Lessor or Lessee or both of them on account thereof shall be used, in full, to defray such costs.

All alterations, improvements, or changes to the Premises shall become the property of Lessor and shall remain upon and be surrendered with the Premises at the end of the term of this Lease free and clear of all encumbrances of any kind or nature. At the end of the term of this Lease, Lessor shall have the right to require Lessee to remove all personal property of Lessee. With the written consent of Lessor, Lessee shall have the right to leave its personal property on the Premises. If Lessee's personal property is left on the Premises without the written consent of Lessor the title to such personal property shall automatically transfer to Lessor at the end of the term of this Lease. Lessee hereby agrees to hold Lessor harmless for the retention or disposition of such property.

Right of Inspection

Section 6.03. Lessor or any duly authorized agents of Lessor shall have the right at all reasonable times to inspect the Premises during normal business hours upon giving prior notice to Lessee. Lessee shall not modify, replace, install, or otherwise change in any manner a locking mechanism, security device or the key or combination associated therewith without the prior written consent of Lessor. The provisions of this Section are not in limitation of any other rights of Lessor as provided within this Lease.

Condemnation

Section 6.04. If title to the entirety of the Premises is taken for any public or quasi-public use under any statute or by right of eminent domain, or other governmental authority of a similar nature, or if so much of the Premises is taken as will render impractical the use of the remainder of the Premises for the use and purpose for which the Premises are leased, this Lease shall terminate on the date that the Premises are so taken. The damages awarded for the taking of the Premises shall belong to Lessor and Lessee shall make no claim for the value of the unexpired term hereof.

In the event of a partial taking, the rental amount contained within
Section 4.01 herein shall be reduced in a direct ratio as the value of the portion taken bears to the value of the whole of the area of the Premises; provided however, should the portion so taken render impractical the use of the remainder of the Premises for the contemplated use thereof, then all rents shall cease and this Lease shall be deemed terminated.

If any part of the Premises shall be so taken and the remaining part of the Premises shall be reasonably suited for Lessee's continued occupancy for the purpose and uses for which the Premises are leased, the Lease shall, as to the part so taken, terminate as of the date that possession of such part is taken, while continuing in effect for the remainder of the Premises.

A voluntary sale by Lessor to any body having power of eminent domain, either under threat of condemnation or while condemnation proceedings are pending, shall be deemed a taking by eminent domain for the purposes of this article.

ARTICLE 7. INSURANCE AND INDEMNIFICATION

Duty of Lessee to Provide Liability Insurance

Section 7.01. Lessee agrees to, and shall, during the term of this Lease, secure from a good, responsible company or companies doing insurance business in the State of California and maintain during the term of this Lease public liability insurance for the joint and several protection and indemnity of Lessor and Lessee with limits for bodily injury or death of not less than two hundred and fifty thousand dollars ($250,000.00) per person, and one million dollars ($1,000,000.00) per occurrence in case of injury or death to more than on person in the same accident and/or property damage. Lessee further agrees to secure and maintain at its sole expense insurance covering fire and special form, naming Lessor (and Lessor's lender) as additional insured; said insurance shall be maintained at all times during the term of this Lease in an amount equal to 100% of the present day replacement cost of the improvements, and said amount of insurance coverage shall be adjusted on each renewal, or at least every year, whichever occurs first, in keeping with the then current building cost. Lessor and Lessor's lender shall be provided with a certificate of insurance which verifies the required coverage(s). The proceeds of the aforementioned fire and special form insurance shall be used exclusively for restoration of the Premises unless this Lease is terminated, in which case said proceeds shall be the property of and paid to Lessor. Lessee shall further secure and maintain pollution liability insurance in such form and with such limits as may be reasonably required by Lessor or as required by governmental or quasi-governmental rules and/or regulations; such policy shall name Lessor (and Lessor's lender) as an additional insured.

Indemnification of Lessor

Section 7.02. Lessee agrees to hold Lessor harmless from and defend Lessor against any and all claims or liability for any injury or damage to any persons or property whatsoever occurring in, on, or about the Premises which is in any part or in whole caused by the act, negligence or fault of, or omission of, any duty of Lessee, its agents, servants, or employees.

Exculpation of Lessor

Section 7.03. Lessor shall not be liable to Lessee for any injury or damage within the leased Premises which results to any person or the personal properly of Lessee, or any other person, by or from any cause whatsoever, unless caused by the gross negligence or willful misconduct of Lessor.

ARTICLE 8. DEFAULT

Acts of Default Defined

Section 8.01. The occurrence of any of the following shall be deemed a default by Lessee:

(a) Use of the Premises for any use other than as authorized in this Lease.

(b) Failure to pay the rent herein reserved or any other sums owing when due.

(c) Failure by Lessee to observe, keep and perform any of the terms, conditions, agreements and provisions contained in this Lease, if such failure is not cured within thirty (30) days after written notice has been provided to Lessee. If the default cannot reasonably be cured within said thirty (30) days, Lessee shall not be in default of this Lease if Lessee commences to cure the default within the thirty (30) day period and diligently and in good faith continues to cure the default.
(d) The abandonment of the Premises by Lessee without rental payment; the filing of either voluntary or involuntary proceedings by or against Lessee in the bankruptcy court; the making by Lessee of a general assignment for the benefit of creditors; the taking by Lessee of the benefit of any insolvency act or law; the appointment of a permanent receiver or trustee in bankruptcy for Lessee's property; the appointment of a temporary receiver which is not vacated or set aside within ninety (90) days from the date of such appointment.

Lessor's Remedies in Event of Default

Section 8.02. Lessor shall have the following remedies if Lessee commits a default. These remedies are not exclusive; they are cumulative in addition to any remedies now or later allowed by law:

(a) Lessor has the remedy described in California Civil Code Section 1951.4. (Lessor may continue lease in effect after Lessee's breach and abandonment and recover rent as it becomes due, if Lessee has right to sublet or assign, subject only to reasonable limitations). Lessor can continue in effect, as long as Lessor does not terminate Lessee's right to possession, and Lessor shall have the right to collect rent when due. During the period Lessee is in default, Lessor can enter the Premises and relet them, or any part of them, to third parties for Lessee's account. Lessee shall be liable immediately to Lessor for all costs Lessor incurs in reletting the Premises including, without limitation, broker's or Realtor's commissions and like costs. Reletting can be for a period shorter or longer than the remaining term of this Lease. Lessee shall pay to Lessor the rent due under this Lease on the date the rent is due, less the rent Lessor received from any reletting. In no event shall Lessee be entitled to any excess rent received by Lessor. No act by Lessor allowed by this paragraph shall terminate this Lease unless Lessor notifies Lessee that Lessor elects to terminate this Lease. After Lessee's default and for as long as Lessor does not terminate Lessee's right to possession of the Premises, if Lessee obtains Lessor's prior written consent, Lessee shall have the right to assign or sublet its interest in this Lease, but Lessee shall not be released from liability; Lessor's consent to a proposed assignment or subletting shall not be unreasonably withheld.

(b) Lessor can terminate Lessee's right to possession of the Premises at any time. No act by Lessor other than giving notice to Lessee shall terminate this Lease. Acts of maintenance, efforts to relet the Premises, or the appointment of a receiver on Lessor's initiative to protect Lessor's interest under this Lease shall not constitute a termination of Lessee's right to possession. Upon termination, Lessor has the right to recover from Lessee:

(1) The worth, at the time of the award, of the unpaid rent that had been earned at the time of termination of this Lease;

(2) The worth, at the time of the award, of the amount by which the unpaid rent that would have been earned after the date of termination of this Lease until the time of award exceeds the amount of the loss of rent that Lessee proves could have been reasonably avoided;

(3) The worth, at the time of the award, of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of the loss of rent that Lessee proves could have been reasonably avoided; and

(4) Any other amount and court costs necessary to compensate Lessor for all detriment proximately caused by Lessee's default.

"The worth, at the time of award," as used in (1) and (2) of this subsection (b), is to be computed by allowing interest at the maximum rate an individual is permitted by law to charge. "The worth, at the time of award," as used in (3) of this subsection (b), is to be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one (1) percent.

(c) At any time during this Lease, rent not paid when due shall bear interest at the maximum rate an individual is permitted by law to charge.

(d) If at any time during this Lease Lessee shall commit a default, Lessor may cure the default at Lessee's cost. If Lessor at any time, by reason of Lessee's default, pays any sums or does any act that requires the payment of any sum, the sum paid by Lessor shall be due immediately from Lessee to Lessor at the time the sum is paid and, if paid at a later date, shall bear interest at the maximum rate an individual is permitted by law to charge from the date the sum is paid by Lessor until Lessor is reimbursed by Lessee. The sum, together with interest on it, shall be additional rent.

Delay or Omission Not A Waiver

Section 8.03. No delay or omission in the exercise of any right or remedy of Lessor on any default by Lessee shall impair such a right or remedy or be construed as a waiver.

The receipt and acceptance by Lessor of delinquent rent shall not constitute a waiver of any other default; it shall constitute only a waiver of timely payment for the particular rent payment involved.

No act or conduct other than a notice from Lessor to Lessee shall constitute acceptance of the surrender of the Premises and accomplish a termination of this Lease.

Lessor's consent to or approval of any act by Lessee requiring Lessor's consent or approval shall not be deemed to waive or render unnecessary Lessor's consent to or approval of any subsequent act by Lessee.

Any waiver by Lessor of any default shall not be a waiver of any other default concerning the same or any other provision of this Lease.

ARTICLE 9. GENERAL PROVISIONS

Lessee's Certification

Section 9.01. Lessee shall at any time and from time to time, upon not less than ten (10) days' prior request by Lessor, execute, acknowledge and deliver to Lessor a statement in writing certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating the modifications) and, if so, the dates to which the fixed rent and any other charges have been paid in advance, it being intended that any such statement delivered pursuant to this Section may be relied upon by any prospective purchaser or encumbrancer of the Premises.

Subordination

Section 9.02. This Lease is and shall be subordinate to any encumbrance now of record or recorded after the date of this Lease affecting the Premises. Such subordination is effective without any further act of Lessee. Lessee shall from time to time at the request of Lessor execute and deliver any documents or instruments that may be required by a lender to effectuate any subordination. If Lessee fails to execute and deliver any such documents or instruments, Lessee irrevocably constitutes and appoints Lessor as Lessee's special attorney-in-fact to execute and deliver any such documents or instruments. Notwithstanding the foregoing, with respect to the Right of First Negotiation referenced in Section 9.17, if Lessor's lender requires that this Lease be subordinate to any such encumbrance, Lessor shall provide prior notice to Lessee and Lessee shall provide Lessee's consent to such subordination.

Covenants

Section 9.03. It is mutually agreed that the letting hereunder is made subject to the terms, covenants and conditions of this Lease and that Lessee covenant as a material part of the consideration for this Lease to keep and perform each and all of said terms, covenants, and conditions by Lessee to be kept or performed and that this Lease is made upon the condition of such performance. All provisions, whether covenants or conditions, on part of Lessee shall be deemed to be both covenants and conditions.

Time of Essence

Section 9.04. Time is of the essence in the performance of each of the provisions of this Lease.

Attorney's Fees

Section 9.05. In the event of commencement of suit to enforce the terms and conditions of this Lease, the prevailing party shall be entitled to recover its reasonable attorney's fees and court costs, in addition to such other award as may be made by the Court.

Notices

Section 9.06. Any notices, demands, or communication under, or in connection with this Lease may be served upon Lessor by personal service, or by mailing the same by registered or certified mail in the United States Post Office, postage prepaid, and directed to Lessor at 400 Redcliff Drive, Redding, California, 96002, and may likewise be served upon Lessee by personal service or by so mailing by registered or certified mail and directed to Lessee at 195 East Auto Center Drive, Fresno, California, 93710. Either Lessor or Lessee may change such address by notifying the other party in writing as to such new address as Lessee or Lessor may desire used and which address shall continue as the address until further written notice.

Sole Agreement

Section 9.07. This instrument contains all of the agreements and conditions made between the parties to this Lease and may not be modified orally or in any other manner than by an agreement in writing signed by all the parties to this Lease or their respective successors in interest.

Agency

Section 9.08. Nothing contained in this Lease shall be deemed or construed by the parties hereto or by any third person to create the relationship of principal and agent or of partnership or of joint venture or of any other association other than Lessor and Lessee.

Interpretation

Section 9.09. This Lease shall be construed and interpreted in accordance with the laws of the State of California.

Severability

Section 9.10. The unenforceability, invalidity or illegality of any provision of this Lease shall not render the other provisions unenforceable, invalid or illegal.

Paragraph Headings

Section 9.11. Paragraph headings are for convenience only and are not to be construed as defining, limiting or modifying the provisions hereof.

Binding Nature of Agreement

Section 9.12. This Lease shall extend to and be binding upon and inure to the benefit of the heirs, executors, administrators, successors and assigns of the respective parties hereto.

Rule of Construction

Section 9.13. The parties to this Lease agree to waive any and all rights to apply the rule of construction which provides that ambiguities are to be resolved against the drafter of the agreement. The parties agree that ambiguities, if any, are to be resolved in the same manner as would have been the case if this Lease had been jointly conceived and drafted.

Triple Net Lease

Section 9.14. All provisions of this Lease shall be construed to the end that during the Lease, Lessor shall not be required to incur any costs or expenses or make any payments with respect to the Premises except as expressly herein set forth.

Reciprocal Access Rights

Section 9.15. Lessee shall provide unfettered access to Lessor and its lessees and respective agents, assigns, and invitees for purposes of ingress and egress to and upon the common driveway/entryway located at the North and South boundaries of the Premises. Lessee further agrees that the construction, placement or installation of fencing, walls, or other obstruction (including landscaping) in excess of thirty (30) inches in height between the Premises and the adjacent property is prohibited. The Lessee acknowledged and agrees to stand in the place and stead of Lessor with respect to any reciprocal grants of easement respecting the Premises, including, but not limited to, those certain agreements entered into between Lessor and Richard Kellejian and Krausz Enterprises. The parties further agree that in the event Lessee shall exercise its option to purchase the Premises as provided in this Lease, that prior to close of escrow the grant deed shall contain a restriction and/or reciprocal access easement(s) which will be recorded and contain language which is consistent with the subject matter described in this Section. The parties agree to execute such documents and take such steps as are reasonable and necessary in order to further the foregoing. The Lessee acknowledges and agrees that this Lease is subject to all matters of record.

Memorandum of Lease

Section 9.16. This Lease shall not be recorded. Upon the request of either party, the parties agree to execute and record a Memorandum of Lease in the form attached hereto as Exhibit "C".

Lessee's Right of First Negotiation

Section 9.17. If Lessor determines to sell or to relet the premises for a term commencing subsequent to the expiration of this Lease, Lessor shall notify Lessee in writing of the terms upon which Lessor shall be willing to sell or relet. If Lessee, within fifteen (15) days after service of Lessor's notice, indicates in writing Lessee's agreement to purchase or relet the Premises on the terms stated in Lessor's notice or upon such terms which may have been mutually agreed to by the parties Lessor shall sell and convey, or relet, the Premises to Lessee upon those terms. If Lessee does not indicate its agreement within fifteen (15) days, Lessor shall thereafter have the right to sell and convey, or relet, the Premises to a third party whether or not on the same terms as stated in the notice. Lessor shall have no obligation to notify Lessee of any future transaction(s) and the provisions of this Section shall not be applicable to any such transaction(s).

If Lessee purchases the Premises, this Lease shall terminate on the date of recordation of the deed.

Lessee's right of first negotiation shall not apply to a transfer between Lessor and a blood relative of Lessor, either outright or in trust, or to a legal entity (i.e., partnership, corporation, trust, or like entity) in which the majority interest is owned by Lessor.

Lessor's Consent Prior to Relinquishment/Sale of Franchise(s)

Section 9.18. Lessee acknowledges that an important aspect of Lessor's consideration with regard to entering into this Lease is Lessee's presently holding the franchises for the sale and servicing of new Ford vehicles. Lessee agrees that it will not sell, transfer or relinquish the above-reference franchise without the prior written consent of Lessor, which consent shall not be unreasonably withheld.

Option to Purchase

Section 9.19.

(a) Exercise of Option. Provided Lessee is not in default under this Lease, Lessee shall have an option to purchase the Premises during the option period. The option period shall commence December 1, 1997, and shall expire at the close of business on November 30, 1998. Lessee shall provide written notice to Lessor during the option period of Lessee's exercise of its option to purchase.

(b) Purchase Price. In the event Lessee shall exercise its option to purchase pursuant to this Section, the purchase price to be paid by Lessee shall be Nine Million One Hundred Thousand Dollars ($9,100,000.00), all cash net to Lessor. Payment of the purchase price by Lessee shall be in cash or by certified or cashier's check to Lessor. The conveyance of the title to Lessee shall be by Grant Deed and in form for recording and shall convey the fee title to the Premises to Lessee, subject to all matters of record.

(c) Escrow. In the event Lessee shall provide the specified notice of Lessee's option to purchase, Lessee shall, and hereby covenants and agrees to, complete such purchase upon the terms herein indicated. Upon exercise of such option by Lessee, the parties shall, within five (5) business days, open an escrow at Chicago Title Company, 1647 Court Street, Redding, California, for the consummation of the sale transaction. Said escrow shall be on the terms provided in this Section. Lessee shall pay the cost of said escrow, transfer stamps, title insurance and all other expenses, and Lessee shall receive from escrow at the close thereof a standard owner's CLTA policy of title insurance in the sum of the purchase price. The escrow instructions shall provide that escrow shall close within sixty (60) days from opening of escrow.

(d) Lessor's Right to Sell. Notwithstanding the option granted to Lessee by this Section, Lessor shall have the right at any time to sell the Premises to any person or entity, provided that any such sale shall not invalidate Lessee's rights under this Section. Lessor shall first notify Lessee promptly in writing of the fact, in order that Lessee may exercise his rights pursuant to Section 9.17 herein.

(e) The sale of the Premises is made on "As-Is" basis, and Lessor makes no warranty, either express or implied, with respect to the property.

Continuing Guaranty of Performance

Section 9.20. In the event of an assignment by Lessee pursuant to the agreement referenced in Section 2.03, Lessee and any/all partners, owners, or shareholders of the assignee agree to execute the Continuing Guaranty of Performance which is attached hereto as Exhibit "B" and incorporated herein by reference.

Execution

IN WITNESS WEHREOF, the parties hereto have executed this Lease as of the date and the year first hereinabove set forth.

LESSOR:

BR ENTERPRISES

By: /s/ BR Enterprises
General Partner

LESSEE:

LITHIA MOTORS, INC.

By: /s/ B. Gray
Executive Vice President

CONSENT TO ASSIGNMENT OF LEASE

155, 165, 175 AND 195 E. AUTO CENTER DRIVE

FRESNO, CALIFORNAI

BR Enterprises, as the Lessor under that certain Lease Agreement dated September 3, 1997, between BR Enterprises (Lessor), and Lithia Motors, Inc., an Oregon corporation (Lessee), hereby consents to the assignment of Lessee's interest to Lithia Real Estate, Inc., a wholly owned subsidiary of Lithia Motors, Inc. Lessor also gives Lithia Real Estate, Inc., the right to sublease the property to any other wholly owned subsidiary of Lithia Motors, Inc., subject to obtaining the prior written consent of Lessor, which will not be unreasonably withheld, and the owner(s), partners or shareholders of said assignee(s) executing a Continuing Guaranty of Performance in the form set forth in Exhibit B.

The Lessee has also executed a Continuing Guaranty of Performance, which is attached hereto and incorporated herein by reference.

BR ENTERPRISES

/s/ BR Enterprises *11-25-97*

LITHIA MOTORS, INC.

/s/ Sidney B. DeBoer *11-18-97*

CONTINUING GUARANTY OF PERFORMANCE

TO:

1. For valuable consideration the undersigned, hereinafter designated "Guarantors", unconditionally guarantee and promise to perform for or in favor of BR Enterprises, hereinafter designated "Lessor", or order, on demand, any and all contractual obligations of Lithia Real Estate, Inc., an Oregon corporation, hereinafter designated "Lessee", to Lessor. The words "contractual obligations" as used herein include, but are not limited to, the prompt and complete performance or satisfaction by Lessee of any and all covenants, conditions, warranties, representations, promises and/or undertakings contained in any lease agreement or addendum or modification thereto, or other agreement relating thereto, hereinafter designated the "Agreement", entered into between Lessee and Lessor, now existing or hereafter entered into between Lessee and Lessor, and the payment of all damages, costs, expenses and other losses which by virtue of the Agreement, or any breach or non-performance thereunder, become recoverable by Lessor from Lessee.

2. This Guaranty shall bind and obligate each of the undersigned, their heirs, successors and assigns, with Lessee, jointly and severally, for the performance of said contractual obligations precisely as of the same had been contracted and was due and owing by them in person. The obligations hereunder are independent of the obligations of Lessee and a separate action or actions may be brought and prosecuted against any one or more Guarantors, whether action is brought against Lessee; Guarantors waive the benefit of any statute of limitations affecting their liability hereunder or the enforcement thereof. Guarantors further waive any action required by any statute, upon notice, against Lessee or Guarantors.

3. This Guaranty shall not be revocable at any times or times by the undersigned Guarantors, and shall in all respects remain in force and effect as to said contractual obligations.

4. Lessor may, without notice, assign this Guaranty in whole or in part.

5. Guarantors waive any right to require Lessor to (a) proceed against Lessee; or (b) pursue any other remedy in Lessor's power whatsoever. Guarantors waive any defense arising by reason of any disability or other defense of Lessee or by reason of the cessation, from any cause whatsoever, of the liability of Lessee. Until all contractual obligations of Lessee shall have been paid in full, Guarantors shall have no right to enforce any remedy which Lessor now has, or may hereafter have, against Lessee, or to participate in or have the benefit of any security now or hereafter held by Lessor. Guarantors waive all demands for performance, notices of non-performance and/or the existence, creation, or incurring of new or additional contractual obligations between Lessor and Lessee.

6. Guarantors agree to pay a reasonable attorney's fee and all other costs and expenses which may be incurred by Lessor in the enforcement of this Guaranty.

7. All words used herein in the plural shall be deemed to have been used in the singular and all words used in the masculine shall include the feminine and neuter, where the context and construction so require; upon execution of this Guaranty by more than one Guarantor, the word "Guarantors" shall mean all and any one of them.

IN WITNESS WHEREOF, the undersigned Guarantors have executed this Guaranty this 18th day of November, 1997.

LITHIA MOTORS, INC.

By: /s/ Sidney B. DeBoer
President

(Shareholder of Lithia Real Estate Inc.)

By: /s/ Sidney B. DeBoer
President

(Shareholder of Lithia Real Estate Inc.)

By: _____
Its: _____

EXHIBIT 10.27.1

AGREEMENT FOR PURCHASE AND SALE OF BUSINESS ASSETS

THIS AGREEMENT is entered into by and between MEDFORD NISSAN, INC. dba "MEDFORD NISSAN BMW KIA" (hereinafter referred to as "Seller"), LITHIA MOTORS, INC. or its nominee (hereinafter referred to as the "Buyer"), and JAMES D. PLUMMER (hereinafter referred to as "Plummer").

RECITALS:

Seller is an Oregon business corporation engaged in the business of selling and servicing Nissan, BMW and Kia automobiles and trucks and related parts and accessories from premises located at 600 and 613 North Central, Medford, Oregon, under franchises issued by Nissan Motor Corporation in USA, BMW of North America, Inc. and Kia Motors America, Inc. Plummer owns all of the outstanding shares of Seller.

Buyer wishes to purchase from Seller, and Seller is willing to sell to Buyer, all assets relating to Seller's Nissan and BMW motor vehicle franchises, conditioned upon the granting to Buyer of exclusive franchises for the sale of new Nissan and BMW vehicles in the same geographical area as Seller's current franchises.

Buyer (or a related entity) also wishes to lease (with an option to purchase) and/or sublease all of the real property and improvements which constitute the business Real Property, and the purchase of Seller's business assets shall be conditioned upon the simultaneous closing of a lease for the Business Real Property by Buyer.

NOW, THEREFOR, IN CONSIDERATION OF the mutual promises set forth herein, the parties agree as follows:

1. Definitions. In this Agreement, the following words shall have the indicated meanings:

(a) "Date of this Agreement" shall refer to the first date upon which this Agreement has been signed by all of the parties.

(b) "Closing" shall refer to the consummation of the transaction contemplated under this Agreement in accordance with the terms hereof, and "closing Date" shall refer to the actual date of Closing. "Target Closing Date" shall refer to January 2, 1998. "Final Closing Date" shall refer to March 2, 1998.

(c) "Seller's Business" shall refer to any and all activities conducted by Seller within Jackson county, Oregon, relating to the marketing and sale of new Nissan and BMW vehicles and associated parts and accessories, and the repair and servicing of new or used Nissan and BMW vehicles.

(d) "Purchased Assets" shall refer to those assets which are identified in Paragraph 2 as being purchased and sold by the parties hereunder.

(e) Seller's "Equipment" shall refer to all non-inventory items of tangible personal property owned or used by Seller in connection with Seller's Business, including all of Seller's machinery, tools, signs, office equipment, computer equipment, computer programs, microfiches, parts lists, repair manuals, sales or service brochures, furniture and fixtures, and all of Seller's leasehold improvements to the Business Real Property, and further including all assets listed on Seller's financial statements as of December 31, 1996.

(f) Seller's "Intangible Assets" shall refer to Seller's business name ("Medford Nissan, BMW and Kia"), telephone and fax numbers, service customer lists, sales customer lists, vehicle sales records, vehicle service records, all Nissan and BMW franchise rights, all rights of Seller under any and all contracts and agreements (including but not limited to lease agreements and maintenance contracts) assigned to and assumed by Buyer pursuant to this Agreement, all goodwill associated with Seller's business, and any and all other intangible rights and interests of any value relating to Seller's business.

(g) "Business Real Property" shall refer to all of the real property in Jackson County, Oregon which has been used by Seller in connection with Seller's Business, which real property is commonly identified as 600 North Central and 613 North Central, Medford, Oregon, together with the vacant parcel of approximately 2/3 acre located adjacent to the Nissan dealership, and together with the property commonly identified as the "detail shop" which is located behind and adjacent to the BMW dealership.

(h) "Franchisors" shall refer to Nissan Motor Corporation in USA and BMW of North America, Inc.

(i) "New Vehicles" shall refer to and include only those Nissan and BMW motor vehicles which: (i) are unregistered and unused, (ii) are from the 1997 or 1998 model year, (iii) have been driven for less than 500 odometer miles, and (iv) may be represented or warranted to consumers as "new" under Oregon law. "Unused Vehicles" shall mean any vehicles which are not new vehicles.

(j) All amounts payable by Buyer to Seller at Closing under the terms of this Agreement shall be paid by certified check drawn against a bank of Buyer's choice having offices located in Jackson County, Oregon, or by whatever other mans shall be acceptable to Seller.

2. Purchased Assets. Seller agrees to sell to Buyer, and buyer agrees to purchase from Seller, the assets identified in Paragraphs 3, 4, 5, 6, 7, 8, 9 and 10 of this Agreement (the "Purchased Assets"). Excluded from this transaction are Seller's cash, accounts receivable, notes receivable, banking accounts and deposits, and all other assets not identified in Paragraphs 3, 4, 5, 6, 7, 8, 9 and 10 of this Agreement.

3. Inventory of New Vehicles. Buyer shall purchase Seller's entire inventory of new Nissan and BMW vehicles, as that inventory exists on the Closing Date. Prior to the closing Date, Seller shall not purchase any new vehicles, execute purchase orders for the purchase of any new vehicles, or otherwise commit to the purchase of any new vehicles other than in the ordinary course of business. The maximum price payable by Buyer for Seller's new car inventory shall be $5,000,000.00, and Seller shall have the responsibility to maintain Seller's new car inventory at or below that value.

(a) Price of New Vehicles. Subject to the adjustment required under subparagraph 3(b), the purchase price for each of the new vehicles shall be equal to Seller's factory invoice cost, reduced by any factory hold-backs, factory rebates, factory incentives, carryover model allowances, floor plan allowances, finance cost allowances, advertising allowances, and any other items which should reasonably be deducted in order to establish Seller's actual net cost for each vehicle, and further reduced by the actual net cost for any and all accessories, equipment and parts which are missing from a vehicle. Seller shall be entitled to receive directly from Franchisors all holdbacks, rebates, incentives, allowances and other items referred to in the preceding sentence which shall have accrued prior to Closing and which reduce Buyer's purchase price for Seller's new vehicles. Seller's actual net cost for new vehicles shall include Seller's actual net cost for any and all parts and accessories reasonably installed by Seller to any new vehicle in the ordinary course of business, but shall not include any other vehicle preparation charges, labor charges or other dealer charges of any kind.

(b) Adjustment to Purchase Price for Vehicles form 1997 Model Year. The purchase price for each new 1997 vehicle as determined under subparagraph 3(a) shall be adjusted as follows:

(1) If Closing takes place on or before the 60th day after the introduction of the 1998 model of a specific vehicle, then there shall be no adjustment int he purchase price for the units of the 1997 model of that vehicle which are purchased by Buyer from Seller.

(2) If Closing takes place after the 60th day but on or before the 120th day after the introduction of the 1998 model of a specific vehicle, then there shall be a $375.00 adjustment in the purchase price for the units of the 1997 model of that vehicle which are purchased by Buyer from Seller.

(3) If Closing takes place after the 120th day after the introduction of the introduction of the 1998 model of a specific vehicle, then there shall be a $750.00 adjustment in the purchase price for the units of the 1997 model of that vehicle which are purchased by Buyer from Seller.

(c) Deduction for Damage to New Vehicles. Immediately prior to Closing, Buyer and Seller shall jointly inspect Seller's inventory of new vehicles. If any vehicle in Seller's inventory of new vehicles is damaged, and if the cost of repairing that damage is less than $1,000.00, the Buyer shall be obligated to purchase that vehicle as a new vehicle, and the price for that vehicle, as determined under subparagraphs 3(a) and 3 (b), shall be reduced by the actual net cost to Buyer of repairing that damage. If Buyer

and Seller are unable to agree upon the actual net cost to buyer of repairing the damage to a new vehicle, then Buyer and Seller shall select an independent third party to determine that repair cost, which determination shall be binding upon both Buyer and Seller.

(d) Payment for New Vehicles. The aggregate purchase price for all new vehicles purchased by Buyer from Seller hereunder shall be paid in full at Closing.

(e) Purchase Orders for New Vehicles. Immediately prior to Closing, Buyer and Seller shall jointly review Seller's outstanding purchase orders for new vehicles ordered but not delivered prior to the Closing DATe. At Closing, Seller shall assign to Buyer, and Buyer shall assume from Seller, all of Seller's rights (including customer deposits) and obligations (including sales commissions) under such purchase orders; provided, however, that Buyer shall not be obligated to assume Seller's rights or obligations with respect to any new vehicle purchase order which is at a price less than factory invoice, or which provides for a trade-in at a price or under terms unacceptable to Buyer. At Closing, buyer shall reimburse Seller for any and all deposits or other payments made by Seller with respect to any ordered but undelivered new vehicles.

4. Buyer's Option to Purchase Seller's Inventory of Used Vehicles. Buyer shall have the option at Closing to purchase Seller's entire inventory of used vehicles, as that inventory exists at Closing.

(a) Disclosures. If Buyer expresses an interest in purchasing Seller's inventory of used vehicles, then Seller shall be obligated to: (i) disclose to Buyer any and all facts concerning each used vehicle which Seller would be legally obligated to disclose to a consumer (including but not limited to known damage and usage history), and (ii) provide to Buyer legal odometer statements and free and clear title for each of the purchased vehicles.

(b) Price for Used Vehicles. If Buyer wishes to purchase Seller's inventory of used vehicles, the aggregate purchase pride for those vehicles shall be that certain price determined by mutual agreement of Buyer and Seller. If Buyer and Seller are unable to agree upon a price for Seller's inventory of used vehicles, then Buyer shall have not right or obligations to purchase that inventory. Buyer and Seller agree to establish the proposed purchase price for Seller's inventory of used vehicles at least three business days prior to the anticipated Closing Date.

(c) No Right to Purchase Less than Entire Inventory of Used Vehicles. buyer's only option with respect to Seller's inventory of used vehicles shall be to purchase either all of those used vehicles or none of those used vehicles, and Buyer shall have no right to compel Seller to sell to Buyer only a portion of Seller's used vehicles.

(d) Payment for Used Vehicles. The aggregate purchase price for all used vehicles purchased by Buyer from Seller hereunder shall be paid in full at Closing.

(e) Storage of Unpurchased Used Vehicles. If Buyer does not elect to purchase Seller's inventory of used vehicles, then Seller shall have thirty (30) days after closing within which to remove Seller's inventory or used vehicles from the Business Real Property. Seller shall have sole and exclusive risk and liability for any damage or loss to Seller's inventory of used vehicles while so stored on the Business Real Property after Closing, and Buyer shall have not liability or obligation of any kind by reason of any such damage or loss.

5. Inventory of New Parts and Accessories. Buyer shall purchase Seller's entire inventory of new, current (non-obsolete) and undamaged Nissan and BMW vehicle parts and accessories manufactured by Franchisors and/or third party suppliers, as that inventory exists on the Closing Date. Buyer shall have no obligation to purchase from Seller any parts or accessories which are used, damaged or obsolete. For purposes of this Paragraph 5, a part or accessory shall be "obsolete" on the Closing Date if not then returnable to the supplier from which that part was originally purchased, or if not then listed in the supplier's then-current price and parts books. Prior to Closing, Seller shall maintain Seller's inventory of parts and accessories at a level consistent with good business practices and Seller's normal and regular course of business.

(a) Price for Parts and Accessories. The purchase price for each item in Seller's inventory of new, current and undamaged parts and accessories for Nissan and BMW vehicles (whether manufactured by Franchisor or third party suppliers) shall be the net cost for that item as set forth int he most recent price book published by the supplier of that item, reduced

by any discounts (including quantity purchase or stock order discount), rebates, incentives or allowances which should reasonably be taken into account in order to establish what Buyer's net cost for that item would be if that item was purchased by Buyer directly from that supplier at the time of Closing.

(b) Determination of Inventory of Parts and Accessories. Seller's inventory of new, current and undamaged Nissan and BMW parts and accessories (whether manufactured by a Franchisor or by third parties) shall be determined immediately prior to Closing (or on whatever earlier date as shall be selected by mutual agreement of the parties) by a third party inventory service selected by mutual agreement of Buyer and Seller. Buyer and Seller each shall be responsible for fifty percent (50%) of the fees charged by the inventory service for conducting the inventory.

(c) Payment for Inventory of New Parts and Accessories. The purchase price for Seller's inventory of new parts and accessories shall be paid in full at Closing.

6. Equipment. Buyer shall purchase from Seller all of the Equipment other than the items listed on Exhibit "A" attached hereto (which items are being retained by Seller and are not being purchased by Buyer). Seller warrants to buyer that the items of Equipment being conveyed t Buyer constitute all of the items of tangible personal property (other than inventory, consumable supplies or those items listed in Exhibit "A") which, during the six months preceding Closing, shall have been owned and used by Seller in connection with Seller's Business. Buyer shall have the right to fully inspect the Equipment. buyer shall have thirty (30) days after the Date of this Agreement within which to notify Seller, in writing, of Buyer's dissatisfaction with the kind, quality and/or value of the Equipment being conveyed hereunder, and of Buyer's determination to rescind this transaction based on that dissatisfaction. If Buyer rescinds as provided in the preceding sentence, then any and all liabilities which either party might have to the other party under this Agreement shall thereupon terminate. Failure of Buyer to notify Seller in writing, within the thirty (30) day time limit, of Buyer's dissatisfaction with the kind, quality and/or value of the Equipment being conveyed hereunder shall be deemed an approval of the kind, quality and value that Equipment.

(a) Price for Equipment. The aggregate purchase price for all items of equipment being purchased by Buyer from Seller shall be One Hundred Fifteen Thousand and 11/100 Dollars ($115,000.00). Seller agrees that Buyer shall have the right to allocate the aggregate purchase price for the Equipment among the various items of Equipment in whatever manner Buyer, in the exercise of its discretion, believes will best reflect the relative fair market values of those items.

(b) Payment for Equipment. The aggregate purchase price for the Equipment being purchased by Buyer from Seller shall be paid in full at Closing.

7. Supplies. Buyer shall purchase all of the gas, oil, nuts, bolts, paper products, office supplies, and other automotive supplies which are held for use in Seller's Business; provided, however, that Buyer shall not be obligated to purchase used, damaged or obsolete items or supplies. Prior to Closing, Seller shall maintain Seller's inventory of supplies at a level consistent with good business practices and Seller's normal and regular course of business. The price for each item of the purchased supplies shall be Seller's actual net cost, as determined by mutual agreement of the parties, reduced by any discounts (including quantity purchase or stock order discounts), rebates, incentives or allowances which should reasonably be taken into account i order to establish what Buyer's net cost for that item would be if that item was purchased by buyer directly from that supplier at the time of Closing. The purchase price for Seller's supplies shall be paid to Seller at Closing.

8. Contractual Rights and Obligations. At Closing, Buyer shall assume all rights and obligations of Seller under those certain equipment leases and other contracts identified on Exhibit "B" t be attached hereto. Seller shall prepare and submit to Buyer, within 10 days after the date of this Agreement, a proposed Exhibit "B". Buyer shall have the right to refuse to permit any one or more of Seller's leases or other contracts to be included on Exhibit "B" (and assumed by Buyer under this Agreement), and Seller shall remain solely responsible for any such obligations refused by Buyer. Seller warrants that all of Seller's obligations under each of the contracts listed on Exhibit "B" shall be current at the time of closing. Seller agrees to indemnify and hold harmless Buyer from and against any and all claims, liabilities and obligations with respect to the contracts

identified on exhibit "B" which relate to periods prior to Closing. Buyer agrees to indemnify and hold harmless Seller from and against any and all claims, liabilities and obligations with respect to the contracts identified on Exhibit "B" which relate to periods subsequent to Closing.

9. Repair Work in Progress. Buyer shall purchase all of Seller's vehicle repair work in progress (in-house and subcontracted) at a price equal to Seller's actual net cost (before profit and overhead) for all work completed prior to closing. The purchase price for work in progress shall be paid at Closing.

10. Intangible Assets. Seller shall convey to Buyer all of Seller's Intangible Assets.

(a) Purchase of Goodwill. Buyer shall purchase Seller's goodwill for a purchase price of One Million Five Hundred Thousand and 00/100 Dollars (1,500,000.00).

(b) Payment of Purchase Price for Goodwill. The $1,500,000.00 purchase price for Seller's goodwill shall be payable by Buyer as follows"

(1) At Closing, buyer shall pay to Seller a down payment in the amount of Four Hundred Thousand and 00/100 Dollars ($400,000.00).

(2) The $1,100,000.00 balance of the purchase price for Seller's goodwill ($1,500,000.00 minus $400,000.00) shall be amortized and paid by Buyer as follows:

(i) During the period beginning on the Closing Date and ending on December 31, 1998, interest shall accrue on the outstanding balance of the purchase price at an interest rate equal to the "prime rate" on the Closing Date, as that "prime rate" is published in the Wall Street Journal (i.e. the base rate on corporate loans posted by at least 75% of the nation's 30 largest banks). On January 1, 1999, and on the first day of the months of April, July, October and January of each year thereafter until payment in full, the interest rate applicable to the outstanding balance of the purchase price for the calendar quarter beginning on that date shall be adjusted so as to be equal to the "prime rate" (as defined above) on that date(or, if the "prime rate" is not published in the Wall Street Journal on that date, on the first subsequent date for which the "prime rate" is published in the Wall Street Journal. If the Wall Street Journal stops publishing the "prime rate" (as defined above), then the "prime rate" for purposes of the adjustment required under the preceding sentence shall be established by reference to the commercial prime loan rate of an Oregon bank selected by mutual agreement to the parties.

(ii) The $1,100,000.00 deferred balance of the purchase price, together with all interest accruing thereunder as provided in subparagraph 10(b)(2)(i), shall be due and payable in equal monthly installments of Thirteen Thousand Nine Hundred Thirty Four and 34/100 Dollars ($13,934.34) each, with the first installment being due and payable on the date which is one calendar month after the Closing Date, and with subsequent installments being due and payable at one-month intervals thereafter on the same day of each month until the entire sum of principal and interest has been paid in full. Notwithstanding the preceding sentence, the entire deferred balance of the purchase price then outstanding shall be due and payable in full on the tenth anniversary after the closing Date.

(A) Buyer shall have the right at any time to prepay all or any portion of the unpaid balance of the purchase price, without penalty or premium. Any prepayment shall be applied against the last maturing installments of principal then due (with the principal balance being reduced accordingly), and shall not excuse Buyer from making the regular installment payments subsequently due until the principal balance has been paid in full.

(B) If Buyer fails to pay any amount of principal or interest due pursuant to this subparagraph 10(b)(2)(ii) within ten (10) days after the date when due, and if Seller notifies Buyer in writing of that default and Buyer fails to cure that default within ten (10) days after receipt of that written notice from Seller, then Seller shall have the right, at any time prior to the moment when Buyer cures that default, to declare (and thereby cause) the entire unpaid balance of the purchase price to be immediately due and payable.

(C) Buyer's deferred payment obligation as set forth in this subparagraph 10(b)(2)(ii) shall be evidenced by a negotiable promissory note (hereinafter the "Promissory Note") to be executed by Buyer and delivered to Seller at Closing. The Promissory Note shall be secured by a second deed of trust on the real property known as 600 and 613 North Central upon the exercise of the option to purchase described in paragraph 23(c).

(D) All payments by Buyer under the Promissory Note shall be paid to Jackson County Title Division Continental Lawyers Title Company, Medford, Oregon as collection escrow agent. Each of the parties agrees to execute whatever documents shall be necessary to establish a collection escrow account with Jackson County Title Division Continental Lawyers Title Company, Medford, Oregon as collection escrow agent Seller shall pay all of the fees and expenses charged by the collection escrow agent in connection with the establishment and maintenance of the collection escrow account. The collection escrow agent shall forward to Seller all payments received from Buyer.

(c) Reimbursement for No-Charge Repairs. Seller acknowledges that in order for Buyer to receive the full benefit of the intangible goodwill being purchased by Buyer hereunder, it will be necessary for Buyer to perform no-charge repair work and/or vehicle warranty work with respect to vehicles repaired or sold by Seller prior to Closing. In partial consideration of the $1,500,000.00 amount being paid by Buyer for Seller's goodwill, Seller agrees to reimburse Buyer for fifty percent (50%) of the retail cost to Buyer of repair and/or warranty services which are not covered by factory warranty and which are performed by Buyer within six (6) months after Closing in order to satisfy: (i) customers who are dissatisfied with repair services provided by Seller prior to Closing, and (ii) warranty claims with respect to new or used vehicles purchased from Seller prior to Closing. Seller agrees to reimburse Buyer pursuant to the preceding sentence on a monthly basis, with Seller's reimbursement payment for each month being delivered to Buyer within ten (10) days after the date when Buyer submits to Seller a billing for the full retail cost of all such repair and/or warranty services performed by Buyer during that month.

(d) Conveyance of Intangible Assets other than Goodwill. Seller agrees to convey to Buyer at closing, at no cost to Buyer, all of Seller's Intangible assets other than goodwill.

11. Limitation on Liabilities Assumed. Except as specifically provided in subparagraph 3(d), Paragraph 8 and Paragraph 9, Buyer shall not, by reason of this Agreement or by reason of Buyer's purchase of the Purchased Assets, assume or take responsibility for any liabilities, debts or obligations of Seller (including Seller's trade payables, account payables, obligations to employees, or tax liabilities).

12. Representations and Warranties of Seller. Seller and Plummer make the following warranties to Buyer, with the intent that Buyer rely thereon:

(a) Corporate Organization. Seller is a corporation organized, validly existing,a nd in good standing under the laws of the State of Oregon. Seller is qualified to do business in the State of Oregon, and has full power and authority to own, use, and sell its assets.

(b) Corporate Authority. Seller's board of directors and shareholders have authorized the execution and delivery of this Agreement to Buyer and the carrying out of its provision. At Closing, Seller will furnish to Buyer a copy of such authorization. This Agreement will not violate the provision of any judicial, governmental or administrative decree, order, writ, injunction, or judgment, and will not conflict with or constitute a default under Seller's bylaws, or any contract, agreement, or other instrument to which Seller is a party or by which it may be bound.

(c) Employee Issues. No employees of Seller are members of any union. Within 10 days after the date of this Agreement, Seller shall provide to Buyer the following: (i) a written disclosure of all benefits made available to Seller's employee's (including qualified and non-qualified retirement plans), (ii) a census of Seller's employees, and (iii) access to all personnel files for Seller's employees. All employee benefit plans maintained by Seller for its employees shall be fully funded prior to closing. Seller shall pay all wages, commissions, accrued vacation pay and other accrued compensation earned by Seller's employees prior to Closing. Seller shall be responsible for and shall pay all FICA and withholding taxes for employees which shall have accrued prior to Closing. Seller shall

terminate the employment of all or Seller's employees effective as of the close of business on the Closing Date. At Buyer's sole discretion, Buyer may (but shall not be obligated to) hire any of Seller's employees.

(d) Financial Disclosures. Prior to the date of this Agreement, Seller has provided to Buyer, an unaudited factor financial statement (including balance sheets and income statements) for Seller's Business for the 1996 calendar year. Seller shall promptly furnish to Buyer such other financial and operating data and other information relating to Seller's Business and the Business Real Property as Buyer shall request. The review of such materials will be at Buyer's expense. Seller warrants that all such financial statements and related materials provided to Seller shall fairly present the financial position of Seller's Business and the results of operation of Seller's Business for the periods covered thereby. Buyer (at Buyer's expense) shall have the right, at any time prior to Closing, to conduct a certified audit (by one or more certified public accounting firms selected by Buyer) of Seller's balance sheets and income and cash flow statements for recent periods, and Seller agrees to cooperate and assist in the prompt and efficient completion of all such audit activities, recognizing that the audit process may result in inconveniences or inefficiencies to Seller's Business.

(e) Undisclosed Liabilities and Contractual Commitments. Except as otherwise disclosed in this Agreement (or in an attached Exhibit), the following statement are true as of the date of this Agreement and shall be true at Closing: (i) Seller does not have any liabilities which might have a material impact on Buyer's use of the Purchased Assets, (ii) Seller is not a party to any contracts or commitments which might have a material impact on Buyer's use of the Purchased Assets, (iii) no law suit or action, administrative proceeding, arbitration proceeding, governmental investigation, or other legal or equitable proceeding of any kind is pending or threatened against Seller which might adversely affect the value of the Purchased Assets and (iv) Seller has all licenses, permits and authorizations required by any federal, state or local governmental or regulatory agency in order to operate Seller's Business, and knows of no reason why any such license or permit might be subject to revocation.

(f) Condition of Equipment. Each item of the Equipment shall be in good operating condition at Closing. Each item of the Equipment shall be in no worse condition at Closing than on the Date of this Agreement (reasonable wear and tear excepted). Seller will continue to perform routine maintenance and repairs with respect to the Equipment prior to Closing.

(g) Good Title. Seller has, and shall transfer to Buyer at Closing, good and marketable title to all of the Purchased Assets, free and clear of all security interests, encumbrances, liens, equities, charges, conditions of sale, leases, assessments, restrictions, reservations, obligations, title retention documents or other burdens of any kind. All current and accrued taxes which may become a lien against any of the Purchased Assets shall have been paid by Seller prior to Closing, including but not limited to property taxes, sales taxes and excise taxes; provided, however, that Buyer shall be responsible for all such taxes accruing subsequent to Closing.

(h) No Toxic Materials Discharged. To the best of Seller's and Plummer's knowledge, and except as otherwise disclosed by Seller to Buyer in writing on Exhibit "C" attached hereto: (i) no activity in connection with Seller's Business prior to Closing shall have produced any toxic materials, the presence or use of which upon the Business Real Property would violate any federal, state or local or other governmental law, regulation or order relating to toxic materials or would require reporting to any governmental authority, and (ii) there are no underground gas tanks, underground fuel tanks, or underground waste oil tanks located on the Business Real Property, and (iii) the Business Real Property is otherwise free and clear of any toxic materials. Prior to Closing, Seller shall cause any underground fuel tanks and waste oil tanks which are located on or under the Business Real Property t be removed and remediated in such a manner so as to comply with all federal and state laws and regulations pertaining to the removal of underground storage tanks (including but not limited to the obtaining of all necessary releases from state or federal regulatory agencies). The cost of said removal and remediation shall be borne by the Seller. Seller has furnished to Buyer, prior to the date of this Agreement, copies of all environmental reports and certificates of compliance relating to Seller's Business and the business Real Property. Within sixty (60) days after the Date of this Agreement, Seller shall, at Seller's sole expense, provide to Buyer a Phase One Environmental Report with respect to the Business Real Property. If the Phase One Environmental Report discloses that the Business Real Property is,

or is likely to be, materially contaminated by the presence of toxic materials, and if Buyer, within ten (10) days after receipt of the Phase One Environmental Report, provides Seller with a written demand to remediate, cleanup, detoxify and decontaminate any and all such contamination as a condition of Closing, then Seller shall be obligated (at Seller's sole expense) to complete such remediation, cleanup, detoxification and/or decontamination prior to, and as a condition of, Closing. If Seller thereafter notifies Buyer in writing that Seller has elected to breach this Agreement by not completing such remediation, then Seller shall be obligated (as Buyer's sole remedy for that breach) to reimburse Buyer for all expenses incurred by Buyer in connection with this Agreement, and this Agreement thereafter shall be deemed to have been rescinded by mutual agreement of the parties, and neither party thereafter shall have any further rights or obligations of any kind under this Agreement. If Buyer does not notify Seller, within ten (10) days after receipt of the Phase One Environmental Report, of Buyer's dissatisfaction with any matter disclosed in that assessment, then Buyer shall have no authority to refuse to close the transaction contemplated under this Agreement on the basis of any claimed contamination of the Business Real Property by toxic materials which shall have occurred prior to the Date of this Agreement. If, at any time subsequent to the Date of this Agreement and prior to Closing, Seller or its agents) shall directly or indirectly cause to occur upon the Business Real Property any release, spill, leak or discharge of toxic materials, then Seller shall (at Seller's sole expense) be obligated to cause and complete the repair, cleanup, detoxification and/or decontamination of the Business Real Property and the preparation and implementation of any closure, remedial action or other required plan or plans in connection therewith, all as required by all applicable laws and regulations.

(1) For purposes of this subparagraph (h), the phrase "toxic materials" shall include but not be limited to: (i) asbestos, heavy metals, petroleum products, solvents, pesticides or herbicides, (ii) any and all substances defined as "hazardous substances", "hazardous materials", or "toxic substances" in the Comprehensive Environmental response, Compensation and Liability Act of 1980, as amended (42 USC Section 9601, et. seq.), the Hazardous Materials Transportation Act (49 USC Section 1801, et. seq.), and the Resource Conservation Recovery Act (42 USC Section 6901, et. seq.), and
(iii) any and all other substances which now or in the future are deemed to be pollutants, toxic materials or hazardous materials under any other state or federal law.

(2) Plummer guarantees performance by Seller of all obligations imposed on Seller under the terms of this subparagraph (h). This guarantee shall be unconditional and irrevocable, and shall terminate only upon the satisfaction of all of Seller's obligations under this subparagraph (h). It shall not be necessary for Buyer to initiate or exhaust any legal remedies against Seller as a prerequisite to enforcing this guarantee, and this guarantee may be enforced immediately upon any breach by Seller under this subparagraph (h). This guarantee obligation shall not be released, extinguished, modified or in any way affected by any failure by Buyer to enforce against Seller all rights and remedies available to Buyer under this subparagraph (h). The bankruptcy of Seller shall not relieve Plummer of this guarantee obligation.

(i) Franchisor's Consent. Seller shall take all actions which are reasonable necessary on Seller's part in order to obtain Franchisors' consent to the issuance to Buyer of an exclusive franchises for the sale of new Nissan and BMW vehicles in the same geographical area as Seller's current franchises in Jackson County, Oregon.

(j) Indemnification for Breach of Warranties. Seller and Plummer shall indemnify Buyer against all losses, damages and costs (including attorney fees and court costs) relating to any warranty made by Seller in this Agreement which is false, misleading, incomplete or inaccurate (either on the date of this Agreement or at the time of Closing). If at any time prior to closing Seller determines that any warranty made by Seller in this Agreement is incorrect, incomplete or misleading, then Seller shall advise Buyer of that fact and shall provide to Buyer in writing whatever other information shall be necessary to cause that warranty to be correct, complete and not misleading. If any claim, action or proceeding is filed or brought against Buyer which is or may be subject to Seller's obligation to indemnify Buyer as set forth in this subparagraph, then Buyer shall promptly give Seller written notice of that claim, and Seller thereafter shall have the option to defend that claim at Seller's expense using attorneys selected by Seller. If Seller subsequently fails to pay that claim or dispute that obligation or liability, and if buyer subsequently is required to pay that claim, then Buyer have a right to offset that payment against the then next accruing installments of principal and/or interest due to Seller under the Promissory Note issued pursuant to subparagraph 10(b) of this Agreement, and Seller and Plummer shall have joint and several liability to reimburse, indemnify and hold harmless Buyer with respect to that claim, obligation or liability.

13. Conduct of Business Pending closing. Seller warrants that during the period beginning on the date of this Agreement and ending at Closing:

(i) Seller shall continue to operate Seller's business in the usual and ordinary course, and in substantial conformity with all applicable laws, ordinances, regulations, rules or orders; (ii) Seller shall not allow any liens to be placed against any of the Purchased Assets unless those liens and encumbrances are discharged prior to Closing; (iiv) Seller shall not take any action which may cause a material adverse change in the operations or financial condition of Seller's Business; (v) Seller shall not conduct any sale which shall use the words or phrases "Going Out of Business Sale" or "Change of Ownership Sale" or other words or phrases having similar meanings;
(vi) Seller shall use its best efforts to preserve the value of the Nissan and BMW franchises in Jackson County, Oregon.

14. Representations and Warranties of Buyer. Buyer hereby makes the following representations and warranties to Seller, with the intent that Seller rely thereon:

(a) Organization. Lithia Motors, Inc. is a corporation duly organized, validly existing and in good standing under the laws of the State of Oregon, and is entitled to own property and to carry on its business.

(b) Authority. This Agreement shall be binding upon Lithia Motors, Inc. only if authorized by the board of directors of Lithia Motors, Inc. within 10 days after the date of this Agreement. This Agreement will not violate the provision of any judicial, governmental or administrative decree, order, writ, injunction, or judgment, or conflict with or constitute a default under the operating agreement of Lithia Motors, Inc., or any contract, agreement, or other instrument to which Lithia Motors, Inc. is a party.

15. Additional Conditions Precedent to Buyer's Obligations. In addition of all other conditions to Buyer's obligation to close which are set forth in this Agreement, the obligation of Buyer to close this transaction is subject to each of the following conditions being true as of the date of Closing (each of which is for the benefit of Buyer and may be waived by Buyer), and Buyer shall have the right to rescind this Agreement if any of the following conditions is not satisfied in accordance with its terms:

(a) Buyer shall have obtained from Franchisors, prior to the Final Closing Date, exclusive franchises to sell new Nissan and BMW vehicles in the same geographical area as Seller's current franchises (as evidenced by the issuance to Buyer by Franchisors of appropriate Dealership Sales and Service Agreements, and the approval of Buyer as the publicly owned Dealer-Operator of the franchises), and Buyer agrees to use its best reasonable efforts to obtain those franchises; and

(b) Buyer shall be reasonably satisfied with any facility requirements imposed by franchisors in connection with the issuance to Buyer of exclusive franchises to sell new Nissan and BMW vehicles; and

(c) Buyer shall have been permitted to fully inspect the Business Real Property. Buyer shall be reasonably satisfied with the physical condition of the Business real Property, and with all other aspects of the Business Real Property. All leases and subleases which are necessary for the beneficial use by Buyer of the Business Real Property shall be closed concurrently with this transaction under terms and conditions which are acceptable to Buyer; and

(d) All of Seller's agreements and warranties set forth in this Agreement shall be true, correct, complete and not misleading at Closing; provided that Buyer's decision to close this transaction shall not release Seller from liability to Buyer for any warranty which is subsequently determined to be incorrect, incomplete or misleading; and

(e) Buyer shall be reasonably satisfied with the kind, quality and/or value of the Equipment being conveyed to Buyer hereunder, and does not notify Seller to the contrary pursuant to Paragraph 6; and

(f) This Agreement shall have been authorized by the board of directors of Lithia Motors, Inc. within 10 days after the date of this Agreement.

16. Closing. The parties shall make all reasonable effort to close the purchase and sale under this Agreement at or before 5:00 p.m., Pacific Standard Time, on the Target Closing Date, at the offices of Jackson County

Title Company in Medford, Oregon, or at such other location as shall be selected by mutual agreement of the parties. In all events, the Closing of the transaction contemplated under this Agreement shall occur (if at all) on or before the Final Closing Date.

(a) The parties agree to establish a closing escrow account at Jackson County Title Company, in Medford, Oregon (the "Closing Escrow Agent"). Buyer and Seller each shall pay one-half (1/2) of the closing escrow fees. Buyer and Seller agree to execute whatever reasonable escrow instructions may be required by Closing Escrow Agent in connection with the consummation of the transaction provided for in this Agreement. In the event of any conflict between those escrow instructions and this Agreement, the terms of this Agreement shall prevail, and nothing contained in the escrow instructions shall be deemed to change or modify the terms, provisions or conditions of this Agreement unless the parties expressly so state in writing.

(b) If this transactions closes as provided herein, then all risk of loss, damage or destruction with respect to the Purchased Assets, and actual possession of the Purchased Assets, shall be deemed to have been delivered to Buyer at the time of Closing.

(c) At Closing, and coincidentally with the performance of the obligations to be performed by Buyer at Closing, Seller shall deliver to Buyer the following: (i) all bills of sale, assignments and other instruments of transfer, in form and substance reasonably satisfactory to Buyer, which shall be necessary to transfer and convey all of the Purchased Assets to Buyer, and (ii) such other certificates and documents as may be called for by the provisions of this Agreement.

(d) At Closing, and coincidentally with the performance of all obligations required of Seller at Closing, Buyer shall deliver to Seller all payments, certificates and documents which are called for by the provisions of this Agreement.

(e) If Closing does not take place on or before the Final Closing Date because there has been a failure of any condition precedent set forth in Paragraph 15, then all rights and obligations of both parties under this Agreement (other than any obligations of Seller or Plummer which arise by reason of any material breach of warranty) shall terminate, and this Agreement and all predecessor agreements shall thereafter be void and of no effect.

(f) If Closing does not take place on or before the Final Closing Date because of Buyer's material breach of this Agreement, then Buyer shall be obligated to pay to Seller the sum of Two Hundred Thousand Dollars ($200,000.00) as Seller's sole and exclusive remedy for Buyer's breach, and Seller shall have no other rights or remedies against Buyer by reason of that breach. This sum represents a reasonable estimate by Buyer and Seller of Seller's damages in the event of such a default, it being extremely difficult to ascertain Seller's precise damages. If Closing does not take place on or before the Final Closing Date because of Seller's material breach of this Agreement, then Seller shall be obligated to pay to Buyer the sum of Two Hundred Thousand Dollars ($200,000.00) as Buyer's sole and exclusive remedy for Seller's breach, and Buyer shall have no other rights or remedies against Seller by reason of that breach. This sum represents a reasonable estimate by Buyer and Seller of Buyer's damages in the event of such a default, it being extremely difficult to ascertain Buyer's precise damages.

(g) Both parties agree to make a good faith effort to execute and deliver all documents and complete all actions necessary to consummate this transaction.

(h) At Closing, Seller agrees to execute an Asset Acquisition Statement (IRS Form 8694) prepared by Buyer which reflects the allocation of the total purchase price among the Purchased Assets in the manner determined in accordance with this Agreement.

17. Books and Records. For a period of three (3) years after Closing, Seller shall maintain Seller's financial records for periods prior to Closing, and Buyer and its agents shall have full reasonable access to Seller's financial statements and general ledger and may make copies thereof.

18. Seller's Accounts Receivable. For a period of six months after Closing, Buyer shall, on Seller's behalf, and at no charge to Seller, accept any payment with respect to Seller's customer receivables and other receivables arising out of the operation of Seller's Business prior to

Closing. All such receivables from vehicle sales which are collected by Buyer shall be delivered to Seller within ten (10) days after the date of collection by Buyer, and all other such receivables collected by Buyer shall be delivered to Seller on a monthly basis. Buyer shall have no obligation to undertake collection efforts with respect to Seller's receivables, and Buyer's only obligation shall be to account for any pay over to Seller those receivables of Seller which are actually received by Buyer.

19. Survival of Representations. All representations, warranties, indemnification obligations, covenants and agreements made in this Agreement shall survive the Closing, and shall remain in full force and effect until the expiration of the latest period stated in any applicable statute of limitations during which a claim, cause of action or prosecution relating to the matters described herein may be brought.

20. Brokerage Commissions. Buyer and Seller each warrants to the other party that no brokerage commissions will be payable in connection with the purchase and sale of the Purchased Assets.

21. Assignment by Buyer. Lithia Motors, Inc. shall have the right to assign to its nominee all rights and obligations of Lithia Motors, Inc. as "Buyer" under this Agreement. In the event of any such assignment, said nominee shall assume all rights and obligations of the Buyer under this Agreement, and Lithia Motors, Inc. shall remain jointly liable for all obligations of Buyer under this Agreement.

22. Preparation of Agreement. This Agreement has been prepared by Stephen G. Jamieson, Esq. as attorney for Buyer. Seller and James D. Plummer understand that they should seek the counsel of attorneys and other professional advisors of their own choosing in connection with the transactions contemplated under this Agreement.

23. Lease And/Or Purchase of Business Real Property. As a condition to the Closing of the transaction contemplated under this Agreement, buyer (or a related entity) is leasing the Business Real Property (other than the detail shop which is located behind and adjacent to the BMW dealership and which is being subleased under separate agreement) under the following general terms and conditions, and buyer's obligation to close the transaction contemplated under this Agreement shall be subject to the condition that Buyer is simultaneously able to enter into an agreement with the owner that portion of the Business Real Property which allows Buyer to lease that portion of the Business Real Property under the following general terms and under such additional terms as are reasonably satisfactory to Buyer:

(a) Fifteen year, initial lease term, with Buyer having one (1) subsequent ten (10) year options to renew (for a total potential lease term of 25 years), with the Lessee having the first right of negotiation after this 25 year period.

(b) Lease amount for 600 and 613 North Central for first five years will be $14,500.00 on a triple net basis, and lease amount for that property for 2nd five years will be $16,300.00. Lease amount for vacant lot adjacent to Nissan dealership for first five years will be $2,000.00 on a triple net basis, and lease amount for that property for 2nd five years will be $2,200.00. Increase for subsequent 5 year periods in both properties will be based on changes in CPI during preceding 5 year period, with a maximum increase of 10% over five year period.

(c) At any time during initial 15 year lease term, buyer will have right to exercise an option to purchase 600 and 613 North Central for $1,950,000.00 (with $90,000.00 increases in price at beginning of 3rd, 6th, 9th, 12th and 15th years). At any time during initial 15 year lease term, Buyer will have right to exercise an option to purchase the vacant lot adjacent to Nissan dealership for $250,000.00 (with $10,000.00 increases in price at beginning of 3rd, 6th, 9th, 12th and 15th years). If Buyer exercises option, parties obligated to close transaction no earlier than 90 days and no later than 120 days after date of notice of exercise of option). Full purchase price for property shall be payable at closing of purchase. Seller must convey the property free of all liens and encumbrances.

24. Miscellaneous.

(a) There are nor oral agreements or representations between the parties hereto which affect this Agreement, and this Agreement supersedes and cancels any and all previous negotiations, arrangements, agreements, warranties, representations and understandings, if any, between the parties. The documents identified or referenced in this Agreement are all of the agreements respecting the proposed sale or transfer, and there are no other oral or written side agreements affecting the transaction. True copies of all documents identified or referenced in this Agreement are attached hereto.

(b) This Agreement shall be governed and performed in accordance with the laws of the state of Oregon. Each of the parties hereby irrevocably submits to the jurisdiction of the courts of Jackson County, Oregon, and agrees that any legal proceedings with respect to this Agreement shall be filed and heard in the appropriate court in Jackson County, Oregon. If suit or action is instituted in connection with any controversy arising out of this Agreement, the prevailing party in that suit or action or any appeal therefrom shall be entitled to recover, in addition to any other relief, the sum which the court may judge to be reasonable attorney fees.

(c) This Agreement is being executed in two counterparts, each of which shall be an original, and both of which shall constitute a single instrument, when signed by both of the parties. This Agreement shall inure to the benefit of and shall be binding upon the successors, assigns, heirs and personal representatives of the respective parties. All notices provided for herein shall be in writing and shall be deemed to be duly given when mailed by United States certified mail, postage prepaid, to the last-known address of the party entitled to receive the notice, or when personally delivered to that party.

(d) Waiver by either party of strict performance of any of the provisions of this Agreement shall not be a waiver of, and shall not prejudice the party's right to subsequently require strict performance of, the same provision or any other provision. The consent or approval of either party to any act by the other party of a nature requiring consent or approval shall not be deemed to waive or render unnecessary the consent to or approval of any subsequent similar act. In the event of any breach of this Agreement by either party, the non-breaching party shall have all remedies for that breach which are provided at law or in equity, including but not limited to the specific remedies set forth in this Agreement.

(e) Time is of the essence to this Agreement.

(f) If any provision of this Agreement shall be determined to be void by any court of competent jurisdiction, then that determination shall not affect any other provisions of this Agreement, and all such other provisions shall remain in full force and effect. It is the intention of the parties that if any provision of this Agreement is capable of two constructions, only one of which would render the provision valid, then the provision shall have the meaning which renders it valid. The paragraph headings set forth in this Agreement are set forth for convenience purposes only, and do not in any way define, limit or construe the contents of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement on the dates indicated below.

SELLER:

MEDFORD NISSAN, INC. dba "MEDFORD NISSAN BMW KIA"

By: /s/ James D. Plummer 9/8/97
James D. Plummer, President

BUYER:

LITHIA MOTORS, INC. (OR NOMINEE)

By: /s/ Bryan DeBoer 9/5/97
Bryan DeBoer, Authorized Agent

JAMES D. PLUMMER

/s/ James D. Plummer 9/8/97
James D. Plummer

EXHIBIT "A" TO AGREEMENT FOR PURCHASE AND SALE OF BUSINESS ASSETS

Between MEDFORD NISSAN, INC., as "Seller", and

LITHIA MOTORS, INC. (OR NOMINEE), as Buyer

LIST OF EQUIPMENT, FURNITURE AND FIXTURES

BEING RETAINED BY SELLER

[See ___ pages attached hereto.]

EXHIBIT "B" TO AGREEMENT FOR PURCHASE AND SALE OF BUSINESS ASSETS

Between MEDFORD NISSAN, INC., as "Seller", and

LITHIA MOTORS, INC. (OR NOMINEE), as Buyer

LISTING OF LEASES AND AGREEMENTS BEING ASSUMED

[See ___ pages attached hereto.]

EXHIBIT "C" TO AGREEMENT FOR PURCHASE AND SALE OF BUSINESS ASSETS

Between MEDFORD NISSAN, INC., as "Seller", and

LITHIA MOTORS, INC. (OR NOMINEE), as Buyer

DISCLOSURE OF ANY CONTAMINATION OF BUSINESS REAL PROPERTY

[See ___ pages attached hereto.]

EXHIBIT 10.27.2

REAL PROPERTY LEASE AGREEMENT WITH OPTION TO PURCHASE

THIS LEASE AGREEMENT is entered into by and between JAMES D. PLUMMER (hereinafter referred to as "Lessor") and LITHIA REAL ESTATE, INC. (hereinafter referred to as "Lessee").

RECITALS:

Lessor is the owner of parcels of real property of located at 600 and 613 North Central, Medford, Oregon, and other adjacent parcels, which are being leased to and used by Medford Nissan, Inc. dba "Medford Nissan BMW Kia" in connection with the business of selling and servicing new and used motor vehicles and selling parts and accessories for new and used motor vehicles. By separate agreement, Lithia Motors, Inc. (or its nominee) is agreeing to purchase substantially all of the business assets owned and used by Medford Nissan, Inc. As a condition concurrent to that sale of assets, the Lessor is agreeing to lease to Lessee all the parcels of real property presently being used by Medford Nissan, Inc. in connection with its business operations.

NOW, THEREFORE, IN CONSIDERATION OF the mutual promises, covenants and agreements set forth herein, and for other good and valuable consideration, Lessor and Lessee agree as follows:

1. Definitions. As used in this Agreement, the following words or phrases shall have the indicated meanings:

(a) "Leased Property" shall refer all of the following parcels of real property located in Medford, Oregon, which properties are more fully described on Exhibit "A" attached hereto, together with all buildings, improvements and fixtures constructed and existing on those properties and all easements, rights, privileges and appurtenances attaching to those properties: the parcel which is commonly identified as 600 North Central Avenue, which parcel shall be referred to in this Agreement as "Parcel A"; the parcel which is commonly identified as 613 North Central Avenue, which parcel shall be referred to in this Agreement as "Parcel B"; and a parcel of approximately 0.66 acres which is located adjacent to the Nissan dealership operated by Medford Nissan, Inc., which parcel shall be referred to in this Agreement as "Parcel C". "Parcel AB" shall refer to a combination of Parcel A and Parcel B.

(b) "Lease Term" shall refer to the entire term of the lease, including any extension elected by Lessee pursuant to Paragraph 3. "Initial Lease Date" shall refer to the first day of the Lease Term, and shall be that certain date upon which Lessee closes the purchase of all business assets of Medford Nissan, Inc. in accordance with the terms of the Agreement for Purchase and Sale of Business Assets which is attached hereto as Exhibit "B". "Lease Month" shall refer to each of the successive one month periods during the Lease Term which begin on the same day of each calendar month as the Initial Lease Date.

(c) "Base Rental Amount" shall have the meaning set forth in Paragraph 4.

(d) "Index" shall refer to the following index published by the Bureau of Labor Statistics of the United States Department of Labor: Consumer Price Index, All Urban Consumers (CPI-U), U.S. City Average, All items ("standard reference base period" 1982-84 = 100). The "CPI Index Figure" for any month shall refer to the Index number for that month. If the "Index" is no longer being published as of any date in the future, then the "CPI Index Figure" for that date shall be the figure reported in the U.S. Department of Labor's most recent comprehensive official index then in use and most nearly answering the description of the Index (or, if the U.S. Department of Labor is not then publishing any such similar index, shall be determined under another comparable, authoritative, generally recognized index to be selected by Lessor). If the Index is calculated from a base different from the base 1982-84 = 100, then the figures to be used in calculating any adjustment mandated under this Agreement first shall be converted (if possible, under a formula supplied by the Bureau of Labor Statistics of the U.S. Department of Labor) to account for that difference.

(e) "Hazardous Materials" shall refer to and include: (i) any and all substances defined as "hazardous substances", "hazardous materials", or "toxic substances" in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 USC Section 9601, et.

seq.), the Hazardous Materials Transportation Act (49 USE Section 1801, et. seq.), and the Resource Conservation and Recovery Act (42 USC Section 6901, et. seq.); and (ii) any and all substances which now or in the future are deemed to be pollutants, toxic materials or hazardous materials under any other Oregon or federal law.

(f) "Date of this Agreement" shall mean the date when this Agreement has been executed by both of the parties.

2. Lease. Lessor hereby leases the Leased Property to Lessee, and Lessee leases the Leased Property from Lessor, subject to all of the terms and conditions contained in this Agreement.

3. Term of Lease. The initial term of the lease shall be fifteen years and shall commence on the Initial Lease Date. Lessee shall have the option to extend the term of the lease for one (1) additional period of ten
(10) years (so that the maximum potential lease term shall be twenty-five
(25) years). If Lessee wishes to exercise its option to extend the lease term for that additional ten year period, then Lessee shall be obligated to provide to Lessor, not less than 60 days prior to the expiration of the initial fifteen year lease term, a written notice of Lessee's intention to so exercise its option to extend the lease term; any such written notice by Lessee to Lessor shall automatically extend the lease term for the 10 year period specified in the notice. If Lessee exercises its option to extend the lease term as provided in the preceding sentence, and if Lessee wishes to continue to lease the Leased Property from Lessor after the expiration of that ten year option period, then during the last six months of that ten year option period Lessor must negotiate in good faith with Lessee for an extension of the Lease for an additional lease period of at least ten years at a fair market value lease rate and under contract terms which are reasonably consistent with the terms of this Agreement.

4. Rental Payments Required.

(a) Parcel AB.

(1) With respect to each Lease Month during the five year period beginning with the Initial Lease Date, Lessee shall pay to Lessor an aggregate rental amount with respect to Parcel AB of $14,500.00 per month.

(2) With respect to each Lease Month during the five year period beginning on the fifth anniversary after the Initial Lease Date, Lessee shall pay to Lessor an aggregate rental amount with respect to Parcel AB of $16,300.00 per month.

(3) With respect to each Lease Month during the five year period beginning on the tenth anniversary after the Initial Lease Date, Lessee shall pay to Lessor an aggregate rental amount with respect to Parcel AB equal to the lesser of: (i) $17,930.00 per month (i.e. 110% of the $16,300.00 monthly rental amount during the preceding 5 year period), or (ii) the product determined by multiplying the monthly rental amount during the preceding 5 year period ($16,300.00) by a fraction, the denominator of which is the CPI Index Figure for the first Lease Month of the preceding 5 year period, and the numerator of which is the CPI Index Figure for the last Lease Month of the preceding 5 year period.

(4) With respect to each Lease Month during each of the two five year periods during the ten year option term, Lessee shall pay to Lessor an aggregate rental amount with respect to Parcel AB equal to the lesser of: (i) 110% of the monthly rental amount during the preceding 5 year period, or (ii) the product determined by multiplying the monthly rental amount during the preceding 5 year period by a fraction, the denominator of which is the CPI Index Figure for the first Lease Month of the preceding 5 year period, and the numerator of which is the CPI Index Figure for the last Lease Month of the preceding 5 year period.

(b) Parcel C.

(1) With respect to each Lease Month during the five year period beginning with the Initial Lease Date, Lessee shall pay to Lessor a rental amount with respect to Parcel C of $2,000.00 per month.

(2) With respect to each Lease Month during the five year period beginning on the fifth anniversary after the Initial Lease Date, Lessee shall pay to Lessor a rental amount with respect to Parcel C of $2,200.00 per month.

(3) With respect to each Lease Month during the five year period beginning on the tenth anniversary after the Initial Lease Date, Lessee shall pay to Lessor a rental amount with respect to Parcel C equal to

the lesser of: (i) $2,420.00 per month (i.e. 110% of the $2,200.00 monthly rental amount during the preceding 5 year period), or (ii) the product determined by multiplying the monthly rental amount during the preceding 5 year period ($2,200.00) by a fraction, the denominator of which is the CPI Index Figure for the first Lease Month of the preceding 5 year period, and the numerator of which is the CPI Index Figure for the last Lease Month of the preceding 5 year period.

(4) With respect to each Lease Month during each of the two five year period during the ten year option term, Lessee shall pay to Lessor a rental amount with respect to Parcel C equal to the lesser of: (i) 110% of the monthly rental amount during the preceding 5 year period, or (ii) the product determined by multiplying the monthly rental amount during the preceding 5 year period by a fraction, the denominator of which is the CPI Index Figure for the first Lease Month of the preceding 5 year period, and the numerator of which is the CPI Index Figure for the last Lease Month of the preceding 5 year period.

(c) If the CPI Index Figure for the last Lease Month of the preceding 5 year period is not available in time to make the adjustment required under subparagraphs (a)(3), (a)(4), (b)(3) or (b)(4), the Lessee agrees that any deficiencies in rent resulting from the failure to make the adjustment on a timely basis shall be paid to Lessor by Lessee as soon as the applicable CPI Index Figure is available to the parties.

(d) All amounts of monthly rent payable under this Agreement shall be payable in advance on the first day of each Lease Month, at whatever address Lessor may specify in writing from time to time. All amounts of monthly rent payable under this Agreement shall be payable in lawful money of the United States and without notice, demand, offset or deduction.

(e) Lessee agrees that all amounts which Lessee is required to pay under this Agreement (including but not limited to taxes, utility costs, insurance premiums and maintenance expenses) shall be payable as additional rent, and shall be paid promptly when due.

(f) If Lessee fails to pay any installment of rent (including but not limited to taxes, utility costs, insurance premiums and maintenance expenses) within ten (10) days after the date when due, Lessee shall pay to Lessor a late fee equal to two percent (2%) of the past-due amount. The amount payable by Lessee to Lessor under the preceding sentence shall be treated for all purposes under this Lease as additional rent. The provisions of this subparagraph shall not limit Lessor's right to treat any late payment as an event of default as provided in Paragraph 21.

5. Utilities. Lessee shall be responsible for and shall pay the cost of all water, electricity, natural gas, heating oil, telephone service, refuse collection, sewage and other utilities and services provided to the Leased Property, or used on or in connection with the Leased Property, during the Lease Term. Lessor shall not be liable to Lessee in the event of any interruption in the supply of any utility or service to the Leased Property (other than an interruption caused by the Lessor), and Lessee shall not be entitled to any abatement of rent in the event of any interruption in the supply of any utility or service to the Leased Property (other than an interruption caused by the Lessor). Lessee agrees that it shall not install any equipment which will exceed or overload the capacity of the existing utility facilities supplying the Leased Property. If any equipment installed by Lessee shall require additional utility facilities, those additional facilities shall be installed at Lessee's expense in accordance with plans and specifications approved in advance and in writing by Lessor (with Lessor having the right to refuse to consent to any installation which Lessor reasonably believes might adversely effect the value of the Leased Property).

6. Taxes on Real and Personal Property. Lessee shall pay all real property taxes, general and special assessments, and other taxes and charges which are levied on or assessed during the Lease Term against the Leased Property or improvements located on the Leased Property (all of which taxes, assessments and charges shall hereinafter be referred to as the "Real Estate Taxes"). Lessee also shall pay all personal property taxes and other taxes and charges which are levied on or assessed against leasehold improvements, fixtures, equipment, furniture, inventories, merchandise and any other personal property installed or located on the Leased Property during the Lease Term (all of which taxes, assessments and charges shall hereinafter be referred to as the "Personal Property Taxes"), as those taxes become due and payable, and before delinquency, and regardless of whether such levy or assessment is made against Lessee or against Lessor, and regardless of whether the property has been installed by Lessee or by Lessor. Lessee shall make all personal property tax payments directly to the taxing authorities.

If any Real Estate Tax or Personal Property Tax is permitted by a taxing authority to be paid in installments, Lessee may elect to do so as long as each installment (together with any interest charged) is paid before it becomes delinquent, and provided that Lessee only shall be obligated to pay those installments due and payable during the Lease Term. Lessee may contest in good faith the validity or amount of any Real Estate Tax or Personal Property Tax in accordance with the procedures established by applicable statute or administrative rule, as long as the Lease Property is not subjected to any lien as a result of the contest, and Lessee shall be entitled to all benefits derived during the Lease Term from any such contest. Lessee shall furnish to Lessor receipts or other proof of payment of all Real Estate Taxes or Personal Property Taxes payable by Lessee hereunder, within ten (10) days after Lessor's written request for such proof.

7. Use of Leased Property. Lessee shall have the right to use the Leased Property for the purpose of operating a facility for the sale and servicing of new and used motor vehicles and motor vehicle parts. Lessee shall not allow the Leased Property to be used for any other purpose without first obtaining the written consent of Lessor, which consent shall not be withheld unreasonably. For purposes of the preceding sentence, if Lessee notifies Lessor in writing of Lessee's intention to make a particular use of the Leased Property, and if Lessor does not, within ten days after delivery of that notice from Lessee, notify Lessee in writing of Lessor's reasonable objections to that use, then Lessor shall for all purposes be conclusively deemed to have consented to that use.

(a) Lessee shall not use, or permit any other person or entity to use, the Leased Property in any manner which would create or tend to create waste or a nuisance or would be unreasonably offensive to owners or users of neighboring premises. Lessee shall refrain from any activity which would make it impossible for Lessee to insure against loss or damage to the Leased Property or against personal injury or property damage. Lessee shall not overload the floors of the improvements located upon the Leased Property so as to cause any undue or serious stress or strain upon the improvements located upon the Leased Property.

(b) Lessee shall promptly comply with all statutes, laws, ordinances, orders, judgments, decrees, injunctions, rules, regulations, licenses, directives and requirements of all federal, state, county, municipal and other governments, commissions, boards, courts, authorities, officials and companies or associations insuring the premises, which now or at any time hereafter may be applicable to the Leased Property or any part thereof, or to any use of or condition of the Leased Property or any part thereof. Lessee shall remedy at Lessee's expense any failure of compliance created through Lessee's fault or by reason of Lessee's use.

8. Repairs and Maintenance. Lessor shall be responsible for maintaining the roof, foundation and bearing walls of the Leased Property, except that Lessee shall be responsible for keeping the roof free of foreign objects, papers, debris, obstructions, standing water, snow and ice. Lessee shall maintain in safe, workable and neat condition (free and clear of foreign objects, papers, debris, obstructions, standing water, snow and ice), all other elements and aspects of the Leased Property, including but not limited to the lights, windows, plate glass, plumbing fixtures, electrical fixtures, heating and air conditioning systems, doors, door frames, door closures, floor coverings, showcases and fixtures, walls, floors, landscaping and parking surfaces. Except as provided in the first sentence of this Paragraph 8, Lessor shall have no responsibility to perform any repairs or maintenance with respect to the Leased Property or any structures or improvements located thereon. Lessor and its authorized agents shall have the right to inspect the Leased Property during regular working hours upon reasonable written notice to Lessee to determine whether Lessee is complying with its obligations under this Agreement.

9. Lessor's Responsibility for Prior Contamination by Hazardous Substances

(a) Except as otherwise expressly disclosed in Exhibit "C", Lessor represents and warrants to Lessee that: (i) the Leased Property has not at any time prior to the Date of this Agreement been used for the generation, manufacture, storing, treatment, disposal or release of any Hazardous Material other than those Hazardous Materials customarily used in the operation of an automobile dealership, and (ii) at all times prior to the Initial Lease Date, Lessor and all of Lessor's predecessors in title, and all lessees, tenants, employees, agents, sublessees, franchisees, licensees, permitees, contractors, vendees and customers of Lessor and/or Lessor's predecessors in title, and all other persons permitted by Lessor and/or Lessor's predecessors in title to have access to the Leased Property, have used, stored, transported, disposed of and treated Hazardous Materials in strict accordance with all applicable federal, state and local laws and regulations (collectively referred to for the remainder of this Paragraph 9 as the "Laws"), and (iii) the Leased Property shall not, as of the Initial Lease Date, be contaminated by the presence on, under or about the Leased Property of any Hazardous Material, and (iv) as of the Initial Lease Date no

other parcel of real property (including but not limited to properties adjacent to or in the immediate vicinity of the Leased Property) is or at any time in the future will be contaminated by the presence on, under or about that parcel of any Hazardous Material which was released to, on, under, about or from the Leased Property prior to the Initial Lease Date.

(b) Lessor agrees to indemnify, defend, protect and hold harmless Lessee and each of Lessee's members, partners, stockholders (if any), employees, agents, successors and assigns (collectively referred to for the remainder of this Paragraph 9 as "Lessee"), from and against any and all criminal and civil claims and causes of action (including but not limited to claims resulting from, or causes of action incurred in connection with, the death of or injury to any person, or damage to any property), liabilities (including but not limited to liabilities arising by reason of actions taken by any governmental agency), penalties, forfeitures, prosecutions, losses and expenses (including reasonable attorney fees) which directly or indirectly arise from or are caused by either: (i) the presence, prior to the Initial Lease Date, in, on or about the Leased Property or any improvements located thereon, of any Hazardous Materials, or (ii) the use, sale, storage, transportation, disposal, release, threatened release, discharge or generation, prior to the Initial Lease Date, of Hazardous Materials to, in, on, under, about or from the Leased Property or any improvements located thereon, or (iii) any breach of the warranties made by Lessor in subparagraph 9(a). Lessor's obligations under this subparagraph 9(b) shall include, but not be limited to, the obligation to bear the expense of any and all costs, whether foreseeable or unforeseeable, of any necessary (as required by the Laws) repair, cleanup, detoxification or decontamination of all or any portion of the Leased Property (or any improvements located thereon), and the preparation and implementation of any closure, remedial action or other required plan or plans in connection therewith. Notwithstanding the preceding provisions of this subparagraph 9(b), Lessor shall have no obligation to indemnify, defend, protect and/or hold harmless Lessee with respect to any release, spill, leak or discharge of Hazardous Materials on the Leased Property which occurs solely after the Initial Lease Date.

(c) Notwithstanding any other provision of this Agreement or any contrary provision of law, the obligations of Lessor pursuant to this Paragraph 9 shall remain in full force and effect after any closing of the purchase of the Leased Property by Lessee and until the expiration of the latest period stated in any applicable statute of limitations during which a claim, cause of action or prosecution relating to the matters described herein may be brought, and until payment in full or satisfaction of any and all losses, claims, causes of action, damages, liabilities, charges, costs and expenses for which Lessor is liable hereunder shall have been accomplished.

(d) For purposes of this Paragraph 9, any act or omission, prior to the Initial Lease Date, of or by any one or more employees, agents, assignees, sublessees, franchisees, licensees, permitees, customers, vendees, contractors, successors-in-interest or other persons permitted by Lessor or any of Lessor's predecessors in title to have access to the Leased Property or acting for or on behalf of Lessor or any of Lessor's predecessors in title (whether or not the actions of such persons are negligent, intentional, willful or unlawful) shall be strictly attributable to Lessor.

(e) If any claim, demand, action or proceeding is brought against Lessee which is or may be subject to Lessor's obligation to indemnify Lessee as set forth under this Paragraph 9, Lessee shall provide to Lessor immediate notice of that claim, demand, action or proceeding, and Lessor thereafter shall defend Lessee at Lessor's expense using attorneys and other counsel selected by Lessor and reasonably acceptable to Lessee.

10. Limited Warranties by Lessor. Except as provided in this Paragraph 10 and in Paragraphs 9, 18 and 26, Lessor makes no warranty, either express or implied, as to the condition, merchantability or fitness of the Leased Property, or the suitability of the Leased Property for Lessee's purposes or needs. Lessee agrees that neither Lessor nor any agent of Lessor has made any representations or warranties as to any of the following: (i) the suitability of the Leased Property for the conduct of Lessee's business, or (ii) the expenses of operation of the Leased Property or any improvements located thereon.

(a) Prior to November 1, 1997, Lessor shall provide to Lessee a Disclosure Statement, disclosing any and all defects with respect to the Leased Property which are known to Lessor. Except as provided in the preceding sentence, Lessee is entering into this Agreement in reliance upon Lessee's own business judgment, after a full opportunity to inspect the Leased Property, and after careful consultation with Lessee's own advisors, accountants and attorneys, and not in reliance upon any statements, representations or warranties made to Lessor other than as set forth in this Agreement. Prior the Initial Lease Date, Lessee shall inspect the Leased Property and become thoroughly acquainted with the condition of the Leased Property. Lessee shall have the right, at any time within 30 days after

completing its inspection of the Leased Property (but in no event later than November 10, 1997) to notify Lessor in writing that Lessee is reasonably dissatisfied with the results of its inspection and to terminate all further obligations of Lessee under this Agreement. If Lessee does not so notify Lessor as provided in the preceding sentence, then Lessee agrees to take and accept the Leased Property "AS IS". The taking of possession of the Leased Property by Lessee shall be a conclusive acknowledgment by Lessee that the Leased Property is in good and satisfactory condition as of the date when possession is taken. Lessor shall not be required to make any alterations or improvements of any kind to the Leased Property. The preceding sentences of this subparagraph 10(a) shall not apply to any issues relating to the contamination of the Leased Property by Hazardous Materials, and all such issues shall be subject to the provisions of Paragraph 9 rather than the provisions of this subparagraph 10(a).

(b) Lessor warrants to Lessee that all mechanical equipment affixed to the Leased Property shall be in good working condition on the Initial Lease Date, and that the Leased Property will be in the same condition on the initial Lease Date as on the Date of this Agreement (ordinary wear and tear excepted).

11. No Liens. Lessee shall not allow the Leased Property to be subjected to any mortgage or other lien as security for a loan or other obligation of Lessee, without first obtaining the express written consent of Lessor. Lessee shall keep the Leased Property free and clear of all personal property tax liens and encumbrances. Lessee shall pay as due all claims for labor or work done on, and for services rendered or material furnished to, the Leased Property, and Lessee shall keep the Leased Property free from any mechanic's, workman's or materials lien of any kind. If Lessee receives notice of the filing of any claim or lien against the Leased Property or the commencement of any action which might affect the title to the Leased Property, Lessee shall give prompt written notice thereof to Lessor.

12. Insurance

(a) Lessee shall maintain and shall pay all premiums with respect to insurance protecting Lessor and Lessee as the named insureds against loss or liabilities arising from personal injury or death or damage to property caused by any accident or occurrence in connection with the use, operation or condition of the Leased Property, with limits of not less than $500,000 per accident or occurrence on account of personal injury or death, and $500,000 per accident or occurrence on account of damage to property, together with a blanket excess liability policy in an amount of not less than $1,000,000. Any proceeds of the insurance referred to in this subparagraph shall be applied towards extinguishment or satisfaction of the liabilities with respect to which those insurance proceeds are paid.

(b) Lessee shall maintain and pay for all premiums for insurance against loss or damage to the improvements located on the Leased Property by fire, lightning, vandalism, malicious mischief, sprinkler leakage, breakage of plate glass, or other perils or casualties, with an all risk endorsement. All such insurance shall be for the benefit of Lessee only, and any proceeds shall be paid solely to Lessee.

(c) Lessee hereby releases Lessor and Lessor's agents and employees from responsibility and liability for loss or damage occurring to, or in connection with the use of, the Leased Property, if and to the extent that said loss or damage is covered under any insurance policy maintained by Lessee with respect to the Leased Property, and Lessee waives all right of recovery against Lessor and Lessor's agents and employees for such loss or damage. Lessee agrees to: (i) notify Lessee's insurance carrier(s) of the release and waiver set forth in the preceding sentence, and (ii) obtain from Lessee's insurance carrier(s), at Lessee's sole cost, a written waiver of all subrogation rights against Lessor and Lessor's agents and employees.

(d) All insurance required to be carried by Lessee under subparagraph 12(a) shall be issued by responsible insurance companies, qualified to do business in the state of Oregon. Each insurance policy shall name Lessor as an additional insured. No insurance policy shall be subject to cancellation or modification except after ten (10) days prior written notice to Lessor. At least ten (10) days prior to the expiration of any insurance policy, Lessee shall obtain renewals or binders for the issuance of one or more replacement insurance policies.

13. Destruction of Improvements. In the event of any damage or destruction to the improvements located on the Leased Property during the Lease Term, Lessee shall proceed to restore the improvements located on the Leased Property to substantially the same form and condition as prior to the damage or destruction, so as to provide Lessee with usable space equivalent in quantity and in character to the space available prior to the damage or destruction. Repairs shall be accomplished with all reasonable dispatch, subject to interruptions and delays from labor disputes and matters beyond

the control of Lessee. Lessee's obligation to pay rent shall not be abated on account of any damage to or destruction of improvements on the Leased Property, and no other obligations of Lessee shall be altered or terminated as a result of such damage or destruction.

14. Eminent Domain. If, during the Lease Term, there shall be a total taking of the Leased Property by any public authority under the power of eminent domain, then the leasehold estate of Lessee in and to the Leased Property shall cease and terminate as of the date when the condemning authority takes possession of or title to (whichever occurs first) all or any portion of the Leased Property. If, during the Lease Term, there shall be a partial taking of the Leased Property by any public authority under the power of eminent domain, then the leasehold estate of Lessee in and to the portion of the Leased Property so taken shall terminate on the date when the condemning authority takes possession of or title to (whichever occurs first) that portion, but Lessee's leasehold estate shall continue in full force and effect as to the remainder of the Leased Property; in such event, the monthly rent payable by Lessee for the balance of the Lease Term shall be equitably abated by Lessor (based on the ratio between the value of the portion taken and the value of the Leased Property prior to the taking), and Lessor shall be responsible (at Lessor's sole cost and expense) for making all necessary repairs or alterations to the improvements located on the Leased Property in order to continue using the Leased Property for the purposes permitted to Lessee. For purposes of the two preceding sentences, the term "total taking" shall mean the taking of so much of the Leased Property that the remainder of the Leased Property is not suitable to conduct the business which Lessee intends to conduct on the Leased Property, and the term "partial taking" shall mean the taking of a portion of the Leased Property which does not constitute a total taking.

(a) All compensation and damages awarded for the taking of all or any portion of the Leased Property shall be equitably apportioned between Lessor and Lessee as their business interests may then appear. For purposes of the preceding sentence, if there is a total taking of the Leased Property, and if the total amount of the compensation and damage award for that taking exceeds the total option price for the Leased Property as specified in subparagraph 26(e), then that excess shall be divided equally between Lessor and Lessee. Notwithstanding the two preceding sentences, if Lessee exercises its option to purchase all of the Leased Property pursuant to subparagraph 26(c) prior to the effective date of a partial taking or total taking of the Leased Property, then all compensation and damages awarded for that taking shall be apportioned solely to Lessee.

(b) Sale of all or part of the Leased Property to a purchaser with power of eminent domain, in the face of the threat or probability of the exercise of the power of eminent domain, shall be treated for purposes of this Agreement as a taking by condemnation, with the effective date of condemnation being the date of closing of that sale.

(c) Lessee shall have the right, at its sole cost and expense, to assert a separate claim in any condemnation proceedings for the value of Lessee's leasehold interest. Whenever notice of a taking of all or any portion of the Leased Property is received by either party, that party shall notify the other party thereof, and Lessor and Lessee thereafter shall jointly negotiate with the taking authority as to the value of their respective interests in the Leased Property or the improvements located thereon to the end of being fairly compensated therefor.

15. Alterations. Lessee shall not make any improvements, changes, modifications, utility installations and other alterations (hereinafter referred to in the aggregate as "Alterations") in, on or to all or any portion of the Leased without first obtaining the written consent of Lessor (which consent may not be withheld unreasonably). If Lessee notifies Lessor in writing of Lessee's intention to make particular Alterations to the Leased Property, and if Lessor does not, within ten days after delivery of that notice from Lessee, notify Lessee in writing of Lessor's reasonable objections to all or any portion of those Alterations, the Lessor shall for all purposes be conclusively deemed to have consented to all of those Alterations to which Lessor has not so objected.

16. Indemnification Against Damage or Injury. Lessee hereby releases Lessor from, agrees that Lessor shall not be liable for, and agrees to defend, indemnify and hold Lessor harmless from and against, any and all uninsured losses, claims, causes of action, damages, liabilities (including, without limitation, strict or absolute liability in tort or imposed by statute), charges, costs, or expenses (including, without limitation, reasonable counsel fees), incurred in connection with or arising out of any loss or damage to property or injury or death to a person or persons, that may be occasioned by any cause whatsoever pertaining to the Leased Property during the Lease Term, or arising by reason of or in connection with the occupation or use of the Leased Property or any person's presence on or about the Leased Property during the Lease Term (other than the grossly negligent or intentional acts of Lessor, its agents, employees, licensees and

invitees). The defense and indemnities provided in this paragraph 16 shall apply whether or not the loss, claim, cause of action, damage, liability, charge, cost or expense is based upon the breach of a statutory duty or obligation or any theory or rule of comparative liability, subject to any specific prohibition relating to the scope of indemnities imposed by statutory law (and except to the extent that Lessor shall be liable as provided above). If any action or proceeding is brought against Lessor which is or may be subject to Lessee's obligation to indemnify Lessor as set forth under this Paragraph 16, Lessee shall, upon notice from Lessor, defend that claim at Lessee's expense using attorneys and other counsel satisfactory to Lessor. Any loss, liability, damage, claim, or cause of action arising by reason of contamination of the Leased Property by a hazardous substance shall be subject to the indemnification provisions of Paragraph 23, and shall not be subject to the indemnification provisions of this Paragraph 16.

17. Surrender Upon Termination. Upon expiration of the Lease Term, or upon earlier termination of the lease for any reason, Lessee promptly and peaceably shall remove any of the Lessee's equipment and property, and shall surrender the Leased Property in good condition (including the restoration of any damage caused by the removal of Lessee's equipment and property), Depreciation and wear and tear from ordinary use permitted under this Agreement need not be restored by Lessee. All repairs for which Lessee is responsible shall be completed prior to the surrender of the Leased Property. If Lessee remains in occupancy of the Leased Property after termination of the Lease Term, then Lessor shall have the option to treat Lessee as a tenant from month-to-month, subject to all of the provisions of this Agreement except the provisions for rental amounts, term, and renewal, and in that event Lessee shall be obligated to pay monthly rent to Lessor at a rate equal to the monthly rental amount in effect as of the last month of the Lease Term. Acceptance by Lessor of rent subsequent to termination of the Lease Term shall not result in a renewal of the lease and shall not constitute a waiver of Lessor's right to re-enter the Leased Property, remove Lessee or exercise any other rights available to Lessor under this Agreement or provided by law. If Lessee fails to surrender the Leased Property in accordance herewith upon termination of the Lease Term, Lessee shall indemnify and hold Lessor harmless from all losses and liabilities, including but not limited to any claims made by any succeeding tenant, which result from or are based upon Lessee's failure to so surrender the Leased Property.

18. Good Title. Lessor warrants that it has good right to lease the Leased Property and will defend Lessee's right to quiet enjoyment of the Leased Property against the lawful claims of all persons during the Lease Term.

19. Limitation on Assignment or Sublease by Lessee. Lessee shall have the right to assign all of its rights and obligations under this Agreement to Lithia Motors, Inc. or any subsidiary of Lithia Motors, Inc. Except as provided in the preceding sentence, Lessee shall not voluntarily or by operation of law assign this Lease or sublease any portion of the Leased Property, or enter into any license agreement, franchise agreement, or concession agreement with respect to the Leased Property, or mortgage, hypothecate or otherwise encumber all or any portion of Lessee's interest in this Agreement or in the Leased Property, or in any other manner permit the occupation of or shared possession of all or any portion of the Leased Property, without obtaining in each instance the written consent of Lessor, which consent may not be unreasonably withheld by Lessor. Consent by Lessor in any one instance shall not constitute a waiver or consent to any subsequent instance. Unless otherwise agreed by Lessor, the consent by Lessor to any assignment, sublease, or encumbrance shall not relieve or otherwise affect the continuing primary liability of Lessee under this Agreement, and Lessee shall not be released from performing any of the terms, covenants and conditions of this Agreement.

20. Landlord's Lien. Lessee hereby grants to Lessor a lien upon the improvements, trade fixtures and furnishings of Lessee to secure full and faithful performance of all of the terms of this Agreement.

21. Lessee's Default. The following shall be "events of default" under this Agreement, and the terms "event of default" or "default" shall mean, whenever used in this Agreement, any one or more of the following events: (i) the failure by Lessee to payor cause to be paid the full amount of any rent or other charge specified in this Agreement, within ten (10) days after the date when due, subject to the notice requirement set forth in subparagraph 21(b); (ii) the failure by Lessee to comply with any term or condition, or fulfill any obligation of this Agreement (other than the payment of rent or other charge) within thirty (30) days after written notice by Lessor specifying the nature of the default with reasonable particularity and requesting that the default be remedied; if the default is of such a nature that it cannot be completely remedied within the 30-day period, this

provision shall be complied with if Lessee begins correction of the default within the thirty-day period and thereafter proceeds with reasonable diligence and good faith to affect the remedy as soon as possible.

(a) Whenever any event of default shall have occurred, Lessor shall have the following rights and remedies (and no other rights or remedies):

(1) The right to declare, by written notice to Lessee, that all unpaid and delinquent installments of rent, and all other unpaid and delinquent charges and payments due under this Agreement shall be immediately due and payable, whereupon those amounts shall become immediately due any payable.

(2) The right to terminate the lease and all rights of Lessee under this Agreement, by giving written notice of termination to Lessee. In the event of such termination, Lessor shall have the right to reenter and take possession of the Leased Property and remove all persons and property therefrom by summary proceedings or otherwise, and to recover from Lessee: (i) any unpaid rent earned at the time of termination, plus (ii) the fair market value of the amount by which the unpaid rent which would have been earned after termination and prior to the end of the Lease Term exceeds the amount of rent which Lessee proves can reasonably be earned by Lessor during that time.

(3) To the extent permitted by law, the right to terminate Lessee's possessory interest in the Leased Property, without terminating Lessee's lease, in which case Lessor shall have the right to enter and take possession of the Leased Property and to remove and exclude Lessee from possession of the Leased Property and to use its best efforts to lease the Leased Property to another person for the account of Lessee; any such entry and other actions shall not operate as a waiver or satisfaction, in whole or in part, of any claim or demand arising out of or connected with any breach or default by Lessee of its obligations under this Agreement. If Lessor re-enters the Leased Property but does not elect to terminate Lessee's leasehold interest, then Lessor may from time to time, without terminating Lessee's lease, either recover from Lessee all rentals as they become due, or relet the Leased Property or any portion thereof for such term or terms and at such rental or rentals and upon such other terms and conditions as Lessor in its sole discretion may deem advisable. Lessee shall be obligated to immediately reimburse to Lessor the amount of all costs which Lessor incurs in reletting the Leased Property. Any rentals so received by Lessor from such reletting to a third party shall be applied as follows: first, to the payment of any costs which Lessor shall have incurred in reletting the Leased Property for which Lessor shall not have received reimbursement from Lessee; next to the rent due and unpaid by Lessee hereunder through the date of that third party payment; next to the payment of reimbursement to Lessor for any other costs, expenses or losses incurred by Lessor which are proximately caused by Lessee's default; and next, to the payment of any future rent as the same may become due and payable hereunder. If the portion of the rental amount received from reletting which is applied to the payment of rent hereunder is less than the monthly rent payable by Lessee, then Lessee promptly shall pay the deficiency to Lessor

(4) In the event of any re-entry of the Leased Property pursuant to subparagraph (2) or (3), Lessor may make any suitable alterations or changes in the character or use of the Leased Property, provided that Lessor shall not be required to relet the Leased Property for any use or purpose other than that specified in this Agreement or for any use or purpose which Lessor may reasonably consider injurious to the Leased Property. Lessor may relet all or a portion of the Leased Property, either alone or together with other properties, for a term longer or shorter than the term of this Agreement, and upon any reasonable terms and conditions.

(b) Before declaring any default in the making of any payment required under this Agreement, Lessor shall provide to Lessee, by United States certified mail and ordinary first class mail addressed to Lessee, a written notice specifying that there has been a default in the making of a required payment, and Lessee shall have ten (10) days from the date of mailing of that notice in which to pay the delinquent amount and prevent a default hereunder. Notwithstanding the preceding sentence, Lessor shall not be obligated to provide written notice of any delinquent payment if Lessor has given to Lessee written notice of two prior delinquent payments at any time during the then immediately preceding 365 day period; in that event Lessor shall not be required to provide any notice to Lessee before declaring a default arising out of Lessee's failure to make any payment required under this Agreement, but no default shall be declared until ten (10) days after that payment is due.

22. Time of Essence. Time is of the essence in the performance of all obligations of Lessor and/or Lessee under this Agreement.

23. Lessee's Responsibility for Contamination by Hazardous Substances.

(a) Lessee shall at all times during the Lease Term use, sell, store, transport, dispose of and treat Hazardous Materials (as defined in Paragraph 1(e) of this Agreement) in strict accordance with all applicable federal, state and local laws and regulations (collectively referred to in this Paragraph 23 as the "Laws"). If, during the Lease Term and prior to completion by Lessee of the obligations imposed under Paragraph 17, there occurs upon the Leased Property any release, spill, leak or discharge of hazardous materials which is in violation of any of the Laws and is caused by any activity or activities of Lessee on or with respect to the Leased Property, then Lessee shall be obligated to cause and complete the repair, cleanup, detoxification and/or decontamination of the Leased Property (or any improvements thereon) and the preparation and implementation of any closure, remedial action or other required plan or plans in connection therewith, all as required by the Laws.

(b) Lessee shall indemnify, defend, protect and hold harmless Lessor and each of Lessor's partners, employees, agents, successors and assigns (collectively referred to in this Paragraph 23 as "Lessor"), from and against any and all criminal and civil claims and causes of action (including but not limited to claims resulting from, or causes of action incurred in connection with, the death of or injury to any person, or damage to any property), liabilities (including but not limited to liabilities arising by reason of actions taken by any governmental agency), penalties, forfeitures, prosecutions, losses and expenses (including reasonable attorney fees) which directly or indirectly arise from or are caused by the use, sale, storage, transportation, disposal, release, threatened release, discharge or generation of Hazardous Materials to, in, on, under, about or from the Leased Property or any improvements located thereon during the Lease Term. Lessee's obligations under this subparagraph 23(b) shall include, but not be limited to, the obligation to bear the expense of any and all costs, whether foreseeable or unforeseeable, of any necessary (as required by the Laws) repair, cleanup, detoxification or decontamination of all or any portion of the Leased Property (or any improvements located thereon), and the preparation and implementation of any closure, remedial action or other required plan or plans in connection therewith.

(c) Notwithstanding any other provision of this Agreement, the obligations of Lessee pursuant to this Paragraph 23 shall remain in full force and effect after the termination of the Lease Term and until the expiration of the latest period stated in any applicable statute of limitations during which a claim, cause of action or prosecution relating to the matters described herein may be brought, and until payment in full or satisfaction of any and all losses, claims, causes of action, damages, liabilities, charges, costs and expenses for which Lessee is liable hereunder shall have been accomplished.

(d) For purposes of subparagraph 23(a), any acts or omissions of or by any one or more employees, agents, assignees, sublessees, franchisees, licensees, permitees, customers, contractors, successors-in-interest or other persons permitted by Lessee to have access to the property (other than Lessor or Lessor's agents) or acting for or on behalf of Lessee (whether or not the actions of such persons are negligent, intentional, wilful or unlawful) shall be strictly attributable to Lessee.

(e) If any claim, demand, action or proceeding is brought against Lessor which is or may be subject to Lessee's obligation to indemnify Lessor as set forth under this Paragraph 23, Lessor shall provide to Lessee immediate notice of that claim, demand, action or proceeding, and Lessee thereafter shall defend Lessor at Lessee's expense using attorneys and other counsel selected by Lessee and reasonably acceptable to Lessor.

24. Expenses. Each of the parties shall pay its own expenses incidental to the preparation and consummation of this Agreement, including but not limited to the attorney fees and expenses.

25. Notices. Any notice required or permitted under this Agreement shall be deemed to have been duly given when actually delivered or when deposited in the United States mail, certified and return receipt requested, postage prepaid, addressed to such addresses as may be specified from time to time by the parties in writing.

26. Lessee's Option to Purchase Leased Property. At any time during the Option Period (as defined in subparagraph 26(a)), Lessee shall have the option to purchase the Leased Property from Lessor, under the terms and conditions set forth in this Paragraph 26.

(a) Definitions. For purposes of this Paragraph 26, "Option Period" shall refer to the fifteen year period beginning on the Initial Lease Date. "Closing" shall refer to the consummation of the purchase and sale of Parcel AB and/or Parcel C pursuant to this Paragraph 26. "Closing Date" shall refer to the actual date of Closing.

(b) Option may be Exercised Only during Period. Lessee shall have no right to exercise the purchase option granted under this paragraph 26 after the last day of the Option Period (i.e. on or after the sixteen anniversary after the Initial Lease Date). If Lessee exercises the purchase option granted under this Paragraph 26 on or before the last day of the Option Period, then Lessee shall have the right to close the purchase at any time during the period beginning 90 days and ending 120 days after the date of the notice exercising the option (even if that closing does not occur during the Option Period).

(c) Notice of Exercise. If Lessee wishes to exercise its option to purchase all or any portion of the Leased Property (i.e. Parcel AB or Parcel C or both Parcels) from Lessor pursuant to this Paragraph 26, Lessee shall be required to deliver to Lessor a written notice specifying: (i) Lessee's desire to exercise the option, and (ii) the portion of the Leased Property to be purchased (i.e. Parcel AB or Parcel C or both Parcels), and (iii) the proposed closing date for the purchase (which closing date shall be not less than 90 days and not more than 120 days after the date of the written notice exercising the option). Lessee shall be deemed to have exercised the option to purchase the designated portion of the Leased Property pursuant to this Paragraph 26 when the written notice referred to in the preceding sentence is delivered to Lessor. If Lessee exercises the option to purchase all or a portion of the Leased Property from Lessor as provided in this Paragraph 26, and if that purchase and sale subsequently closes in accordance with this Paragraph 26, then Lessee shall be obligated to pay rent with respect to the purchased portion of the Leased Property though the date of closing of the purchase and sale. Lessee shall have the option to purchase only Parcel AB or Parcel C (without any obligation to purchase the other portion), and also shall have the option to purchase the separate Parcels AB C at different times during the Option Period and in any order.

(d) Lessor's Obligation to Sell. If Lessee exercises the option to purchase all or a portion of the Leased Property from Lessor as provided in this Paragraph 26, and if Lessee tenders to Lessor (on or before the proposed closing date) full payment for the purchased portion of the Leased Property, then Lessor shall be obligated to sell and deliver to Lessee good and marketable title to the purchased portion of the Leased Property, free and clear of all liens and encumbrances not accepted by Lessee as provided in subparagraph 26(f).

(e) Purchase Price and Payment.

(1) If Lessee exercises the option to purchase Parcel AB pursuant to this Paragraph 26, the price for Parcel AB shall be determined as follows:

(i) If the option is exercised during the first two years following the Initial Lease Date, then the aggregate price for Parcel AB shall be $1,950,000.00.

(ii) If the option is exercised during the third, fourth or fifth years following the Initial Lease Date, then the aggregate price for Parcel AB shall be $2,040,000.00.

(iii) If the Option is exercised during the sixth, seventh or eighth years following the Initial Lease Date, then the aggregate price for Parcel AB shall be $2,130,000.00.

(iv) If the option is exercised during the ninth, tenth or eleventh years following the Initial Lease Date, then the aggregate price for Parcel AB shall be $2,200,000.00.

(v) If the option is exercised during the twelfth, thirteenth or fourteenth years following the Initial Lease Date, then the aggregate price for Parcel AB shall be $2,310,000.00.

(vi) If the option is exercised during the fifteenth year following the Initial Lease Date, then the aggregate price for Parcel AB shall be $2,400,000.00.

(2) If Lessee exercises the option to purchase Parcel C pursuant to this Paragraph 26, the price for Parcel C shall be determined as follows:

(i) If the option is exercised during the first two years following the Initial Lease Date, then the price for Parcel C shall be $250,000.00.

(ii) If the option is exercised during the third, fourth or fifth years following the Initial Lease Date, then the price for Parcel C shall be $260,000.00.

(iii) If the option is exercised during the sixth, seventh or eighth years following the Initial Lease Date, then the price for Parcel C shall be $270,000.00.

(iv) If the option is exercised during the ninth, tenth or eleventh years following the Initial Lease Date, then the price for Parcel C shall be $280,000.00.

(v) If the option is exercised during the twelfth, thirteenth or fourteenth years following the Initial Lease Date; then the price for Parcel C shall be $290,000.00.

(vi) If the option is exercised during the fifteenth year following the Initial Lease Date, then the price for Parcel C shall be $300,000.00.

(3) The purchase price for any portion of the Leased Property shall be payable by Lessee at the closing of the purchase by cashier's check drawn against a bank of Lessee's choice having offices located in Jackson County, Oregon, or by any other method acceptable to Lessor.

(f) Title Report. Promptly after the Date of this Agreement, Lessor shall furnish to Lessee a preliminary title report with respect to the Leased Property. A copy of that preliminary title report shall be attached to this Agreement as Exhibit "D". Lessee shall have ten (10) days after receipt of the preliminary title report within which to examine that report and notify Lessor of any objection(s) to any one or more of the exceptions set forth on the preliminary title report. If Lessee does not notify Lessor in writing, within that ten (10) day period, of Lessee's disapproval of any one or more of the exceptions set forth on the preliminary title report, then that exception (or those exceptions) shall be deemed to have been accepted and approved by Lessee. If Lessee provides written notification to Lessor, within that ten (10) day period, of Lessee's disapproval of any exception set forth in the preliminary title report, then Lessor shall be obligated to remove the disapproved exception prior to closing. At the closing of any portion of the Leased Property, Lessor shall furnish to Lessee, at Lessor's expense, an A.L.T.A. policy of title insurance in the full amount of the purchase price, showing title to the conveyed portion of the Leased Property to be good and marketable, subject only to the usual endorsements and exceptions contained in such policies and the specific additional exceptions accepted by Lessee as provided in the preceding sentences of this subparagraph (f).

(1) If Lessee does not elect to purchase all or any portion of the Leased Property pursuant to this Paragraph 26, then Lessee shall be obligated to pay all title insurance cancellation fees.

(2) If Lessor is unable at Closing to provide good and marketable title to the Leased Property as provided in this subparagraph (f), then (in addition to any and all other remedies which may be available to Lessee at law or in equity by reason of that breach) the provisions of subparagraphs (a)(3), (a)(4), (b)(3) and (b)(4) of Paragraph 4 relating to a CPI indexed increase in any subsequent rental amounts payable under this Agreement shall be void and of no effect, and the monthly rent payable by Lessee for each and every month throughout the remainder of the Lease Term shall be the monthly rental amount then in effect.

(g) Closing Escrow. If Lessee elects to purchase all or a portion of the Leased Property pursuant to this Paragraph 26, the parties agree to establish a closing escrow account at Jackson County Title Division, Continental Lawyers Title Company, of Medford, Oregon (the "Closing Escrow Agent"). Lessee and Lessor each shall pay one-half (1/2) of the closing escrow fees. Lessee and Lessor agree to execute whatever reasonable escrow instructions may be required by Closing Escrow Agent in connection with the consummation of the purchase of the Leased Property pursuant to this Paragraph 26. In the event of any conflict between those escrow instructions and this Agreement, the terms of this Agreement shall prevail, and nothing contained in the escrow instructions shall be deemed to change or modify the terms, provisions or conditions of this Agreement unless the parties expressly so state in writing.

(h) Closing. If Lessee elects to purchase all or a portion of the Leased Property pursuant to this Paragraph 26, then:

(1) The parties agree to close the transaction at the offices of the Closing Escrow Agent, or at such other location as shall be selected by agreement of the parties.

(2) Possession of the purchased portion of the Leased Property, and all risk of loss, damage or destruction with respect to the purchased portion of the Leased Property, shall pass from Lessor to Lessee at Closing.

(3) At Closing, Lessor shall deliver to Lessee a statutory warranty deed which conveys the purchased portion of the Leased Property free and clear of all encumbrances, except those encumbrances identified in the preliminary title report which have been accepted and approved by Lessee pursuant to subparagraph 26(f), fully executed by Lessor and naming Lessee as the grantee.

(4) Real property taxes, personal property taxes, operating expenses, rental income, prepaid rents and deposits, and other income and expenses with respect to the purchased portion of the Leased Property shall be prorated as of the date of Closing.

(5) If Closing does not take place on a timely basis because of Lessor's failure or refusal to convey to Lessee good title to the purchased portion of the Leased Property, then Lessee shall be entitled to:
(i) the remedy specified in subparagraph 26(f)(2), and (ii) any and all other rights and remedies for that breach which may be provided at law or in equity.

(6) Lessee shall have the right at Closing to convey and assign its rights and obligations with respect to the purchased portion of the Leased Property to Lithia Motors, Inc. or to any subsidiary of Lithia Motors, Inc.

(7) Prior to Closing, Lessor shall furnish to Lessee any and all documentation required under Section 1445 of the Internal Code, including but not limited to a "Certificate of Non-Foreign Status". If Lessor fails to furnish Lessee a Certificate of Non-Foreign Status, Lessee shall be authorized to withhold and deduct from the purchase price any and all amounts which are required to be withheld under IRC S 1445, and to transfer those sums to the Internal Revenue Service in accordance with the provisions of IRC S 1445.

(8) Each party shall pay its own attorney fees incurred in connection with the Closing of the transaction.

(9) Lessee will cooperate with Lessor (at no cost to Lessor) in enabling Lessor to complete a tax-free exchange of the purchased portion of the Leased Property under IRC Section 1031.

(i) No Brokerage Commissions. Lessee and Lessor each warrants to the other party that no brokerage commissions will be payable in connection with the purchase and sale of any portion of the Leased Property in accordance with this Paragraph 26.

27. Lessee's Right to Terminate Obligation to Lease. Lessee shall have the right, at any time prior to November 10, 1997, to rescind Lessee's obligation to lease the Leased Property under this Agreement if Lessee is dissatisfied for any reason with either of the following matters: (i) any studies or tests concerning the presence or possible presence on the Leased Property of Hazardous Materials, and Lessee's determination as to the possible financial impact on Lessee of any Hazardous Materials which are present on the Leased Property; or (ii) the results of any examinations or inspections completed by Lessee with respect to the Leased Property. Lessee shall be responsible for the cost of all Hazardous Materials tests, reports, surveys, studies, inspections and examinations conducted by Lessee pursuant to this Paragraph 27. Lessor shall cooperate with Lessee in allowing Lessee and Lessee's agents to fully inspect and examine the Leased Property for the presence of Hazardous Materials. Notwithstanding Lessee's right to inspect the Leased Property for the presence of Hazardous Materials pursuant to this Paragraph 27, Lessee is relying on, and Lessor agrees that Lessee has the right to rely on, the representations, warranties and agreements made by Lessor in Paragraph 9.

28. Additional Conditions Precedent to Lessee's Obligations. In addition of all other conditions to Lessee's obligation to close which are set forth in this Agreement, the obligation of Lessee to lease the Leased Property from Lessor pursuant to this Agreement is subject to the fulfillment, prior to the Initial Lease Date, of each of the following conditions, each of which is for the benefit of Lessee and may be waived by Lessee:

(a) Lithia Motors, Inc. shall have obtained from Nissan Motor Corporation in USA and BMW of North America, Inc. prior to the Initial Lease Date, exclusive franchises to sell new Nissan and BMW vehicles in Medford,

Oregon (as evidenced by the issuance to Lithia Motors, Inc. of appropriate Dealership Sales and Service Agreements, and the approval of Lithia Motors, Inc. as the publicly owned Dealer-Operator of the franchises); and

(b) Lithia Motors, Inc. shall be reasonably satisfied with any facility improvement requirements which are imposed by Nissan Motor Corporation in USA and BMW of North America, Inc. in connection with the issuance to Lithia Motors, Inc. of franchises to sell new Nissan and BMW vehicles in Medford, Oregon; and

(c) The purchase of the business assets of Medford Nissan, Inc. by Lithia Motors, Inc. shall be closed on or before the Initial Lease Date; and if not so closed for any reason, Lessor shall have no obligation to conclude this Lease with Lessee, even if this condition is waived by Lessee; and

(d) Lessee shall be reasonably satisfied that there have been no material changes in the condition of the Leased Property between the Date of this Agreement and the Initial Lease Date; and

(e) Lessee shall be reasonably satisfied that all of Lessor's agreements, representations and warranties set forth in this Agreement shall be true, correct, complete and not misleading as of the date of Closing; provided, however, that Lessee's decision to close this transaction shall not excuse or release Lessor from liability to Lessee for any representation or warranty which is subsequently determined to be incorrect, incomplete or misleading.

29. Miscellaneous.

(a) No Waiver of Performance. The failure by any party at any time to require performance of any provision hereof shall in no way affect that party's right to enforce the same provision or any other provision at any subsequent time. The consent or approval of either party to any act by the other party of a nature requiring consent or approval should not be deemed to waive or render unnecessary the consent to or approval of any subsequent similar act. All rights and remedies provided under this Agreement are cumulative to one another and to all other rights and remedies under applicable law or in equity, and no exercise of anyone right or remedy shall in any manner operate to prejudice or impair any other right or remedy provided at law or in equity.

(b) Entire Agreement. This Agreement sets forth the entire, final and complete agreement of the parties, and supersedes, replaces and integrates all of the prior written and oral agreements of the parties. Any modifications, amendments or supplements to this Agreement shall be executed in writing and signed by all of the parties. Multiple copies of this Agreement may be executed by the parties, each of which shall be deemed to be an original when signed by all of the parties. The captions set forth in this Agreement are for reference purposes only, and shall not be considered in construing the meaning of the terms and conditions of this Agreement. This Agreement shall be binding upon, and shall inure to the benefit of, the respective successors, representatives and assigns of the parties. The documents identified or referenced in this Agreement are all of the agreements respecting the proposed sale or transfer, and there are no other oral or written side agreements affecting the transaction. True copies of all documents identified or referenced in this Agreement are attached hereto.

(c) Governing Law. This Agreement shall be governed by, construed and enforced in accordance with the laws of the state of Oregon. Any legal proceedings relating to this Agreement shall be filed in the appropriate court in Jackson County, Oregon, and the parties hereby irrevocably submit to the jurisdiction of the Circuit Court of Jackson County, Oregon.

(d) Severability. If any provision of this Agreement shall be determined to be void by any court of competent jurisdiction, then that determination shall not affect any other provisions of this Agreement, and all such other provisions shall remain in full force and effect. It is the intention of the parties that if any provision of this Agreement is capable of two constructions, only one of which would render the provision valid, then the provision shall have the meaning which renders it valid.

(e) Attorney Fees in Event of Dispute. If action is instituted to enforce any term of this Agreement, the prevailing party shall recover from the losing party reasonable attorney fees incurred in that action as set by the trial court, and in the event of an appeal, as set by the appellate courts.

30. Memorandum to be Recorded. Simultaneously with the execution of this Agreement the parties shall execute a Memorandum evidencing the execution of this Agreement for purposes of recordation in Jackson County, Oregon, which Memorandum shall be recordable by Lessee on or after the Initial Lease Date.

IN WITNESS WHEREOF, each of the parties has executed this Agreement on the respective dates indicated below.

LESSEE:

LITHIA REAL ESTATE, INC.

By: /s/ Brian B. DeBoer 9-26-97
Authorized Agent Brian B. DeBoer

LESSOR:

JAMES D. PLUMMER

By: /s/ James D. Plummer 10-14-97
James D. Plummer

EXHIBIT "A" TO REAL PROPERTY LEASE AGREEMENT WITH OPTION TO PURCHASE

Between JAMES D. PLUMMER, as "Lessor", and

LITHIA REAL ESTATE, INC., as Lessee

LEGAL DESCRIPTION OF REAL PROPERTY

[See ___ page(s) attached hereto.]

EXHIBIT "B" TO REAL PROPERTY LEASE AGREEMENT WITH OPTION TO PURCHASE

Between JAMES D. PLUMMER, as "Lessor", and

LITHIA REAL ESTATE, INC., as Lessee

COPY OF AGREEMENT FOR PURCHASE AND SALE OF BUSINESS ASSETS

[See ___ page(s) attached hereto.]

EXHIBIT "C" TO REAL PROPERTY LEASE AGREEMENT WITH OPTION TO PURCHASE

Between JAMES D. PLUMMER, as "Lessor", and

LITHIA REAL ESTATE, INC., as Lessee

DOCUMENTS RELATING TO CONTAMINATION OF BUSINESS REAL PROPERTY

[See ___ page(s) attached hereto.]

1. Phase 1 Environmental Report

2. Disclosure Statement

3. Any and all other documents which are necessary in order for Lessor to satisfy the disclosure requirements of Paragraph 9 of the Lease Agreement

EXHIBIT "D" TO REAL PROPERTY LEASE AGREEMENT WITH OPTION TO PURCHASE

Between JAMES D. PLUMMER, as "Lessor", and

LITHIA REAL ESTATE, INC., as Lessee

COPY OF PRELIMINARY TITLE REPORT

[See ___ page(s) attached hereto.]

EXHIBIT 10.28.1

AGREEMENT FOR PURCHASE AND SALE OF BUSINESS ASSETS

THIS AGREEMENT is entered into effective December 31, 1997, by and between UNITED AMERICAN FUNDING, INC., a Nevada corporation, dba "RENO VOLKSWAGEN" (hereinafter referred to as "Seller"), and LITHIA MOTORS, INC., or its nominee (hereinafter referred to as the "Buyer").

RECITALS:

Seller is a Nevada business corporation engaged in, among other businesses, the business of selling and servicing Volkswagen motor vehicles and related parts and accessories from premises located at 7063 S. Virginia Street, Reno, Nevada 93313 (the "Business Real Property"), under franchise issued by Volkswagen Motor Sales of America, Inc.

Buyer wishes to purchase from Seller, and Seller is willing to sell to Buyer, certain assets relating to Seller's Volkswagen franchise at 7063 S. Virginia Street, Reno, Nevada, conditioned upon the granting to Buyer of a exclusive franchise for the sale of new Volkswagen motor vehicles in the same geographical area as Seller's franchise.

Buyer (or a related entity) also wishes to purchase, lease or sublease all of the real property and improvements which constitute the Business Real Property, and the purchase of Seller's business assets shall be conditioned upon the simultaneous closing of the purchase, lease or sublease of that real property by Buyer.

NOW, THEREFORE, IN CONSIDERATION OF the mutual promises set forth herein, the parties agree as follows:

1. Definitions. In this Agreement, the following words shall have the indicated meanings:

(a) "Closing" shall refer to the consummation of the transaction contemplated under this Agreement in accordance with the terms hereof, and "Closing Date" shall refer to the actual date of Closing. "Target Closing Date" shall refer to February 15, 1998. "Final Closing Date" shall refer to March 15, 1998.

(b) "Seller's Business" shall only refer to any and all activities conducted by Seller in Reno, Nevada, relating to the marketing and sale of new Volkswagen vehicles and associated parts and accessories, and the repair and servicing of new or used Volkswagen vehicles. Seller's Business as defined herein shall not include any other businesses of Seller (such as Seller's automobile financing and leasing business of Seller), which other businesses shall be referred to herein as "Seller's Other Business".

(c) "Purchased Assets" shall refer to those assets which are identified in Paragraph 2 as begin purchased and sold by the parties hereunder.

(d) Seller's "Equipment" shall refer to all non-inventory items of tangible personal property presently owned or used by Seller in connection with Seller's Business, including all of Seller's machinery, tools, office equipment, computer equipment, computer programs, microfiches, parts lists, repair manuals, sales or service brochures, furniture and fixtures, and all of Seller's leasehold improvements to the Business Real Property, and further including all assets listed on Seller's financial statements as of December 31, 1997, but excluding the items located at 7111 S. Virginia Street, Suite A-13, Reno, Nevada, relating to Seller's Other Business. Within 20 days after the date of this Agreement, Seller shall provide a Buyer the following: (i) a list of the "Equipment", which list shall be attached hereto by Exhibit "A" and (ii) a list of assets ad equipment located at 7111 S. Virginia Street, Suite A-13, Reno, Nevada, relating to Seller's Other Business not being purchased by Buyer, which list shall be attached hereto as Exhibit "B".

(e) Seller's "Intangible Assets" shall refer to Seller's telephone and fax numbers, service customer lists, sales customer lists, vehicle sales records, and vehicle service records relating to Seller's Business, and all rights of Seller under contracts assigned to and assumed by Buyer pursuant to this Agreement, all goodwill associated with Seller's Business, and all other intangible rights and interest of any value relating to Seller's Business; including the Seller's business name ("Reno Volkswagen").

(f) "Business Real Property" shall refer to all of the real property located in Reno, Nevada which has been used in connection with Seller's Business at 7062 S. Virginia Street, Reno, Nevada.

(g) "Franchiser" shall refer to Volkswagen Motor Sales of America, Inc.

(h) "New Vehicle" shall refer to Volkswagen motor vehicle which: (i) is unregistered and unused, (ii) is from the 1997 or 1998 model year, (iii) has been driven for less than 200 odometer miles, and (iv) may be represented or warranted to consumers as "new" under Nevada law. "Rollback Vehicle" shall mean an unregistered vehicle from the 1997 or 1998 model year, which has been sold to customer by Seller but returned because of the customer's inability to obtain financing for the purchase. "Demonstrator Vehicle" shall mean an unregistered Volkswagen vehicle from the 1997 or 1998-model year, which has been used and operated by Seller on dealer plates for sales demonstration purposes. "Used Vehicle" shall mean any vehicle, which is not a "new vehicle", a "demonstrator vehicle" or a "rollback vehicle" as defined in the three preceding sentences.

(i) "Date of this Agreement" shall refer to December 31, 1997.

(j) All amounts payable by Buyer to Seller at Closing shall be paid by wire transfer.

2. Purchased Assets. Seller agrees to sell to Buyer, and Buyer agrees to purchase from Seller, the assets identified in Paragraphs 3, 5, 6, 7, 8, and 10 of this Agreement (the "Purchased Assets"). Excluded from this transaction are Seller's cash, accounts receivable, notes receivable, banking accountants and deposits, and all other assets not identified in Paragraphs 3, 5, 6, 7, 8, and 10 of this Agreement or assets related to Seller's Other Business.

3. Inventory Of New Vehicles, Demonstrator Vehicles and Rollback Vehicles. Buyer shall purchase Seller's entire inventory of new Volkswagen vehicles, as that inventory exists on the Closing Date. Buyer also shall purchase Seller's entire inventory of Volkswagen demonstrator vehicles and rollback vehicles (up to a maximum of two rollback vehicles), as that inventory exists on the Closing Date.

(a) Price of New Vehicles. The purchase price for each of Seller's new vehicles shall be equal to Seller's factory invoice cost, reduced by any factory hold-backs, factory rebates, factory incentives, carry-over model allowances, floor plan allowances, finance cost allowances, advertising allowances, and any other items which should reasonably be deducted in order to establish Seller's actual net cost for each vehicle, and further reduced by the actual net cost for any and all accessories, equipment and parts which are missing from a vehicle. Seller shall be entitled to receive directly from Volkswagen Motor Sales all holdbacks, rebates, incentives, allowances and other items referred to in the preceding sentence which reduce Buyer's purchase price for Seller's new vehicles. Seller's actual net costs for new vehicles shall include Seller's actual net cost for any and all parts and accessories reasonably installed by Seller to new vehicles in the ordinary course of business, but shall not include any other vehicle preparation charges, labor charges or other dealer charges of any kind.

(b) Deduction for Damage to New Vehicles. Immediately prior to Closing, Buyer and Seller shall jointly inspect Seller's inventory of new vehicles. If any new vehicle purchased by Buyer from Seller is damaged, the price for that vehicles, as determined under subparagraph 3(a), shall be reduced by the actual net cost of Buyer of repairing that damage. If Buyer and Seller are unable to agree upon the actual net cost to Buyer of repairing that damage, then Buyer and Seller shall select an independent third party to determine that repair cost, which determination shall be binding upon both Buyer and Seller.

(c) Payment for New Vehicles. The aggregate purchase price for all new vehicles purchase by Buyer from Seller shall be paid in full for Closing.

(d) Purchase Orders For New Vehicles. Immediately prior to Closing, Buyer and Seller shall jointly review Seller's outstanding purchase orders for new vehicles ordered from Seller by customers but not delivered prior to Closing. At Closing, Seller shall assign to Buyer, and Buyer shall assume from Seller, all of Seller's rights (including customer deposits) and obligations (including sales commissions) under such purchase orders; provided, however, that Buyer shall not be obligated to assume Seller's rights or obligations with respect to any new vehicle purchase order which is not a price less than factory invoice, or which provides for a trade-in at a price or under terms unacceptable to Buyer. At Closing, Seller shall reimburse Buyer for all deposits made to Seller with respect to ordered but undelivered new vehicles.

(e) Price for Demonstrator Vehicles and Rollback Vehicles. The price for each demonstrator and rollback vehicle shall be determined as provided in subparagraphs 3(a) and 3(b) and the reduced by $.30 per mile for each odometer mile on that vehicle in excess of 200 miles, and further reduced by $750.00 for any vehicle with mileage in excess of 1000 miles. The purchase price for demonstrator vehicles and rollback vehicles shall be paid at Closing.

4. Inventory Of Used Vehicles. Seller to retain Seller's entire used vehicle inventory, and Buyer shall not be obligated to purchase any of Seller's used vehicles.

5. Inventory of New Parts and Accessories. Buyer shall purchase Seller's entire inventory of new, current (non-obsolete), undamaged Volkswagen vehicle parts and accessories manufactured by Franchisor and/or third party supplier, as that inventory exists on the Closing Date. Buyer shall have no obligation to purchase from Seller any parts or accessories which are used, damages or obsolete. For purposes of this Paragraph 5, a part or accessory shall be "obsolete" on the Closing Date if not then returnable to the supplier from which that part was originally purchased, or if not then listed in the supplier's then-current price and part books. Prior to Closing, Seller shall maintain Seller's inventory of parts and accessories at a level consistent with good business practices and Seller's normal and regular course business.

(a) Price for Parts and Accessories. The purchase price for each item in Seller's inventory of new, current and undamaged part and accessories for Volkswagen vehicles (whether manufactured by Franchisor or third party suppliers) shall be the net cost for that item as set forth in the then most recent price book published by the supplier of that item, reduced by any discounts (including quantity purchase or stock order discounts), rebates, incentives or allowances which should reasonably be taken into account in order to establish what Buyer's net cost for that item would be if that item was purchased by Buyer directly from that supplier at the time of Closing.

(b) Determination of Inventory of Parts and Accessories. Seller's inventory of new, current and undamaged Volkswagen parts and accessories shall be determined immediately prior to Closing (or on whatever earlier date shall be selected by mutual agreement of the parties) by a third party inventory service selected by mutual agreement of the parties. Buyer and Seller each shall be responsible for 50% of the fees charged by the inventory service for conducting the inventory.

(c) Payment for Inventory of New Parts and Accessories. The purchase price for Seller's inventory of parts and accessories shall be paid in full at Closing.

6. Equipment. Within twenty (2) days after the date of this Agreement, Seller shall provide to Buyer a list of the Equipment being purchased and sold hereunder, which list shall be attached hereto as "Exhibit A". Prior to closing Buyer will have the right to inspect the equipment. Seller is retaining, and is not selling to Buyer, those personal items of Seller's Equipment that are listed on Exhibit "B" to be provided within twenty (20) days after the date of this Agreement and attached hereto.

(a) Price for Equipment. The aggregate purchase price for all items of Seller's Equipment (including leasehold improvements) which are being purchased hereunder shall be Two Hundred Fifty Thousand and 00/1000 Dollars $250,000.00). Seller agrees that buyer shall have the right, in Buyer's reasonable discretion, to allocate the aggregate purchase price of the Equipment among the various items of Equipment in the manner that will best reflect the relative fair market values of those items.

(b) Payment for Equipment. The purchase price for the Equipment shall be paid as follows:

(1) Prior to or simultaneously with the execution of this Agreement, Buyer is making an earnest money deposit to Capital City Escrow, Inc., in Sacramento, California, in the amount of $25,000.00 which earnest money deposit, together with all interest earned thereon, shall be credited to Closing against the purchase price for the Equipment.

(2) The $225,000.00 balance of the purchase price for the Equipment shall be paid in full at Closing.

7. Supplies. Buyer shall purchase all of the gas, oil, nuts, bolts, and other automotive supplies which are held for use in Seller's Business; provided, however, that Buyer shall not be obligated to purchase used, damages or obsolete items or supplies. For purposes of this Paragraph 7, an item shall be "obsolete" on the Closing Date if not then returnable to the supplier from which that item was originally purchased, or if not then listed

in the supplier's then current price books. Prior to closing, Seller shall maintain Seller's inventory of supplies at a level consistent with good business practices and Seller's normal and regular course of business. the price for each item of the purchased supplies shall be Seller's actual net cost, as determined by mutual agreement of the parties, reduced by any discounts (including quantity purchase or stock order discounts), rebates, incentives or allowances which should reasonably be taken into account in order to establish what Buyer's net cost for that item would be if that item was purchased by Buyer directly from that supplier at the time of Closing. The purchase price for Seller's supplies shall be paid to Seller at Closing.

8. Contractual Rights And Obligations. At Closing, Buyer shall assume all rights and obligations of Seller under those certain equipment leases and other contracts identified on Exhibit "C" attached hereto, which Exhibit "C" shall be prepared and attached hereto within 20 days after the date of this Agreement. Seller warrants that all of Seller's obligations under the contracts listed on Exhibit "C" shall be current at the time of Closing. Seller agrees to indemnify Buyer against all obligations under the contracts identified on Exhibit "C" which relate to periods prior to Closing. Buyer agrees to indemnify Seller against all obligations under the contracts identified on Exhibit "C" which relate to periods after Closing.

9. Repair Work in Progress. Buyer shall not be required to purchase any of Seller's repair work in progress, but any repair work in progress prior to Closing shall be an account receivable retained by Seller in accordance with Paragraph 2.

10. Intangible Assets. Buyer shall not be required to purchase any of Seller's repair work in progress, but any repair work in progress prior to Closing shall be an account receivable retained by Seller in accordance with Paragraph 2.

11. Limitation on Liabilities Assumed. Except as provided in subparagraph 3(d), and Paragraphs 8, 9 and 21, Buyer shall not, by reason of this Agreement or Buyer's purchase of the Purchased Assets, take responsibility for any liabilities, debts or obligations of Seller (including Seller's trade payables, account payables, obligations to employees, or tax liabilities).

12. Warranties of Seller. Seller makes the following warranties to Buyer, with the intent that buyer rely thereon:

(a) Corporate Organization. Seller is a corporation organized, validly existing, and in good standing under the laws of the State of Nevada. Seller is qualified to do business in the State of Nevada, and has full power and authority to own, use, and seller its assets.

(b) Corporate Authority. Seller's board of directors and shareholders has authorized the execution and delivery of this Agreement to Buyer and the carrying out of its provisions. This Agreement will not violate any judicial, governmental or administrative decree, order, writ, injunction, or judgment, and will not conflict with or constitute a default under Seller's bylaws, or any contract, agreement, or other instrument to which Seller is a party or by which it may be bound.

(c) Employee Issues. No employees of Seller are members of any union. Within 10 days after the date of this Agreement, Seller shall provide a Buyer the following: (i) a census of Seller's employees related to Seller's Business that will be subject to this subparagraph ("Seller's Covered Employees"), (ii) a written disclosure of all benefits made available to Seller's employees (including qualified or non-qualified retirement plans, and (iii) access to all personnel files for Seller's Covered Employees. All employee benefit plans maintained by Seller for Seller's covered Employees shall be fully funded prior to Closing. Seller shall pay all wages, commissions, accrued vacation pay and other accrued compensation earned by Seller's Covered Employee prior to Closing (together with all accrued FICA and withholding taxes). Seller shall terminate the employment of all of Seller's Covered Employees effective as of the close of business on the Closing Date. At Buyer's sole discretion, Buyer may (but shall not be obligated to) hire any of Seller's Covered Employees. Seller will not, for a period of two years following Closing, employ or offer employment to any of Seller's Covered Employees who were an employee of Seller's Business at any time within the 180 day period immediately preceding Closing unless either:
(1) Buyer consents in Writing to Seller's employment of that employee, or (2) a period of at least 6 months shall have elapsed since the later of: (i) the date of Closing, or (ii) the last date when that employee is employed by Buyer.

(d) Undisclosed Liabilities and Contractual Commitments. Except as otherwise disclosed in this Agreement (or in an attached Exhibit), the following statements are true as of the date of this Agreement and shall be true at Closing: (i) Seller does not have any liabilities which might have a material impact on Buyer's use of the Purchased Assets, (iii) no law suit or action, administrative proceeding, arbitration proceeding, governmental investigation, or other legal or equitable proceeding of any kind is pending or threatened against Seller which might adversely affect the value of the Purchased Assets, and (iv) Seller has all licenses, permit and authorizations required by any federal, state or local government or regulatory agency in order to operate Seller's Business, and knows of no reasons why any such license or permit might be subject to revocation. If any claim is asserted against Buyer after Closing with respect to any obligation of Seller which Seller has failed to disclose to Buyer in writing, or which Seller has disclosed but failed to pay, then Buyer shall give prompt written notice of that claim to Seller. Seller shall indemnify Buyer with respect to all such obligations.

(e) Condition of Equipment. Buyer is purchasing all of Seller's Equipment "AS IS" with no warranty as to the condition. Seller will continue to perform routine maintenance and repairs with respect to the Equipment prior to Closing.

(f) Good Title. Seller has, and shall transfer to Buyer at Closing, good and marketable title to all of the Purchased Assets, free and clear of all security interests, license, equitable interests, leases, assessments, restrictions, reservations, or other burdens of any kind, except as to leased equipment addressed in Paragraph 8. Seller prior to Closing (including property taxes, sales taxes and excise taxes) shall have paid all current and accrued taxes, which may become a lien against any of the Purchased Assets.

(g) No Hazardous Materials Discharged. Except as disclosed by Seller on Exhibit "D" to be attached hereto within 20 days of the date of this Agreement, (i) to the best of Seller's knowledge, at all times during Seller's ownership prior to Closing, Sellers and its employees, agents, sublessees, franchisees, licensees, permitees, contractors, vendees and customers of Seller, and all other persons permitted by Seller to have access to the Business Real Property, shall have used, stored, transported, disposed of and treated Hazardous Materials in strict accordance with all applicable federal, state and local laws and regulations (collectively referred to for the remainder of this Paragraph 13(g) as the "Laws"), and (ii) to the best of Seller's knowledge, there currently are no underground gas tanks, underground fuel tanks or underground waste oil tanks located on the Business Real Property, and (iii) at the Closing, to the best of Seller's knowledge, Seller shall not have caused the Business Real Property of any Hazardous Material, and (iv) at Closing, to the best of Seller's knowledge, Seller shall not have caused any other parcel of real property (including but not limited to properties adjacent to or in the immediate vicinity of the Business Real Property) to be contaminated by the presence on, under, or about the Business Real Property by Seller prior to Closing. For purposes of this paragraph (g), the phrase "Hazardous Material" shall refer to and include any hazardous or toxic substance, material or waste which is or becomes regulated by any federal, state or local governmental authority or political subdivision. The term "Hazardous Materials" includes, without limitation, any material or substance that is (i) defined as a "hazardous substance" under applicable federal, state or local law, (ii) petroleum, (iii) asbestos, (iv) polychlorinated biphenyl ("PCB"), (v) designated as a "hazardous substance" pursuant to Section 31 of the Federal Water Pollution Control Act (33 U.S.C. S 1321), (vi) defined as a "hazardous waste" pursuant to Section 1004 of Solid Waste Disposal Act (42 U.S.C. S 6903), (vii) defined as a "hazardous substance" pursuant to section 101 of the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. S 6901), (viii) defined as a "regulated substance" pursuant to Section 9001 of the Solid Waste Disposal Act (Regulation Of Underground Storage Tanks), 42 U.S.C. S 6991, (ix) considered a "hazardous chemical substance and mixture" pursuant to Section 6 of the Toxic Substance Control Act (15 U.S.C S 2605), or (x) defined as a "pesticide" pursuant to Section 2 of the Federal insecticide, Fungicide and Rodenticide Act (7 U.S.C. S 136), and (xi) any and all substances which now or in the future are deemed to be pollutants, toxic materials or hazardous under any other state or federal law. Seller will furnish to Buyer within twenty (20) days of this Agreement, copies of all environmental reports and certificates of compliance relating to the Business Real Property, if any. Upon the execution of this Agreement, Seller shall engage an appropriate environmental firm which is acceptable to Buyer to conduct an investigation and produce a Phase One Environmental Report regarding the Business Real Property. Buyer and Seller shall each pay one half of the cost of the Report. If the Phase One Environmental Report discloses that the Business Real Property is, or is likely to be, materially contaminated by the presence of Hazardous Materials, and if Buyer provides Seller with a written demand to remediate, cleanup, detoxify and decontaminate any and all such contamination as a condition of Closing, then

Seller any either: (i) complete such remediation, cleanup, detoxification and/or decontamination at Seller's sole expense prior to Closing, or (i) place sufficient funds into escrow at Closing to cover the expense of the required remedy or (iii) rescind the transaction in its entirety. Buyer's Closing of the transaction contemplated by this Agreement will (i) constitute Buyer's acceptance of all known, discovered, or disclosed contamination of the Business Real Property, and (ii) notwithstanding any other term of this Agreement, constitute Buyer's waiver of all claims against Seller or its officers, directors, agents, employees, and owners relating to any known, discovered, or disclosed contamination of the Business Real Property.

(h) Franchisor's Consent. Seller shall take all actions, which are reasonably necessary on Seller's part to obtain the consent of the Franchisor to the issuance to Buyer of an exclusive franchise for the sale of Volkswagen vehicles in the same geographical area as Seller's current franchise in Reno, Nevada.

(i) Financial Disclosures. Seller shall promptly furnish to Buyer such financial and operating data and other information relating to Seller's Business and the Business Real Property, as Buyer shall request. The review of such materials will be at Buyer's expense. To the best of Seller's knowledge, all such financial statements and related materials provided to Buyer fairly present the financial position of Seller's Business and the results of operation of Seller's Business for the periods covered thereby. Buyer (at Buyer's expenses) shall have the right at any time prior to Closing, to conduct a certified audit (by one or more certified public accounting firms selected by Buyer) of Seller's balance sheets and income and cash flow statements for recent periods, and Seller agrees to cooperate and assist in the prompt and efficient completion of all such audit activities, recognizing that the audit process may result in inconveniences or inefficiencies to Seller's Business.

(j) Indemnification for Breach of Warranties. Seller shall indemnify Buyer against all losses, damages and costs (including attorney fees and court costs) relating to any warranty made by Seller in this Agreement which is false, misleading, incomplete or inaccurate (either to the date of this Agreement or at the time of Closing). If at any time prior to Closing Seller determines that any warranty made by Seller is this Agreement is incorrect, incomplete or misleading, then Seller shall advise Buyer of that fact and shall provide Buyer in writing whatever other information shall be necessary to cause that warranty to be correct, complete and not misleading.

13. Conduct of Business Pending Closing. Seller warrants that during the period beginning on the date of this Agreement and ending at Closing:
(i) Seller shall continue to operate Seller's Business in the usual and ordinary course, and in substantial conformity with all applicable laws, ordinances, regulations, rules or order; (ii) Seller shall not allow any liens to be placed against any of the Purchased Assets unless those liens are discharged prior to Closing; (iii) Seller shall not take any action which may cause a material adverse change in the operations of Seller's Business; (iv) Seller shall not conduct any sale which shall use the words or phrases "Going Out of Business Sale" or other words or phrases having similar meanings; (v) Seller shall use its best efforts to preserve the value of the Volkswagen franchise in Reno, Nevada.

14. Representations and Warranties of Buyer. Buyer hereby makes the following representations and warranties to Seller, with the intent that Seller rely thereon:

(a) Organization. Lithia Motors, Inc. is a corporation organized, validly existing and in good standing under the laws of the State of Oregon, and is entitled to own property and to carry on its business.

(b) Authority. The board of directors of Lithia Motors, Inc. must authorize this Agreement within (10) days after the date of this agreement. This Agreement will not violate the provision of any judicial, governmental or administrative decree, order, writ, injunction, or judgment, or conflict with or constitute a default under, the Article or bylaws of Lithia Motors, Inc., or any contract, agreement, or other instrument to which Lithia Motors, Inc. is a party.

15. Additional Conditions Precedent to Buyer's Obligations. The obligation of Buyer to close hits transaction is subject to each of the following conditions (each of which is for the benefit of Buyer and may be waived by Buyer), and Buyer shall have the right to rescind this Agreement if any of the following conditions is not satisfied in accordance with its terms:

(a) Buyer shall have obtained from Franchisor, prior to the Final Closing Date, an exclusive franchise to sell new Volkswagen vehicles in the same geographical area as Seller's current franchise in Reno, Nevada (as

evidenced by the issuance to Buyer by Franchisor of an appropriate Dealership Sales and Service Agreement, and the approval of Buyer as a publicly owned Dealer-Operator of the franchise), the Buyer agrees to use its best reasonable efforts to obtain that franchise.

(b) Buyer shall be reasonably satisfied with any facility improvement requirements which are imposed by Franchisor.

(c) Buyer shall have been permitted to fully inspect the business real property. All leases and subleases, which are necessary for the beneficial use by Buyer of the Business Real Property, shall be closed concurrently with this transaction under terms and conditions, which are acceptable to Buyer. Buyer shall have been reasonably satisfied with the physical condition of the business real property, and with all aspects of the business real property.

(d) All of Seller's agreements and warranties set forth in this Agreement shall be true, correct, complete and not misleading at Closing; provided that Buyer's decision to close this transaction shall not release Seller from liability to Buyer for any warranty which is subsequently determined to be incorrect, incomplete or misleading.

(e) Buyer is satisfied with the kind, quality and/or value of the items listed on Exhibit "A", and does not notify Seller to the contrary pursuant to Paragraph 6.

(f) This agreement, shall have been authorized by the board of directors of Lithia Motors, Inc. within 10 days after the date of this agreement.

16. Closing. The parties shall make reasonable effort to close the purchase and sale under this Agreement at or before 5:00 p.m. Pacific Standard Time, on or before the Final Closing Date, at the offices of Capital City Escrow, Inc., in Sacramento, California, or at such other location as shall be selected by mutual agreement of the parties.

(a) The parties agree to establish a closing escrow account at Capital City Escrow, Inc. in Sacramento, California (the "Closing Escrow Agent"). Buyer and Seller each shall pay one-half (1/2) of the closing escrow fees. Buyer and Seller agree to execute Closing Escrow Agent in connection with this transaction may require. In the event of any conflict between those escrow instructions and this Agreement, the terms of this Agreement shall prevail. Upon the execution of this Agreement, Buyer shall deliver to Closing Escrow Agent the sum of $25,000.00 (the deposit), which amount shall immediately be placed into an interest bearing account. The deposit plus interest shall be credited to Buyer and shall be applied against the purchase price for the Equipment at Closing as provided in Paragraph 6, or if the Closing fails to occur, then the deposit shall be disbursed as set forth hereinafter.

(b) In all events, the Closing of the transaction contemplated under this Agreement shall occur (if at all) on or before the Final Closing Date.

(c) If this transaction closed as provided herein, then actual possession and all risk of loss, damage or destruction with respect to the Purchased Assets, shall be deemed to have been delivered to Buyer at 11:59
p.m., Pacific Standard Time, on the Closing Date.

(d) At Closing, and coincidentally with the performance of the obligations to be performed by Buyer at Closing, Seller shall deliver to Buyer the following (i) all bills of sale, assignments and other instruments of transfer, in form and substance reasonably satisfactory to Buyer, which shall be necessary to convey the Purchased Assets to buyer; and (ii) all other documents required under this Agreement.

(e) At Closing, and coincidentally with the performance of all obligations required by Seller at Closing, Buyer shall deliver to Seller the following: (i) payment for the Purchased Assets; and (ii) all other payments and documents required under this Agreement. Buyer shall be responsible for all sales taxes payable in connection with this transaction.

(f) If Closing does not take place on or before the Final Closing Date because there has been a failure of any condition precedent set forth in Paragraph 15 or because Seller has elected to rescind the Agreement pursuant to subparagraph 12(g), then: (i) all rights and obligations of both

parties under this Agreement shall terminate, (ii) Buyer shall be entitled to a refund of the entire $25,000.00 earnest money deposit (and interest earned thereon) referred to in subparagraph 6(b), and (iii) this Agreement and all predecessor agreements shall thereafter be void and of no effect.

(g) If Closing does not take place on or before the Final Closing Date because of Buyer's material breach of this Agreement, then the $25,000.00 earnest money deposit delivered by buyer to the Closing Escrow Agent (together with all interest earned thereon while held by the Closing Escrow Agent) shall be forfeited to Seller as Seller's sole and exclusive remedy for Buyer's breach, and Seller shall have no other rights or remedies against Buyer by reason of that breach. If Closing does not take place on or before the Final Closing Date because of Seller's material breach of this Agreement, then Buyer shall be entitled to: (i) a refund of the entire $25,000.00 earnest money deposit previously delivered by Buyer to the Closing Escrow Agent (together with all interest earned thereon while held by the Closing Escrow Agent), and (ii) Buyer's remedies shall be further limited to actual damages up to a maximum of $25,000.00, and Buyer waives and shall not be entitled to any other rights and remedies provided by law or in equity.
THE SUM OF $25,000 REPRESENTS A REASONABLE ESTIMATE OF BUYER'S AND SELLER'S DAMAGES INT EH EVENT OF SUCH A DEFAULT, IT BEING EXTREMELY DIFFICULT TO ASCERTAIN THE PARTIES'S PRECISE DAMAGES.

(h) Both parties agree to make a good faith effort to execute and deliver all documents, including Seller's financial or taxes records and complete all actions necessary to consummate this transaction.

17. Seller's Accounts Receivable. For a period of 6 months after Closing, Buyer shall, on Seller's behalf, and at no charge to Seller, accept any payment with respect to Seller's customer receivables and other receivables arising out of the operation of Seller's Business prior to Closing. All collected receivables from vehicle sales shall be delivered to Seller within ten (10) days after collection, and all other collected receivables shall be delivered to Seller on a monthly basis. Buyer shall have no obligation to undertake collection efforts with respect to Seller's receivables, and Buyer's only obligation shall be to account for and pay over Seller's receivables, which are actually received by Buyer.

18. Survival Of Representations. All representations, warranties, indemnification obligations and covenants made in this Agreement shall survive the Closing, and shall remain in effect upon the expiration of the latest period allowable in any applicable statute of limitations.

19. Assignment By Buyer. Lithia Motors, Inc. shall have the right to assign all rights and obligations of Lithia Motors, Inc. as "Buyer" under this Agreement. In the vent of any such assignment, the assignee shall assume all rights and obligations of the buyer under this Agreement, and Lithia Motors, Inc. shall remain jointly liable for all obligations of the Buyer.

20. Lease of Real Property. As a condition of the Closing of the transaction contemplated under this Agreement, Buyer (or a related entity) agrees to assume Seller's lease of the Business Real Property. Buyer's and Seller's obligation to close the transaction contemplated under this Agreement shall be subject to the conditions that Buyer simultaneously to enter into an agreement with the owner of the Business Real Property which allows Buyer to assume Seller's lease of the Business Real Property and which further fully releases and discharges Seller and any of Seller's guarantors from any further liability under the lease of the Business Real Property.

21. Miscellaneous.

(a) There are no oral agreements or representations between the parties which affect this transaction, and this Agreement supersedes all previous negotiations, warranties, representations and understandings between the parties. True copies of all documents referenced in this Agreement are attached hereto. If any provisions of this Agreement shall be determined to be void by any court of competent jurisdiction, then that determination shall not affect any other provision of this Agreement, and all other provisions shall remain in full force and effect. If any provision of this Agreement is capable of two construction, only one of which would render the provision valid, then the provision shall have the meaning which renders it valid. The paragraph headings in this Agreement are for convenience purposes only, and do not in any way define or construe the contents of this Agreement.

(b) This Agreement shall be governed and performed in accordance with the laws of the state of Nevada. Each of the parties hereby irrevocably submits to the jurisdiction of the courts of Washoe County,

Nevada, and agrees that any legal proceedings with respect to this Agreement shall be filed and heard in the appropriate court in Washoe County, Nevada.

(c) This Agreement may be executed in multiple counterparts, each of which shall be an original, and all of which shall constitute a single instrument, which signed by both of the parties. This Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the respective parties. Facsimile signatures shall be deemed to be and shall have the same force and effect as an original signature.

(d) Waiver by either party of strict performance of any provision of this Agreement shall not be a waiver of, and shall not prejudice the party's right to subsequently require strict performance of, the same provision or any other provision. The consent or approval of other party to any act by the other party of a nature requiring consent or approval shall not rendered unnecessary the consent to or approval of any subsequent similar act.

(e) All notices provide for herein shall be in writing and shall be deemed to be duly given when mailed by United States certified mail, postage prepaid, to the last-known address of the party entitled to receive the notice, or when personally delivered to that party.

(f) Time is of the essence to this Agreement.

(g) Should any party hereto institute any action or proceedings to enforce or interpret any provision hereof, or for damages by reason of any alleged breach of any provision of this Agreement, the prevailing party shall be entitled to recover from the losing party or parties such amount as the court may adjudge to be reasonable attorney's fees for services rendered to the prevailing party in such action or proceeding. The term "prevailing party" as used in this section shall include, without limitation, any party who is made a defendant in litigation in which damages and/or other relief may be sought against such party and a final judgment or dismissal or decree is entered in such litigation in favor of such party defendant.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date indicated below.

SELLER:

UNITED AMERICAN FUNDING, INC., a Nevada corporation.

By: /s/ Peter Weschnell 12/31/97
Name: Peter Weschnell
Title: Vice President

BUYER:

LITHIA MOTORS, INC. (OR NOMINEE)

By: /s/ Brad Gray 12/31/97
Brad Gray, Executive Vice President

EXHIBIT 10.28.2

CERTIFICATE OF AUTHORITY AND STOCKHOLDERS

CONSENT FOR CORPORATE GUARANTY

The undersigned hereby certifies that the following resolution was duly adopted by the Board of Directors of UNITED AMERICAN FUNDING, INC, a corporation existing under the laws of NEVADA, that the same has not been modified or rescinded and is not in violation of the charter, by-laws or any agreement of said corporation:

"Resolved that to induce Teddy Bear Havas Motors, Inc. (Lessor), at its discretion, to make leases or otherwise extended credit to or deal with United American Funding, Inc. (Lessee) on such terms in such amounts and at such times as may be approved by Lessor, without notice to or approval from this Corporation, which will be incidental to and in furtherance of the business of this Corporation and to its direct benefit and advantage, this Corporation guarantee to Lessor, its successors and assigns, that said Lessee will promptly and fully pay all sums and perform all obligations to be paid or performed by it in connection with any such lease, credit or other transaction, and any officer of this Corporation is authorized, in its name and on its behalf, to execute and deliver to Lessor a guaranty in such form and containing such provisions as may be acceptable to Lessor".

The undersigned further certifies that the officers of said Corporation and the respective offices held by them are:

/s/ President	*/s/ Treasurer*
President	*Treasurer*
/s/ Vice President	*/s/ Secretary*
Vice President	*Secretary*

and that the persons who have signed the Consent of Stockholders below are the holders of all the issued and the outstanding stock of said Corporation.

Signed and sealed this 28th day of July, 1992.

[Corporate Seal] */s/ Secretary*

LEASE AGREEMENT

LEASE, made this 28th day of July, 1992, by and between TEDDY BEAR HAVAS MOTORS, INC. a Nevada corporation, (hereinafter called "Lessor") and UNITED AMERICAN FUNDING, INC., a Nevada corporation (hereinafter called "Lessee").

WITNESSETH:

For and in consideration of the covenants herein contained, and upon the terms and conditions herein set forth, Lessor and Lessee agree as follows:

1. DESCRIPTION. Lessor hereby leases to Lessee, and Lessee hereby hires and leases from Lessor, the real property described in Exhibit A, attached hereto and by this reference made a part hereof, and the building and other improvements, together with certain equipment and fixtures described in Exhibit B attached hereto and made a part hereof, located on the real property. Except as otherwise provided herein, the term "Premises" or "Leased Premises" shall include the real property and the buildings, improvements, fixtures, and equipment located thereon.. Lessee acknowledges that it has fully examined the Leased Premises and accepts the Leased Premises in a good condition. Lessor makes no warranties, express or implied, relating to the equipment, fixtures, improvements and building, and Lessee accepts such property "as is" and "where is."

2. TERM.

(a) Original Term. The Premises are leased for a term of give (5) years, to commence on and pursuant to paragraph 42 below, and to end at 12:00 midnight of the day immediately preceding the fifth (5th) anniversary of the commencement date ("Original Term").

(b) Renewal Term. If Lessee shall not be in default under this Lease, Lessee shall have the option to renew and extend this Lease for an additional term of five (5) years (hereinafter called the "Renewal Term") commencing upon the expiration of the Original Term of this Lease provided in paragraph 2(a) above which option is exercisable by Lessee giving Lessor written notice of exercise of this option at least one hundred eighty (180) days prior to the date of expiration of the Original Term; provided, however, that all of the terms, covenants, promises, conditions and provisions of this Lease shall apply fully and completely to such Renewal Term of the Lease, except that the term shall be as herein provided for the Renewal Term and except as herein provided with respect to the Basic Rent. The amount of the annual Basic Rent as provided in paragraph 3(a) of this Lease shall be changed to the rate provided in paragraph 3(b). For purposes of this Lease "term of this Lease" or "Lease term" means the Original Term plus any extension promptly elected by Lessee pursuant to this subparagraph 2(b).

3. RENT

(a) Basic Rent. During the Original Term of this Lease, Lessee shall pay to Lessor, in advance, rent ("Basic Rent") in the sum of Six Thousand Five Hundred and 00/100 Dollars ($6,500.00) per month plus any additional rent or sum as provided herein, provided, however, that in the event that Lessee becomes a manufacturer's franchisee dealer of new vehicles, recreational vehicles, motor homes, campers, trailers or manufactured housing, the Basic Rent shall be Nine Thousand Five Hundred and No/100 Dollars ($9,500.00) per month, plus any additional rent or sum as provided herein, per month, payable on the fifteenth (15th) day of each month, commencing on and pursuant to paragraph 42 below.

(b) Basic Rent Escalation. During the Renewal Term of this Lease, Lessee shall pay to Lessor, in advance, the Basic Rent as set forth in subparagraph 3(a) above adjusted to the greater of the Price Index Adjustment or the Fair Market Rent Adjustment as hereinafter provided.

(i) Price Index Adjustment. For the purpose of this calculation, the Basic Rent provided for in paragraph 3(a) shall be subject to adjustment to reflect the increase, if any, in the Consumer Price Index (all items) for the San Francisco-Oakland-San Jose metropolitan area, published by the United States Department of Labor, Bureau of Labor Statistics ("Index"), which is published for the month of June, 1992 (141.9) in comparison with the Index for June, 1997. The Basic Rent for the Renewal Term shall be set by multiplying the Basic Rent set forth in paragraph 3(a) by a fraction, the numerator of which is the Index for June, 1997, and the denominator of which is the Index for June, 1992 (141.9).

If the Index is changed so that the base year differs from that used as of the month immediately preceding the month in which the term commences, the Index shall be converted in accordance with the conversion factor published by the United States Department of Labor, bureau of Labor Statistics. If the Index is discontinued or revised during the term, such other government index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

The rent as thus adjusted at the commencement of the first year of the Renewal Term shall be compared with the rent derived from the Fair Market Rent Adjustment pursuant to subparagraph (ii) below and the greater of those figures shall be the Basic Rent during the Renewal Term.

(ii) Fair Market Rent Adjustment. Within five (5) days following notice by Lessee of the exercise of the option to renew and extend this Lease as provided in paragraph 2(a) above, lessor and Lessee shall each select an "MAI" certified appraiser licensed to practice in the State of Nevada and within said period shall order an appraisal of the fair market rent for the Leased Premises. The appraisers shall complete their appraisals within ninety (90) days of their appointment. The Fair Market Rental shall be the average of the two appraisals. Each party shall be solely responsible for the fees and expenses of its appraiser.

(iii) Rent Adjustment - No Decrease. In no case shall the Basic Rent be less than the Basic Rent set forth in paragraph 3(a). On adjustment of the Basic Rent as provided in this Lease, the parties shall immediately execute an amendment to the Lease stating the new Basic Rent.

(iv) Basic Rent Escalation - Payment. During the Renewal Term Lessee shall pay, in advance, to Lessor monthly rental plus any additional rent or sum as provided herein in the amount calculated pursuant to paragraph 3(b) commencing on the first (1st) day of the Renewal Term, provided, however, that in no event shall the rent be payable during the Renewal Term be less than the Basic Rent payable during the Original Term pursuant to paragraph 3(a).

(v) Basic Rent Escalation - Disputes. In the event of any dispute between the parties as to the manner of computing any adjustment in the Basic Rent, or as to the Price Index to be used, or as to any other matter arising under this paragraph, such dispute shall be determined by arbitration in accordance with the Commercial Rules of the American Arbitration Association, held in Reno, Nevada, and the arbitrators' award shall be final and binding between the parties hereto, and judgment may be entered in a Court of competent jurisdiction. During any such arbitration, the Lessee shall continue to pay rent at the rent theretofore applicable under the terms of this Lease.

4. USE OF PREMISES. Lessee shall use and occupy the Leased Premises for automobile finance, sales and repair and no other purpose. Lessee shall comply with any and all governmental laws, ordinances, rules and orders applicable to Lessee's occupation or the use of the Premises or to Lessee's business. Lessee shall be responsible for all costs associated with obtaining all licenses or permits for the use and occupancy of the Premises, for the conduct of its business or for making of repairs, maintenance, alterations, additions or improvements, and Lessor, at Lessee's cost, will cooperate with Lessee in applying for such permits or licenses.

5. UTILITIES, TAXES, ASSESSMENTS, AND EXPENSES.

(a) Utilities. Lessee shall pay all charges and connection fees for utilities including, but not limited to, sewage, trash and garbage disposal, electricity, telephone, water, and gas or other fuel or energy furnished to Lessee or consumed by it upon the Leased Premises. Lessee's use of utility services shall not, at any time, exceed the capacity of mains, feeders, ducts and conduits bringing such services to the Premises, provided, however, that Lessee may, at its expense, increase the capacities of mains, feeders, ducts and conduits; further, provided that such increase complies with all governmental laws, ordinances, orders and rules, and is done in a workmanlike manner.

(b) Real Estate Taxes.

(i) The Lessee shall pay and discharge, prior to delinquency all real estate (ad valorem) taxes, water rates, sewer rates, utility payments, occupancy taxes, assessments and/or installments thereof and other duties, charges or payments, ordinary or extraordinary, foreseen or

unforeseen, general or special, as shall during the term be imposed, assessed, levied, or become a charge or lien upon the Leased Premises, or any part thereof.

(ii) Lessor shall not be required to pay any taxes or assessments of any nature imposed or assessed upon fixtures, equipment merchandise or other personal property installed on the Leased Premises at the date of the execution of this Lease or brought thereon by Lessee or others, but such shall be the obligation of Lessee, and Lessee shall promptly pay or cause to be paid, prior to delinquency, all such taxes or assessments as the same become due.

(iii) Regardless of the validity of the levy, Lessor may, at its option, pay any tax or assessment levied against the Premises and Lessee shall, on demand, immediately reimburse Lessor for such taxes or assessments.

(iv) Provided that Lessor's title to the Premises is not adversely affected and no assessment or tax lien is allowed to exist thereon, Lessee may contest in good faith, by appropriate proceedings, in the Lessor's and/or Lessee's name, any such taxes, assessments or similar items. At Lessee's request and expense, Lessor agrees to reasonably cooperate with Lessee in any such contest. If Lessee contests taxes and does not pay such taxes, Lessee shall furnish Lessor a surety bond by a qualified insurance company in the full amount of the unpaid property taxes. The bond shall hold the Lessor and the Premises harmless from any damages arising from the contest and insure payment of any judgment.

(c) Expenses. Lessee shall pay all expenses of the Leased Premises, including, without limitation, each and every item of cost and expense incurred for the maintenance, operation, occupation and use of the Leased Premises, including, without limitation, the cost of all direct labor, supplies, materials, service contracts, equipment, landscaping care, and janitorial service.

(d) Evidence of Payment. On demand by Lessor, Lessee shall furnish Lessor with satisfactory evidence of any such payments made by Lessee pursuant to subparagraphs 5(a), (b) and 9c) above.

(e) Net Lease. Lessor and Lessee agree that this Lease shall be construed as, and is intended to be, a Net Lease in which rents shall be absolutely net to Lessor, free of any deductions or setoffs [(except as provided in paragraph 41(b)], and Lessee shall pay all costs, expenses and obligations of every kind relating to the use of the Premises.

6. Property and Liability Insurance.

(a) Lessee shall procure, at its sole cost and expense, a standard fire with extended coverage insurance policy with a recognized insurance company authorized to do business in the State of Nevada, naming Lessor as an additional insured, in the full amount of the replacement cost of the Leased Premises but in no event less than Six Hundred Thousand and No/100 Dollars ($600,000.00).

(b) Lessee shall, at all times during the term hereof, at its sole cost and expense, procure and maintain in full force and effect a policy of comprehensive public liability hereof, at its sole cost and expense, procure and maintain in full force and effect a policy of comprehensive public liability insurance issued by an insurance carrier approved by Lessor assuring against loss or damage to property occurring from any cause whatsoever in connection with the Leased Premises and parcel no. 040-162-14 or Lessee's use thereof. Such liability shall be in amounts of not less than One Million Dollars ($1,000,000) for bodily injuries to or death of any one person whomsoever, One Million Dollars ($1,000,000) for bodily injuries to or death of any two or more persons whomsoever, arising from the same occurrence, or Six Hundred Thousand Dollars ($600,000) for damage to property, including property of Lessee. All such insurance shall specifically inure the performance by Lessee of the indemnity agreement as to liability for injury to or death of persons and loss of or damage to property contained in paragraph 11 below. Lessor and Lessee shall be named as co-insureds.

(c) Lessee shall not be required to maintain plate glass insurance but Lessee shall, at its sole cost and expense, replace any plate glass broken or damaged during the term of this Lease.

(d) Should the Lessee fail to obtain insurance as provided herein, Lessor may obtain such insurance and the premiums on such insurance shall be deemed to be additional rental to be paid by Lessee to lessor on demand. Lessee, at its option, may review, revise, and increase the coverage limits

at two (2) year intervals hereunder during the term of this Lease to commercially reasonably coverage limits. Lessee shall direct the insurance company to provide notice of cancellation to be sent to Lessor ten (10) days prior to cancellation of said insurance.

(e) To the extent permitted by law, each party hereby waives, on behalf of itself and its insurer, all rights of subrogation and claims against the other for loss or damage arising out of the perils normally insured against by standard fire and extended coverage insurance. This paragraph 6 (d) is not intended to alter, amend or change the obligations of the Lessee and the Lessor set forth in paragraph 7 hereinafter.

7. MAINTENANCE OF PREMISES

(a) Lessee, at its cost, shall maintain, in good condition, the Leased Premises, which includes without limitation, all of the interior and exterior of the building, fixtures, improvements, equipment, plumbing, electrical, roof, walls, foundation, landscaping, paved areas, sidewalks and vacant areas., Lessor shall not have any responsibility to maintain the Leased Premises. All maintenance alterations, additions, improvements, and repairs shall be at Lessee's expense, made in a good and workmanlike manner, and in full compliance with all governmental rules, laws, orders, and ordinances, whether now in existence or enacted or required during the term of this lease. Lessee, at its cost, shall make any and all alterations, additions, and improvements, (which may be made only upon the prior written consent of Lessor, which Lessor shall not unreasonably withhold or delay, but which may be given subject to such terms and conditions as Lessor may reasonably require), maintenance and repairs to the Premises as required by law, rule, order, ordinance or regulation of any governmental authority in order to use the Leased Premises for purposes provided herein. Lessee agrees that the failure of any component system or the inability to use the Premises, due to the condition of the Premises or lack of any service, shall not be construed as a constructive eviction.

(b) Should Lessee desire to make any alteration, addition or improvement upon the Premises, it shall transmit to the Lessor a reasonably detailed description of drawings, plans and bids of the work to be performed. Within thirty (3) days of the receipt of the same, Lessor shall notify Lessee in writing whether Lessor approves such work and whether Lessee will be required to remove such alteration, addition or improvement at the end of the Lease term, or whether such alteration, addition or improvement shall remain and revert to the Lessor at the end of the Lease term.

(c) Lessee shall commit no act of waste.

8. INSPECTION BY LESSOR. Upon reasonable notice to lessee (except that no notice need be given in case of emergency), Lessor shall have the right to enter upon Leased Premises from time to time, at any reasonable time during the normal business hours of Lessee, but Lessor shall not be obligated to do so, in order to inspect the Premises and to perform any maintenance, repairs, additions and replacements which Lessor deems necessary or desirable, but this right to enter shall be exercised in such manner as to not unreasonably interfere with Lessee's use and enjoyment of the Leased Premises. Lessee shall have no claim or cause of action for or in the nature of trespass against Lessor by reason thereof. In no event shall Lessee have any claim against Lessor for interruption to Lessee's business, however occurring.

9. DAMAGES TO BUILDING/WAIVER OF SUBROGATION.

(a) Conditions at Termination of Lease and Restoration. If the buildings and/or improvements are damaged by fire or any other cause to such extent that the cost of restoration, as reasonably estimated by Lessor, will equal or exceed twenty-five percent (25%) of the replacement value of the improvements and/or buildings (exclusive of foundations) just prior to the occurrence of the damage, then Lessor may, no later than the sixtieth (60th) day following the damage, give Lessee a notice of election to terminate this Lease, or if the cost of restoration will equal or exceed fifty percent (50%) of such replacement value and if the Premises shall not be reasonably usable for the purposes for which they are leased hereunder, then Lessee may, no later than the sixtieth (60th) day following the damage and prior to the commitment by Lessor to substantial costs for repair and/or restoration, give Lessor a notice of election to terminate this Lease. Upon the occurrence of either election, this Lease shall be deemed to terminate on the thirtieth
(30th) day after the giving of said notice, and Lessee shall surrender possession of the Premises within said thirty (30) days. Provided, however, if the damage to the premises is caused or contributed to by Lessee, its agents, representatives, affiliates, assign, successors, servants, invitees, visitors or licensees, Lessee shall have no right to elect to terminate this

Lease. if the cost or restoration as estimated by Lessor shall amount to less than twenty-five percent (25%) of said replacement value of the buildings and/or improvements, or if, despite the cost, neither Lessor or Lessee elects to terminate this Lease, Lessor shall restore the buildings and/or improvements and the Premises with all due promptness, subject to force majeure, and the Lessee shall have no right to terminate this Lease. Lessor need not restore fixtures and improvements owned or installed by Lessee or others.

(b) Abatement of Rent. In any case in which use of the Premises is affected by any damage to the improvements and/or buildings, there shall be no abatement or an equitable reduction in rent.

10. EMINENT DOMAIN. If Lessee's use of the Premises is materially affected due to the taking by eminent domain of (a) the Premises or any part thereof or any estate therein, or (b) the improvements and/or buildings; then, in either event, this Lease shall terminate on the date when title vests pursuant to such taking. The rent, and any additional rent shall be apportioned as of such termination date, and the rent, and any additional rent shall be apportioned as of such termination date, and the rent, and any additional rent, paid for any period beyond said ate by Lessee shall be repaid to Lessee. Lessee shall not be entitled to any part of the award for such taking or any payment in lieu thereof, but Lessee may file a separate claim for any taking of fixtures and improvements owned by Lessee which have not become the Lessor's property, and for moving expenses, provided the same shall in no way affect or diminish Lessor's award. In the event of a partial taking which does not effect a termination of this Lease does not deprive Lessee of the use of a portion of the Premises, there shall either be an abatement or an equitable reduction of the rent depending on the period for which and the extent to which the Premises so taken are not reasonably unable for the purpose for which they are leased hereunder.

11. INDEMNIFICATION AND LIABILITY INSURANCE. Lessee covenants that Lessor shall not be liable to the Lessee for any damages or injuries to the property of the Lessee or to the persons or property of any other person, and Lessee agrees that Lessee will hold the Lessor harmless of and from and against any and all claims, liabilities, demands, actions, costs, expenses and attorneys' fees incurred of all persons, whomsoever, who may allege that they have received injuries, or had property damaged, occurring in, on or about the Premises.

12. SIGNS. Lessee shall the right to install or erect on the Leased Premises or to affix to any building which is a part of the Leased Premises, such signs as it may deem necessary or appropriate to advertise its name and business; provided, however, that such signs and the erection, affixation and maintenance thereof shall at all times be in compliance with all applicable federal, state and local laws, regulations, rules, orders and ordinances. Upon the termination of this Lease, Lessee shall remove all such signs and shall repair all injury or damage to the Leased Premises done thereby and shall restore, at Lessee's cost, the Leased Premises to its original condition.

13. DEFAULT OF LESSEE. Any of the following events shall be a default of Lessee: (a) Lessee's default in the payment on the due date of the monthly rent and/or any other payment required of Lessee by this Lease, unless Lessee shall cure such default within ten 910) days after written notice of failure to pay when due such monthly rent and/or payment required of Lessee hereunder; (b) Lessee's default in the performance of any of the other covenants of Lessee or conditions of this Lease, unless Lessee shall cure such default within ten (10) days after notice of such default given by Lessor (or if any such default is of such nature that it cannot be completely cured within such period, then unless Lessee shall commence such curing within ten (10) days after notice of such default given by Lessor and shall thereafter diligently and in good faith proceed and continue to cure such default and shall succeed in curing such default within a reasonable period of time, not to exceed forty-five (45) days; (c) a general assignment for the benefit of Lessee's creditors; or the appointment of a receiver of any property of Lessee or of Lessee's leasehold hereunder in any action, suit or proceeding by or against Lessee if such appointment shall not be vacated or annulled within ten (10) days, or if the interest of Lessee in the Leased Premises shall be sold under execution or other legal process; (d) the sale or attempted sale by or under execution or other legal process of Lessee's leasehold interest hereunder and/or substantially all of Lessee's other assets; (e) assignment by operation of law of Lessee's leasehold interest hereunder other than pursuant to the federal bankruptcy laws, Title 11 USC. no notice given by Lessor pursuant to this paragraph 13 shall be deemed a forfeiture or termination of this Lease unless Lessor so expressly elects in the Notice.

14. LESSOR'S REMEDIES ON DEFAULT OF LEASE. Upon any default of Lessee as set forth in paragraph 13 of this Lease, Lessor, at Lessor's sole option, may elect and enforce any one or more of the remedies provided herein or allowed, now or later, by law or equity; or currently, elect and enforce multiple remedies from among those remedies provided herein or allowed, now or later, by law or equity. The remedies provided herein are not exclusive, are cumulative and are in addition to any remedies, now or later, allowed by law or equity.

(a) Termination and Lessee's Liabilities. Lessor shall have the right to terminate this Lease upon giving written notice specifically providing for termination of this Lease. No act by Lessor, including, without limitation, appointment of receiver, acts of maintenance or efforts to relet, shall terminate this Lease. Upon termination of this Lease, Lessee's right to possession, use and enjoyment of the Leased Premises shall cease, and Lessee shall immediately quit and surrender the Leased Premises to Lessor, but Lessee shall remain liable to Lessor as hereinafter provided. Upon termination of this Lease, Lessor may at any time thereafter re-enter and resume possession of the Premises by any lawful means and remove Lessee and/or other occupants and their goods and chattels. In any case where Lessor has recovered possession of the Premises by reason of Lessee's default, Lessor may, Lessor's sole option, occupy the Premises or cause the Premises to be redecorated, altered, remodeled, divided, consolidated with other adjoining premises, or otherwise changed or prepared for reletting, and may elect the Premises or any part thereof as agent of Lessee of otherwise, for a term or terms to expire prior to, at the same time as, or subsequent to, the original expiration date of this Lease, at Lessor's sole option, and Lessor shall receive the rent therefor. Rent so received shall be applied first to the payment of such expenses as Lessor may have incurred in connection with the recovery of possession, redecorating, altering, dividing, consolidating with other adjoining premises, or otherwise changing or preparing for reletting, and the reletting, including brokerage and reasonable attorney's fees, and then to the payment of damages in amounts equal to the rent and other payments required to Lessee hereunder and to the costs and expenses of performance of the other covenants of Lessee as herein provided. Lessee agrees, in any such case, whether or not Lessor has relet, to pay to lessor damages equal to the rent and other sums herein agreed to be paid by Lessor plus the costs incurred by Lessor in recovering possession, changing and/or preparing the Premises for reletting and the as hereinabove described, as well as the costs and expenses, if any, of performance of other covenants of Lessee as provided in this Lease, less the net proceeds of the reletting, if any, as ascertained from time to time, and the

same shall be payable by Lessee on the several rent days as specified in this Lease. Lessee shall not be entitled to any surplus accruing as a result of any such reletting. In reletting the Premises as aforesaid, Lessor may grant rent concessions, and Lessee shall not be credited therewith. No such reletting shall constitute a surrender and acceptance or be deemed evidence thereof. If Lessor elects, pursuant hereto, actually to occupy and use the Premises or any part thereof during any part of the balance of the term as originally fixed or since extended, there shall be allowed against Lessee's obligation for rent, other payments and damages as herein defined, during the period of Lessor's occupancy, the reasonable value of such occupancy, not to exceed in

any event the rent and additional rent and other payments herein reserved. In no event shall such occupancy by Lessor be construed as a release of Lessee's liability hereunder. If Lessee is in default of this Lease, Lessor shall have the right to have a receiver appointed to collect rent and conduct Lessee's business. Neither filing of a petition for appointment of a receiver nor appointment of receiver shall constitute an election by Lessor to terminate this Lease, nor shall it constitute a release of Lessee's liability hereunder.

(b) Acceleration of the Rents. Lessor shall have the right to declare the entire remaining unpaid rents and all other then known payments required of Lessee by this Lease for the full balance of the Lease term to be immediately due and payable. Such declaration of acceleration shall be made by notice provisions of this Lease. Upon notice of declaration of acceleration, Lessee shall immediately pay to Lessor, without further demand or notice, an amount equal to the sum of the entire remaining unpaid rents, renewed and extended term, plus all unpaid other payments required of Lessee by this Lease for the entire Lease term, to the extent the amount of such unpaid rents and other payments can then be determined. Upon timely payment of all the sums and performance of all covenants provided in this Lease, Lessee shall have the right to continue to possess, occupy and enjoy the Leased Premises for the remaining balance of the Lease term, subject to strict observance by Lessee of all the covenants, conditions and other provisions of this Lease and provided that Lessee has not vacated or abandoned the Premises. Lessor shall have the right to immediately enforce the declaration of acceleration as hereinabove provided by means of written notice or any legal action. The foregoing notwithstanding, Lessor shall have the right to declare an acceleration and collection upon same and, in addition, to disposes Lessee and re-enter and take possession of the Premises if Lessee has vacated or abandoned the Premises or if Lessor is dispossessing and evicting Lessee for the purpose of ultimately reducing Lessee's liabilities under this Lease. In the event Lessor shall declare an acceleration and the amounts due are not paid forthwith, then Lessor, at Lessor's sole option, may exercise Lessor's right to terminate this Lease.

(c) Damages. In any case where Lessor has recovered possession of the Premises by reason of Lessee's default, Lessor may at Lessor's option, and at any time thereafter, and without notice or other action by Lessor, and without prejudice to any other rights or remedies it might have hereunder or at law or equity, become entitled to recover from Lessee, as damages for such default, in addition to such other sums herein agreed to be paid by Lessee, an amount equal to the difference between (i) the sum of the rents and other payments reserved in this Lease and required of Lessee hereunder from the date of such default to the date of expiration of the original term demised, and (ii) the then fair and reasonable rental value of the Premises for the same period as proven by Lessee. Said damages shall become due and payable to Lessor immediately upon such default of this Lease and without regard to whether this Lease be terminated or not, and if the Lease be terminated,

without regard to the manner in which it is terminated. In the computation such damages, the difference between any installments of rent and other payments thereafter becoming due and the fair and reasonable rental value of the Premises for the period for which such installment was payable shall not be discounted.

15. Right to Cure Lessee's Defaults. If Lessee fails to perform any covenant or condition of this Lease, Lessor may, on five (5) days advance notice to Lessee (except that no notice need to be given in case of emergency), cure such default at the expense of Lessee and the reasonable amount of all expenses, including, without limitation, attorney's fees, incurred by Lessor in so doing shall be deemed additional rent payable on demand. Lessee also agrees to pay interest to Lessor on any sums expended by lessor at the rate of twelve percent (12%) per annum from date of payment by Lessor until repaid.

16. Mechanics' Liens/Encumbrances. Lessee shall keep the buildings, improvements and Premises free and clear of all mechanics' liens, encumbrances, or security interest which result from any work, labor, material, equipment, services furnished to or for Lessee. Lessee shall, within fifteen (15) days after notice from Lessor, discharge or satisfy by bonding (in the full amount of the claim, including fees and costs, and in full compliance with Chapter 108 of Nevada Revised Statutes), any mechanics' liens, encumbrances, security interest or other liens for equipment, material, labor, goods or services claimed to have been furnished to the Premises.

17. ASSIGNMENT; SUBLETTING.

(a) In the event that Lessee desires to assign this Lease or to sublease any or all of the Premises to any other party, Lessee shall communicate all of the terms and conditions of the proposed transaction, including (1) the name, address, financial statement and business of the proposed use of the Premises by the proposed assignee or subleesse, and (2) the proposed use of the Premises by the proposed assignee or sublessee to Lessor, in writing, at least ninety (90) days prior to the effective date of any such assignment or sublease.

(b) Lessee shall not assign this Lease, without the written consent of Lessor, which consent shall not be unreasonably withheld, but which consent shall be subject to the following terms and conditions:

(i) The assignee, the assignee's financial statement and the assignee's business and proposed use of the Premises (which shall be limited to an automobile dealership as set forth in paragraph 4 of this Lease) must be a commercially reasonable substitute for Lessee, Lessee's financial statement and Lessee's business and use of the Premises for the purposes of this Lease.

(ii) No assignment of this Lease, or any interest therein or part thereof, shall relieve Lessee from its duty to perform fully all of the agreements, covenants, and conditions set forth in this Lease.

(iii) At the option of Lessor, execution by assignee or transferee of a counterpart of this Agreement in which assignee or transferee agrees to be bound by the terms of this Lease.

(iv) If Lessee or assignee of Lessee is a corporation then, in the event of any dissolution, merger, consolidation, or other reorganization of Lessee, or the sale or other transfer of a "controlling percentage" of the stock of Lessee, or the sale of fifty-one percent (51%) of the value of the assets of Lessee, then such event shall be deemed an assignment pursuant to paragraph 17(a). For purposes of this Lease, "controlling percentage" means the ownership of and the right to vote stock possessing at least fifty-one percent (51%) of the total combined voting power of all classes of Lessee's capital stock issued, outstanding and entitled to vote.

(v) In the event that any consideration received by Lessee in respect of any valid assignment of this Lease, or any interest therein or part thereof, is in excess of any prepayments of Lessee's rent and other payments under this Lease as of the effective date of the assignment, then Lessor shall have the option either (a) to release Lessee from its duties and obligations, accruing subsequent to the date of valid assignment of this Lease, to perform fully all of the agreements, covenants, and conditions set forth in this Lease, or with respect to the interest therein or part thereof assigned, and to look solely to the assignee for the remaining duties and obligations pursuant to this Lease, in which event Lessor shall be entitled to receive all consideration paid and payable by the assignee (or its affiliates) in connection with the assignment of this Lease, or the interest therein or part thereof, in excess of any prepayments under this lease, but Lessor shall nevertheless be entitled to receive all rent and other payments on account of this Lease, or (b) to continue to hold Lessee liable and responsible for its duties and obligations accruing subsequent to the effective date of the assignment, in which event Lessee shall be entitled to the excess of any rent and other consideration under the sublease over the rent and other payments required to be paid by Lessee pursuant to this Lease for the area sublet.

(c) Lessee may sublease any portion of the Premises (but not all or substantially all of the Premises); provided, that Lessor consents in writing, which consent shall not be unreasonably withheld, but which consent shall be subject to the following conditions and limitations:

(i) The sublessee's use of the Premises shall be limited to an automobile dealership as set forth in paragraph 4 of this Lease.

(ii) The sublessee shall assume, by written instrument, all of the obligations of this Lease, and a fully executed copy of the sublease shall be furnished to the Lessor within ten (10) days of its execution.

(iii) The Lessee and sublessee, jointly and severally, shall be and remain liable for the observance of all the covenants and provisions of this Lease, including, but not limited to, the payment of rent reserved herein, through the entire term of this Lease.

(iv) In the event that rent and/or other consideration receivable by Lessee for any subletting shall be in excess of the rent and other payments required to be paid by Lessee pursuant to this Lease for the area sublet, computed on the basis of an average rent per rentable square foot of area sublet, such excess shall be equally divided between Lessor and Lessee, but in all respects this Lease shall remain in full force and effect. lessee shall remit Lessor's portion of such excess payments to Lessor within two (2) business days of the receipt thereof by Lessee. Nothing herein contained shall extend, vary or modify the date upon which rental payments are to be made by Lessee under this Lease as provided in paragraph 3(a) above.

18. SURRENDER. When this Lease shall terminate in accordance with the terms hereof, Lessee shall deliver up possession of the Leased Premises to Lessor without notice from Lessor other than as may be specifically required by any provision of this Lease. Lessee expressly waives the benefit of all laws now or hereafter in force requiring notice from Lessor with respect to termination.. Except for the equipment and fixtures described in Exhibit B, Lessee shall deliver up possession of the Leased Premises, (including the buildings and improvements), in good condition. Lessee shall return the equipment and fixtures described in Exhibit B in good condition less reasonable wear, tear and obsolescence. Lessee shall, not later than the last day of the term of this Lease, at Lessee's expense, (i) remove from the Leased Premises all personal property of Lessee, (ii) remove from the Leased Premises all fixtures and signs of Lessee, (iii) remove any alterations, additions or improvements made by Lessee that Lessee is required to remove pursuant to subparagraph 7(b) above, (iv) repair all injury or damage done to the Premises by or in connection with installation and/or removal of any and all personal property, fixtures, alterations, additions and/or improvements of Lessee and Lessee, at its cost, shall restore the Leased Premises to the same condition it was in prior to commencement of this Lease. All personal property, fixtures, signs, alterations, additions and improvements not removed by Lessee as hereinabove required, shall be conclusively deemed abandoned and may be kept or removed by Lessor, and Lessee shall reimburse Lessor for the cost of such removal and repair and restoration of any injury or damage resulting from removal. Lessor may have any such personal property or fixtures stored at Lessee's risk and expense.

19. LESSEE'S ESTOPPEL. Lessee shall, from time to time, on ten (10) days' prior written request by Lessor, execute, acknowledge and deliver to Lessor a tenant estoppel certificate certifying (i) that the Lease is in full force and effect; (ii) that the Lessee is not in default on this Lease or if

Lessee is in default, specifying the nature and extent of the alleged default(s); (ii) that Lessee is in possession of the Premises or if not identifying who is in possession; and (iv) that the Lease has not been assigned and the Premises have not been sublet, or if there has been an assignment or subletting, specifying all of the details.

20. HOLDOVER TENANCY. If Lessee holds possession of the Premises after the term of this Lease, Lessee shall become a tenant from month to month under the provisions of this Lease, but at a monthly rental of two hundred percent (200%) of the rent for the last month of the Lease term or any renewed or extended term, payable monthly in advance and other payments as provided in this Lease, and such tenancy shall continue until terminated by Lessor upon fifteen (15) days prior notice, or until Lessee shall have given to Lessor a written notice, at least sixty (60) days prior to the intended date of termination, of intent to terminate such tenancy.

21. ABANDONMENT. During the term of this Lease, Lessee shall not, without first obtaining the written consent of Lessor, abandon the Leased premises, or allow the Leased Premises to become vacant or deserted. Lessee's failure to occupy and operate the Premises for fifteen (15) consecutive days shall be considered an abandonment or vacation of Premises unless Lessee continues to perform all of its obligations, covenants and duties provided by this Lease and provides reasonable physical security of the Leased Premises by means of watchmen or a security service or other arrangement reasonably satisfactory to Lessor.

22. RIGHT TO SHOW PREMISES. During the nine (9) months prior to the end of this Lease or at any times when Lessee is in default, Lessor or its representatives may show the Premises to prospective purchasers and Lessee during all usual business hours.

23. LATE CHARGE. Lessee agrees that any payment due hereunder on rent not paid when due shall bear interest at the rate of twelve percent (12%) per annum from the date due until paid.

24. QUIET ENJOYMENT. Lessor covenants that if, and so long as, Lessee pays the rent and any additional rent and other payments as herein provided and performs the covenants hereof, Lessor shall do nothing to affect Lessee's right to peaceably and quietly have, hold and enjoy the Premises for the term herein provided, subject to the provisions of this Lease.

25. LESSOR'S LIABILITY FOR LOSS OF PROPERTY. Lessor shall not be liable for any loss of property from any cause whatsoever, including, but not limited to, theft or burglary from the Premises, and Lessee covenants and agrees to make no claim against Lessor for any such loss at any time.

26. BROKER. Lessee and Lessor represent to each other that each party has not had any dealings or commitments with any broker or finder with respect to this Lease other than Pat Champbell and Associates, Pat Campbell-Cozzi, Broker. Each party shall indemnify and hold the other harmless from any and all claims of any other brokers arising out of or in connection with the negotiations or the entering into this Lease by Lessee and Lessor.

27. PERSONAL LIABILITY. Notwithstanding anything to the contrary provided in this Lease, Lessee specifically acknowledges and agrees, that there shall be absolutely no personal liability on the part of Lessor, its successors, assigns or any mortgagee in possession (for the purposes of this paragraph, collectively referred to as "Lessor"), with respect to any of the terms, covenants and conditions of this Lease and that Lessee shall look solely to the equity of Lessor in the Premises for the satisfaction of each and every remedy of Lessee in the event of any breach by Lessor of any of the terms, covenants and conditions of this Lease to be performed by Lessor, such exculpation of liability to be absolute and without any exceptions whatsoever.

28. NO OPTION. The submission of this lease for examination does not constitute a reservation of, or option for, the Premises, and this Lease becomes effective as a Lease only upon execution and delivery thereof by Lessor and Lessee.

29. NOTICES. Any notice by either party to the other shall be in writing and shall be deemed to have been duly given only if delivered personally or sent by registered mail or certified mail in a postpaid envelope addressed, if to Lessee , at _____; if to Lessor, at 1500 South Virginia, Reno, NV 89502, with a copy to Mortimer Sourwine Mousel & Sloane, Ltd., Attention: Douglas A. Sloane, 333 Marsh

Avenue, Reno, Nevada 89509; or to such other address as Lessee or Lessor, respectively, may designate by written notice in accordance with this paragraph. Notice shall be deemed to have been effective and duly given, if delivered personally, on delivery thereof, and if mailed, upon the fifth
(5th) day after mailing thereof. Any notice to terminate Lessee's possession shall be given pursuant to statute.

30. ATTORNEY FEES. In the event either party hereto shall employ an attorney to enforce any of the conditions of this Lease, at law or in equity, the prevailing party (as determined by the Court or an Arbitrator) shall be entitled to reimbursement from the other party of all costs and expenses incurred or paid in so doing, including, but not by way of limitation, all attorney fees and costs incurred or paid at any time or times in connection therewith, whether the matter is handled by arbitration or by legal action at the trial court level and at any and all appellate court levels.

31. AMENDMENTS, MODIFICATIONS, ETC. No change, modification or termination of any of the terms, provisions, covenants, promises or conditions of this Lease agreement shall be effective unless made in writing and signed or initialed by all parties hereto, their successors or assigns.

32. ENTIRE AGREEMENT. This Lease agreement, including all exhibits and schedules referenced herein and attached hereto, constitutes the entire agreement between the parties hereto, pertaining to the subject matters hereof, and it supersedes all negotiations, preliminary agreements, and all prior and contemporaneous discussions and understandings of the parties in connection with the subject matters hereof. Except as otherwise expressly provided herein, no covenant, representation, promise or condition not expressed in this Lease agreement, or in an amendment hereto made and executed in accordance with this Lease agreement, shall be binding upon the parties hereto or shall affect or be effective to interpret, change or restrict the provisions of this Lease agreement.

33. APPLICABILITY TO HEIRS, ASSIGNS AND SUCCESSORS. The provisions of this Lease apply to, bind and inure to the benefit of Lessor and Lessee, and their respective heirs, successors, legal representatives and assigns.

34. WAIVER. Lessee agrees that the failure of Lessor in one or more instances to insist upon strict performance or observance of one or more of the covenants or conditions hereunder, or in any other Lease, or to exercise any rights, remedies, privileges, or option provided by law or in equity or provided or reserved to Lessor in this lease, or in any other Lease, shall not operate or be construed as a relinquishment or waiver for the future of such covenant or condition or of the right to enforce the same or to exercise such right, remedy, privilege or option, but rather, the same shall continue in full force and effect. The receipt and acceptance by Lessor of rents and/or additional rents and/or other payments hereunder, or any part or portion thereof, shall not be a waiver of any other rents and/or additional rents and/or any other payments hereunder, or any part or portion thereof, and such receipt and acceptance by Lessor, though with knowledge on the part of Lessor of the waiver of such breach or a waiver of any right, remedy, privilege or option of Lessor arising hereunder or at law or in equity on account of such breach in the absence of such receipt or acceptance. The receipt and acceptance by Lessor of delinquent rent shall not constitute a waiver of any default, but it shall constitute only a waiver of timely payment of the particular monthly rental payment due, and shall not prevent Lessor from enforcing, in the future, timely payment of rent. No waiver by lessor of any of the provisions of this Lease, or of any of Lessor's rights, remedies, privileges or options under this Lease shall be deemed to have been made unless the Lessor specifies such waiver in writing. If Lessor shall consent to the assignment of this Lease or to a subletting of all or a portion of the Premises, or if any such assignment or subletting may be made hereunder without Lessor's consent, no further assignment or subletting shall be made without the prior written consent of Lessor. This provision with respect to an assignment or subletting without Lessor's consent shall not constitute a waiver, or in any way lessen Lessor's rights and remedies with respect to an assignment or subletting made without Lessor's consent.

35. GOVERNING LAW. This Lease agreement shall be governed by and construed in accordance with the laws of the State of Nevada.

36. SEVERABILITY. If any paragraph, subparagraph or other provision of this Lease agreement, or application of such paragraph, subparagraph or provision, is held invalid, then the remainder of the Lease agreement, and the application of such paragraph, subparagraph or provisions to persons, parties or circumstances other than those with respect to which it is held invalid, shall not be affected thereby.

37. PARAGRAPH HEADINGS. The paragraph headings in this Lease and position of its provisions are intended for convenience only and shall not be

taken into consideration in any construction or interpretation of this Lease or any of its provisions. The words "hereof", "herein", "hereunder: and words of similar import, refer to this Lease agreement as a whole.

38. SECURITY DEPOSIT. Lessee, concurrently with the execution of this Lease, has deposited with Lessor the sum of Six Thousand Five Hundred Dollars ($6,500.00) receipt of which is hereby acknowledged by Lessor. Said deposit shall be held by Lessor as security for the full and faithful performance by Lessee to be kept and performed during the term hereof, provided that Lessee shall not be excused from the payment of any rent herein reserved or any other charge herein provided. If Lessee defaults with respect to any provision of this Lease, Lessor may, but shall not be required to, use or retain all of part of such security deposit for payment of any rent, to repair damages to the Leased Premises, to clean the Leased Premises or to compensate Lessor for any reason of Lessee's default. If any portion of said deposit is so used or applied, Lease shall, within five (5) days after written demand therefor, deposit cash with Lessor in an amount sufficient to restore the security deposit to its original amount.

Lessor shall not be required to keep such security deposit separate from its general funds, and Lessee shall not be entitled to interest on such deposit. Should Lessee comply with all of said terms, covenants and conditions and promptly pay all the rental provided for as it falls due, and all other sums payable by Lessee to Lessor hereunder, then the said deposit shall be returned to Lessee thirty (30) days after the end of the term of this Lease or after the last payment due from Lessee to Lessor, whichever last occurs. In the event of sale or transfer of the center or any portion thereof containing the Leased Premises, if Lessor transfers the security to the vendee or transferee for the benefit of Lessee, or if such vendee or transferee assumes all liability with respect to such security, Lessee shall be considered released by Lessee from all liability for the return of such security, and Lessee agrees to look solely to the new lessor for the return of the security, and it is agreed that this paragraph 38 shall apply to every transfer or assignment to a new lessor. Said deposit shall not be assigned, transferred or encumbered by Lessee, and any attempt to do so by Lessee shall not be binding upon Lessor.

39. AGREEMENT TO BE CONSTRUED IN ACCORDANCE WITH INTENT. Lessor and Lessee agree that this Lease shall be construed in accordance with its intent and without regard to any presumption or other rule requiring construction against the Lessor or the party causing the same to be drafted.

40. LESSOR'S LIEN. Lessor shall have a first and prior lien for the rents and charges herein reserved upon the furniture, fixtures and personal property of Lessee situated upon the premises and said furniture, fixtures, machinery and personal property shall not be removed from said Premises until said rent and charges are fully paid.

41. SUBORDINATION OF LEASE.

(a) Subordination. This Lease shall be subject and subordinate to any mortgages and/or deeds of trust which may now or hereafter affect the real property of which the Premises form a part, and also to all renewals, modifications, amendments, consolidations and replacements of said mortgages or deeds of trust. Although no instrument or act on the part of Lessee shall be necessary to effectuate such subordination, Lessee will, nevertheless, execute and deliver such further instruments confirming such subordination of this Lease as may be desired by Lessor, or by the holders of said mortgages or deeds of trust. Lessee hereby appoints Lessor attorney-in-fact, coupled with an interest, irrevocably, to execute and deliver any such instrument for Lessee. Lessor, at its option, may record this Lease and Lessee shall, upon reasonable request of Lessor, execute duplicate originals in recordable form.

(b) Non-Disturbance. In the event, Lessor seeks financing in which the lender requires a mortgage or deed of trust on the Premises, then:

(i) Lessor shall use its best efforts to obtain from the lender an agreement to the effect that so long as Lessee is not in default under this Lease then the holder of said mortgage or deed of trust shall not unreasonably interfere with Lessee's use or occupancy of the Premises.

(ii) If Lessor fails to obtain said agreement from the lender then Lessee shall have the right, but without obligation to do so, to cure any default of Lessor under the terms of any mortgage or deed of trust given on the Premises and offset the cost to cure the default against the rent due hereunder; provided, that Lessee gives Lessor fifteen 915) days advance

notice, and such notice provides (1) that Lessee will cure the default, (2) the date Lessee will cure the default; (3) whether Lessee intends to offset the cost to cure against rent due hereunder, and (4) a reasonably detailed description of the cost involved in curing the default; and, further provided, that Lessor does not cure such default within fifteen 915) days after receipt of such notice.

(c) Cooperation by Lessee. Upon the request of any lender, Lessee shall provide information so requested, including, without limitation, Lessee's financial statement.

42. LEASE COMMENCEMENT. Lessee may enter the Leased Premises upon acquisition of all insurance required by paragraph 6 and following the preparation by Lessor of an inventory of the equipment and fixtures to be included in Exhibit B for the purposes of preparing to commence business. Notwithstanding the foregoing, the term of this Lease shall commence, and the first monthly installment of rent shall become due and payable on the earlier to occur of the following events: (i) Lessee's commencement of business; or
(ii) August 15, 1992. In the event that Lessee becomes a manufacturer's franchisee dealer of new vehicles, recreational vehicles, motor homes, mobile homes, campers, trailers or manufactured housing, Lessee shall pay Basic Rent at the rate of Nine Thousand Five Hundred and 00/100 Dollars ($9,500.00) per month commencing with the month in which Lessee achieves such status pro rated for the actual number of days in that month that Lessee so conducts business and for each month thereafter during the Original Term.

43. HAZARDS SUBSTANCES.

(a) Lessee shall not cause or permit any Hazardous Material to be brought upon, kept or used in or about the Leased Premises by Lessee, its agents, employees, contractors, or invitees, except for such Hazardous Material as is necessary or useful to Lessee's business.

(b) Any Hazardous Material permitted on the Leased Premises as provided in subparagraph (a) above, and all containers therefor, shall be used, kept, stored and disposed of in a manner that complies with all federal, state and local laws or regulations applicable to any such Hazardous Materiel.

(c) Lessee shall not discharge, leak or emit, or permit to be discharged, leaked or emitted, any material into the atmosphere, ground, sewer system or any body of water, if such material (as determined by the Lessor or any governmental authority) does or may pollute or contaminate the same, or may adversely affect (1) the health, welfare or safety of persons, whether located on the Leased Premises or elsewhere; or (2) the condition, use or enjoyment of the Leased Premises or any other real or personal property.

(d) At the commencement of each Lease Year, Lessee shall disclose to Lessor the names and approximate amounts of all Hazardous Material which Lessee intends to store, use or dispose of on the Leased Premises in the coming Lease Year. In addition, at the commencement of each Lease Year, beginning with the second Lease Year. Lessee shall disclose to Lessor the name and amounts of all Hazardous Materials which were actually used, stored or disposed of on the Leased Premises if such materials were not previously identified to Lessor at the commencement of the previous Lease Year.

(e) As used herein, the term "Hazardous Material" means:

(i) Any "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976, as amended from time to time, and regulations promulgated thereunder.

(ii) Any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended from time to time, and regulations promulgated thereunder;

(iii) Any oil, petroleum products, and their byproducts; and

(iv) Any substance which is or becomes regulated by any federal, state or local governmental authority.

(f) Lessee agrees that it shall be fully liable for all costs and expenses related to the use, storage and disposal of Hazardous Material kept on the Leased Premises by Lessee, and the Lessee shall give immediate notice to the Lessor of any violation or potential violation of the provisions of this paragraph 43. Lessee shall defend, indemnify and hold harmless Lessor

and its Agents from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs or expenses (including, without limitation, attorneys' and consultant fees, court costs, and litigation expenses) of which kind or nature, known or unknown, contingent or arising out of or in any way related to:

(i) The presence, disposal, release or threatened release of any such Hazardous Material which is on, from or affects soil, water, vegetables, buildings, personal property, persons, animals or otherwise;

(ii) Any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to such Hazardous Material;

(iii) Any lawsuit brought or threatened, settlement reached, or government order relating to such Hazardous Material; or

(iv) Any violation of any laws applicable thereto. The provisions of this paragraph 43 shall be in addition to any other obligations and liabilities Lessee may have to Lessor at law or equity and shall survive the transactions contemplated herein and shall survive the termination of this Lease.

44. EMERGENCY ACCESS. Lessee shall have the non-exclusive right, in common with Lessor and all others to whom Lessor has or may hereafter grant similar rights, to access to parcel no. 040-162-14 for emergency egress and ingress to the Leased Premises. Lessee does hereby covenant and agree to indemnify, save and hold Lessor free, clear and harmless from any and all liability, loss, damages, costs, expenses, including attorneys' fees, judgments, claims, liens and demands of any kind whatsoever on connection with, arising out of, or by reason of the exercise of Lessee's right of access hereby granted and Lessee agrees to include the exercise of such right within the coverages of the policy of liability insurance to be procured by Lessee under and pursuant to paragraph 6(b) above.

45. INTERRUPTION OF SERVICES OR USE. Lessee's inability to use any of the equipment or fixtures listed in Exhibit B or interruption of any service to the Premises shall not entitle Lessee to any claim against Lessor or to any abatement in rent, and shall not constitute a constructive or partial eviction. In no event shall Lessee be entitled to claim a constructive eviction from the Premises, unless Lessee shall first have notified Lessor in writing of the condition or conditions giving rise thereto, and, if the complaints be justified, unless Lessor shall have failed within a reasonable time, after receipt of such notice, to commence and proceed with due diligence to remedy the condition.

46. AGENCY DISCLOSURE. Attached hereto as Exhibit C is an Agency Disclosure Statement which is by this reference incorporated herein as if set forth in haec verba.

47. COUNTERPARTS. This Lease may be executed in counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF , the parties have hereunto set their hands the day and year first above written.

LESSOR
TEDDY BEAR HAVAS MOTORS, INC., a Nevada corporation

By: /s/ Paul P. Havas
PAUL P. HAVAS
Its President

LESSEE
UNITED AMERICAN FUNDING, INC., a Nevada corporation

By: /s/ United American Funding, Inc.
Its President

STATE OF NEVADA)
) ss.
County of Washoe)

On this 28th day of July, 1992, personally appeared before me, a Notary Public, PAUL P. HAVAS, known to me or proved to me on the basis of satisfactory evidence to be the President of TEDDY BEAR HAVAS MOTORS, INC., a Nevada corporation, the person whose name is subscribed to the within Lease Agreement, and who acknowledged that he/she executed the foregoing Lease Agreement on behalf of said corporation.

/s/ Notary Public

EXHIBIT 10.30.1

CREDIT AGREEMENT

AMONG

U.S. BANK NATIONAL ASSOCIATION,
As Agent and lender

AND

LITHIA MOTORS, INC. and its
AFFILIATES AND SUBSIDIARIES

Dated December 22, 1997

THIS CREDIT AGREEMENT is entered into as of December 22, 1997 (this "Agreement") by and among LITHIA MOTORS, INC., an Oregon corporation, having its chief executive office at 360 East Jackson Street, Medford, Oregon 97501 (the "Borrower") and the Borrower's Affiliates and Subsidiaries listed on Schedule 1-A attached to this Agreement or who subsequently become a party to this Agreement (each, jointly and severally with the Borrower, a "Loan Party" and together with the Borrower, the "Loan Parties"); U.S. BANK NATIONAL ASSOCIATION, a national bank having an office at 131 East Main Street, Medford, Oregon 97501 ("U.S. Bank") and the other financial institutions listed on Schedule 1-B attached to this Agreement or who subsequently become a party to this Agreement (together with U.S. Bank, the "Lenders"); and U.S. Bank National Association, as agent for the Lenders (in such capacity, the "Agent").

A. Borrower owns and operates through its various Subsidiaries and Affiliates automobile dealerships and desires to finance the acquisition of its inventory pursuant to the terms and conditions of this Agreement. The Borrower also desires to have the Lenders finance its acquisition of other automobile dealerships.

B. The Lenders are willing to finance the acquisition of the Borrower's inventory and the acquisition of other automobile dealerships by making loans or advances to the Borrower and its Subsidiaries and Affiliates pursuant to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and adequacy of which are by this Agreement acknowledged, the parties to this Agreement agree as follows:

SECTION I.

DEFINITIONS

1.1 Definitions. All capitalized terms used in this Agreement, or in the Notes, Loan Documents, or in any certificate, report or other document made or delivered pursuant to this Agreement (unless otherwise defined therein) shall have the meanings assigned to them below:

Acquisition. See Section 5.17.

Acquisition Approval Documents. A Pro Forma Compliance Certificate indicating the Loan Parties' compliance with the terms, conditions and covenants of this Agreement after giving effect to the Acquisition and such other documents as the Agent may reasonably request including without limitation financial statements of the Acquisition Target.

Acquisition Loan. An Acquisition Revolving Loan and/or the Acquisition Term Loan.

Acquisition Revolving Loan. See Section 2.1(e).

Acquisition Target. See Section 5.17.

Acquisition Term Loan. See Section 2.1(e).

Affected Loans. See Section 2.11(a).

Affiliate. With reference to any Person, (i) any director, officer or employee of that Person, (ii) any other Person controlling, controlled by or under direct or indirect common control of that Person, (iii) any other

Person directly or indirectly holding 5% or more of any class of the capital stock or other equity interests (including options, warrants, convertible securities and similar rights) of that Person and (iv) any other Person 5% or more of any class of whose capital stock or other equity interests (including options, warrants, convertible securities and similar rights) is held directly or indirectly by that Person other than a person who has acquired such securities in the ordinary course of business and not with the purpose nor with the effect of changing or influencing the control of the Borrower, nor in connection with or as a participant in any transaction having such purposes, and that person is a broker or dealer registered under the Securities Exchange Act of 1934, as amended, and otherwise qualifies as a passive investor entitled to file a Schedule 13G Disclosure with the Securities and Exchange Commission; a bank or trust company; an insurance company; an investment company registered under the Investment Company Act of 1940, as amended; an investment adviser registered under the Investment Advisers Act of 1940, as amended, or under the securities laws of any state or the District of Columbia; or an employee benefit plan or pension plan which is subject to the provisions of ERISA, or a trust fund of such a plan, for which no Loan Party is a participating employer; provided, however, that for purposes of the definitions of "Plan" and "Multiemployer Plan" in this
Section 1.1 and for purposes of Sections 4.15, 5.10, 7.8 and 8.1(h) of this Agreement, "Affiliate" shall mean, within the meaning of Section 414 (b), (c),
(m) or (o) of the Internal Revenue Code of 1986, as amended, only (i) any member of a controlled group of corporations which includes the Borrower or any Subsidiary of the Borrower, (ii) any trade or business, whether or not incorporated, under common control with the Borrower or any Subsidiary of the Borrower, (iii) any member of an affiliated service group which includes the Borrower or any Subsidiary of the Borrower, and (iv) any member of a group treated as a single employer by regulation with the Borrower or a Subsidiary of the Borrower.

Agreement. This Credit Agreement, including the Exhibits and Schedules to this Agreement, as the same may be supplemented or amended from time to time.

Applicable Margin. As of any date, with respect to a LIBOR Loan that is a New Vehicle Loan, Program and Used Vehicle Loan, or an Acquisition Loan, the applicable percentage set forth below opposite the applicable Debt to Cash Flow Ratio:

Applicable Margin

Debt to Cash Flow Ratio	New Vehicle Loans	Program and Used Vehicle Loans	Acquisition Revolving Loans and Acquisition Term Loan
greater than 3.00:1.00	1.75%	2.75%	2.75%
3.00:1.00 or less and greater than 2.50:1.00	1.50%	2.25%	2.25%
2.50:1.00 or less and greater than 1.00:1.00	1.50%	2.15%	2.15%
1.00:1.00 or less	1.50%	2.05%	2.05%

Swingline Loans and Demonstrator Vehicle Loans shall not be LIBOR Loans.

As of any date, with respect to any Prime Rate Loan that is a New Vehicle Loan, a Swingline Loan, a Program and Used Vehicle Loan, a Demonstrator Vehicle Loan, or an Acquisition Loan, the applicable percentage set forth below opposite the applicable Debt to Cash Flow Ratio:

	Applicable Margin			
Debt to Cash Flow Ratio	New Vehicle Loans or Swingline Loans	Program and Used Vehicle Loans	Demonstrator Vehicle Loans	Acquisition Revolving Loans or Acquisition Term Loan
greater than 3.00:1.00	0%	.25%	0%	.25%
3.00:1.00 or less	0%	.25%	0%	.25%

Assignee. See Section 9.1.

Attorneys' Fees. See Section 11.2.

Borrower. See Preamble.

Borrower's Accountants. Independent certified public accountants selected by the Borrower and reasonably acceptable to the Agent.

Borrowing Base. (i) With respect to New Vehicle Loans or Swingline Loans, 100% of the value, equal to the lower of cost using the specific identification method or Reserve Adjusted Value, of (a) that portion of the inventory consisting of New Vehicles in which the Lenders have a perfected first-priority security interest, and (b) without duplication, Sold New Vehicles; (ii) with respect to Program and Used Vehicle Loans, 80% of the combined value, equal to the lower of cost using the specific identification method or Reserve Adjusted Value, of that portion of the inventory consisting of Program Vehicles and Used Vehicles in which the Lenders have a perfected first-priority security interest; and (iii) with respect to Acquisition Loans, an amount equal to the sum of (a) 70% of Vehicle Equity, (b) 70% of Fixed Asset Value, (c) 70% of Franchise Value, and (d) 70% of Leased Vehicle Equity. Notwithstanding anything to the foregoing, the value of any Vehicle shall not be included in the calculation of more than one Borrowing Base or Commitment at any given time, and the value of any Vehicle owned by Lithia Financial Corporation shall not be included in the calculation of any Borrowing Base applicable to a Vehicle Loan.

Business Day. (i) For all purposes other than as covered by clause
(ii) below, any day other than a Saturday, Sunday or legal holiday on which banks in Portland, Oregon, Minneapolis, Minnesota and New York, New York are open for the conduct of a substantial part of their commercial banking business; and (ii) with respect to all notices and determinations in connection with, and payments of principal and interest on, LIBOR Loans, any day that is a Business Day described in clause (i) and that is also a day on which trading may be carried on by the Agent in the interbank eurodollar market.

Capital Expenditures. Without duplication, any expenditure for fixed or capital assets, leasehold improvements, capital leases, installment purchases of machinery and equipment, acquisitions of real estate and other similar expenditures including (i) in the case of a purchase, the entire purchase price, whether or not paid during the fiscal period in question,
(ii) in the case of a capital lease, the entire rental amount for the lease term, and (iii) expenditures in any construction in progress account of any Loan Party.

Closing Date. The first date on which the conditions set forth in Sections 3.1 and 3.2 have been satisfied and any Loans are to be made under this Agreement.

Code. The Internal Revenue Code of 1986 and the rules and regulations thereunder, collectively, as the same may from time to time be supplemented or amended and remain in effect.

Collateral. See Section 5.19.

Commitment. With respect to each Lender, such Lender's New Vehicle Commitment, Swingline Commitment, Program and Used Vehicle Commitment, Demonstrator Vehicle Commitment, or Acquisition Loan Commitment, as the context requires.

Commitment Fee. See Section 2.6(a).

Consolidated Current Assets. The consolidated current assets (other than cash or cash equivalents) of the Borrower and its Subsidiaries as determined in accordance with GAAP.

Consolidated Current Liabilities. The consolidated current liabilities of the Borrower and its Subsidiaries as determined in accordance with GAAP.

Consolidated Earnings Available for Fixed Charges. With respect to the Borrower and its Subsidiaries on a consolidated basis, for any period for which the amount thereof is to be determined, EBITDA, plus all payments due, whether made or accrued, under real or personal property leases during the applicable period, less income taxes paid.

Consolidated Fixed Charges. With respect to the Borrower and its Subsidiaries on a consolidated basis, for any period for which the amount thereof is to be determined, the sum of Interest Expense, plus all payments due, whether made or accrued, under real or personal property leases during the applicable period, plus scheduled principal payments with respect to any Indebtedness (excluding payments, whether made or accrued, to sellers on Indebtedness associated with an Acquisition, to the extent such payments are made with the proceeds of a Loan), plus Restricted Payments paid in cash, plus Capital Expenditures paid in cash for tangible personal property and intangible personal property (excluding Capital Expenditures for Acquisitions).

Consolidated Net Income. For any fiscal period, the consolidated net income of the Borrower and its Subsidiaries for such period determined in accordance with GAAP, but in any event there shall be excluded or deducted from such net income: (i) any gain or loss arising from any write-up, re-appraisal or re-evaluation of assets; (ii) earnings of any Subsidiary accrued prior to the date it became a Subsidiary; (iii) any extraordinary or nonrecurring gains; (iv) any deferred or other credit representing any excess of the equity of any Subsidiary at the date of acquisition thereof over the amount invested in such Subsidiary; (v) the net earnings of any business entity (other than a Subsidiary) in which the Borrower or any Subsidiary has an ownership interest, except to the extent such net earnings shall have actually been received by the Borrower or such Subsidiary in the form of cash distributions; (vi) the proceeds of any life insurance policy; and (vii) any reversal of any contingency reserve, except to the extent that provision for such contingency reserve shall be made from income arising during such period.

Consolidated Net Worth. At any date as of which the amount thereof shall be determined, the consolidated total assets of the Borrower and its Subsidiaries, as determined in accordance with GAAP, with inventory of vehicles valued at the lower of cost using the specific identification method or Reserve Adjusted Value, and other inventory valued at the lower of cost of goods or market value determined on a "first in, first out" basis consistent with the Borrower's past practices, minus (a) Consolidated Total Liabilities and (b) the sum of any amounts attributable to (i) all reserves not already deducted from assets or included in Consolidated Total Liabilities, (ii) any write-up in the book value of assets resulting from any revaluation thereof subsequent to the Closing Date, (iii) the value of any minority interests in Subsidiaries, (iv) intercompany accounts with Subsidiaries and Affiliates (including receivables due from Subsidiaries and Affiliates), (v) the value, if any, attributable to any capital stock of the Borrower or any Subsidiary held in treasury, and (vi) the value, if any, attributable to any notes or subscriptions receivable due from stockholders with respect to capital stock.

Consolidated Total Liabilities. At any date as of which the amount thereof shall be determined, all obligations that should, in accordance with GAAP, be classified as liabilities on the consolidated balance sheet of the Borrower and its Subsidiaries.

Contracts in Transit. The amount owed to a Loan Party by a financial institution for the purchase by such financial institution of a retail installment contract arising from the sale of a Vehicle by such Loan Party.

Debt to Cash Flow Ratio. See Section 6.2.

Default. An Event of Default or event or condition that, but for the requirement that time elapse or notice be given, or both, would constitute an Event of Default.

Demonstrator Vehicle. A Vehicle which has never been titled and has 500 or more miles; provided, however, that a Vehicle shall cease to be a Demonstrator Vehicle on June 30 of the calendar year following its model year.

Demonstrator Vehicle Loan. See Section 2.1(d).

Drawdown Date. The Business Day on which any Loan is made.

EBITDA. For any period, an amount equal to Consolidated Net Income for such period, plus the following, to the extent deducted or excluded in computing such Consolidated Net Income: (i) Interest Expense, (ii) income taxes, (iii) depreciation, and (iv) amortization.

Encumbrances. See Section 7.3.

ERISA. The Employee Retirement Income Security Act of 1974 and the rules and regulations thereunder, collectively, as the same may from time to time be supplemented or amended and remain in effect.

Environmental Laws. Any and all applicable federal, state and local environmental, health or safety statutes, laws, regulations, rules and ordinances (whether now existing or hereafter enacted or promulgated), of all governmental agencies, bureaus, or departments to the extent the foregoing may now or subsequently have jurisdiction over any of the Loan Parties and all applicable judicial and administrative and regulatory decrees, judgments and orders, including common law rulings and determinations, relating to injury to, or the protection of, real or personal property or human health or the environment, including, without limitation, all requirements pertaining to reporting, licensing, permitting, investigation, remediation and removal of emissions, discharges, releases or threatened releases of Hazardous Materials into the environment or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of such Hazardous Materials.

Event of Default. Any event described in Section 8.1.

Federal Funds Rate. For any day, a fluctuating interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by the Agent.

Fees. Commitment Fees and other fees agreed to between the Borrower and the Agent and/or the Lenders.

Fixed Asset Value. As of any date of determination, the difference between (a) the book value of the Loan Parties' fixed assets (excluding any interest in real property other than fixtures) in which the Lenders have a perfected first-priority security interest (or a perfected second-priority security interest with respect to the fixed assets (excluding any interest in real property other than fixtures) of Lithia Financial Corporation) and

(b) the amount of any Indebtedness (excluding Total Loan Outstandings) secured by a lien or other interest against the Loan Parties' fixed assets (excluding any interest in real property other than fixtures).

Floor Plan Financings. As of the date of determination, an amount equal to the sum of the outstanding principal balances of the Vehicle Loans. Franchise Value. The portion of goodwill included on the consolidated balance sheet of the Borrower and its Subsidiaries, which represents the excess of purchase price over the fair value of the assets acquired in connection with an Acquisition, in accordance with GAAP and in accordance with the Borrower's past practices.

Funded Indebtedness. As applied to the Borrower and its Subsidiaries, without duplication, (i) Indebtedness for borrowed money, (ii) Indebtedness with respect to capitalized lease obligations and synthetic lease obligations, (iii) all obligations with respect to letters of credit (including without limitation the maximum amount available for drawing under letters of credit plus all unpaid reimbursement obligations), (iv) all other interest bearing obligations which, in accordance with GAAP, would be included as a liability on the consolidated balance sheet of the Borrower and its Subsidiaries, and (v) all Guarantees.

GAAP. Generally accepted accounting principles, consistently applied, and as in effect as of the date of application thereof.

Guarantees. As applied to the Loan Parties, all guarantees, endorsements or other contingent or surety obligations with respect to obligations of others whether not reflected on the consolidated balance sheet of the Borrower or its Subsidiaries, including any obligation to furnish funds, directly or indirectly (whether by virtue of partnership arrangements, by agreement to keep-well or otherwise), through the purchase of goods, supplies or services, or by way of stock purchase, capital contribution, advance or loan, or to enter into a contract for any of the foregoing, for the purpose of payment of obligations of any other Person or entity. The amount of any Guarantee shall be deemed to be the amount of the primary obligation in respect of which such Guarantee is made.

Guaranty. The Guaranty, dated as of the Closing Date, executed by each of the Loan Parties in favor of the Agent for the benefit of the Lenders, guarantying all of the Obligations under this Agreement.

Hazardous Material. Any substance (i) the presence of which requires or may hereafter require notification, removal or remediation under any Environmental Law; (ii) which is or becomes defined as a "hazardous waste," "dangerous waste," "extremely hazardous waste," "hazardous material" or "hazardous substance" under any present or future Environmental Law or amendments thereto including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C.
Section 9601 et seq.) and any applicable local statutes and the regulations promulgated thereunder; (iii) which is toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic or otherwise hazardous and which is or becomes regulated pursuant to any Environmental Law by any governmental authority, agency, department, commission, board, agency or instrumentality of the United States, any state of the United States, or any political subdivision thereof; or (iv) without limitation, which contains gasoline, diesel fuel or other petroleum products, asbestos or polychlorinated biphenyls ("PCB's").

Indebtedness. As applied to the Loan Parties, without duplication,
(i) all obligations for borrowed money or other extensions of credit, whether secured or unsecured, absolute or contingent, including, without limitation, synthetic and capital leases, unmatured reimbursement obligations with respect to letters of credit or guarantees issued for the account of or on behalf of any Loan Party, all obligations under conditional sale or other title retention agreement, and all obligations representing the deferred purchase price of property, other than accounts payable and accrued liabilities arising in the ordinary course of business, (ii) all obligations evidenced by bonds, notes, debentures or other similar instruments, (iii) all obligations secured by any mortgage, pledge, security interest or other lien on property owned or acquired by any of the Loan Parties, whether or not the obligations secured thereby shall have been assumed, (iv) that portion of all obligations arising under leases that is required to be capitalized on the consolidated balance sheet of the Borrower and its Subsidiaries, (v) all Guarantees, (vi) all obligations that are immediately due and payable out of the proceeds of property now or hereafter owned or acquired by any of the Loan Parties, and (vii) all other obligations which, in accordance with GAAP, would be included as a liability on the consolidated balance sheet of the Loan Parties but excluding anything in the nature of capital stock, capital surplus and retained earnings.

Initial Financial Statement. See Section 4.7.

Initial Lenders. U.S. Bank and the other financial institutions who have signed this Agreement and have become Lenders on the date of this Agreement.

Interest Expense. For any period, the consolidated interest expense (including imputed interest on capitalized lease obligations and synthetic lease obligations) and amortized debt discount on Indebtedness of the Loan Parties for such period.

Interest Period. With respect to each LIBOR Loan, the period commencing on the date of the making or continuation of or conversion to such LIBOR Loan and ending one (1), two (2), or three (3) months thereafter, as the Borrower may elect in the applicable Notice of Borrowing or Conversion; provided that:

(i) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in the next calendar month, in which case such Interest Period shall end on the immediately preceding Business Day;

(ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month;

(iii) no Interest Period shall end after the Maturity Date; and

(iv) no Interest Period shall extend beyond the date that any payment of principal under the Acquisition Term Loan is due, unless the sum of the principal amounts of the Acquisition Term Loan bearing interest at (A) the LIBOR Rate (plus the Applicable Margin) with Interest Periods ending on or before such due date, plus (B) the Prime Rate (plus the Applicable Margin), at least equals the amount of such principal payment.

Investment. As applied to the Loan Parties, the purchase or acquisition of any share of capital stock, partnership interest, evidence of indebtedness or other equity security of any other Person (including any Subsidiary), any loan, advance or extension of credit (excluding Accounts Receivable arising in the ordinary course of business) to, or contribution to the capital of, any other Person (including any Subsidiary), any real estate held for sale or investment, any securities or commodities futures contracts held, any other investment in any other Person (including any Subsidiary), and the making of any commitment or acquisition of any option to make an Investment.

Leased Vehicle Equity. The difference between (a) the value, equal to the lower of cost using the specific identification method, or Reserve Adjusted Value of the Vehicles owned by Lithia Financial Corporation and leased to its customers (including another Loan Party) in which the Lenders have a perfected second-priority security interest, less (b) the amount of any Indebtedness (excluding Total Loan Outstandings) secured by a lien or other interest against such Vehicles.

Lenders. U.S. Bank, the other financial institutions listed on Schedule 1-B attached to this Agreement and each other Person that may after the date of this Agreement become a party to this Agreement as a "Lender" under this Agreement. Unless the context clearly indicates otherwise, the term "Lenders" shall include the Swingline Lender.

LIBOR. The average offered rate for deposits in United States Dollars (rounded upwards, if necessary, to the nearest 1/16 of 1%) for delivery of such deposits on the first day of an Interest Period of a LIBOR Loan, for the number of days comprised therein, which appears on the Reuters Screen LIBO Page as of 11:00 a.m., London time (or such other time as of which such rate appears) on the day that is two (2) Business Days preceding the first day of the Interest Period or the rate for such deposits determined by the Agent at such time based on such other published service of general application as shall be selected by the Agent for such purpose; provided, that in lieu of determining the rate in the foregoing manner, the Agent may determine the rate based on rates offered to the Agent for deposits in United States Dollars (rounded upwards, if necessary, to the nearest 1/16 of 1%) in the interbank eurodollar market at such time for delivery on the first day of the Interest Period for the number of days comprised therein.

LIBOR Loan. Any Loan bearing interest at a rate determined with reference to the LIBOR Rate plus the Applicable Margin; provided, however, that no Swingline Loan or Demonstrator Vehicle Loan shall be a LIBOR Loan;

LIBOR Rate. A rate per annum (rounded upward, if necessary, to the nearest 1/16 of 1%) calculated for the Interest Period of a LIBOR Loan in accordance with the following formula:

$$\mathbf{LR = \frac{LIBOR}{1\text{-}LRP}}$$

In such formula, "LRP" means "LIBOR Reserve Percentage" and "LR" means "LIBOR Rate," in each instance determined by the Agent for the applicable Interest Period. The Agent's determination of all such rates for any Interest Period shall be conclusive in the absence of manifest error.

LIBOR Reserve Percentage. For any Interest Period, the aggregate of the maximum reserve percentages (including any basic, marginal, special, emergency or supplemental reserves), expressed as a decimal, established, or as may be modified or adopted, by the Board of Governors of the Federal Reserve System and any other banking authority, domestic or foreign, to which any Lender is subject with respect to "Eurocurrency Liabilities" (as defined in regulations issued from time to time by such Board of Governors) or applicable to extensions of credit by the Lenders the rate of interest on which is determined with regard to rates applicable to "Eurocurrency Liabilities." The LIBOR Reserve Percentage shall be adjusted automatically on and as of the effective date of any change in any such reserve percentage.

Loan Commitment. Any or all of the Total New Vehicle Commitment, the Swingline Commitment, the Total Program and Used Vehicle Commitment, the Total Demonstrator Vehicle Commitment, or the Total Acquisition Loan Commitment, as the context requires.

Loan Documents. This Agreement, the Notes, and the Security Documents, including without limitation the Security Agreement, the Guaranty, and the UCC Financing Statements, together with any agreements, certificates, instruments or documents executed and delivered pursuant to or in connection with any of the foregoing.

Loan Party. Each party to this Agreement or any Loan Document other than the Agent or a Lender.

Loan(s). The loans made or to be made by the Lenders to the Borrower pursuant to Section II of this Agreement, including the New Vehicle Loans, the Swingline Loans, the Program and Used Vehicle Loans, the Demonstrator Vehicle Loans, and the Acquisition Loans.

Maturity Date. October 1, 1998.

Material Agreement. See Section 4.23.

Medford Office. Agent's office in Medford, Oregon located at 131 East Main Street, Medford, Oregon 97501, or such other office as Agent may designate from time to time for any particular purpose under this Credit Agreement.

Minimum Net Worth. See Section 6.1.

Multiemployer Pension Plan. A Multiemployer Plan that is subject to Subtitle E of Title IV of ERISA.

Multiemployer Plan. An employee benefit plan that is a Multiemployer Plan within the meaning of Section 3(37) of ERISA to which the Borrower or any Affiliate of the Borrower contributes or has been obligated to contribute.

Net Worth Ratio. See Section 6.4.

New Vehicle. A Vehicle, which has never been titled and has less than 500 miles; provided, however, that a Vehicle shall cease to be a New Vehicle on June 30 of the calendar year following its model year.

New Vehicle Loan. See Section 2.1(a).

Note Record. Any internal record, including a computer record,
maintained by any Lender with respect to any Loan.

Notes. Any or all of the New Vehicle Notes, the Swingline Notes, the Program and Used Vehicle Notes, the Demonstrator Vehicle Notes, the Acquisition Revolving Notes, and the Acquisition Term Loan Notes.

Notice of Borrowing or Conversion. The notices, substantially in the forms of Exhibits B-1 and B-2 to this Agreement, to be signed by a Responsible Officer and given by the Borrower to the Agent to request a Loan, in accordance with Section 2.3 or a Seller's invoice and/or draft for a Swingline Loan.

Obligations. Any and all obligations of any Loan Party to the Agent and the Lenders of every kind and description pursuant to or in connection with the Loan Documents, direct or indirect, absolute or contingent, primary or secondary, due or to become due, now existing or hereafter arising, regardless of how they arise or by what agreement or instrument, if any, and including obligations to perform acts and refrain from taking action as well as obligations to pay money, whether for principal, interest, Fees, Attorneys' Fees, expenses or otherwise.

Other Purpose Loan. A New Vehicle Loan used for any purpose other than to acquire a New Vehicle.

Parent. Lithia Holding Company, LLC, an Oregon limited liability company.

Participant. See Section 9.2.

PBGC. The Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

Pension Plan. Any Plan which is an "employee pension benefit plan" (as defined in ERISA).

Permitted Encumbrances. See Section 7.3.

Person. Any individual, corporation, limited liability company, partnership, trust, unincorporated association, other legal entity, and any government or governmental agency or political subdivision thereof.

Plan. Any "employee pension benefit plan" or "employee welfare benefit plan" (each as defined in ERISA) maintained by the Borrower or any Affiliate of the Borrower.

Prime Rate. The rate of interest that U.S. Bank from time to time establishes as its prime rate, which is not, for example, the lowest rate of interest that U.S. Bank collects from any Borrower or class of Borrowers. When the Prime Rate is applicable, the interest rate shall be adjusted without notice effective on the day U.S. Bank's Prime Rate changes.

Prime Rate Loan. Any Loan bearing interest at the Prime Rate plus the Applicable Margin.

Pro Forma Consolidated EBITDA. For any period for which the amount thereof is to be determined, consolidated EBITDA of the Borrower and its Subsidiaries plus (or minus), without duplication, the EBITDA of any Subsidiary acquired during such period for each full fiscal quarter included in the applicable computation period prior to such Acquisition (plus the fiscal quarter during which it was acquired), determined on a consolidated basis. EBITDA of any such acquired Subsidiary shall be adjusted for those identifiable and quantifiable items of income and expense that will increase or decrease subsequent to the date of Acquisition, such adjustments to be reasonably acceptable to Agent and set forth by Borrower in the applicable Compliance Certificate delivered pursuant to Section 5.1.

Pro Forma Floor Plan Interest Expense. For any period for which the amount thereof is to be determined, the Interest Expense for such period with respect to the Floor Plan Financings of the Loan Parties plus, without duplication, the Interest Expense of any Subsidiary acquired during such period for each full fiscal quarter included in the applicable computation period prior to such Acquisition (plus the fiscal quarter during which it was acquired), determined on a consolidated basis. Interest Expense of any such acquired Subsidiary shall be adjusted for those identifiable and quantifiable items of expense that will increase or decrease subsequent to the date of Acquisition, such adjustments to be reasonably acceptable to Agent and set forth by Borrower in the applicable Compliance Certificate delivered pursuant to Section 5.1.

Pro Rata Share. With respect to any Lender, a fraction (expressed as a percentage), the numerator of which shall be the amount of such Lender's Commitment for any Loan and the denominator of which shall be the aggregate amount of all the Commitments of the Lenders for that Loan, as adjusted from time to time in accordance with Sections 2.1 and 8.2 of this Agreement.

Program and Used Vehicle Loan. See Section 2.1(c).

Program Vehicle. A Vehicle not older than the then current model year or the immediately preceding model year, but previously in service and with fewer than 30,000 miles, purchased at closed auctions or from rental companies, manufacturers, national fleet vehicles, and rental service companies; or a Vehicle, which was a New Vehicle or Demonstrator Vehicle, after June 30 of the year after the Vehicle's model year. Any vehicle which

becomes a Program Vehicle will no longer be a Program Vehicle when its mileage exceeds 30,000 miles or it is older than the then current model year or the immediately preceding model year.

Prohibited Transaction. Any "prohibited transaction" as defined in ERISA and Section 4975 of the Code.

Qualified Investments. As applied to the Loan Parties, investments in
(i) notes, bonds or other obligations of the United States of America or any agency thereof that as to principal and interest constitute direct obligations of or are guaranteed by the United States of America;
(ii) certificates of deposit, demand deposit accounts or other deposit instruments or accounts maintained in the ordinary course of business with banks or trust companies organized under the laws of the United States or any state thereof that have capital and surplus of at least $100,000,000,
(iii) commercial paper that is rated not less than prime-one or A-1 or their equivalents by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively, or their successors, (iv) any repurchase agreement secured by any one or more of the foregoing, and (v) advances to employees for business related expenses to be incurred in the ordinary course of business and consistent with past practices in an amount not to exceed $100,000 in the aggregate outstanding at any one time, provided that advances to any single employee shall not exceed $10,000 in the aggregate.

Real Property Security Documents. Any and all documents required by the Agent in connection with any Acquisition Loan, the proceeds of which will be used to acquire an interest in real property, including without limitation, deeds of trust, assignments of rents and leases, security agreements, fixture filings, Uniform Commercial Code Financing Statements, indemnity agreements regarding hazardous materials and access laws, and collateral assignment of permits, licenses, approvals and contracts, between the Borrower and the Agent, and title, damage, and liability insurance policies, in each case as amended and in effect from time to time.

Repurchase Agreements. See Section 5.20.

Required Lenders. As of any date the holders of sixty-six and two-thirds percent (66 2/3%) of the Total Commitment or, if the Commitments have been terminated, the holders of sixty-six and two-thirds percent (66 2/3%) of the principal amount of the Total Loan Outstandings on such date (allocating outstanding Swingline Loans to the Lenders on the basis of their respective Pro Rata Share of the Total New Vehicle Loan Outstandings).

Reserve Adjusted Value. The cost of a Vehicle less the markdowns or reductions taken in accordance with the Borrower's past practices as of the date of the Initial Financial Statements.

Responsible Officer. The chief financial officer of the Borrower and any other officer of the Borrower, who by written notice to the Agent, is designated by such chief financial officer to sign Notices of Borrowing or Conversion or request Loans pursuant to the terms of this Agreement.

Restricted Payment. Any dividend, distribution, loan, advance, guaranty, extension of credit, increase in salary or compensation, or other payment, whether in cash or property to or for the benefit of any Person who holds an equity interest in the Borrower or any of its Subsidiaries, whether or not such interest is evidenced by a security, and any purchase, redemption, retirement or other acquisition for value of any capital stock or equity interest of the Borrower or any of its Subsidiaries, whether now or hereafter outstanding, or of any options, warrants or similar rights to purchase such capital stock or equity interest or any security convertible into or exchangeable for such capital stock or equity interest, but not including (i) a loan or extension of credit made in the ordinary course of business to a person who is not an Affiliate of a Loan Party for the purchase or lease of a Vehicle to be operated by such person for personal or business use or (ii) increase in salary or compensation in the ordinary course of business made to employees of Borrower or employees of a Loan Party other than the chief executive officer, president, chief financial officer, and other senior management position of Borrower or another Loan Party.

Reuters Screen LIBO Page. The display designated as page "LIBO" on the Reuters Monitor Money Rates Service (or such other page as may replace the LIBO Page on that service for the purpose of displaying London interbank offered rates of major banks for United States dollar deposits).

Security Agreement. The Security Agreement between the Loan Parties and the Agent, dated the Closing Date, as amended and in effect from time to time.

Security Documents. The Security Agreement, the Real Property Security Documents, the Guaranty, Title Documents, Uniform Commercial Code Financing Statements, and any additional documents evidencing or perfecting the Agent's lien on the Collateral on and subsequent to the Closing Date, in each case as amended and in effect from time to time.

Seller. The manufacturer, distributor, or other seller of a Vehicle or Vehicles from which a Loan Party acquires Vehicle inventory in the normal course of its business or the Acquisition Target from which a Loan Party acquires Vehicles pursuant to an Acquisition.

Sold New Vehicle. A New Vehicle sold by any Loan Party in the ordinary course of such Loan Party's business (and in which the Lenders' held a perfected first-priority security interest immediately prior to such sale) for which payment is not yet due pursuant to Section 2.7(c).

Stockholders' Equity. The consolidated stockholders' equity (including paid-in capital and retained earnings) of the Borrower and its Subsidiaries determined in accordance with GAAP.

Subsidiary. Any corporation, association, limited liability company, joint stock company, business trust or other similar organization of which 50% or more of the ordinary voting power for the election of a majority of the members of the board of directors or other governing body of such entity is held or controlled by the Borrower or a Subsidiary of the Borrower; or any other such organization the management of which is directly or indirectly controlled by the Borrower or a Subsidiary of the Borrower through the exercise of voting power or otherwise; or any joint venture, whether incorporated or not, or partnership in which the Borrower has a 50% or greater ownership interest.

Swingline Commitment. The commitment of the Swingline Lender, as in effect from time to time, to advance Swingline Loans, which as of the Closing Date shall be $5,000,000 and which may be any lesser amount, including zero, resulting from a termination or reduction of such amount in accordance with Sections 2.1 and 8.2 of this Agreement, or a greater amount in accordance with the proviso to Section 11.7(b).

Swingline Lender. U.S. Bank.

Swingline Loan. See Section 2.1(b).

Swingline Loan Outstandings. At any time, the aggregate outstanding balance of the Swingline Loans.

Title Documents. All manufacturers' certificate of origin, manufacturers' statement of origin, certificates of title and/or any and all other title documents for each item of inventory.

Total Acquisition Loan Commitment. The sum of the Lenders' Acquisition Loan Commitments, as in effect from time to time, to advance Acquisition Loans, which as of the Closing Date shall be $30,000,000 and which may be any lesser amount, including zero, resulting from a termination or reduction of such amount in accordance with Sections 2.1 and 8.2 of this Agreement. Each Lender's Acquisition Loan Commitment shall equal its pro rata share of the Total Acquisition Loan Commitment, based on the amounts listed on Schedule 1-B to this Agreement, as modified from time to time pursuant to Section IX of this Agreement.

Total Acquisition Loan Outstandings. At any time, the aggregate outstanding principal balance of the Acquisition Loans.

Total Commitment. At any time, the sum of the Total New Vehicle Commitment (which includes the Swingline Commitment), Total Program and Used Vehicle Commitment, Total Demonstrator Vehicle Commitment, and Total Acquisition Loan Commitment.

Total Debt Service. For any period, the sum of (i) Interest Expense for such period, plus (ii) the aggregate amount of all principal payments made, accrued or becoming due during such period with respect to any Indebtedness of the Loan Parties, plus (iii) declared or paid cash dividends,
(iv) cash taxes paid, plus (v) Capital Expenditures.

Total Demonstrator Vehicle Commitment. The sum of the Lenders' Demonstrator Vehicle Commitments, as in effect from time to time, to advance Demonstrator Vehicle Loans, which as of the Closing Date shall be $750,000 and which may be any lesser amount, including zero, resulting from a termination or reduction of such amount in accordance with Sections 2.1 and

8.2 of this Agreement. Each Lender's Demonstrator Vehicle Commitment shall equal its pro rata share of the Total Demonstrator Vehicle Commitment, based on the amounts listed on Schedule 1-B to this Agreement, as modified from time to time pursuant to Section IX of this Agreement.

Total Demonstrator Vehicle Loan Outstandings. At any time, the aggregate outstanding principal balance of the Demonstrator Vehicle Loans.

Total Loan Outstandings. At any time, the aggregate outstanding balance of the Loans.

Total New Vehicle Commitment. The sum of the Lenders' New Vehicle Commitments, as in effect from time to time, to advance New Vehicle Loans, which as of the Closing Date shall be $80,000,000 and which may be any lesser amount, including zero, resulting from a termination or reduction of such amount in accordance with Sections 2.1 and 8.2 of this Agreement. Each Lender's New Vehicle Commitment shall equal its pro rata share of the Total New Vehicle Commitment, based on the amounts listed on Schedule 1-B to this Agreement, as modified from time to time pursuant to Section IX of this Agreement.

Total New Vehicle Loan Outstandings. At any time, the aggregate outstanding principal balance of the New Vehicle Loans.

Total Program and Used Vehicle Commitment. The sum of the Lenders' Program and Used Vehicle Commitments, as in effect from time to time, to advance of the Program and Used Vehicle Loans, which as of the Closing Date shall be $30,000,000 and which may be any lesser amount, including zero, resulting from a termination or reduction of such amount in accordance with Sections 2.1 and 8.2 of this Agreement. Each Lender's Program and Used Vehicle Commitment shall equal its pro rata share of the Total Program and Used Vehicle Commitment, based on the amounts listed on Schedule 1-B to this Agreement, as modified from time to time pursuant to Section IX of this Agreement.

Total Program and Used Vehicle Loan Outstandings. At any time, the aggregate outstanding principal balance of the Program and Used Vehicle Loans.

Type. The type of a Loan is either a Prime Rate Loan or a LIBOR Loan.

Used Vehicle. A Vehicle previously in service, which has been titled, that is not a Program Vehicle.

Vehicle. Cars, vans, pick-ups, sport utility vehicles, and other light trucks sold in the ordinary course of a Loan Party's business (or leased to others in the ordinary course of Lithia Financial Corporation's business.)

Vehicle Equity. With respect to the Loan Parties, an amount equal to
(a) cash deposited in an account with the Agent as of the date of determination (plus, in the Agent's discretion, the cash deposited in a non-Agent bank account on such date), plus (b) Contracts in Transit from the sale of Vehicles by a Loan Party, plus (c) the value, equal to the lower of cost using the specific identification method or Reserve Adjusted Value, of Vehicles in which the Lenders have a perfected first-priority security interest (excluding Vehicles owned by Lithia Financial Corporation) less an amount equal to the Floor Plan Financings.

Vehicle Loan. Any New Vehicle Loan, Swingline Loan, Program and Used Vehicle Loan, or Demonstrator Vehicle Loan.

Working Capital. The excess of Consolidated Current Assets over Consolidated Current Liabilities.

1.2 Rules of Interpretation.

(a) All terms of an accounting character used in this Agreement but not defined in this Agreement shall have the meanings assigned to them by GAAP. All calculations for the purposes of this Agreement shall be made in accordance with GAAP. If GAAP changes during the term of this Agreement such that any covenants contained in this Agreement would then be calculated in a materially different manner or using materially different components, the Loan Parties, the Lenders, and the Agent agree to negotiate in good faith to amend this Agreement in such respects as are necessary to conform those covenants as criteria for evaluating the Loan Parties' financial condition to substantially the same criteria as were in effect before such change in GAAP; provided, however, that until the Loan Parties, the Lenders, and the Agent so amend this Agreement, all such covenants shall be calculated in accordance with GAAP as in effect on the date of this Agreement.

(b) A reference to any document or agreement shall include such document or agreement as amended, modified or supplemented and in effect from time to time in accordance with its terms and the terms of this Agreement.

(c) The singular includes the plural and the plural includes the singular.

(d) A reference to any Person includes its permitted successors and permitted assigns.

(e) The words "include", "includes" and "including" are not limiting.

(f) The words "herein", "hereof", "hereunder" and words of like import shall refer to this Agreement as a whole and not to any particular section or subdivision of this Agreement.

(g) All terms not specifically defined in this Agreement or by GAAP that are defined in the Uniform Commercial Code as in effect in the State of Oregon, have the meanings assigned to them in such Uniform Commercial Code.

(h) The term "to the best knowledge of" or any other term of similar import, means to the actual knowledge of any executive officer of a Loan Party or any officer of a Loan Party with management responsibility for the subject matter as to which a Loan Party's knowledge is relevant after due inquiry.

SECTION II.

DESCRIPTION OF CREDIT

2.1 Loans.

(a) New Vehicle Loans.

(i) Upon the terms and subject to the conditions of this Agreement, and in reliance upon the representations, warranties and covenants of the Loan Parties in this Agreement and the other Loan Documents, each of the Lenders agrees, severally and not jointly, to make "New Vehicle Loans" to the Borrower. The Borrower may borrow, repay, prepay and reborrow New Vehicle Loans for any purpose (except to acquire any interest in real property other than fixtures), subject to the terms of this Agreement and up to the limits imposed by this Section 2.1(a), from time to time between the Closing Date and the Maturity Date upon request given to the Agent pursuant to Section 2.3(b), provided that:

(A) After giving effect to all requested New Vehicle Loans, the Total New Vehicle Loan Outstandings (which equals the sum of (x) the outstanding principal amount of New Vehicle Loans specifically advanced to finance the purchase of New Vehicles for inventory, plus (y) the outstanding principal amount of Other Purpose Loans) plus the Swingline Loan Outstandings, shall not at any time exceed the Total New Vehicle Commitment;

(B) The sum of the aggregate principal amount of outstanding New Vehicle Loans made by each Lender shall not at any time (after giving effect to all requested New Vehicle Loans) exceed such Lender's New Vehicle Commitment;

(C) No Other Purpose Loan shall be made if the Total New Vehicle Loan Outstanding plus the Swingline Loan Outstandings (after giving effect to all requested New Vehicle Loans) would exceed the applicable Borrowing Base; and

(D) No New Vehicle Loan used to purchase a New Vehicle for inventory shall exceed the cost of the New Vehicle to be acquired, as stated on the Seller's invoice to the Loan Party, which cost shall not include any additional charges except charges for delivery of the Vehicle to the Loan Party if the invoice includes such charges. All Vehicles acquired with a New Vehicle Loan shall be stored and exhibited for sale (but not lease) in the ordinary course of a Loan Party's business, and the Loan Party shall not use the Vehicles for any other purpose.

(ii) Each request for a New Vehicle Loan under this Agreement shall constitute a representation and warranty by the Borrower and the other Loan Parties (A) that the conditions set forth in Sections 3.1 and 3.2 have been satisfied as of the date of such request, and (B) that if the New Vehicle Loan is advanced to finance the purchase of a Vehicle, (x) the Vehicle is a New Vehicle, (y) the Vehicle is either in the applicable Loan

Party's possession or has been ordered and shipped to the Loan Party for whose benefit the New Vehicle Loan was advanced, and (z) the Seller's invoice correctly states the amount of the purchase price for the Vehicle and such amount is reasonable.

(iii) Each New Vehicle Loan may be either a Prime Rate Loan or a LIBOR Loan and, subject to the provisions of Section 2.5(d), shall bear interest as provided in Section 2.5(a) or 2.5(b), respectively.

(b) Swingline Loans.

(i) Upon the terms and subject to the conditions of this Agreement, and in reliance upon the representations, warranties and covenants of the Loan Parties in this Agreement and the other Loan Documents, the Swingline Lender agrees to make "Swingline Loans" to the Borrower. The Borrower may borrow, repay, prepay and reborrow Swingline Loans, subject to the terms of this Agreement and up to the limits imposed by this
Section 2.1(b), from time to time between the Closing Date and the Maturity Date upon request given to the Agent pursuant to Section 2.3(a)(ii), provided that:

(A) The Total Swingline Loan Outstandings (after giving effect to all requested Swingline Loans) shall not at any time exceed the Swingline Commitment in the aggregate;

(B) The sum of the Total Swingline Loan Outstandings plus the Total New Vehicle Loan Outstandings (after giving effect to all requested New Vehicle Loans and Swingline Loans) shall not exceed the Total New Vehicle Commitment; and

(C) Except as contemplated by Section 2.7(a)(ii), a Swingline Loan shall only be used to finance the purchase of a New Vehicle from a Seller for inventory. No Swingline Loan shall exceed the cost of the New Vehicle to be acquired, as stated on the Seller's invoice to the Loan Party, which cost shall not include any additional charges except charges for delivery of the Vehicle to the Loan Party if the invoice includes such charges. All Vehicles acquired with a Swingline Loan shall be stored and exhibited for sale (but not lease) in the ordinary course of a Loan Party's business, and the Loan Party shall not use the Vehicles for any other purpose.

(ii) Each request for a Swingline Loan under this Agreement shall constitute a representation and warranty by the Borrower and the other Loan Parties (A) that the conditions set forth in Sections 3.1 and 3.2 have been satisfied as of the date of such request, and (B) unless the Swingline Loan is advanced pursuant to Section 2.7(a)(ii) that as to the Vehicle to be acquired with the advance of the Swingline Loan (I) the Vehicle is a New Vehicle, (II) the Vehicle is either in the applicable Loan Party's possession or has been ordered and shipped to the Loan Party for whose benefit the Swingline Loan was advanced, and (III) the Seller's invoice correctly states the amount of the purchase price for the Vehicle and such amount is reasonable.

(iii) Each Swingline Loan shall be a Prime Rate Loan and, subject to the provisions of Section 2.5(d), shall bear interest as provided in Section 2.5(a).

(c) Program and Used Vehicle Loans.

(i) Upon the terms and subject to the conditions of this Agreement, and in reliance upon the representations, warranties and covenants of the Loan Parties in this Agreement and the other Loan Documents, each of the Lenders agrees, severally and not jointly, to make "Program and Used Vehicle Loans" to the Borrower. The Borrower may borrow, repay, prepay and reborrow Program and Used Vehicle Loans for any purpose (except to acquire any interest in real property other than fixtures), subject to the terms of this Agreement and up to the limits imposed by this Section 2.1(c), from time to time between the Closing Date and the Maturity Date upon request given to the Agent pursuant to Section 2.3(b), provided that:

(A) After giving effect to all requested Program and Used Vehicle Loans, the Total Program and Used Vehicle Loan Outstandings shall not at any time exceed the lesser of Total Program and Used Vehicle Commitment or the applicable Borrowing Base;

(B) The sum of the aggregate principal amount of outstanding Program and Used Vehicle Loans made by each Lender shall not at any time (after giving effect to all requested Program and Used Vehicle Loans) exceed such Lender's Program and Used Vehicle Commitment; and

(C) All Vehicles acquired with a Program and Used Vehicle Loan shall be stored and exhibited for sale (but not lease) in the ordinary course of a Loan Party's business, and the Loan Party shall not use the Vehicles for any other purpose.

(ii) Each request for a Program and Used Vehicle Loan under this Agreement shall constitute a representation and warranty by the Borrower and the other Loan Parties (A) that the conditions set forth in Sections 3.1 and 3.2 have been satisfied as of the date of such request, and (B) that if the Program and Used Vehicle Loan is advanced to finance the purchase of a Vehicle, (x) the Vehicle is a Program Vehicle or a Used Vehicle, (y) the Vehicle is either in the applicable Loan Party's possession or has been ordered and shipped to the Loan Party for whose benefit the Program and Used Vehicle Loan was advanced, and (z) the Seller's invoice or other sales documentation correctly states the amount of the purchase price for the Vehicle and such amount is reasonable and does not include any other costs except for the cost of delivery or a reasonable amount for reconditioning.

(iii) Each Program and Used Vehicle Loan may be either a Prime Rate Loan or a LIBOR Loan and, subject to the provisions of Section 2.5(d), shall bear interest as provided in Section 2.5(a) or 2.5(b), respectively.

(d) Demonstrator Vehicle Loans.

(i) Upon the terms and subject to the conditions of this Agreement, and in reliance upon the representations, warranties and covenants of the Loan Parties in this Agreement and the other Loan Documents, each of the Lenders agrees, severally and not jointly, to make "Demonstrator Vehicle" Loans to the Borrower. The Borrower may borrow, repay, prepay and reborrow Demonstrator Vehicle Loans to acquire Demonstrator Vehicles or to refinance a New Vehicle Loan with respect to a New Vehicle that becomes a Demonstrator Vehicle, subject to the terms of this Agreement and up to the limits imposed by this Section 2.1(d), from time to time between the Closing Date and the Maturity Date upon request given to the Agent pursuant to Section 2.3(b), provided that:

(A) After giving effect to all requested Demonstrator Vehicle Loans, the Total Demonstrator Vehicle Loan Outstandings shall not at any time exceed the Total Demonstrator Vehicle Commitment;

(B) The sum of the aggregate principal amount of outstanding Demonstrator Vehicle Loans made by each Lender shall not at any time (after giving effect to all requested Demonstrator Vehicle Loans) exceed such Lender's Demonstrator Vehicle Commitment; and

(C) No Demonstrator Vehicle Loan used to purchase a Demonstrator Vehicle for inventory shall exceed the cost of the Demonstrator Vehicle to be acquired, as stated on the Seller's invoice to the Loan Party, which cost shall not include any additional charges except charges for delivery of the Vehicle to the Loan Party if the invoice includes such charges. All Vehicles acquired with a Demonstrator Vehicle Loan or that become Demonstrator Vehicles shall be stored and exhibited for sale (but not lease) in the ordinary course of a Loan Party's business, and the Loan Party shall not use the Vehicles for any other purpose.

(ii) Each request for a Demonstrator Vehicle Loan under this Agreement shall constitute a representation and warranty by the Borrower and the other Loan Parties (A) that the conditions set forth in Sections 3.1 and 3.2 have been satisfied as of the date of such request, (B) that the Vehicle is a Demonstrator Vehicle, (C) the Vehicle is either in the applicable Loan Party's possession or has been ordered and shipped to the Loan Party for whose benefit the Demonstrator Vehicle Loan was advanced, and (D) the Seller's invoice correctly states the amount of the purchase price for the Vehicle and such amount is reasonable.

(iii) Each Demonstrator Vehicle Loan shall be a Prime Rate Loan and, subject to the provisions of Section 2.5(d), shall bear interest as provided in Section 2.5(a).

(e) Acquisition Loans.

(i) Upon the terms and subject to the conditions of this Agreement, and in reliance upon the representations, warranties and covenants of the Loan Parties in this Agreement and the other Loan Documents, each of the Lenders agrees, severally and not jointly, to make "Acquisition Revolving Loans" to the Borrower. The Borrower may borrow, repay, prepay and reborrow

Acquisition Revolving Loans for any purpose, subject to the terms of this Agreement and up to the limits imposed by this Section 2.1(e)(i), from time to time between the Closing Date and the Maturity Date upon request given to the Agent pursuant to Section 2.3(b), provided that:

(A) After giving effect to all requested Acquisition Loans, the Total Acquisition Loan Outstandings shall not at any time exceed the lesser of the Total Acquisition Loan Commitment or the applicable Borrowing Base; and

(B) The sum of the aggregate principal amount of outstanding Acquisition Loans made by each Lender shall not at any time (after giving effect to all requested Acquisition Loans) exceed such Lender's Acquisition Loan Commitment.

In connection with an Acquisition, the Lenders shall make advances under the Acquisition Loan from time to time provided the Loan Parties specifically comply with the requirements of Section 5.17 of this Agreement in addition to the other requirements of this Agreement. If any portion of the Acquisition Revolving Loan is used to acquire any interest in real property other than fixtures, that portion of the Acquisition Revolving Loan cannot exceed 75% of the appraised value of the real property interest to be acquired (not including the value of the fixtures to be acquired). Inventory acquired from any portion of Acquisition Revolving Loan shall be used exclusively for the purpose of storing and exhibiting the inventory for sale (but not for lease) in the ordinary course of the Loan Parties' business. The Loan Parties shall not use the inventory for any other purpose. Each request for a Acquisition Revolving Loan under this Agreement shall constitute a representation and warranty by the Borrower and the other Loan Parties that the conditions set forth in Sections 3.1 and 3.2 have been satisfied as of the date of such request. Each Acquisition Revolving Loan may be either a Prime Rate Loan or a LIBOR Loan and, subject to the provisions of Section 2.5(d), shall bear interest as provided in Section 2.5(a) or 2.5(b), respectively.

(ii) Subject to the provisions of Section 3.2 and this
Section 2.1(e)(ii), the Borrower may elect to convert all or a portion of the Acquisition Revolving Loans to an amortizing term loan (the "Acquisition Term Loan") on the Maturity Date. No earlier than sixty (60) days and no later than thirty (30) days prior to the Maturity Date, the Borrower shall give the Agent written notice, which notice shall be irrevocable, of the portion of the outstanding principal balance of all Acquisition Revolving Loans that it intends to convert to the Acquisition Term Loan; provided, however, that on the Maturity Date the Borrower shall pay to the Agent for the benefit of the Lenders:

(A) An amount equal to the amount of each Acquisition Revolving Loan used to purchase an interest in real property (other than fixtures);

(B) The unpaid principal balance of all Acquisition Revolving Loans that do not convert to the Acquisition Term Loan (or the entire unpaid principal balance of all Acquisition Revolving Loans if the Borrower failed to give the notice required by this Section 2.1(e)(ii)); and

(C) All accrued and unpaid interest on the outstanding principal balance of all Acquisition Revolving Loans and all Fees and other Obligations with respect thereto.

The Total Acquisition Loan Outstandings may not at any time, including without limitation on or after the Maturity Date, exceed the applicable Borrowing Base, and no Acquisition Loans shall be made after the Maturity Date. The Acquisition Term Loan shall be either a Prime Rate Loan or LIBOR Loan and, subject to the provisions of Section 2.5(d), shall bear interest as provided in Section 2.5(a) or 2.5(b), respectively .

(f) Limitations. No LIBOR Loan shall be requested or made for less than a minimum of $500,000 in principal amount and in integral multiples of $500,000 in excess of such minimum amount. No more than five (5) LIBOR Loans under each of the Total New Vehicle Loan Commitment, the Total Program and Used Vehicle Loan Commitment, or the Total Acquisition Loan Commitment may be outstanding at any time. No Prime Rate Loan that is a New Vehicle Loan or a Program and Used Vehicle Loan shall be requested or made for less than a minimum of $500,000 in principal amount. With respect to Swingline Loans requested pursuant to Section 2.3(a)(ii) but not with respect to Swingline Loans advanced pursuant to Sections 2.3(a)(i) or 2.7(a)(ii), the maximum principal amount advanced by the Swingline Lender on any Business Day shall not exceed $250,000.

(g) Conversion of Loans. Upon the terms and subject to the conditions of this Agreement, the Borrower may convert all or any part (in integral multiples of $500,000) of any outstanding Loan (other than a Swingline Loan or a Demonstrator Vehicle Loan) of one Type into a Loan of another Type on any Business Day (which, in the case of a conversion of an outstanding LIBOR Loan, shall be the last day of the Interest Period applicable to such LIBOR Loan). The Borrower shall give the Agent prior notice of each such conversion (which notice shall be effective upon receipt) in accordance with Section 2.3.

(h) Termination or Limitations of Commitments.

(i) Each of the Lenders' New Vehicle Commitment, Program and Used Vehicle Commitment, Demonstrator Vehicle Commitment, and Acquisition Loan Commitments shall terminate on the Maturity Date. The Swingline Lender's Swingline Commitment shall terminate on the Maturity Date.

(ii) From time to time, the Agent, in its sole discretion without consent or approval of any other Lender, may place or modify limitations on the maximum amount of the New Vehicle Loan Outstandings, the Program and Used Vehicle Loan Outstandings, the Demonstrator Vehicle Loan Outstandings and/or the Acquisition Loan Outstandings to be advanced for the benefit of any one Loan Party other than the Borrower. Additionally, from time to time, the Swingline Lender, at its sole discretion, may place or modify limitations on the maximum amount payable to any Seller or other appropriate party under a debit or draft authorization (or similar instrument or arrangement). The Agent or the Swingline Lender, respectively, shall notify Borrower of any such limits not less than 24 hours prior to the time they become effective. Nothing in this Section 2.1(h)(ii) shall alter the provisions of Section 11.7(b)(ii)(A).

(iii) The Swingline Lender or the Agent may give notice to any Seller or other appropriate party terminating any debit or draft authorization (or similar instrument or arrangement) so that the Swingline Lender has no obligation to honor any debit or draft authorization (or similar instrument or arrangement) on or after the Maturity Date. Additionally, if an Event of Default has occurred, the Swingline Lender may give notice to any Seller or other appropriate party terminating any debit or draft authorization (or similar instrument or arrangement).

(iv) No termination of any Commitment may be reinstated.

2.2 The Notes.

(a) The New Vehicle Loans shall be evidenced by separate promissory notes for each Lender in a principal amount equal to such Lender's New Vehicle Commitment, each such note to be substantially in the form of Exhibit A-1 to this Agreement, dated as of the Closing Date, and completed with appropriate insertions (each such note being referred to in this Agreement as a "New Vehicle Note" and collectively as the "New Vehicle Notes").

(b) The Swingline Loan shall be evidenced by a Promissory Note for the Swingline Lender in a principal amount equal to the Swingline Lender's Swingline Commitment, substantially in the form of Exhibit A-2 to this Agreement, dated as of the Closing Date, and completed with appropriate insertions (the "Swingline Note").

(c) The Program and Used Vehicle Loans shall be evidenced by separate promissory notes for each Lender in a principal amount equal to such Lender's Program and Used Vehicle Commitment, each such note to be in substantially the form of Exhibit A-3 to this Agreement, dated as of the Closing Date, and completed with appropriate insertions (each such note being referred to as a "Program and Used Vehicle Note" and collectively as the "Program and Used Vehicle Notes").

(d) The Demonstrator Vehicle Loans shall be evidenced by separate promissory notes for each Lender in a principal amount equal to such Lender's Demonstrator Vehicle Commitment, if any, each such note to be in substantially the form of Exhibit A-4 to this Agreement, dated as of the Closing Date, and completed with appropriate insertions (each such note being referred to as a "Demonstrator Vehicle Note" and collectively as the "Demonstrator Vehicle Notes").

(e) The Acquisition Revolving Loans shall be evidenced by separate promissory notes for each Lender in a principal amount equal to such Lender's Acquisition Loan Commitment, each such note to be in substantially the form of Exhibit A-5A to this Agreement, dated as of the Closing Date, and completed with appropriate insertions (each such note being referred to as an "Acquisition Revolving Note" and collectively as the "Acquisition Revolving Notes"). The Acquisition Term Loan shall be evidenced by separate promissory notes for each Lender in a principal amount equal to such Lender's Pro Rata Share of each Acquisition Term Loan (based on the Lender's Pro Rata Share of the Total Acquisition Loan Commitment), each such note to be in substantially the form of Exhibit A-5B to this Agreement, dated as of the Maturity Date, and completed with appropriate insertions (each such note being referred to as an "Acquisition Term Note" and collectively as the "Acquisition Term Notes").

(f) The Borrower irrevocably authorizes the Agent and each of the Lenders to make or cause to be made, at or about the time of the Drawdown Date of any Loan or at the time of receipt of any payment of principal on the Notes, an appropriate notation on its Note Record reflecting the making of such Loan or (as the case may be) the receipt of such payment. The outstanding amount of the Loans set forth on the Note Records shall be prima facie evidence of the principal amount thereof owing and unpaid to the Lenders, but the failure to record, or any error in so recording, any such amount on the Agent's or on any Lender's Note Record shall not limit or otherwise affect the obligations of the Borrower under this Agreement, any Loan Document, or under any Note to make payments of principal of or interest on any Note when due.

2.3 Notice and Manner of Borrowing or Conversion of Loans.

(a) With respect to Swingline Loans:

(i) Subject to Sections 2.1(b) and (h), the Swingline Lender may from time to time advance sums of money on behalf of the Loan Parties to any Seller for whose benefit U.S. Bank has executed a debit or draft authorization (or similar instrument or arrangement) for the purpose of enabling the Loan Parties to acquire Vehicle inventory. Presentation of drafts or other requests for payment by a Seller shall be in lieu of a Notice of Borrowing for the amount of the Swingline Loan. The invoices or other sales documentation submitted by the Sellers from whom the Loan Parties purchase inventory and/or the drafts or debits paid by the Swingline Lender shall serve as conclusive evidence of each such Swingline Loan. The Loan Parties irrevocably authorize the Swingline Lender to pay all drafts or invoices upon presentation by a Seller supplying the Vehicle to the Loan Parties.

(ii) Whenever the Borrower desires to obtain a Swingline Loan under this Agreement other than pursuant to Section 2.3(a)(i) or 2.7(a)(ii), the Borrower shall give the Agent a written Notice of Borrowing or Conversion (or a telephonic notice promptly confirmed by a written Notice of Borrowing or Conversion), which Notice shall be irrevocable and which must be received no later than 9:00 a.m. (Portland, Oregon time) on the Business Day on which the requested Swingline Loan is to be made. Such Notice of Borrowing or Conversion shall specify the effective date and amount of each Swingline Loan to be made. If the written confirmation of any telephonic notification differs in any material respect from the action taken by the Agent, the records of the Agent shall control absent manifest error. The Swingline Lender shall initiate the transfer of funds representing the Swingline Loan to the Borrower (or to the entity that the Borrower designates in writing in the Notice) by 4:00 p.m. (Portland, Oregon time) on the Business Day of the requested advance.

(b) Whenever the Borrower desires to obtain a Loan under this Agreement (other than a Swingline Loan), to continue an outstanding LIBOR Loan for a new Interest Period, or to convert an outstanding Loan into a Loan of another Type, the Borrower shall give the Agent a written Notice of Borrowing or Conversion (or a telephonic notice promptly confirmed by a written Notice of Borrowing or Conversion), which Notice shall be irrevocable and which must be received no later than 9:00 a.m. (Portland, Oregon time) (and a Borrowing Base Certificate if such Notice relates to a Program and Used Vehicle Loan or an Acquisition Revolving Loan) on the date (i) one Business Day before the day on which the requested Loan is to be made as or converted to a Prime Rate Loan, and (ii) three Business Days before the day on which the requested Loan is to be made or continued as or converted to a LIBOR Loan. Such Notice of Borrowing or Conversion shall specify (x) the effective date and amount of each Loan or portion thereof requested to be made, continued or converted, subject to the limitations set forth in Section 2.1, (y) the interest rate option requested to be applicable thereto, and (z) the duration of the applicable Interest Period, if any (subject to the provisions of the definition of the term "Interest Period"). If such Notice

fails to specify the interest rate option to be applicable to the requested Loan, then the Borrower shall be deemed to have requested a Prime Rate Loan. If the written confirmation of any telephonic notification differs in any material respect from the action taken by the Agent, the records of the Agent shall control absent manifest error.

(c) Subject to the provisions of the definition of the term "Interest Period" in this Agreement, the duration of each Interest Period for a LIBOR Loan shall be as specified in the applicable Notice of Borrowing or Conversion. If no Interest Period is specified in a Notice of Borrowing or Conversion with respect to a requested LIBOR Loan, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. If the Agent receives a Notice of Borrowing or Conversion after the time specified in subsection (a) above, such Notice shall not be effective. If the Agent does not receive an effective Notice of Borrowing or Conversion with respect to an outstanding LIBOR Loan, or if, when such Notice must be given prior to the end of the Interest Period applicable to such outstanding Loan, the Borrower shall have failed to satisfy any of the conditions of this Agreement, the Borrower shall be deemed to have elected to convert such outstanding Loan in whole into a Prime Rate Loan on the last day of the then current Interest Period with respect thereto.

(d) Notwithstanding any contrary provision of this Agreement and without limiting any other rights of any Lender if a Default or Event of Default has occurred and is continuing, the Borrower (i) may not select a LIBOR Loan, (ii) may not convert a Prime Rate Loan to a LIBOR Loan, and
(iii) no LIBOR Loan may continue as a LIBOR Loan for a new Interest Period. If a Default or Event of Default has occurred and is continuing, each LIBOR Loan shall automatically convert to a Prime Rate Loan at the expiration of the applicable Interest Period.

(e) If at any time the Borrower desires to transfer a New Vehicle, acquired using a New Vehicle Loan, to a Program Vehicle or a Demonstrator Vehicle, or the Borrower desires to transfer a Demonstrator Vehicle, acquired or refinanced using a Demonstrator Vehicle Loan, to a Program Vehicle, then the Borrower must refinance an amount equal to such New Vehicle Loan or Demonstrator Vehicle Loan advanced with respect to the Vehicle, together with all accrued and unpaid interest thereon and all Fees with respect thereto, with a Program and Used Vehicle Loan or Demonstrator Vehicle Loan, as the case may be, by providing the Agent with a written Notice of Borrowing or Conversion (or telephonic notice promptly confirmed by a written Notice of Borrowing or Conversion), which notice shall be irrevocable and which must be received no later than 9:00 a.m. (Portland, Oregon time), at least three Business Days before the day on which the Vehicle will be placed as a Program Vehicle or a Demonstrator Vehicle, and a Borrowing Base Certificate if the New Vehicle Loan or the Demonstrator Loan will be converted to a Program and Used Vehicle Loan. The Notice of Borrowing or Conversion shall also specify for each such Vehicle the make, model and model year, Loan Party in possession of the Vehicle, serial and motor number

(f) Each Loan Party (other than the Borrower) hereby appoints the Borrower as its agent with respect to the receiving and giving of any notices, requests, instructions, reports, schedules, revisions, financial statements or any other written or oral communications under this Agreement or any other Loan Document. The Borrower shall keep complete, correct and accurate records of all Loans and the application of proceeds thereof and all payments with respect to the Loans and other amounts due under this Agreement or any other Loan Document. The Borrower shall determine the allocation of proceeds of Loans among the Loan Parties, subject to the other terms and conditions of this Agreement. The Lenders are hereby entitled to rely on any communications given or transmitted by the Borrower as if such communication were given or transmitted by each and every Loan Party; provided, however, that any communication given or transmitted by any Loan Party other than the Borrower shall be binding with respect to such Loan Party. Any communication given or transmitted by the Agent or any Lender to the Borrower shall be deemed given and transmitted to each and every Loan Party. Notwithstanding the foregoing, all Obligations of the Loan Parties under this Agreement shall be joint and several.

2.4 Funding of Loans.

(a) Loans shall be made by the Lenders pro rata in accordance with their respective Commitments, provided, however that the failure of any Lender to make any Loan shall not relieve any other Lender of its obligation

to lend under this Agreement (it being understood, however, that no Lender shall be responsible for the failure of any other Lender to make any Loan required to be made by such other Lender).

(b) From time to time, the Swingline Lender at its discretion may demand repayment of its Swingline Loans by an advance of any other Prime Rate Loan, in which case the Borrower shall be deemed to have requested such Prime Rate Loan in accordance with Section 2.3 of this Agreement. With respect to a demand resulting in an advance for a New Vehicle Loan or a Program and Used Vehicle Loan, each demand shall be in an amount not less than $500,000. Each such demand by the Swingline Lender shall be deemed to have been given one Business Day prior to the Maturity Date, on the date of occurrence of any Default or Event of Default, or on the exercise of any remedies under Section 8.2 of this Agreement, as the case may be. To the extent that the Swingline Lender demands repayment of any portion of its Swingline Loans, the Swingline Lender shall notify the Lenders on any Business Day and require the Lenders to advance their respective Pro Rata Shares of the Loan based on the Lender's Pro Rata Share of the Loan Commitment of the Loan to be advanced. Such notice shall specify the Loan and the aggregate amount of the Loan that Lenders will advance. Each Lender absolutely and unconditionally agrees that immediately on receipt of such notice to pay the Swingline Lender such Lender's Pro Rata Share of such Loan.

(i) Each Lender acknowledges and agrees that its obligation to pay its Pro Rata Share of the Loan pursuant to this Section 2.4(b) is absolute, irrevocable and unconditional and shall not be affected by any circumstance whatsoever, including:

(A) the occurrence and continuance of a Default or Event of Default,

(B) the fact that the amount of such advance does not comply with any minimum requirement;

(C) whether any conditions specified in Section 3.1 and 3.2 are then satisfied;

(D) the failure of any such request or deemed request for a Loan to be made by the time otherwise required under this Agreement;

(E) the fact that the date of borrowing is not a date on which such Loan is otherwise permitted to be made under this Agreement;

(F) in the case of an advance to honor a debit or draft authorization (or similar instrument or arrangement) on presentation by a Seller or other appropriate party, any termination of the Loan Commitment relating thereto occurring less than thirty days prior to the advance, or contemporaneously with the advance;

(G) the fact that the Swingline Loan Outstandings exceed the Total Swingline Commitment (as the Lenders acknowledge that the primary purpose of the Swingline Commitment is to honor drafts of Sellers with respect to the purchase of Vehicle inventory by the Loan Parties and that, subject to the draft authorizations from the Swingline Lender in favor of various Sellers, it may be difficult for the Swingline Lender to confirm at any given time the Swingline Loan Outstandings; provided, however, that notwithstanding anything to the contrary contained in this Agreement, the Lenders shall have no obligation whatsoever, whether directly or indirectly, to fund any amount in excess of their respective Commitments); and

(H) the fact that the request for the Loan is made after the Maturity Date so long as the applicable Swingline Loans are advanced pursuant to Section 2.3(a)(i) on or before the Maturity Date; and

(ii) Each Lender further acknowledges and agrees that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(iii) Each Lender shall comply with its obligation under this Section 2.4(b)(iii) by wire transfer of immediately available funds, in the same manner as provided in Section 2.4(c) with respect to the Loans made by such Lender, and such Section 2.4(c) shall generally apply to the payment obligations of the Lenders arising under this Section 2.4(b)(iii), with appropriate changes in details as may be required by Agent to reflect the terms of this Section 2.4(b)(iii). The repayment of any Swingline Loan

pursuant to this paragraph shall not relieve the Borrower (or other party liable for obligations of the Borrower) of any default in the payment thereof. In the event that any Loan cannot for any reason be made on the date otherwise required in this Section 2.4(b)(iii) (including without limitation as a result of the commencement of a proceeding under Title 11, United States Code, with respect to any Loan Party), then each Lender agrees that it shall immediately purchase (as of the date such advance would otherwise have occurred, but adjusted for any payments received from the Borrower on or after such date and prior to such purchase) from the Swingline Lender such participation in the outstanding Swingline Loans as shall be necessary to cause each such Lender to share in such Swingline Loans ratably based on its Pro Rata Share of the Total New Vehicle Commitment (determined before giving effect to any termination of the Commitments), provided that all interest payable on the Swingline Loans shall be for the account of the Swingline Lender until the date as of which the respective participation is purchased.

(c) The Agent shall promptly notify the Lenders of any requested Loan and of the Drawdown Date thereof and the amount of each Lender's Pro Rata Share of such Loan. If the Agent gives such notice before 12:00 p.m. (Portland, Oregon time) on the Business Day immediately preceding the proposed Drawdown Date, each Lender will, not later than 1:00 p.m. (Portland, Oregon time) on the proposed Drawdown Date of such Loan, make available to the Agent, at 10800 NE 8th, Suite 900, Bellevue, Washington 98004, in immediately available funds, the amount of such Lender's Pro Rata Share of the amount of such requested Loan. Upon receipt by the Agent of such amount, and upon receipt of the documents required by Section 3 and the satisfaction of the other conditions set forth therein (to the extent applicable), the Agent will make available to the Borrower the aggregate amount of such Loan. The failure or refusal of any Lender to make available to the Agent at the aforesaid time and place on any Drawdown Date the amount of its Pro Rata Share of any requested Loans shall not relieve any other Lender from its several obligation under this Agreement to make available to the Agent the amount of such other Lender's Pro Rata Share of any requested Loans. The Agent may, unless notified to the contrary by any Lender prior to a Drawdown Date, assume that each such Lender has made available to the Agent on such Drawdown Date the amount of such Lender's Pro Rata Share of the Loans to be made on such Drawdown Date, and the Agent may (but it shall not be required to), in reliance upon such assumption, make available to the Borrower a corresponding amount. If any Lender makes available to the Agent such amount on a date after such Drawdown Date, such Lender shall pay to the Agent on demand an amount equal to the product of (i) the average, computed for the period referred to in clause (iii) below, of the Federal Funds Rate for each day included in such period, times (ii) the amount of such Lender's Pro Rata Share of any such Loans times (iii) a fraction, the numerator of which is the number of days that elapse from and including such Drawdown Date to the date on which the amount of such Lender's Pro Rata Share of such Loans shall become immediately available to the Agent, and the denominator of which is 360. A statement of the Agent submitted to such Lender with respect to any amounts owing under this paragraph shall be prima facie evidence of the amount due and owing to the Agent by such Lender. If the amount of such Lender's Pro Rata Share of such Loans is not made available to the Agent by such Lender with three (3) Business Days following such Drawdown Date, the Agent shall be entitled to recover such amount from the Borrower on demand, with interest thereon at the rate per annum applicable to the Loans made on such Drawdown Date.

(d) The failure or refusal of any Lender to make available to the Agent at the aforesaid time and place on any Drawdown Date the amount of its Pro Rata Share of any Loans shall not relieve any other Lender from its several obligation under this Agreement to make available to the Agent the amount of such other Lender's Pro Rata Share of any Loans.

2.5 Interest Rates and Payments of Interest.

(a) Each Loan, which is a Prime Rate Loan, shall bear interest on the outstanding principal amount thereof at a rate per annum equal to the Prime Rate plus the Applicable Margin, which rate shall change contemporaneously with any change in the Prime Rate or the Applicable Margin, as provided below. All interest accrued during each calendar month shall be paid on or before the tenth day of the following calendar month.

(b) Each Loan, which is a LIBOR Loan, shall bear interest on the outstanding principal amount thereof, for each Interest Period applicable thereto, at a rate per annum equal to the LIBOR Rate plus the Applicable Margin, which rate shall change with any change in the LIBOR Rate or the Applicable Margin, as provided below. All interest accrued during each calendar month shall be paid on or before the tenth day of the following calendar month.

(c) If the Borrower chooses a LIBOR Loan, the Borrower shall pay interest based at the LIBOR Rate plus the Applicable Margin, together with any other applicable taxes or charges under this Agreement, even though any Lender may have obtained the funds loaned to the Borrower from sources other than the applicable eurodollar market and at interest rates other than the LIBOR Rate. The Agent's determination of the LIBOR Rate shall be conclusive in the absence of manifest error.

(d) If a Default or Event of Default occurs and is continuing, then (i) all LIBOR Loans shall bear interest at a rate equal to the LIBOR Rate plus the Applicable Margin plus 3% per annum until the end of the applicable LIBOR Interest Period and shall be automatically converted into a Prime Rate Loan at the end of the applicable LIBOR Interest Period, and
(ii) all Prime Rate Loans shall bear interest at the Prime Rate plus the Applicable Margin plus 3%.

(e) The Applicable Margin under any Type of Loan shall be automatically adjusted as of the first day of the calendar month following the Agent's receipt of a Compliance Certificate, pursuant to Section 5.1(g) of this Agreement, based on the Debt to Cash Flow Ratio as of the last day of the fiscal quarter for which the Compliance Certificate was prepared; provided, however, that if the Borrower does not timely furnish any Compliance Certificate to the Lenders, the Applicable Margin shall increase without notice to the highest percentage for the applicable Type of Loan as of the first day of the calendar month following the due date of the Compliance Certificate. On the first Business Day of the second calendar month after the date the Agent receives the late Compliance Certificate, the Applicable Margin will change to the Applicable Margin, based on the Debt to Cash Flow Ratio, for the applicable Type of Loan.

2.6 Fees.

(a) The Borrower shall pay to the Agent for the ratable benefit of the Lenders a commitment fee (the "Commitment Fee"), payable quarterly in arrears on the first Business Day of each calendar quarter and on the Maturity Date for the quarter just completed (or if the Maturity Date occurs during a fiscal quarter, from the end of the prior fiscal quarter through the Maturity Date), equal to the sum of (i) .125% multiplied by the average daily amount for such quarter just completed or partial quarter, as the case may be, of the difference between (A) the Total New Vehicle Commitment and (B) the Total New Vehicle Loan Outstandings (the Swingline Loan Outstandings shall not be included in this calculation), plus (ii) .125% multiplied by the average daily amount for such quarter just completed or partial quarter, as the case may be, of the difference between (A) the Total Program and Used Vehicle Commitment and (B) the Total Program and Used Vehicle Loan Outstandings, plus (iii) .125% multiplied by the average daily amount for such quarter just completed or partial quarter, as the case may be, of the difference between (A) the Total Acquisition Loan Commitment and (B) the Total Acquisition Loan Outstandings.

(b) The Borrower shall pay to the Swingline Lender for its sole account a fee in an amount agreed to between the Borrower and the Swingline Lender pursuant to the terms of any fee letter.

(c) The Borrower shall pay to the Agent, solely for the account of the Agent, such other fees pursuant to the terms of any fee letter.

(d) On or before the Closing Date, the Borrower shall pay to the Agent for the benefit of the Initial Lenders an up-front fee in the amount of $150,000 in connection with the Total Acquisition Loan Commitment.

(e) The Borrower authorizes the Agent and the Lenders to charge (no such charge shall be deemed to be a set-off) to their Note Records, as of the date due to the Lender or paid by the Lender, the interest, fees, charges, taxes and expenses provided for in this Agreement, the Security Documents or any other document executed or delivered in connection with this Agreement.

2.7 Payments and Prepayments of the Loans.

(a) Cash Sweep Service.

(i) In addition to Swingline Loans requested pursuant to
Section 2.1(b), the Borrower may also receive and repay advances in accordance with the provisions of this Section 2.7(a) (the "Cash Sweep

Service"). Such advances shall be Swingline Loans and shall be subject to the limits set forth in Section 2.1(b).

(ii) Subject to Section 2.7(a)(iii), funds will be transferred between the Borrower's deposit account number 025-000-1187 ("DDA") maintained with U.S. Bank and Swingline Lender at the close of each Business Day so that the DDA maintains a collected balance equal to a pre-established balance (the "Peg Balance"). Any amounts advanced by Swingline Lender to increase the collected balance in the DDA to the Loan Peg Balance shall be Swingline Loans. Any collected funds in the DDA that exceed the Peg Balance ("Excess Collected Funds") will be applied as payments to reduce the Total Swingline Loan Outstandings. The Swingline Lender may limit the amount of Excess Collected Funds that it will transfer to or from the Swingline Commitment on any particular day. Should the collected funds in the DDA be less than the Peg Balance, a Swingline Loan will be made to restore the DDA to the Peg Balance. Should Swingline Loan Outstandings be zero, and should Excess Collected Funds exceed $1,000,000, the full amount collected shall be applied to Prime Rate Loans in the following order: (w) first, to the New Vehicle Loan Outstandings, (x) second, to the Total Program and Used Vehicle Loan Outstandings, and (y) third, to the portion of the Total Acquisition Loan Outstandings attributable to Acquisition Revolving Loans. Any remaining Excess Collected Funds shall be maintained in the DDA unless otherwise agreed.

(iii) All Swingline Loans made pursuant to this Section 2.7(a) shall be deemed to have been requested by Borrower and shall be subject to the terms and conditions of this Agreement and the Loan Documents.

(iv) The Peg Balance for the DDA will be the amount agreed upon from time to time between Swingline Lender and the Borrower. On the date of this Agreement, the amount of the Peg Balance shall equal $0.00. The Swingline Lender shall not be accountable for errors in judgment in performing any service hereunder.

(v) The Swingline Lender shall not be required to comply with any direction of the Borrower that in its judgment may subject it to liability, or to defend or prosecute any suit or action unless indemnified in a manner and amount satisfactory to it. The Swingline Lender is authorized to accept oral instructions, including telephone instructions, from any Responsible Officer.

(vi) The Borrower may terminate the Cash Sweep Service by written notice executed by Borrower and delivered to the Swingline Lender and indemnifying Swingline Lender to its satisfaction against liabilities incurred in the administration of the account. The Swingline Lender may change the terms of or discontinue the Cash Sweep Service at any time upon written notice. On the termination of the Cash Sweep Service, the Swingline Commitment shall terminate, and the Borrower shall pay in full the unpaid principal balance of the Swingline Loans, together with all accrued and unpaid interest thereon and all Fees and other amounts due with respect thereto.

(b) Prepayments. If at any time and for any reason the aggregate of the Total New Vehicle Loan Outstandings plus the Swingline Loan Outstandings shall exceed the Total New Vehicle Commitment, the Borrower shall immediately pay the amount of such excess to the Agent for application in accordance with the terms of Section 2.8(d) of this Agreement. If at any time Total New Vehicle Loan Outstandings include amounts advanced as Other Purpose Loans and for any reason the aggregate amount outstanding of Total New Vehicle Loan Outstandings plus Swingline Loan Outstandings shall exceed the applicable Borrowing Base (whether reflected on a Borrowing Base Certificate, determined by a Collateral inspection, or otherwise), the Borrower shall immediately pay the amount of such excess to the Agent for application in accordance with the terms of Section 2.8(d) of this Agreement. If at any time and for any reason the aggregate of the Swingline Loan Outstandings shall exceed the Swingline Commitment, the Borrower shall immediately pay the amounts of such excess to the Agent for application in accordance with the terms of Section 2.8(d) of this Agreement. If at any time and for any reason the aggregate of the Total Program and Used Vehicle Loan Outstandings shall exceed the lesser of the Total Program and Used Vehicle Commitment or the applicable Borrowing Base (whether reflected on a Borrowing Base Certificate, determined by a Collateral inspection, or otherwise), the Borrower shall immediately pay the amount of such excess to the Agent for application in accordance with the terms of Section 2.8(d) of this Agreement. If at any time and for any reason the aggregate of the Total Demonstrator Vehicle Loan Outstandings shall exceed the Total Demonstrator Vehicle Commitment, the Borrower shall immediately pay the amount of such

excess to the Agent for application in accordance with the terms of
Section 2.8(d) of this Agreement. If at any time and for any reason the aggregate of the Total Acquisition Loan Outstandings shall exceed the lesser of the Total Acquisition Loan Commitment or the applicable Borrowing Base (whether reflected on a Borrowing Base Certificate, determined by a Collateral inspection, or otherwise), the Borrower shall immediately pay the amount of such excess to the Agent for application in accordance with the terms of Section 2.8(d) of this Agreement.

(c) Proceeds of Vehicle Sales. Within five Business Days following the sale of a Vehicle, or on the receipt of proceeds with respect to such sale, whichever occurs first, the Borrower or the applicable Loan Party shall remit to the Agent an amount at least equal to the amount of any Loan advanced for that Vehicle. If (i) a New Vehicle has not been sold on or before the earlier of the Maturity Date or June 30 of the calendar year after its model year, (ii) if a New Vehicle becomes a Demonstrator Vehicle, a Program Vehicle or a Used Vehicle, or (iii) if a Demonstrator Vehicle becomes a Program Vehicle or a Used Vehicle, the Borrower shall pay to the Agent on the first of those dates to occur, an amount equal to the amount advanced for the Vehicle. In addition, the Borrowers shall immediately pay to the Agent an amount equal to the amount of any refund, rebate, credit or similar item received by any Loan Party with respect to a Vehicle.

(d) Mandatory Payments of Vehicle Loans. On the Maturity Date, the Borrower shall pay in full to the Agent (i) the unpaid principal balance of the New Vehicle Loans, together with all accrued and unpaid interest thereon and all Fees and other amounts due with respect thereto, (ii) the unpaid principal balance of the Swingline Loans, together with all accrued and unpaid interest thereon and all Fees and other amounts due with respect thereto, (iii) the unpaid principal balance of the Program and Used Vehicle Loans, together with all accrued and unpaid interest thereon and all Fees and other amounts due with respect thereto, and (iv) the unpaid principal balance of the Demonstrator Vehicle Loans, together with all accrued and unpaid interest thereon and all Fees and other amounts due with respect thereto.

(e) Mandatory and Optional Payments of Acquisition Loans. On the Maturity Date, the Borrower shall pay in full to the Agent the amounts required by Section 2.1(e)(ii) of this Agreement. The Acquisition Term Loan shall be repaid in fifty-nine (59) equal monthly installments of principal plus all interest accrued through the end of the preceding month and one final installment of the entire then outstanding principal balance, together with all accrued and unpaid interest thereon and all Fees with respect thereto. Each monthly principal payment shall be in the amount of one sixtieth (1/60th) of the original principal balance of the Acquisition Term Loan. The first payment shall be due on the tenth day of the month following the date that the aggregate unpaid principal balance of all Acquisition Revolving Loans converts to the Acquisition Term Loan, and each subsequent payment will be due on the same day of each consecutive month until the last month when the entire unpaid principal balance, together with all accrued and unpaid interest thereon and all Fees with respect thereto, shall be due and payable.

(f) Collateral Issues. The Agent may reject as Collateral any item of inventory received by any Loan Party in damaged condition. Neither the Agent, nor any Lender, has any obligation to inspect inventory for damage before advancing a Loan. If the Lenders have advanced a Loan on damaged inventory, the Borrower shall direct the Seller who received the amount of the Loan advanced, to refund the Loan directly to the Agent. If the Seller fails to refund the Loan within 5 days, the Borrower shall immediately repay the Loan with respect to the damaged Vehicle. In any event, the Borrower shall pay the Lenders all accrued and unpaid interest on the amount of the Loan advanced with respect to the damaged Vehicle and all Fees with respect thereto. Additionally, the Loan Parties shall be responsible for the quantity, quality, condition and value of the inventory selected by the Loan Parties financed under this Agreement. The Lenders shall have no liability of any nature because of the failure of any item of inventory to conform to any of the Loan Parties' specifications, and any dispute between the manufacturer (or other entity from whom a Loan Party acquired an item of inventory) and a Loan Party with respect to such inventory shall not in any way change, modify, affect, or alter the Loan Parties' obligations under this Agreement. Inspections of inventory will be conducted from time to time in accordance with Section 5.5. Within five Business Days following a request from the Agent, the Borrower agrees to pay in full to the Agent for the benefit of the Lenders, together with all accrued and unpaid interest thereon and all Fees with respect thereto, an amount equal to the amount of the Loan advanced, plus 1% of the total amount due, for any item or unit of Collateral

(i) not located on the premises of the Loan Party (except for a Vehicle sold the proceeds of which sale are not yet due under Section 2.7(c) of this Agreement) or (ii) for which the Loan Party no longer has the requisite Title Documents.

(g) Breakage Charge. The Borrower may prepay Loans that are LIBOR Loans on three Business Days' written notice and on payment of the amounts required by Section 2.9. The Borrower may prepay Loans that are Prime Rate Loans at any time, without premium or penalty, upon one Business Day's notice. Any such notice of prepayment shall be irrevocable. Prepayments will not postpone the date or reduce the amount of any regularly scheduled payment on the Acquisition Term Loan.

(h) Late Charge. Without limiting any of the Lender's other rights under this Agreement or by law, if any Loan or portion thereof, or any interest thereon or any Fees with respect thereto, or any other amount payable under this Agreement or any other Loan Document is not paid within 10 days after its due date, then the Borrower shall pay to the Agent for the benefit of the Lenders or demand a late payment charge equal to 5% of the amount of the payment due.

2.8 Method and Allocation of Payments.

(a) All payments by the Borrower under this Agreement and under any of the other Loan Documents shall be made without set-off or counterclaim and free and clear of and without deduction for any taxes, levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions or conditions of any nature now or hereafter imposed or levied by any jurisdiction or any political subdivision thereof or taxing or other authority therein unless the Borrower is compelled by law to make such deduction or withholding. If any such obligation is imposed upon the Borrower with respect to any amount payable by it under this Agreement or under any of the other Loan Documents, the Borrower will pay to each Lender such additional amount in U.S. Dollars as shall be necessary to enable such Lender to receive the same net amount which such Lender would have received on such due date had no such obligation been imposed upon the Borrower. The Borrower will deliver promptly to each Lender certificates or other valid vouchers or other evidence of payment reasonably satisfactory to the Agent for all taxes or other charges deducted from or paid with respect to payments made by the Borrower under this Agreement or under such other Loan Document. The Lenders may, and the Borrower by this Agreement authorizes the Lenders to, debit the amount of any payment not made by such time to the demand deposit accounts of the Borrower with the Lenders or to their Note Records.

(b) All payments of principal of and interest with respect to the Loans shall be made to the Agent, for the benefit of the Lenders, pro rata in accordance with their respective Commitments for such Loans, all payments of Commitment Fees shall be made to the Agent for the benefit of the Lenders, pro rata in accordance with their respective Commitments for the Loans, and payment of any other amounts due under this Agreement shall be made to the Agent to be allocated among the Agent and the Lenders as their respective interests appear. All such payments shall be made at the Agent's office at 10800 NE 8th, Suite 900, Bellevue, Washington 98004 or at such other location that the Agent may from time to time designate, in each case in immediately available funds.

(c) Each Lender shall maintain in accordance with its usual practice a Note Record evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time under this Agreement. The Agent shall maintain a Note Record in which it will record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Agent hereunder from the Borrower or any Loan Party on behalf of the Borrower and each Lender's share thereof. The entries made in the accounts maintained pursuant to subparagraphs (i), (ii) and (iii) above shall be prima facie evidence of the existence and amount of the obligations therein recorded; provided, however, that the failure of any Lender or the Agent to maintain such accounts or any error therein shall not in any manner affect the obligations of the Borrower to repay the Loans in accordance with their terms.

(d) If the Commitments shall have been terminated or the Obligations shall have been declared immediately due and payable pursuant to Section 8.2, all funds received from or on behalf of the Borrower (including as proceeds of Collateral) by any Lender with respect to Obligations (except funds received by any Lenders as a result of a purchase of a participant

interest pursuant to Section 2.8(e) below) shall be remitted to the Agent, and all such funds, together with all other funds received by the Agent from or on behalf of the Borrower (including proceeds of Collateral) with respect to Obligations, shall be applied by the Agent in the following manner and order: (i) first, to reimburse the Agent and the Lenders, in that order, for any amounts payable pursuant to Sections 11.2 and 11.3 of this Agreement;
(ii) second, to the payment of the Fees; (iii) third, to the payment of interest due on the Loans; (iv) fourth, to the payment of the outstanding principal balance of the Swingline Loans and then the other Loans, pro rata to the outstanding principal balance of each of the Loans, unless otherwise specified in writing by all of the Lenders; (v) fifth, to the payment of any other Obligations payable by the Borrower; and (vi) any remaining funds shall be paid to whoever shall be entitled thereto or as a court of competent jurisdiction shall direct.

(e) Each of the Lenders and the Agent by this Agreement agrees that if it should receive any amount (whether by voluntary payment, by realization upon security, by the exercise of the right of set-off or banker's lien, by counterclaim or cross action, by the enforcement of any right under the Loan Documents, or otherwise) with respect to principal of, or interest on, any Loans or any Fees which are to be shared pro rata among the Lenders, which, as compared to the amounts thereto received by the other Lenders with respect to such principal, interest or Fees, is in excess of such Lender's Pro Rata Share of such principal interest or Fees, such Lender shall share such excess, less the costs and expenses (including, reasonable Attorneys' Fees and disbursements) incurred by such Lender in connection with such realization, exercise, claim or action, pro rata with the other Lenders in proportion to their respective Commitments for such Loans, and such sharing shall be deemed a purchase (without recourse) by such sharing party of participant interests in such Loans or such Fees, as the case may be, owed to the recipients of such shared payments to the extent of such shared payments; provided, however, that if all or any portion of such excess amount is thereafter recovered from such Lender, such purchase shall be rescinded and the purchase price restored to the extent of such recovery, but without interest.

2.9 LIBOR Indemnity. If the Borrower for any reason (including, without limitation, pursuant to Sections 2.7, 2.11 and 8.2 of this Agreement) makes any payment of principal with respect to any LIBOR Loan on any day other than the last day of an Interest Period applicable to such LIBOR Loan, or fails to borrow or continue or convert to a LIBOR Loan after giving a Notice of Borrowing or Conversion thereof pursuant to Section 2.3, or fails to prepay a LIBOR Loan after having given notice thereof, the Borrower shall pay to the Agent for the benefit of the Lenders any amount required to compensate the Lenders for any lost profit, additional losses, costs or expenses which they may reasonably incur as a result of such payment or failure, including, without limitation, any loss (including loss of anticipated profits), costs or expense incurred by reason of the liquidation or re-employment of deposits or other funds required by the Lenders to fund or maintain such LIBOR Loan. The Borrower shall pay such amount upon presentation by the Agent of a statement setting forth the amount and the Agent's (or the affected Lenders') calculation thereof pursuant to this Agreement, which statement shall be deemed true and correct absent manifest error.

2.10 Computation of Interest and Fees. Interest and all Fees payable under this Agreement shall be computed daily on the basis of a year of 360 days and paid for the actual number of days for which due. If the due date for any payment of principal is extended by operation of law, interest shall be payable for such extended time. If any payment required by this Agreement becomes due on a day that is not a Business Day such payment may be made on the next succeeding Business Day (subject to the definition of the term "Interest Period"), and such extension shall be included in computing interest in connection with such payment.

2.11 Changed Circumstances; Illegality.

(a) Notwithstanding any other provision of this Agreement, in the event that:

(i) on any date on which the LIBOR Rate would otherwise be set the Agent shall have determined in good faith (which determination shall be final and conclusive) that adequate and fair means do not exist for ascertaining the LIBOR Rate, or

(ii) at any time the Agent or any Lender shall have determined in good faith (which determination shall be final and conclusive and, if made by any Lender, shall have been communicated to the Agent in writing) that:

(A) the making or continuation of or conversion of any Loan to a LIBOR Loan has been made impracticable or unlawful by (1) the occurrence of a contingency that materially and adversely affects the interbank LIBOR market, or (2) compliance by the Agent or such Lender in good faith with any applicable law or governmental regulation, guideline or order or interpretation or change thereof by any governmental authority charged with the interpretation or administration thereof or with any request or directive of any such governmental authority (whether or not having the force of law); or

(B) The LIBOR Rate shall no longer represent the effective cost to the Agent or such Lender on U.S. dollar deposits in the Interbank market for deposits in which it regularly participates;

then, and in any such event, the Agent shall promptly notify the Borrower thereof. Until the Agent notifies the Borrower that the circumstances giving rise to such notice no longer apply, the obligation of the Lenders to allow selection by the Borrower of the Type of Loan affected by the contingencies described in this Section (the "Affected Loans") shall be suspended. If, at the time the Agent so notifies the Borrower, the Borrower has previously given the Agent a Notice of Borrowing or Conversion with respect to one or more Affected Loans but such Loans have not yet gone into effect, such notification shall be deemed to be a request for Prime Rate Loans.

(b) In the event of a determination of illegality pursuant to subsection (a)(ii)(A) above, the Borrower shall, with respect to the outstanding Affected Loans, prepay the same, together with interest thereon and any amounts required to be paid pursuant to Section 2.9, on such date as shall be specified in such notice (which shall not be earlier than the date such notice is given) and may, subject to the conditions of this Agreement, borrow a Loan of another Type in accordance with section 2.1 of this Agreement by giving a Notice of Borrowing or Conversion pursuant to Section 2.3 of this Agreement.

2.12 Increased Costs. In case any change in law, regulation, treaty or official directive or the interpretation or application thereof by any court or by any governmental authority charged with the administration thereof or the compliance with any guideline or request of any central bank or other governmental authority (whether or not having the force of law):

(i) subjects any Lender to any tax with respect to payments of principal or interest or any other amounts payable under this Agreement by the Borrower or otherwise with respect to the transactions contemplated by this Agreement (except for taxes on the overall net income of such Lender imposed by the United States of America or any political subdivision thereof), or

(ii) imposes, modifies or deems applicable any deposit insurance, reserve, special deposit or similar requirement against assets held by, or deposits in or for the account of, or loans by, any Lender (other than such requirements as are already included in the determination of the LIBOR Rate), or

(iii) imposes upon any Lender any other condition with respect to its obligations or performance under this Agreement, and

(iv) the result of any of the foregoing is to increase the cost to the Lender, reduce the income receivable by such Lender or impose any expense upon such Lender with respect to any Loans or its obligations under this Agreement, such Lender shall notify the Borrower and the Agent thereof. The Borrower agrees to pay to such Lender the amount of such increase in cost, reduction in income or additional expense as and when such cost, reduction or expense is incurred or determined, upon presentation by such Lender of a statement in the amount and setting forth in reasonable detail such Lender's calculation thereof and the assumptions upon which such calculation was based, which statement shall be deemed true and correct absent manifest error.

2.13 Capital Requirements. If after the date of this Agreement any Lender determines that (i) the adoption of or change in any law, rule, regulation or guideline regarding capital requirements for banks or bank holding companies, or any change in the interpretation or application thereof by any governmental authority charged with the administration thereof, or
(ii) compliance by such Lender or its parent bank holding company with any guideline, request or directive of any such entity regarding capital adequacy (whether or not having the force of law), has the effect of reducing the return on such Lender's or such holding company's capital as a consequence of

such Lender's Commitments or Loans under this Agreement to a level below that which such Lender or such holding company could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or such holding company's then existing policies with respect to capital adequacy and assuming the full utilization of such entity's capital) by any amount deemed by such Lender to be material, then such Lender shall notify the Borrower and the Agent thereof. The Borrower agrees to pay to such Lender the amount of such reduction of return on capital as and when such reduction is determined, payable within 30 days after presentation by such Lender of a statement in the amount and setting forth in reasonable detail such Lender's calculation thereof and the assumptions upon which such calculation was based (which statement shall be deemed true and correct absent manifest error) unless within such 30 day period the Borrower shall have prepaid in full all Obligations to such Lender, in which event no amount shall be payable to such Lender under this Section. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

SECTION III.

CONDITIONS OF LOANS

3.1 Conditions Precedent to Initial Loans. The obligation of the Lenders to make the initial Loans is subject to the satisfaction of the following conditions precedent on or prior to the Closing Date:

(a) The Agent shall have received the following agreements, documents, certificates and opinions in form and substance reasonably satisfactory to the Agent and the Initial Lenders and duly executed and delivered by the parties to this Agreement:

(i) this Agreement;

(ii) the Notes, substantially in the form of Exhibits A-1, A-2, A-3, A-4, and A-5A to this Agreement;

(iii) the Security Documents, including the Security Agreement, and a guaranty of the Obligations under this Agreement from the Loan Parties;

(iv) UCC-1 and UCC 1-A and similar Financing Statements;

(v) UCC-3 and UCC 3-A and similar Termination Statements;

(vi) true and correct copies of all Material Agreements and amendments thereto;

(vii) landlord's consents and waivers from each lessor who leases any interest in real property to any Loan Party;

(viii) Certificates of insurance or insurance binders evidencing compliance with Section 5.3 of this Agreement and the applicable provisions of the Loan Documents;

(ix) a Notice or Notices of Borrowing or Conversion as of the Closing Date as to initial Loans;

(x) a certificate with respect to the solvency of each of the Loan Parties, a Borrowing Base Certificate for each applicable Loan Commitment, and a Compliance Certificate, each signed by the Borrower's Chief Financial Officer;

(xi) a certificate of the Secretary or an Assistant Secretary of each Loan Party with respect to resolutions of the Board of Directors as to a corporation or the Managers as to a limited liability company authorizing the execution and delivery of the Loan Documents and identifying the officer(s) authorized to execute, deliver and take all other actions required under this Agreement, and providing specimen signatures of such officers;

(xii) the Articles of Incorporation (or the equivalent document depending on the form of entity) of each Loan Party and all amendments and supplements thereto, as filed in the office of the Secretary of State of its jurisdiction of incorporation, certified by said Secretary of State as being a true and correct copy thereof;

(xiii) the Bylaws (or the equivalent document depending on the form of entity) of each Loan Party and all amendments and thereto, certified by the Secretary or an Assistant Secretary of each Loan Party as being a true and correct copy thereof;

(xiv) a certificate of the Secretary of State of each Loan Party's jurisdiction of incorporation or organization as to the legal existence and status of each Loan Party in such state;

(xv) a certificate of the Secretaries of State of each jurisdiction identified in Section 4.1 of this Agreement as to the due qualification and good standing of each Loan Party as a foreign corporation or entity in such states;

(xvi) consents to the security interests granted to the Lenders by Lithia Financial Corporation from each Affiliate which leases a Vehicle or other property from Lithia Financial Corporation;

(xvii) an opinion addressed to the Lenders from Foster, Pepper & Shefelman, counsel to the Borrower, in such form and substance acceptable to the Agent in its sole discretion;

(xviii) the acknowledgments required by Section 5.20 hereof and the waivers and consents required by Section 5.21 hereof; and

(xix) such other documents, instruments, opinions and certificates and completion of such other matters, as the Agent or any Initial Lender may reasonably deem necessary or appropriate.

(b) No litigation, arbitration, proceeding or investigation shall be pending or threatened which questions the validity or legality of the transactions contemplated by any Loan Document or seeks a restraining order, injunction or damages in connection therewith, or which, in the judgment of the Agent or the Initial Lenders, might adversely affect the transactions contemplated by this Agreement or might have a materially adverse effect on the assets, business, financial condition or prospects of any Loan Party.

(c) All necessary filings and recordings against the Collateral shall have been completed and the Agent's liens on the Collateral shall have been perfected, as contemplated by the Security Documents, which liens shall constitute a first-priority security interest (except as contemplated by Section 9.3 of this Agreement), and no other Encumbrance, except Permitted Encumbrances, shall exist against the Collateral.

(d) The Agent and the Initial Lenders shall have received the Borrower's pro forma consolidated balance sheet as of the Closing Date and its projections of future consolidated results of operations, all in form and substance satisfactory to the Agent and the Initial Lenders.

(e) The Agent and the Initial Lenders shall be satisfied with the Borrower's and the Parent's capital structure.

(f) The Borrower shall have delivered the Initial Financial Statement to the Initial Lenders.

(g) Any obligation of any Loan Party to U.S. Bank outstanding prior to the date of this Agreement (except for such amounts loaned from U.S. Bank directly to Lithia Financial Corporation or under letters of credit issued by U.S. Bank for the benefit of a Loan Party) and any other Indebtedness not permitted by this Agreement shall have been repaid in full.

(h) The Borrower shall have paid to the Agent all Fees to be paid under this Agreement (including without limitation pursuant to Section 2.6(d) of this Agreement) or agreed to between the Borrower and the Agent on or prior to the Closing Date.

(i) The representations and warranties of Section IV are true and correct.

3.2 Conditions Precedent to All Loans. The obligation of the Lenders to make any Loan, including the initial Loans, or continue or convert a Loan is further subject to the following conditions:

(a) timely receipt by the Agent of the Notice of Borrowing;

(b) the outstanding Loans do not and, after giving effect to any requested Loan, will not exceed the limitations set forth in Sections 2.1;

(c) the representations and warranties contained in Section IV shall be true and accurate in all material respects on and as of the date of such Notice of Borrowing and on the effective date of the making, continuation or conversion of each Loan as though made at and as of each such date (except to the extent that such representations and warranties expressly relate to an earlier date);

(d) no Default or Event of Default shall have occurred and be continuing at the time of and immediately after the making of such requested Loan;

(e) the resolutions referred to in Section 3.1 shall remain in full force and effect;

(f) each of the Loan Parties shall have complied in full with all covenants and conditions and the Lenders shall have received all of the documents, including without limitation the Security Documents, the Real Property Security Documents, the Acquisition Approval Documents and any other documents reasonably required by the Lenders in connection with the making of the Loan;

(g) with respect to the Acquisition Term Loan, the Borrower shall have executed and delivered to the Agent the Acquisition Term Notes for each Lender; and

(h) for a particular Lender, no change shall have occurred in any law or regulation or interpretation thereof that, in the opinion of counsel for that Lender, would make it illegal or against the policy of any governmental agency or authority for such Lender to make Loans under this Agreement (as the case may be).

The making or continuation or conversion of each Loan shall be deemed to be a representation and warranty by the Borrower on the date of the making or continuation of such Loan as to the accuracy of the facts referred to in subsection (c) of this Section 3.2 and of the satisfaction of all of the conditions set forth in this Section 3.2.

SECTION IV.

REPRESENTATIONS AND WARRANTIES

In order to induce the Agent and the Lenders to enter into this Agreement and to make Loans under this Agreement, the Loan Parties, jointly and severally, represent and warrant to the Agent and the Lenders that except as set forth on Exhibit C attached to this Agreement (Exhibit C shall be arranged in sections corresponding to the lettered and numbered sections contained in this Section IV):

4.1 Organization; Qualification; Business.

(a) The Borrower (i) is a corporation duly organized and validly existing under the laws of the state of Oregon, (ii) has all requisite corporate power to own its property and conduct its business as now conducted and as presently contemplated and (iii) is duly qualified and in good standing as a foreign corporation and is duly authorized to do business in each jurisdiction (all of which are listed on Exhibit C attached to this Agreement) where the nature of its properties or business requires such qualification, except where the failure to be so qualified would not have a material adverse effect on the business, financial condition, assets or properties of the Borrower or of the Borrower and its Subsidiaries taken as a whole.

(b) Each of the Parent and the other Loan Parties (i) is duly organized and validly existing under the laws of its jurisdiction of organization, (ii) has all requisite power to own its property and conduct its business as now conducted and as presently contemplated and (iii) is duly qualified and in good standing as a foreign corporation or entity and is duly authorized to do business in each jurisdiction (all of which are listed on Exhibit C attached to this Agreement) where the nature of its properties or business requires such qualification, except where the failure to be so qualified would not have a material adverse effect on the business, financial condition, assets or properties of the Borrower or of the Borrower and its Subsidiaries taken as a whole.

(c) Since the date of the Initial Financial Statement, each of the Loan Parties has continued to engage in substantially the same business as that in which it was then engaged and is engaged in no unrelated business. The Loan Parties' sole line of business is new and used automotive retailing and parts, service, and financing related thereto.

4.2 Authority.

(a) The execution, delivery and performance of the Loan Documents and the transactions contemplated by the Loan Documents are within the corporate power and authority of the Borrower, have been authorized by all necessary corporate action, and do not and will not (i) contravene any provision of the Articles of Incorporation or bylaws of the Borrower or any law, rule or regulation applicable to the Borrower, (ii) contravene any material provision of, or constitute an event of default or event that, but for the requirement that time elapse or notice be given, or both, would constitute an event of default under, any other material agreement, instrument, order or undertaking binding on the Borrower, or (iii) result in or require the imposition of any Encumbrance on any of the properties, assets or rights of the Borrower, except in favor of the Agent and the Lenders.

(b) The execution, delivery and performance of the Loan Documents and the transactions contemplated by the Loan Documents are within the power and authority of each Loan Party other than Borrower, have been authorized by all necessary action, and do not and will not (i) contravene any provision of the Articles of Incorporation or bylaws (or Articles of Organization or Operating Agreement if the Loan Party is a limited liability company) of the Loan Party or the Parent, or any law, rule or regulation applicable to the Loan Party or the Parent, (ii) contravene any material provision of, or constitute an event of default or event that, but for the requirement that time elapse or notice be given, or both, would constitute an event of default under, any other material agreement, instrument, order or undertaking binding on the Loan Party or the Parent, or (iii) result in or require the imposition of any Encumbrance on any of the properties, assets or rights of the Loan Party or the Parent, except in favor of the Agent and the Lenders.

4.3 Valid Obligations. The Loan Documents have been duly and validly executed and delivered and all of their respective terms and provisions are the legal, valid and binding obligations of the Borrower or the Loan Party, as the case may be, enforceable in accordance with their respective terms except as limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally, and except as the remedy of specific performance or of injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought. The Security Documents have effectively created in favor of the Agent and the Lenders legal, valid and binding security interests in the Collateral enforceable in accordance with their terms, and such security interests are fully perfected first priority security interests (except with respect to the fixed assets owned by Lithia Financial Corporation and Vehicles owned by Lithia Financial Corporation leased to others, which security interest shall be a perfected second priority security interest), subject only to Permitted Encumbrances.

4.4 Consents or Approvals. The execution, delivery and performance of the Loan Documents and the transactions contemplated by this Agreement do not require any approval or consent of, or filing or registration with, any governmental or other agency or authority, or any other Person, except under or as contemplated by the Security Documents, all of which have been obtained.

4.5 Title to Properties; Absence of Encumbrances. Each of the Loan Parties has good and marketable title to all of the properties, assets and rights of every type and nature now purported to be owned by it, including, without limitation, such properties, assets and rights as are reflected in the Initial Financial Statement (except such properties, assets or rights as have been disposed of in the ordinary course of business since the date thereof), free from all Encumbrances except Permitted Encumbrances, and, except as so disclosed, free from all defects of title that might materially adversely affect the properties, assets or rights of the Loan Parties, taken as a whole. All material property owned or leased by the Borrower, the Parent, or any other Loan Party is described in Exhibit C to this Agreement. Exhibit C also contains a true and complete list of each Loan Party's deposit or similar accounts.

4.6 Location of Real Property and Leased Premises. Section 4.6(a) of Exhibit C lists completely and correctly all material real property owned by any Loan Party and the addresses thereof. The Loan Parties own in fee all the real property set forth on Section 4.6(a) of Exhibit C. Section 4.6(b) of Exhibit C lists completely and correctly all real property leased by any Loan Party and the owners and addresses thereof. The Loan Parties have valid leases in all the real property listed on Section 4.6(b) of Exhibit C.

4.7 Financial Statements. The Borrower has furnished to the Lenders its consolidated balance sheet as of December 31, 1996 and its consolidated statements of income, changes in stockholders' equity and cash flow for the fiscal year then ended, and related footnotes audited and certified by the Borrower's Accountants, and its consolidated balance sheet as of September 30, 1997 and its consolidated statements of income, changes in stockholders' equity and cash flow for the current fiscal year through such date, and related footnotes (the "Initial Financial Statement"). All such financial statements were prepared in accordance with GAAP applied on a consistent basis throughout the periods specified and present fairly the financial position of the Borrower and its Subsidiaries as of such dates and the results of the operations of the Borrower and its Subsidiaries for such periods. The Borrower has also furnished to the Lenders its pro forma balance sheet, of September 30, 1997, and as of the Closing Date and projections of its future results of operations, all of which were reasonable when made and continue to be reasonable at the date of this Agreement. At the date of this Agreement, no Loan Party has any Indebtedness or other material liabilities, debts or obligations, whether accrued, absolute, contingent or otherwise, and whether due or to become due, including, but not limited to, liabilities or obligations on account of taxes or other governmental charges, that are not set forth on Exhibit C to this Agreement, and the security interests and the Obligations secured by such security interests shall rank senior to the Indebtedness. None of the Loan Parties finance any of its Vehicle inventory with any other source or acquire inventory from any entity on credit except as set forth on Exhibit C to this Agreement.

4.8 Changes. Since the date of the Initial Financial Statement, there have been no changes in the assets, liabilities, financial condition, business or prospects of any Loan Party other than changes in the ordinary course of business, the effect of which has not, in the aggregate, been materially adverse to the Borrower and its Subsidiaries taken as a whole.

4.9 Insurance. Exhibit C sets forth a true, complete and correct description of all material insurance maintained by the Borrower or any Loan Party as of the Closing Date. As of such date, such insurance is in full force and effect and all premiums have been duly paid. The Borrower and the Loan Parties have insurance in such amounts and covering such risks and liabilities as are in accordance with the requirements of the Agent.

4.10 Solvency. After giving effect to the Loans and after giving effect to the application of the proceeds of such Loans, (a) the fair value of the assets of each Loan Party, at a fair valuation, will exceed its debts and liabilities, subordinated, unliquidated, unmatured, contingent (except for that portion of the Guaranty in excess of the proceeds of Loans received by such Loan Party) or otherwise; (b) the present fair saleable value of the property of each Loan Party will be greater than the amount that will be required to pay the probable liability of its debts and other liabilities, subordinated, unliquidated, unmatured, contingent (except for that portion of the Guaranty in excess of the proceeds of Loans received by such Loan Party) or otherwise, as such debts and other liabilities become absolute and mature;
(c) each Loan Party will be able to pay (and does not intend to incur debts beyond its ability to pay) its debts and liabilities, subordinated, unliquidated, unmatured, contingent (except for that portion of the Guaranty in excess of the proceeds of Loans received by such Loan Party) or otherwise, as such debts and liabilities become absolute and mature; and (d) each Loan Party will not have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and is proposed to be conducted following the Closing Date.

4.11 Defaults. As of the date of this Agreement, no Default exists.

4.12 Taxes. The Loan Parties have filed all federal, state and other material tax returns required to be filed, and all taxes, assessments and other governmental charges due from the Loan Parties have been fully paid, except for such taxes, assessments or charges that are being contested in good faith by appropriate proceedings and with respect to which (a) adequate reserves have been established and are being maintained in accordance with GAAP and (b) no lien has been filed to secure such taxes, assessments or charges. All such contests at the date of this Agreement are described on Exhibit C to this Agreement. No Loan Party has executed any waiver that would have the effect of extending the applicable statute of limitations with respect to tax liabilities. The federal and state income tax returns of the Loan Parties have not been audited or otherwise examined by any federal or state taxing authority. The Loan Parties have established on their books reserves adequate for the payment of all federal, state and other tax liabilities.

4.13 Litigation. There is no litigation, arbitration, proceeding or investigation pending, or, to the knowledge of the any of the Loan Parties' officers, threatened against any Loan Party that, if adversely determined, may reasonably be expected to result in a material judgment not fully covered by insurance, may reasonably be expected to result in a forfeiture of all or any substantial part of the property of any Loan Party, or may reasonably be expected to have a material adverse effect on the assets, business or prospects of the Borrower and its Subsidiaries taken as a whole.

4.14 Subsidiaries. Exhibit C sets forth the name, address, jurisdiction of incorporation or organization and stockholders or equity or ownership interest holders of each Loan Party, other than public shareholders of the Borrower who are not Affiliates, and the shares of capital stock or other equity interests owned by each Loan Party. The Borrower or Subsidiaries of the Borrower are the owners, free and clear of all Encumbrances, of all of the issued and outstanding stock or equity or other ownership interests of each Subsidiary. All shares of such stock or equity or other ownership interests have been validly issued and are fully paid and nonassessable, and no rights to subscribe to any additional shares or equity or other ownership interests have been granted, and no options, warrants or similar rights are outstanding.

4.15 Investment Company Act. None of the Loan Parties are subject to, or controlled by an entity that is subject to, regulation under the Investment Company Act of 1940, as amended.

4.16 Compliance. Each Loan Party has all necessary permits, approvals, authorizations, consents, licenses, franchises, distributorships, registrations and other rights and privileges (including patents, trademarks, trade names and copyrights) necessary to the conduct of its business and to allow it to own and operate its business without any violation of law or the rights of others, except to the extent that any such violation would not have a material adverse effect on the business, financial condition or results of operations of the Borrower and its Subsidiaries taken as a whole; and each Loan Party is duly authorized, qualified and licensed under and in compliance with all applicable laws, regulations, authorizations and orders of public authorities (including, without limitation, Environmental Laws as provided in Section 4.18), except to the extent that any such failure to be so authorized, qualified, licensed or in compliance would not have a material adverse effect on the business, financial condition or results of operations of the Borrower and its Subsidiaries taken as a whole. The Loan Parties have performed all obligations required to be performed by them under, and are not (or would not be with the passage of time or the giving of notice) in default under or in violation of, their Articles of Incorporation or Bylaws (or Articles of Organization or Operating Agreement if the Loan Party is a limited liability company), or any contract, agreement, lease, mortgage, note, bond, indenture, license, permit or other instrument or undertaking to which any of them is a party or by which any of them or any of their properties are bound, except for violations none of which, either individually or in the aggregate, would have any material adverse effect on the business, condition (financial or otherwise) or assets of the Borrower and its Subsidiaries taken as a whole.

4.17 ERISA. The Borrower and each of its Affiliates are in compliance in all material respects with ERISA and the provisions of the Code applicable to the Plans; neither the Borrower nor any of its Affiliates have engaged in a Prohibited Transaction which would subject the Borrower, any of its Affiliates or any Plan to a material tax or penalty imposed on a Prohibited Transaction; no Plan has incurred any "accumulated funding deficiency" (as defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived; except as set forth in the Initial Financial Statement, the aggregate fair market value of all assets of the Plans which are single-employer plans is at least equal to the aggregate present value of all accrued benefits under such Plans, both as determined in the most recent actuarial reports for such Plans using the actuarial assumptions used for funding purposes therein; neither the Borrower nor any of its Affiliates have incurred any liability to the Pension Benefit Guaranty Corporation over and above premiums required by law; and neither the Borrower nor any of its Affiliates have terminated any Plan in a manner which could result in the imposition of a lien on the property of the Borrower or any of its Affiliates. None of the Borrower or its Affiliates have contributed, or been obligated to contribute, to any Multiemployer Pension Plan on or after September 26, 1980.

4.18 Environmental Matters.

(a) The Loan Parties have obtained all permits, licenses and other authorizations which are required under all Environmental Laws, except to the extent failure to have any such permit, license or authorization would not have a material adverse effect on the business, financial condition or results of operations of the Borrower and any of its Subsidiaries, taken as a whole. The Loan Parties are in compliance with the terms and conditions of all such permits, licenses and authorizations, and are also in compliance

with all applicable orders, decrees, judgments and injunctions, issued, entered, promulgated or approved under any Environmental Law, except to the extent failure to comply would not have a material adverse effect on the business, financial condition or results of operations of the Borrower and its Subsidiaries, taken as a whole.

(b) No written notice, notification, demand, request for information, citation, summons or order has been issued, no complaint has been filed, no penalty has been assessed and no investigation or review is pending or threatened by any governmental or other entity (i) with respect to any alleged failure by any Loan Party to comply with any Environmental Laws or to have any permit, license or authorization required by any Environmental Law in connection with the conduct of its business or (ii) regarding the presence of any Hazardous Material at, on or under any property now or previously owned, leased or used by any Loan Party or any other location to which Hazardous Materials from such property had been transported or at which they have been disposed of.

(c) No material oral or written notification of a release of a Hazardous Material has been filed by or on behalf of any Loan Party and no property now or previously owned, leased or used by any Loan Party is listed or proposed for listing on the National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or on any similar state list of sites requiring investigation or clean-up.

(d) There are no liens or Encumbrances arising under or pursuant to any Environmental Law on any of the real property or properties owned, leased or used by any Loan Party and no governmental actions have been taken or are in process which could subject any of such properties to such liens or Encumbrances.

(e) No Loan Party nor any previous owner, tenant, occupant or user of any property owned, leased or used by any Loan Party have (i) engaged in or permitted any operations or activities upon or any use or occupancy of such property, or any portion thereof, for the handling, manufacture, treatment, storage, use, generation, release, discharge, refining, dumping or disposal of any Hazardous Materials on, under, in or about such property, except to the extent commonly used in day-to-day operations of such property and in such case only in compliance in all material respects with all Environmental Laws, or (ii) transported any Hazardous Materials to, from or across such property except to the extent commonly used in day-to-day operations of such property and, in such case, in compliance in all material respects with all Environmental Laws; nor to the knowledge of the officers of Borrower and other Loan Parties have any Hazardous Materials migrated from other properties upon, about or beneath such property, nor are any Hazardous Materials presently constructed, deposited, stored or otherwise located on, under, in or about such property except to the extent commonly used in day-to-day operations of such property and, in such case, in compliance in all material respects with all Environmental Laws.

4.19 Restrictions on the Borrower. None of the Loan Parties is a party to or bound by any contract, agreement or instrument, nor subject to any charter or other corporate restriction which will, under current or foreseeable conditions, materially and adversely affect the business, property, assets, operations or conditions, financial or otherwise, of the Borrower or any of its Subsidiaries.

4.20 Labor Relations. There is (i) no unfair labor practice complaint pending or threatened against any Loan Party before the National Labor Relations Board, and no grievance or arbitration proceeding arising out of or under any collective bargaining agreement is so pending or threatened against any Loan Party except for such complaints, grievances and arbitration proceedings which, if adversely decided, would not have a material and adverse effect on the condition (financial or otherwise), properties, business or results of operations of the Borrower and its Subsidiaries, taken as a whole, (ii) no strike, labor dispute, slowdown or stoppage pending or threatened against any Loan Party, except for any such labor action as would not have a material and adverse effect on the condition (financial or otherwise), properties, business or results of operations of the Borrower and its Subsidiaries, taken as a whole and (iii) no union representation question existing with respect to the employees of any Loan Party and no union organizing activities are taking place, except for any such question or activities as would not have a material and adverse effect on the condition (financial or otherwise), properties, business or results of operations the Borrower and its Subsidiaries, taken as a whole.

4.21 Margin Rules. None of the Loan Parties own or have any present intention of purchasing or carrying, and no portion of any Loan shall be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, (a) for purchasing or carrying, any "margin security" or "margin stock" as such terms are used in Regulations G, T, U or X of the Board of Governor's of the Federal Reserve System, or (b) otherwise for any purpose that entails any violation of, or that is inconsistent with, the provisions of the regulations of the Board of Governor's of the Federal Reserve System, including Regulations G, T, U or X.

4.22 SEC Documents. The Borrower has furnished to the Agent true and complete copies of (a) its Registration Statement on Form S-1, as declared effective by the U.S. Securities and Exchange Commission (the "SEC") on December 18, 1996, and (b) all reports and registration statements filed with the SEC under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), since such date, all in the form (including exhibits) so filed (collectively, the "SEC Documents"). As of their respective filing dates, the SEC Documents complied in all material respects with the requirements of the Exchange Act, and none of the SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading, except to the extent corrected by a subsequently filed SEC Document. As of the date of this Agreement, no additional filings or amendments to previously filed SEC Documents are required pursuant to such rules and regulations.

4.23 Material Agreements. Exhibit C lists all material agreements to which any Loan Party is a party, including without limitation those agreements (any of which will be considered material) relating to the lease of real property, the right to use a third party's intellectual property, the purchase of inventory, the ability or license to sell or distribute inventory (including without limitation franchise agreements, distributorship agreements, or similar agreements), the financing of inventory, or the re-purchase of inventory (each a "Material Agreement"). The Borrower has furnished to the Agent true and complete copies of these agreements. With respect to each such agreement: (a) the agreement is legal, valid, binding, enforceable, and in full force and effect in all material respects; (b) no party is in material breach or default, and no event has occurred which with notice or lapse of time would constitute a material breach or default, or permit termination, modification, or acceleration, under the agreement; (c) no party has repudiated any material provision of the agreement; and (d) no Loan Party has assigned or granted any Person a right or an interest in the agreement.

4.24 Disclosure. No representation or warranty made by any of the Loan Parties in any Loan Document and no document or information furnished to the Lenders by or on behalf of or at the request of any of the Loan Parties in connection with any of the transactions contemplated by the Loan Documents contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements contained therein not misleading in light of the circumstances in which they are made. There is no fact known to any Loan Party that is reasonably likely to have a material adverse effect on the assets, business or prospects of any Loan Party, which has not been disclosed to Lenders in writing prior to the date of this Agreement.

SECTION V.

AFFIRMATIVE COVENANTS

Each Loan Party covenants that so long as any Loan or other Obligation remains outstanding, any debit or draft authorization (or similar instrument or arrangement) remains in effect, or the Lenders have any obligation to lend under this Agreement:

5.1 Financial Statements. The Loan Parties shall furnish to the Lenders at their sole cost and expense:

(a) as soon as available to the Loan Parties, but in any event within 95 days after the end of each fiscal year, the Parent's and the Borrower's consolidated balance sheet as of the end of, and related consolidated statements of income, retained earnings and cash flow for, such year, prepared in accordance with GAAP and audited and certified by the Borrower's Accountants; and, concurrently with such financial statements, a copy of the Borrower's Accountants management report and a written statement by the Borrower's Accountants that, in the making of the audit necessary for their report and opinion upon such financial statements they have obtained no knowledge of any breach of a Financial Covenant under Section VI hereof or, if in the opinion of such accountants any such breach exists, they shall disclose in such written statement the nature and status thereof;

(b) as soon as available to the Loan Parties, but in any event within 50 days after the end of each fiscal quarter, a consolidated balance sheet as of the end of, and related consolidated statements of income, retained earnings and cash flow for, the fiscal quarter then ended and the portion of the year then ended, in each case setting forth in comparative form the projections provided for such period pursuant to Section 5.1(d), prepared in accordance with GAAP and certified by the chief financial officer of the Borrower, subject to normal, recurring year-end adjustments that shall not in the aggregate be material in amount;

(c) promptly after the receipt thereof by any Loan Party, copies of any management report submitted to the Loan Party by independent public accountants in connection with any annual or interim review of the accounts of the Loan Party made by such accountants;

(d) on the Closing Date and 60 days before the beginning of each fiscal year, projections and budget, certified by the Borrower's chief financial officer, prepared on a quarterly basis for the following fiscal year, including consolidated balance sheets and statements of income, retained earnings and cash flows;

(e) within five Business Days after the same are delivered to its stockholders or the Securities and Exchange Commission, copies of all proxy statements, financial statements and reports or other documents as the Borrower shall send to its stockholders or as the Borrower may file with the Securities and Exchange Commission or any similar document filed with any state or District of Columbia securities regulatory authority at any time having jurisdiction over the Borrower or its Subsidiaries;

(f) on the first Business Day of each week, a report, substantially in the form of Exhibit D to this Agreement signed on behalf of the Loan Parties by the Borrower's chief financial officer, involving among other things the amounts contained in each of the Loan Parties' deposit or similar accounts as of the end of the prior week;

(g) as soon as available, but in any event within 50 days after the end of each fiscal quarter, the Borrower shall deliver to the Agent and each Lender a Compliance Certificate, substantially in the form attached as Exhibit E, signed by its chief financial officer;

(h) as soon as available to the Loan Parties, but in any event within 20 days after the end of each calendar month and with each Notice of Borrowing or Conversion with respect to an Other Purpose Loan, a Program and Used Vehicle Loan or an Acquisition Revolving Loan, the Borrower shall deliver to the Agent and each Lender a Borrowing Base Certificate, substantially in the form attached as Exhibit F, signed by its chief financial officer;

(i) projections and budget, dated no earlier than July 1, 1998 and no later than July 31, 1998, and certified by the Borrower's chief financial officer, prepared on a quarterly basis for each of the following five years, including consolidated balance sheets and statements of income, retained earnings and cash flows;

(j) as soon as available, but in any event within 15 days after the end of each month, a "factory" franchise statement for each Subsidiary; and

(k) from time to time, such other financial data and information about any of the Loan Parties as the Agent or the Lenders may reasonably request.

5.2 Conduct of Business. The Loan Parties shall:

(a) duly observe and comply in all material respects with all applicable laws, regulations, decrees, orders, judgments and valid requirements of any governmental authorities relative to their corporate existence, rights and franchises, to the conduct of their business and to their property and assets (including without limitation all Environmental Laws and ERISA), and shall maintain and keep in full force and effect and comply with all licenses and permits necessary in any material respect to the proper conduct of their business;

(b) maintain their corporate or other organizational, as the case may be, existence and remain in the same business as that in which they are now engaged, and in no unrelated business, as described in Section 4.1(c);

(c) maintain all of its deposit and similar accounts at a branch of U.S. Bank, provided that U.S. Bank has a branch within a reasonable geographic area of the Loan Party's place of business; and

(d) maintain each of the deposit or similar accounts listed on Schedule 4.5 to Exhibit C of this Agreement and provide the Agent with written notice before opening any new deposit or similar account.

5.3 Maintenance and Insurance.

(a) The Loan Parties shall maintain their properties (including all Collateral) in good repair, working order and condition as required for the normal conduct of their business. The Loan Parties shall maintain all assets, licenses, patents, copyrights, trademarks, service marks, trade names, permits and other governmental approvals necessary to conduct its business.

(b) The Loan Parties shall at all times maintain liability and casualty insurance on their properties with financially sound and reputable insurers in such amounts and with such coverages, endorsements, deductibles and expiration dates as the Agent reasonably deems appropriate, including, without limitation, casualty and liability insurance, as are customary in the industry for companies of established reputation engaged in the same or similar business and owning or operating similar properties. The Agent shall be named as loss payee and additional insured as under such insurance as the Agent shall require from time to time, and the Borrower shall provide to the Agent lender's loss payable endorsements in form and substance reasonably satisfactory to the Agent. The Agent shall be given thirty (30) days advance notice of any cancellation of insurance. In the event of failure to provide and maintain insurance as provided in this Agreement, the Agent may, at its option, provide such insurance and charge the amount thereof to the Borrower as any Type of Loan under any Commitment that Agent chooses in its sole discretion. On an annual basis, the Loan Parties shall furnish to the Agent certificates, duplicate copies of the policies, or other evidence satisfactory to the Agent of compliance with the foregoing insurance provisions. The Agent shall not, by the fact of approving, disapproving or accepting any such insurance, incur any liability for the form or legal sufficiency of insurance contracts, solvency of insurance companies or payment of law suits, and the Loan Parties by this Agreement expressly assume full responsibility therefor and liability, if any, thereunder.

WARNING

Unless each Loan Party provides the Agent with evidence of the insurance coverage as required by the Credit Agreement or any Loan Document, the Agent may purchase insurance at the Loan Party's expense to protect the Lenders' interest. This insurance may, but need not, also protect the Loan Party's interest. If the Collateral becomes damaged, the coverage the Agent purchases may not pay any claim any Loan Party makes or any claim made against any Loan Party. Each Loan Party may later cancel this coverage by providing evidence that the Loan Party has obtained property coverage elsewhere.

Each Loan Party is responsible for the cost of any insurance purchased by the Agent. The cost of this insurance may be added to the Total Loan Outstandings. If the cost is added to the Total Loan Outstandings, the highest interest rate on the underlying Loan will apply to this added amount. The effective date of coverage may be the date any Loan Party's prior coverage lapsed or the date the Loan Party failed to provide proof of coverage.

The coverage the Agent purchases may be considerably more expensive than insurance any Loan Party can obtain on its own and may not satisfy any need for property damage coverage or any mandatory liability insurance requirements imposed by applicable law.

5.4 Taxes. The Loan Parties shall pay or cause to be paid all taxes, assessments or governmental charges on or against any of them or their properties on or prior to the time when they become delinquent, except for any tax, assessment or charge that is being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been established and are being maintained in accordance with GAAP if no Encumbrance (other than a Permitted Encumbrance) shall have been filed to secure such tax, assessment or charge.

5.5 Inspections. The Loan Parties shall permit the Agent, any Lender and their designees, at any time with or without notice, (a) to visit and inspect the properties of the Loan Parties for the purpose, among other things, to inspect and verify the Collateral under procedures established by the Agent, (b) examine and make copies of and take abstracts from the books and records (maintained in any format) of the Loan Parties, and (c) during regular business hours, to discuss the affairs, finances and accounts of the

Loan Parties with their appropriate officers, employees and accountants, all at the expense of the Loan Parties. Without limiting the generality of the foregoing, the Loan Parties will permit periodic reviews (as determined by the Agent) of their books and records (maintained in any format) of the Loan Parties to be carried out by the Agent's commercial finance examiners, and Agent will conduct, and each Loan Party will permit, audits of Collateral at least four times during each calendar year, which audits will be conducted by the Agent's collateral examiners. The inspections and examinations under this Section 5.5 shall be at the expense of the Loan Parties; provided, however, that, unless a Default or Event of Default has occurred and is continuing, the Agent shall pay for the first two inspections described in subclause 5.5(a) in any calendar year.

5.6 Maintenance of Books and Records. The Loan Parties at their sole cost and expense shall keep adequate books and records of account, in which true and complete entries will be made reflecting all of their business and financial transactions, in accordance with GAAP and applicable law. The Loan Parties shall at all times keep correct and accurate records itemizing and describing the kind, type, location, quality and quantity of inventory, the Loan Parties' cost for the inventory, in accordance with procedures established by the Agent, all of which records shall be updated at least weekly (or more frequently if reasonably requested by the Agent or, after Default, by any Lender) and shall be available during the Loan Parties' usual business hours at the request of any of the Agent's officers, employees or agents. The Loan Parties shall at their sole cost and expense conduct a physical count of the vehicle inventory at least once each month (or more often if deemed prudent by the Agent in its sole discretion), and promptly following such physical vehicle inventory count shall supply the Agent with the information required by Section 5.19(d) of this Agreement. The Borrower shall also conduct a physical vehicle inventory count whenever reasonably requested to do so by the Agent or by the Required Lenders.

5.7 Use of Proceeds.

(a) The Borrower will use the proceeds of Loans solely for the purpose described in this Agreement with respect to each type of Loan, and such proceeds shall not be used to acquire inventory for or to benefit any Person who is not a Loan Party.

(b) No portion of any Loan shall be used for the "purpose of purchasing or carrying" any "margin stock" or "margin security" as such terms are used in Regulations G, T, U and X of the Board of Governors of the Federal Reserve System, or otherwise in violation of such regulations.

5.8 Further Assurances. At any time and from time to time each Loan Party shall execute and deliver such further documents and instruments and take such further action as may reasonably be requested by the Agent to effect the purposes of the Loan Documents and in order to grant, preserve, protect and perfect the validity and priority of the security interest created or intended to be created by the Security Documents. The Borrower will cause any subsequently acquired, created, or organized Subsidiary to execute and deliver a Joinder Agreement, substantially in the form attached as Exhibit G to this Agreement, and execute all other Loan Documents, including but not limited to Uniform Commercial Code financing statements and other Security Documents, required by the Agent. The Loan Parties will also deliver or cause to be delivered to the Agent all information regarding the condition (financial or otherwise), business, properties and results of operations of such Subsidiary as the Agents or any Lender reasonably deems appropriate. From time to time, the Loan Parties will, at their cost and expense, promptly secure the Obligations by pledging or creating, or causing to be pledged or created, a perfected security interest with respect to each of their respective assets and properties as the Agent or the Required Lenders shall designate. Such security interest will be created under the Security Documents and other security agreements, Title Documents, Uniform Commercial Code financing statements, mortgages, deeds of trust and other instruments and documents in form and substance satisfactory to the Agent, and the Loan Parties shall deliver or cause to be delivered to the Lenders all such instruments and documents as the Agent shall reasonably request as evidence of compliance with this Section 5.8. The Loan Parties agree to provide such evidence as the Agent shall reasonably request as to the perfection and priority status of each such security interest. Without limiting the generality of the foregoing (a) on the reasonable request of the Agent or the Required Lenders, the Loan Parties shall execute, or cause the appropriate Subsidiary of the Borrower to execute, a mortgage in form reasonably satisfactory to the Agent and deliver other instruments and documents reasonably requested by the Agent or the Required Lenders in connection with creating a security interest in favor of the Agent for the benefit of the Lenders with respect to any real property interest acquired

using any portion of any Loan, and (b) the Loan Parties shall insure that the applicable security interest created under this Agreement and the Loan Documents with respect to any property acquired using the proceeds of any Loan shall be a binding, first-priority perfected security interest.

5.9 Notification Requirements. The Loan Parties shall furnish to the Agent and the Lenders:

(a) immediately upon becoming aware of the existence of any condition or event that constitutes a Default, written notice of the Default specifying the nature and duration of the Default and the action being or proposed to be taken with respect to the Default;
(b) promptly upon becoming aware of any litigation or of any investigative proceedings by a governmental agency or authority commenced or threatened against any Loan Party of which it has notice, in which the amount of damages claimed (excluding punitive damages) exceeds $500,000 or the outcome of which would or could reasonably be expected to have a materially adverse effect on the assets, business or prospects of any Loan Party or the Borrower and its Subsidiaries on a consolidated basis, written notice of the litigation or proceeding and the action being or proposed to be taken with respect to the litigation or proceeding; and

(c) promptly after any occurrence or after becoming aware of any condition affecting any Loan Party which constitutes or could reasonably be expected to constitute a material adverse change in or which has or could reasonable be expected to have a material adverse effect on the business, properties or condition (financial or otherwise) of any Loan Party or the Borrower and its Subsidiaries, taken as a whole, written notice of the condition.

5.10 ERISA Reports. With respect to any Plan, the Loan Parties shall, or shall cause their Affiliates to, furnish to the Agent and the Lenders promptly (i) written notice of the occurrence of a "reportable event" (as defined in Section 4043 of ERISA), excluding any such event notice of which has been waived by regulation, (ii) a copy of any request for a waiver of the funding standards or an extension of the amortization periods required under
Section 412 of the Code and Section 302 of ERISA, (iii) a copy of any notice of intent to terminate any Pension Plan, (iv) notice that the Borrower or any Affiliate will or may incur any liability to or on account of a Plan under Sections 4062, 4063, 4064, 4201 or 4204 of ERISA, (v) a copy of the annual report of each Pension Plan (Form 5500 or comparable form) required to be filed with the IRS and/or the Department of Labor; (vi) notice of any complete or partial withdrawal from any Multiemployer Pension Plan, (vii) a copy of any notice with respect to a Multiemployer Pension Plan that such plan is terminated or is "insolvent" (as defined in Section 4245 of ERISA), or in "reorganization" (as defined in Section 4241 of ERISA, and a (viii) a copy of any assessment of withdrawal liability (or preliminary estimate thereof following a complete or partial withdrawal by a Borrower or Affiliate) with respect to a multiemployer Pension Plan. Any notice to be provided to the Agent and the Lenders under this Section shall include a certificate of the chief financial officer of the Borrower setting forth details as to such occurrence and the action, if any, which such Borrower or the Affiliate is required or proposes to take, together with any notices required or proposed to be filed with or by the Borrower, any Affiliate, the PBGC, the IRS, the trustee or the plan administrator with respect thereto. Promptly after the adoption of any Pension Plan, the Loan Parties shall notify the Agent and the Lenders of such adoption.

5.11 Environmental Compliance.

(a) The Loan Parties will comply in all material respects with all applicable Environmental Laws in all jurisdictions in which any of them operates now or in the future, and the Loan Parties will comply in all material respects with all such Environmental Laws that may in the future be applicable to any of their business, properties and assets.

(b) If any Loan Party shall (i) receive notice that any material violation of any Environmental Law may have been committed or is about to be committed by any Loan Party, (ii) receive notice that any administrative or judicial complaint or order has been filed or is about to be filed against any Loan Party alleging a material violation of any Environmental Law or requiring any Loan Party to take any action in connection with the release of Hazardous Materials into the environment,
(iii) receive any notice from a federal, state or local government agency or private party alleging that any Loan Party may be liable or responsible for any material amount of costs associated with a response to or cleanup of a release of Hazardous Materials into the environment or any damages caused thereby, or (iv) become aware of any investigative proceedings by a governmental agency or authority commenced or threatened against any Loan Party regarding any potential violation of Environmental Laws or any spill,

release, discharge or disposal of any Hazardous Material the Borrower shall, within 10 days thereof, notify the Agent and the Lenders thereof (together with a copy of any such notice) and of any action being or proposed to be taken with respect thereto.

(c) Within thirty (30) days after any Loan Party has learned of the enactment or promulgation of any Environmental Law which could reasonably be expected to result in any material adverse change in the condition, financial or otherwise, of any Loan Party, the Loan Party shall notify the Agent and the Lenders.

(d) No later than thirty (30) days following the end of each calendar quarter, the Loan Parties shall deliver to the Agent and the Lenders a written report, in a form and with such specificity as is reasonably satisfactory to the Agent and the Lenders, describing the Loan Parties' actions taken during such calendar quarter to assure their compliance with all applicable Environmental Laws (including the receipt of any notice that any administrative or judicial complaint or order has been filed or is about to be filed against any Loan Party, regardless of whether such notice is required to be delivered by any Loan Party pursuant to subsection (b) above) as well as the status of any pending environmental matters described in Exhibit C attached to this Agreement.

5.12 Material Agreements. The Loan Parties shall timely and diligently pursue the enforcement of each material covenant or obligation of each other party to each Material Agreement. The Borrower will promptly notify the Agent in writing of any material default under any such agreement or any revocation, termination, cancellation or expiration thereof, specifying the nature and period of existence thereof and what action the Loan Parties are taking or propose to take with respect thereto. Promptly upon becoming available, the Borrower shall deliver to the Agent copies of all notices and other documents received by any Loan Party that describe any event which would materially and adversely affect (i) the condition (financial or otherwise), operations, business, or properties of any Loan Party or the ability of any Loan Party to perform timely its obligations under any such Material Agreement or any Loan Document, or (ii) the ability of any other party to any such Material Agreement to perform timely its obligations under any such material agreement to which it is a party.

5.13 Management. Maintain in the positions of chief executive officer, president, chief financial officer, and other senior management or executive positions of the Borrower persons of demonstrated skill and experience in the duties of such position, and, in the event that any person holding such a position leaves the employ of or otherwise ceases to hold such a position with the Borrower, the Borrower shall promptly notify the Agent of such vacancy and shall, immediately upon employing a replacement, and in no event later than five (5) Business Days thereafter, so notify the Agent.

5.14 Loss or Depreciation of Collateral. The Loan Parties shall notify the Agent promptly of the occurrence at any time of the following event if, individually or in the aggregate, the amount involved in connection with such events exceeds $500,000: (i) loss or depreciation in value of inventory resulting from events, other than changes in the market price for such inventory, and the amount of the loss or depreciation; (ii) rejection or return of any inventory either from a customer to any Loan Party or from any Loan Party to the Seller from whom the Loan Party acquired the item of inventory; (iii) repossession, loss of or damage to any inventory; or
(iv) any other event materially and adversely affecting inventory or the value or amount thereof. In the event of any loss or depreciation in the value of any Vehicle which exceeds five percent of the value of the Vehicle reflected on the most recent Borrowing Base Certificate or other report delivered to the Agent, the Loan Parties shall immediately notify the Agent of such loss or depreciation in the amount of the Vehicle affected thereby.

5.15 Title Documents. All Title Documents shall remain in possession of the Borrower; provided, however, that the Borrower shall keep the Title Documents in a reasonable and accessible manner. The Borrower shall deliver any and all Title Documents to the Agent immediately on receipt of a written request from the Agent, whether or not there has been a Default or Event of Default. All Certificates of Title with respect to any Vehicle shall be marked "U.S. Bank National Association, as Agent," to indicate the Agent's security interest in the Vehicle.

5.16 Commodity Transactions. Neither any Borrower nor any of its Subsidiaries shall, at any time, engage in any speculative transactions with respect to commodities.

5.17 Acquisitions. Without the prior written consent of the Required Lenders, no Loan Party will, and will not permit any Subsidiary to, acquire by purchase, merger or consolidation (a) the power to direct or cause the direction of the management and policies of any other Person (the "Acquisition Target"), directly or indirectly, whether through the ownership of voting securities or by contract or otherwise or (b) more than 20% of the capital stock or other equity interest of any such other Person or all or substantially all of the assets or properties of any such other Person (the events described in clauses (a) and (b) of this Section 5.17 of this Agreement referred to as "Acquisitions"), except that the Borrower may make such Acquisitions if:

(i) the Acquisition Target, if such Acquisition Target becomes a Subsidiary, (A) executes and delivers a Joinder Agreement, substantially in the form attached as Exhibit G to this Agreement, (B) executes and delivers all other Loan Documents, including but not limited to Uniform Commercial Code financing statements and other Security Documents, required by the Agent, and (C) unless waived by the Agent in writing without the consent of the Required Lenders, obtains a landlord's waiver and consent from the Acquisition Target's lessor in such form and substance satisfactory to the Agent in its sole discretion;

(ii) prior to and immediately after making such Acquisition, no Default or Event of Default has occurred and is continuing or would exist; and

(iii) the Borrower delivers to the Agent the Acquisition Approval Documents at least three Business Days before the closing of the Acquisition.

5.18 Real Estate. If the Borrower uses any portion of any Loan to acquire any interest in real property, then the real property interest shall be owned and recorded in the name of the Borrower until the applicable portion of the Acquisition Revolving Loan is paid in full, together with all accrued and unpaid interest thereon and with all Fees with respect thereto. Any and all acquisitions of any interest in real property using any portion of any Acquisition Revolving Loan shall be secured by the real property acquired and shall conform fully to all of the Agent's real estate financing policies and procedures, including without limitation, those items listed on Exhibit H to this Agreement.

5.19 Personal Property Collateral.

(a) All present and future indebtedness and Obligations of the Loan Parties to the Lenders under this Agreement, the Notes, and the Loan Documents shall be secured by a perfected first priority security interest (except as set forth in Section 9.3 with respect to certain fixed assets, leased vehicles, leases and chattel paper owned by Lithia Financial Corporation, in which instance the security interest created pursuant to this Agreement shall be a perfected second priority security interest) all of each Loan Parties' right, title, and interest in and to the following personal property whether now owned or existing or subsequently acquired or arising or in which any Loan Party now has or subsequently acquires any rights (collectively, the "Collateral"):

All of each Loan Parties' (i) accounts (including without limitation account receivables and rebates, credits, refunds, and similar items), instruments, chattel paper, documents, contracts (including without limitation the Material Agreements), general intangibles, goods (including without limitation inventory, equipment and consumer goods), proceeds of letters of credit, and fixtures; (ii) all products, proceeds, rents and profits thereof; (iii) all of the books and records related to any of the foregoing.

(b) The security interest in the Collateral shall be evidenced by such security agreements, Uniform Commercial Code financing statements, Title Documents, Real Estate Security Documents, and other Security Documents covering the Collateral as the Agent may at any time reasonably require.

(c) Notwithstanding any contrary provision of any Security Document executed by any Loan Party, if it is asserted in any action or proceeding that any security interest granted to the Agent and the Lenders by any Loan Party is subject to avoidance as a fraudulent transfer or fraudulent conveyance or any similar term under any applicable state or federal law, the security interest of the Agent and the Lenders in the Collateral shall be

limited to the Collateral having a value equal to the maximum amount that can or could be transferred to the Agent and the Lenders without rendering such Loan Party's grant of a security interest subject to avoidance under such law and such action or proceeding.

(d) Within ten (10) days following the end of each month, the Borrower shall provide the Agent with a list of the Vehicles owned by or in the possession of each Loan Party, which list shall specify for each Vehicle:

(i) its make, model, model year, and mileage;

(ii) its vehicle identification number and license number (if applicable);

(iii) the amount advanced under this Agreement to purchase the Vehicle; and

(iv) its cost or Reserve Adjusted Value.

(e) A Loan Party shall notify the Agent within one (1) Business Day following the sale of a Vehicle, which Notice shall state the total sale price and the vehicle identification number for the Vehicle.

5.20 Repurchase Agreements. On or before the Closing Date, each Loan Party shall obtain from any Seller an acknowledgment from the Seller that any agreement between the Seller and the Loan Party and/or U.S. Bank with respect to the repurchase of Vehicles by the Seller (the "Repurchase Agreements") shall be extended to the Agent for the benefit of the Lenders under this Agreement. Additionally, prior to entering into any franchise agreement, distributorship agreement or similar agreement, each Loan Party shall obtain from that Seller a Repurchase Agreement in accordance with that Seller's normal business practices for the benefit of the Agent on behalf of the Lenders. Notwithstanding the foregoing, the Agent without obtaining the consent of the Required Lenders may waive in any particular instance the requirements of this Section 5.20.

5.21 Leases. On or before the Closing Date, each Loan Party shall obtain from any lessor or other holder of any interest in real property a landlord's or interest holder's waiver and consent in form and substance satisfactory to the Agent in its sole discretion. Additionally, prior to entering into assuming, or guaranteeing any lease pertaining to any interest in real property, each Loan Party shall obtain from the lessor a landlord's waiver and consent in such form and substance satisfactory to the Agent in its sole discretion. Notwithstanding the foregoing, the Agent without obtaining the consent of the Required Lenders may waive in any particular instance the requirements of this Section 5.21.

5.22 Guarantees. All present and future Obligations of the Loan Parties to the Lenders shall be guaranteed by each of the other Loan Parties. Notwithstanding any contrary provision of any guarantee executed by a Loan Party in favor of the Lenders, if any action or proceeding is commenced asserting that any such guarantee is subject to avoidance as a fraudulent transfer or fraudulent conveyance or any similar term under any applicable state or federal law, the obligations of such Loan Party under such guarantee shall be limited to the maximum amount that would not render such Loan Party's obligations subject to avoidance under such law and such action or proceeding.

5.23 Solvency. The fair value of the assets of each Loan Party, at a fair valuation, shall exceed its debts and liabilities, subordinated, unliquidated, unmatured, contingent (except for that portion of the Guaranty in excess of the proceeds of Loans received by such Loan Party) or otherwise. The present fair salable value of the property of each Loan Party will be greater than the amount that will be required to pay the probable liability of its debts and other liabilities, subordinated, unliquidated, unmatured, contingent (except for that portion of the Guaranty in excess of the proceeds of Loans received by such Loan Party) or otherwise, as such debts and other liabilities become absolute and mature. Each Loan Party will be able to pay (and does not intend to incur debts beyond its ability to pay) its debts and liabilities, subordinated, unliquidated, unmatured, contingent (except for that portion of the Guaranty in excess of the proceeds of Loans received by such Loan Party) or otherwise, as such debts and liabilities become absolute and mature. Each Loan Party will not have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and is proposed to be conducted following the Closing Date.

SECTION VI.

FINANCIAL COVENANTS

Each Loan Party covenants that so long as any Loan or other Obligation remains outstanding, any debit or draft authorization (or similar instrument or arrangement) remains in effect, or the Lenders have any obligation to make any Loan under this Agreement:

6.1 Minimum Net Worth. Consolidated stockholders' equity (including paid-in-capital and retained earnings) of the Borrower and its Subsidiaries, determined in accordance with GAAP, shall at all times be greater than the Minimum Net Worth. "Minimum Net Worth" shall mean an amount equal to the sum of (a) $29,660,400, which equals 90 percent of the consolidated stockholders' equity (including paid-in-capital and retained earnings) of the Borrower and its Subsidiaries, determined in accordance with GAAP as of March 31, 1997, plus (b) 75 percent of any positive Consolidated Net Income subsequent to March 31, 1997, plus (c) 100 percent of the value of the net proceeds (cash or non-cash) received by the Borrower from the issuance of capital stock after the Closing Date.

6.2 Debt to Cash Flow Ratio. The Loan Parties shall not permit the Debt to Cash Flow Ratio as of any date after the Closing Date to exceed 3.50:1. The "Debt to Cash Flow Ratio" shall be determined as of the last day of each fiscal quarter and shall mean the ratio of (a) Funded Indebtedness as of such date less the principal amount outstanding under Floor Plan Financings as of such date to (b) the difference between (i) Pro Forma Consolidated EBITDA for the four consecutive fiscal quarters ended on such date less (ii) Pro Forma Floor Plan Interest Expense for the four consecutive fiscal quarters ended on such date. The Loan Parties shall furnish to the Agent supporting calculations for Pro Forma Consolidated EBITDA and such other information as the Agent may reasonably request to determine the accuracy of such calculation, including, without limitation, financial statements of any Acquisition Target acceptable to the Agent in its discretion for the periods to be included in the computation period.

6.3 Fixed Charge Coverage. The Loan Parties shall not permit the ratio of Consolidated Earnings Available for Fixed Charges to Consolidated Fixed Charges to be less than 1.50:1 as of the last day of any fiscal quarter for the four consecutive fiscal quarters ended on such date.

6.4 Net Worth Ratio. The Loan Parties shall not permit the Net Worth Ratio as of any date after the Closing Date to exceed 4.50:1.00. For purposes of this Agreement, the Net Worth Ratio shall mean Consolidated Total Liabilities less the outstanding principal balance of any amount owed by the Borrower for money borrowed which, by agreement acceptable to the Agent, is subordinate in the right of payment to any Loan or other Obligation and if secured, is secured by a lien junior to the Lender's security interest in the Collateral (the "Subordinated Debt") to (b) Consolidated Net Worth plus the Subordinated Debt.

6.5 Capital Expenditures. During the period from the Closing Date through the Maturity Date, or during any twelve consecutive month period after the Maturity Date, the Loan Parties shall not make aggregate Capital Expenditures in excess of $5,000,000 other than with a Loan without the consent of the Required Lenders. This limitation shall not prohibit the Borrower from incurring Indebtedness for Capital Expenditures directly arising from the financing of the purchase price for the acquisition of a Vehicle dealership, including real estate associated with a Vehicle dealership, through another Person.

SECTION VII.

NEGATIVE COVENANTS

Except with the prior written consent of the Lenders in accordance with
Section 11.7 of this Agreement, the Loan Parties covenant that so long as any Loan or other Obligation remains outstanding, any debit or draft authorization (or similar instrument or arrangement) remains in effect, or the Lenders have any obligation to make any Loan under this Agreement:

7.1 Indebtedness. None of the Loan Parties shall create, incur, assume, guarantee or be or remain liable with respect to any Indebtedness other than the following:

(a) Obligations;

(b) Indebtedness existing on the Closing Date and disclosed in
Section 4.7 of Exhibit C to this Agreement, but not any increase of the principal amounts thereof;

(c) Indebtedness for taxes, assessments or governmental charges to the extent that payment therefor shall at the time not be required to be made in accordance with Section 5.4;

(d) current liabilities on open account for the purchase price of services, materials and supplies incurred by the Borrower in the ordinary course of business (not as a result of borrowing), so long as all of such open account Indebtedness shall be promptly paid and discharged when due or in conformity with customary trade terms and practices, except for any such open account Indebtedness which is being contested in good faith by the Borrower, as to which adequate reserves required by GAAP have been established and are being maintained and as to which no Encumbrance has been placed on any property of the Borrower or any of its Subsidiaries;

(e) Indebtedness for Capital Expenditures incurred in the ordinary course of the Borrower's business and renewals and refinancings thereof, provided that:

(i) such Indebtedness for Capital Expenditures does not exceed $750,000 in the aggregate at any time outstanding or does not exceed $500,000 in any fiscal year; or

(ii) such Indebtedness for Capital Expenditures directly arises from the financing of the purchase for the acquisition of a Vehicle dealership, including real estate associated with a Vehicle dealership; and

(f) Indebtedness with respect to any loans made by U.S. Bank directly to Lithia Financial Corporation.

7.2 Contingent Liabilities. None of the Loan Parties shall create, incur, assume, guarantee or be or remain liable with respect to any Guarantees, except under the Guaranty.

7.3 Encumbrances. None of the Loan Parties shall create, incur, assume or suffer to exist any mortgage, pledge, security interest, lien or other charge or encumbrance of any kind, including the lien or retained security title of a conditional vendor upon or with respect to any of their property or assets ("Encumbrances"), or assign or otherwise convey any right to receive income, including the sale or discount of Accounts Receivable with or without recourse, except the following ("Permitted Encumbrances"):

(a) Encumbrances in favor of the Agent or any of the Lenders to secure Obligations;

(b) Encumbrances existing as of the date of this Agreement and disclosed in Exhibit C to this Agreement, which secures Indebtedness permitted under Section 7.1(b);

(c) Encumbrances securing Indebtedness for Capital Expenditures to the extent such Indebtedness is permitted by Section 7.1(e), provided that (i) each such Encumbrance is given solely to secure the purchase price of such property, does not extend to any other property and is given contemporaneously with the acquisition of the property, and (ii) the Indebtedness secured thereby does not exceed the lesser of the cost of such property or its fair market value at the time of acquisition;

(d) liens for taxes, fees, assessments and other governmental charges to the extent that payment of the same may be postponed or is not required in accordance with the provisions of Section 5.4;

(e) landlords' and lessors' liens with respect to rent not in default or liens with respect to pledges or deposits under workmen's compensation, unemployment insurance, social security laws, or similar legislation (other than ERISA) or in connection with appeal and similar bonds incidental to litigation; mechanics', warehouseman's, laborers' and materialmen's and similar liens, if the obligations secured by such liens are not then delinquent; liens securing the performance of bids, tenders, contracts (other than for the payment of money); and liens securing statutory obligations or surety, indemnity, performance, or other similar bonds incidental to the conduct of the Loan Party's business in the ordinary course and that do not in the aggregate materially detract from the value of its property or materially impair the use thereof in the operation of its business;

(f) judgment liens securing judgments that (i) are fully covered by insurance, and (ii) shall not have been in existence for a period longer than 10 days after the creation of this Agreement or, if a stay of execution shall have been obtained, for a period longer than 10 days after the expiration of such stay;

(g) rights of lessors under capital leases to the extent such capital leases are permitted under this Agreement;

(h) easements, rights of way, restrictions and other similar charges or Encumbrances relating to real property and not interfering in a material way with the ordinary conduct of the Borrower's business; and

(i) liens constituting a renewal, extension or replacement of any Permitted Encumbrance other than those Permitted Encumbrances described in Section 7.3(f).

7.4 Merger; Consolidation; Sale or Lease of Assets. None of the Loan Parties shall liquidate, dissolve, reorganize, merge or consolidate into or with any other Person or entity, or sell, lease or otherwise dispose of any assets or properties, other than in the ordinary course of business. For purposes of this Section 7.4, (i) sales of inventory consistent with past practice, (ii) Qualified Investments, and (iii) sales of obsolete or replaced equipment shall be considered to be in the ordinary course of business.

7.5 Stock Issuances. The Loan Parties shall not amend their Articles of Incorporation or bylaws (or Articles of Organization or Operating Agreement if the Loan Party is a limited liability company) or issue any additional shares of their capital stock or other equity securities, any options therefor or any securities convertible thereto, other than issuances by a Subsidiary to the Borrower. Neither the Parent, Borrower nor any of its Subsidiaries shall sell, transfer or otherwise dispose of any of the capital stock or other equity securities or ownership interests of a Subsidiary, except to another Loan Party. The following issuances and transfers of publicly traded, Class A Common Stock in the Borrower are also permitted:

(a) Issuances and transfers pursuant to the Borrower's existing stock option plan; and

(b) Issuances and transfers in furtherance of prudent business practices pursuant to an employee stock purchase plan or a 401(k) pension plan which is subject to ERISA, in which plan(s) the Borrower or another Loan Party is a participating employer, and which plan(s) are designed as supplemented compensation for all full time employees of Borrower or a Loan Party.

Notwithstanding the foregoing, the issuances and transfers under Section 7.5(a) and (b) above are not permitted to the extent that they would have the effect of, whether singularly, cumulatively or in combination with other issuances or transfers of any kind, making the recipient an Affiliate, or would result in a breach of the ownership and control requirements set forth in Article 8, Section 8.1(k) or (l).

7.6 Restricted Payments. None of the Loan Parties shall pay, make, declare or authorize any Restricted Payment other than:

(a) compensation paid to employees, officers and directors in the ordinary course of business and consistent with prudent business practices;

(b) dividends payable solely in capital stock;

(c) dividends paid by any Subsidiary to the Borrower for purposes of making any payment required by this Agreement; and

(d) stock splits affecting all outstanding shares of a class of stock.

7.7 Investments; Purchases of Assets. None of the Loan Parties shall make or maintain any Investments or purchase or otherwise acquire any material amount of assets other than:

(a) Qualified Investments;

(b) Capital Expenditures;

(c) purchases of inventory in the ordinary course of business; and

(d) normal trade credit extended in the ordinary course of business and consistent with prudent business practice.

7.8 ERISA Compliance. Neither the Borrower nor any of its Affiliates nor any Plan shall (i) engage, or shall have engaged, in any Prohibited Transaction which would have a material adverse effect on the business, financial condition or operations of the Borrower and its Subsidiaries taken

as a whole, (ii) incur any "accumulated funding deficiency" (as defined in Section 412(a) of the Code and Section 302 of ERISA) whether or not waived which would have a material adverse effect on the business, financial condition or operations of the Borrower and its Subsidiaries taken as a whole, (iii) fail to satisfy any additional funding requirements set forth in Section 412 of the Code and Section 302 of ERISA or to make any other contribution required under the terms of any Pension Plan or any collective bargaining agreement with respect to a Multiemployer Plan which would have a material adverse effect on the business, financial condition or operations of the Borrower and its Subsidiaries taken as a whole, (iv) terminate any Pension Plan in a manner which could result in the imposition of a lien on any property of the Borrower or any of its Subsidiaries; or (v) withdraw (in a complete or partial withdrawal within the meaning of Section 4203 or Section 4205 of ERISA, respectively) from a Multiemployer Pension Plan if such withdrawal would have a material adverse effect on the business, financial condition or operations of the Borrower and its Subsidiaries taken as a whole. Each Plan shall comply in all material respects with ERISA, except to the extent failure to comply in any instance would not have a material adverse effect on the business, financial condition or operations of the Borrower and its Subsidiaries taken as a whole.

7.9 Transactions with Affiliates. The Loan Parties shall not, directly or indirectly, enter into any purchase, sale, lease or other transaction with any Affiliate except (i) transactions in the ordinary course of business on terms that are no less favorable to the Borrower than those which might be obtained at the time in a comparable arm's-length transaction with any Person who is not an Affiliate, and (ii) employment contracts with senior management of the Borrower entered into in the ordinary course of business and consistent with prudent business practices. Notwithstanding the foregoing, the Borrower will not, and will not permit any Subsidiary to, directly or indirectly, pay any management, consulting, overhead, indemnity, guarantee or other similar fee or charge to any Affiliate.

7.10 Sale and Lease-Back Transactions. No Loan Party shall enter into any arrangement, directly or indirectly, with any Person pursuant to which it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or subsequently acquired, and thereafter rent or lease such property or other property that it intends to use for substantially the same purpose or purposes as the property being sold or transferred. Subject to the provisions of Section 7.9, nothing in this Section 7.10 will prohibit any Loan Party from entering into any of the transactions described in this Section 7.10 with another Loan Party or with Lithia Real Estate, Inc. or Lithia Properties, Inc. as to real property and fixtures.

7.11 Material Agreements. No Loan Party will cause, or suffer to exist, any termination, expiration, revocation, or cancellation of, or material default under, any Material Agreement, regardless of cause, or cause, or suffer to exist, any such Material Agreement to not be in full force and effect or not constitute the legal, valid and binding obligations of the parties thereto, or assign or grant to a Person any right or interest arising therefrom and will not, without the prior written consent of the Required Lenders, materially modify or amend any such Material Agreement, other than Material Agreements that are purchase and sale agreements relating to Acquisitions.

7.12 Structure. None of the Loan Parties shall make any change in its corporate or organizational structure and shall not create or acquire any Subsidiary except in connection with an Acquisition and provided that such new Subsidiary becomes a Loan Party and executes and delivers a Joinder Agreement and such other applicable Loan Documents.

7.13 Fiscal Year and Accounting Policies. The Loan Parties shall not change their fiscal year without the prior written consent of the Required Lenders. Neither the Borrower nor any other Loan Party shall make any significant change in accounting policies or reporting practices other than changes required by GAAP or otherwise required by law.

SECTION VIII.

DEFAULTS

8.1 Events of Default. There shall be an Event of Default under this Agreement if any of the following events occurs:

(a) The Borrower shall fail to pay any principal or interest with respect to any Loan, Fees or other amounts owing under any Loan Document or with respect to any Obligation when the same shall become due and payable, whether at maturity, at any accelerated date of maturity or at any other date fixed for payment;

(b) (i) Any Loan Party shall breach, shall fail to perform or shall fail to be in full compliance with any term, covenant or agreement contained in Section VI of this Agreement, or (ii) any Loan Party shall breach, shall fail to perform or shall fail to be in full compliance with any term, covenant or agreement applicable to them contained in this Agreement or any other Loan Document and such Default shall continue for 10 days; or

(c) Any representation or warranty of any Loan Party made in this Agreement or any other Loan Document or in any certificate, notice or other writing delivered under this Agreement or under any other Loan Document shall prove to have been false or misleading in any material respect upon the date when made or deemed to have been made; or

(d) Default or termination (or the occurrence of any other event which gives another party thereto a right of acceleration or termination) under any Material Agreement; or

(e) Any Loan Party shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or similar official of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of its creditors, (iii) commence a voluntary case under the United States Bankruptcy Code (as now or hereafter in effect), (iv) take any action or commence any case or proceeding under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, or any other law providing for the relief of debtors, (v) fail to contest in a timely or appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under the United States Bankruptcy Code or other law, (vi) take any action under the laws of its jurisdiction of incorporation or organization similar to any of the foregoing, or (vii) take any corporate action for the purpose of effecting any of the foregoing; or

(f) a proceeding or case shall be commenced against any Loan Party without the application or consent of such Loan Party in any court of competent jurisdiction, seeking (i) the liquidation, reorganization, dissolution, winding up, or composition or readjustment of its debts, (ii) the appointment of a trustee, receiver, custodian, liquidator or the like of it or of all or any substantial part of its assets, or (iii) similar relief with respect to it, under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts or any other law providing for the relief of debtors, and such proceeding or case shall continue undismissed, or unstayed and in effect, for a period of 45 days; or an order for relief shall be entered in an involuntary case under the United States Bankruptcy Code, against such Loan Party; or action under the laws of the jurisdiction of incorporation or organization of any Loan Party similar to any of the foregoing shall be taken with respect to the Loan Party and shall continue unstayed and in effect for a period of 45 days; or

(g) a judgment or order for the payment of money shall be entered against any Loan Party by any court, or a warrant of attachment or execution or similar process shall be issued or levied against property of the Loan Party, that in the aggregate exceeds $100,000 in value, the payment of which is not fully covered by insurance in excess of any deductibles not exceeding $10,000 in the aggregate, and such judgment, order, warrant or process shall continue undischarged or unstayed for 30 days; or

(h) any default by any Loan Party under any Indebtedness the effect of which permits the holder of such Indebtedness to cause such Indebtedness to become due and payable prior to its maturity date; or

(i) the Borrower or any Affiliate shall fail to pay when due any amount that they shall have become liable to pay to the PBGC or to a Plan under Title IV of ERISA, unless such liability is being contested in good faith by appropriate proceedings, the Borrower or the Affiliate, as the case may be, has established and is maintaining adequate reserves in accordance with GAAP and no lien shall have been filed to secure such liability; or the PBGC shall institute proceedings under Title IV of ERISA to terminate or to cause a trustee to be appointed to administer any such Plan or Plans; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any such Plan or Plans must be terminated; or

(j) any of the Loan Documents shall be canceled, terminated, revoked or rescinded otherwise then in accordance with the express terms hereof or thereof or with the express prior written agreement, consent or approval of the Lenders, or any action at law or in equity or other legal proceeding to cancel, revoke or rescind any Loan Document shall be commenced by or on behalf of any Loan Party, or any court or other governmental or regulatory authority or agency of competent jurisdiction shall make a determination that, or shall issue a judgment, order, decree or ruling to the effect that, any one or more of the Loan Documents is illegal, invalid or unenforceable in accordance with the terms thereof; or

(k) Sidney B. DeBoer, or a successor or successors reasonably acceptable to Agent and Required Lenders, shall fail to own and control, free and clear of Encumbrances (except Encumbrances pursuant to the Security Documents), a sufficient percentage of the voting interests of Parent to enable him at all times to approve any matter to be voted by the managers or members of the Parent, including, without limitation, the right at all times to elect the managers of the Parent; or

(l) the Parent shall fail to own of record and beneficially, free and clear of any and all Encumbrances (except Encumbrances pursuant to the Security Documents), sufficient issued and outstanding voting securities of the Borrower to have the unfettered ability at all times to approve any matter to be voted upon by the stockholders of the Borrower (except for those matters on which the holders of the Borrower's Class A Common Stock have the sole right to vote), and at all times to designate a majority of the Board of Directors of the Borrower; or

(m) the Borrower shall fail to own beneficially, directly or indirectly, 100 percent of the issued and outstanding capital stock or equity or other ownership interests of any Loan Party other than the Parent; or

(n) the Lenders cease to have a valid, perfected first priority security interest in the Collateral (except with respect to the fixed assets owned by Lithia Financial Corporation or the Vehicles owned by Lithia Financial Corporation leased to others, which security interest shall be a valid, perfected second priority security interest); or

(o) the interruption or cessation of a material portion of the ordinary business operations of the Borrower and its Subsidiaries, taken as a whole; or

(p) the occurrence of any material adverse change in the condition or affairs (financial or otherwise) of the Borrower and its Subsidiaries, taken as a whole, or of any endorser, guarantor or surety for any of the obligations and which is not a Loan Party, which materially adverse change causes the Lenders reasonably to deem themselves insecure.

8.2 Remedies. Upon the occurrence of a Default or Event of Default described in subsections 8.1(e) and (f), immediately and automatically, and upon the occurrence of any other Event of Default, at any time thereafter while such Event of Default is continuing, at the option of the Agent or the Required Lenders (or the Swingline Lender in connection with Section 8.2(b)) and upon the Agent's declaration (which shall be given if the Required Lenders (or the Swingline Lender in connection with Section 8.2(b)) so directs):

(a) the obligation of the Lenders to make any further Loans under this Agreement, including without limitation the obligation of the Swingline Lender to honor any debits or draft authorizations (or similar instruments or arrangements), and all Loan Commitments shall terminate;

(b) the Swingline Lender, in its sole discretion or at the direction of the Required Lenders, may give notice to any Seller or other appropriate party terminating any debit or draft authorization (or similar instrument or arrangement); provided, however, that if the Loan Commitments have terminated, then the Swingline Lender shall immediately take such action as is necessary to terminate such debit or draft authorizations (or similar instruments or arrangements), and on receipt of a copy of any such notice or notice of any other action taken in connection with this Section 8.2(b), the Borrower shall immediately deliver cash collateral to the Swingline Lender in an amount that the Swingline Lender shall determine in its reasonable discretion (based on the aggregate amount of debit or draft authorizations (or similar instruments or arrangements) then in effect) as collateral for the payment and performance of any and all debit or draft authorizations (or similar instruments or arrangements) until all such debit or draft authorizations (or similar instruments or arrangements) are terminated (and all outstanding obligations have been honored) according to their respective terms.

(c) the unpaid principal amount of the Loans together with accrued and unpaid interest, all Fees, and all other Obligations shall become immediately due and payable without presentment, demand, protest or further notice of any kind, all of which are by this Agreement expressly waived; and

(d) the Agent and the Lenders may exercise any and all rights they have under this Agreement, the other Loan Documents, under the applicable Uniform Commercial Code, or at law or in equity, and proceed to protect and enforce their respective rights by any action at law or in equity or by any other appropriate proceeding.

No remedy conferred upon the Agent and the Lenders in the Loan Documents is intended to be exclusive of any other remedy, and each and every remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute or by any other provision of law. Without limiting the generality of the foregoing or of any of the terms and provisions of any of the Security Documents, if and when the Agent exercises remedies under the Security Documents with respect to Collateral, the Agent may, in its sole discretion, determine which items and types of Collateral to dispose of and in what order and may dispose of Collateral in any order the Agent shall select in its sole discretion, and the Borrower consents to the foregoing and waives all rights of marshaling with respect to all Collateral. Nothing in this Agreement or any Loan Document shall require the Agent to operate the business of any Loan Party in connection with the disposition of any Collateral.

SECTION IX.

ASSIGNMENT AND PARTICIPATION

9.1 Assignment.

(a) Each Lender shall have the right to assign at any time any portion of its Commitments under this Agreement and its interests in the risk relating to any Loans in an amount equal to or greater than $10,000,000 (or less than $10,000,000 with the Agent's prior written consent which will not be unreasonably withheld) to other Lenders or to banks or financial institutions reasonably acceptable to the Agent (each an "Assignee"), provided that any Lender which proposes to assign less than all of its Commitments must retain a Commitment of at least $10,000,000. Each Assignee shall execute and deliver to the Agent and the Borrower an Assignment and Acceptance Agreement substantially in the form of Exhibit I to this Agreement, and the assigning Lender shall pay to the Agent, solely for the account of the Agent, an assignment fee of $3,500. Upon the execution and delivery of such Assignment and Acceptance Agreement and the Agent's receipt of the assignment fee, (a) such Assignee shall, on the date and to the extent provided in such Assignment and Acceptance Agreement, become a "Lender" party to this Agreement and the other Loan Documents for all purposes of this Agreement and the other Loan Documents and shall have all rights and obligations of a "Lender" with Commitments as set forth in such Assignment and Acceptance Agreement, and the assigning Lender shall, on the date and to the extent provided in such Assignment and Acceptance Agreement, be released from its obligations under this Agreement and under the other Loan Documents to a corresponding extent (and, in the case of an assignment covering all of the remaining portion of an assigning Lender's rights and obligations under this Agreement, such transferor shall cease to be a party to this Agreement but shall continue to be entitled to the benefits of Section 11.3 and to any Fees accrued for its account under this Agreement and not yet paid); (b) the assigning Lender, if it holds any Notes, shall promptly surrender such Notes to the Agent for cancellation and delivery to the Borrower, provided that if the assigning Lender has retained any Commitment, the Borrower shall, on the request of the Agent, execute and deliver to the Agent for delivery to such assigning Lender new Notes in the amount of the assigning Lender's retained Commitment; (c) the Borrower shall issue to such Assignee Notes in the amount of such Assignee's Commitments dated the Closing Date or such other date as may be specified by such Assignee and otherwise completed in substantially the form of Exhibits A-1, A-2, A-3, A-4, A-5A, and A-5B to this Agreement;
(d) this Agreement (including Schedule 1-B to this Agreement) shall be deemed appropriately amended to reflect (i) the status of such Assignee as a party to this Agreement and (ii) the status and rights of the Lenders under this Agreement; and (e) the Borrower shall take such action as the Agent may reasonably request to perfect any security interests or mortgages in favor of the Lenders, including any Assignee which becomes a party to this Agreement.

(b) If the Assignee, or any Participant pursuant to Section 9.2 of this Agreement, is organized under the laws of a jurisdiction other than the United States or any state thereof, such Assignee shall execute and deliver to the Borrower, simultaneously with or prior to such Assignee's execution and delivery of the Assignment and Acceptance Agreement described above in Section 9.1(a), and such Participant shall execute and deliver to the Lender granting the participation, a United States Internal Revenue Service Form 4224 or Form 1001 (or any successor form), appropriately completed, wherein such Assignee or Participant claims entitlement to complete exemption from United States Federal Withholding Tax on all interest payments under this Agreement and all Fees and other charges payable pursuant to any of the Loan Documents. The Borrower shall not be required to pay any increased amount to any Assignee or other Lender on account of taxes to the extent such taxes would not have been payable if the Assignee or Participant had furnished one of the Forms referenced in this Section 9.1(b) unless the failure to furnish such a Form results from (i) a condition or event affecting the Borrower or an act or failure to act of the Borrower or (ii) the adoption of or change in any law, rule, regulation or guideline affecting such Assignee or Participant occurring (x) after the date on which any such Assignee executes and delivers the Assignment and Acceptance Agreement, or
(y) after the date such Assignee shall otherwise comply with the provisions of Section 9.1(a), or (z) after the date a Participant is granted a participation and Borrower would otherwise have been obligated to pay such taxes under this Agreement.

9.2 Participations. Each Lender shall have the right to grant participations to one or more banks or other financial institutions (each a "Participant") in all or any part of any Loans owing to such Lender and the Notes held by such Lender; provided that each participation shall be in the minimum principal amount of $5,000,000. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents, provided that the documents representing any such participation may provide that, except with the consent of such Participant, such Lender will not consent to (a) the reduction in or forgiveness of the stated principal of, rate of interest on, or Commitment Fee, with respect to the portion of any Loan subject to such participation, (b) the extension or postponement of any stated date fixed for payment of principal or interest or Commitment Fee with respect to the portion of any Loan subject to such participation, (c) the waiver or reduction of any right to indemnification of such Lender under this Agreement, or (d) except as otherwise permitted under this Agreement, the release of any Collateral. Notwithstanding the foregoing, no participation shall operate to increase the Total Commitment or the commitment available under any Loan or otherwise alter the substantive terms of this Agreement. In the event of any such sale by a Lender of participating interests to a Participant, such Lender's obligations under this Agreement shall remain unchanged, such Lender shall remain solely responsible for the performance thereof, such Lender shall remain the holder of such Notes for all purposes under this Agreement and the Borrower and Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. The Borrower agrees that if amounts outstanding under this Agreement and the Notes are due or unpaid, or shall have been declared or shall have become due and payable on the occurrence of a Default or an Event of Default, each Participant shall be deemed to have the right of setoff in respect of its participating interest in amounts owing under this Agreement or any Note to the same extent as if the amount of its participating interest were owing directly to it under this Agreement or any Note; provided that such right of setoff shall be subject to the obligation of such Participant to share with the Lenders, and the Lenders agree to share with such Participant, as provided in Section 2.8(e) of this Agreement. In addition, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.9, 2.10, 2.11, 2.12, and 2.13 of this Agreement with respect to its participation in the Loans outstanding from time to time; provided that no Participant shall be entitled to receive any greater amount than such Lender would have been entitled to receive with respect to the amount transferred if no such transfer occurred.

9.3 Intercreditor Agreement. The Lenders acknowledge that U.S. Bank has prior lending relationships with Lithia Financial Corporation, which will continue after the Closing Date, secured by perfected first-priority liens against a portion of the Collateral. Notwithstanding, to the extent permitted by law, the date, manner or order of perfection of the security interests and liens granted to the Lenders or U.S. Bank, and, to the extent permitted by law, notwithstanding any provisions of the Uniform Commercial Code of any state or any applicable law or decision, or the Loan Documents or agreements entered into between U.S. Bank and the Lithia Financial Corporation, or whether either the Lenders or U.S. Bank holds possession of all or any part of the Collateral, the Lenders and U.S. Bank agree as follows:

The Lenders' security interests and liens in the following items included in the Collateral shall be subordinate to the security interests and liens granted by Lithia Financial Corporation to U.S. Bank, other than in U.S. Bank's capacity as Agent or Lender under this Agreement, to secure the obligations of Lithia Financial Corporation to U.S. Bank, other than in U.S. Bank's capacity as Agent or Lender under this Agreement whether now owned or existing or hereafter acquired or arising:

(a) the fixed assets owned by Lithia Financial Corporation,

(b) the Vehicles owned by Lithia Financial Corporation and leased to its customers in the ordinary course of its business,

(c) the fixed assets owned by a Loan Party to secure an obligation of the Loan Party to Lithia Financial Corporation, which security interest Lithia Financial Corporation assigned to U.S. Bank, other than in U.S. Bank's capacity as Agent or Lender under this Agreement, and

(d) leases and chattel paper evidencing Lithia Financial Corporation's lease of Vehicles or fixed assets to a Loan Party or other Person.

SECTION X.

THE AGENT

10.1 Appointment of Agent; Powers and Immunities.

(a) Each Lender by this Agreement irrevocably appoints and authorizes the Agent to act as its agent under this Agreement and under the other Loan Documents and to execute the Loan Documents (other than this Agreement) and all other instruments relating thereto. Each Lender irrevocably authorizes the Agent to take such action on behalf of each of the Lenders and to exercise all such powers as are expressly delegated to the Agent under this Agreement and in the other Loan Documents and all related documents, together with such other powers as are reasonably incidental thereto. The obligations of the Agent under this Agreement are only those expressly set forth in this Agreement. The Agent shall not have any fiduciary relationship with any Lender and shall have no duties or responsibilities except those expressly set forth in this Agreement.

(b) Neither the Agent nor any of its directors, officers, employees or agents shall be responsible for any action taken or omitted to be taken by any of them under this Agreement or in connection with this Agreement, except for their own gross negligence or willful misconduct. Without limiting the generality of the foregoing, neither the Agent nor any of its Affiliates shall be responsible to the Lenders for, have any duty to ascertain, inquire into or verify, or be deemed to have knowledge or notice of: (i) any recitals, statements, representations or warranties made by any Loan Party or any other Person whether contained in this Agreement or otherwise; (ii) the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, the other Loan Documents or any other document referred to or provided for in this Agreement or therein;
(iii) any failure by any Loan Party or any other Person to perform its obligations under any of the Loan Documents; (iv) the satisfaction of any conditions specified in Section 3 of this Agreement, other than receipt of the documents, certificates and opinions specified in Section 3.1(a) of this Agreement; (v) the existence or the possible existence of any Default or Event of Default, (vi) the existence, value, collectibility or adequacy of the Collateral or any part thereof or the validity, effectiveness, perfection or relative priority of the liens and security interests of the Lenders therein; or (vii) the filing, recording, refiling, continuing or re-recording of any financing statement or other document or instrument evidencing or relating to the security interests or liens of the Lenders in the Collateral.

(c) The Agent may employ agents, attorneys and other experts, shall not be responsible to any Lender for the negligence or misconduct of any such agents, attorneys or experts selected by it with reasonable care and shall not be liable to any Lender for any action taken, omitted to be taken or suffered in good faith by it in accordance with the advice of such agents, attorneys and other experts. U.S. Bank in its separate capacity as a Lender shall have the same rights and powers under the Loan Documents as any other Lender and may exercise or refrain from exercising the same as though it were not the Agent, and U.S. Bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Loan Parties as if it were not the Agent.

10.2 Actions by Agent.

(a) The Agent shall be fully justified in failing or refusing to take any action under this Agreement as it reasonably deems appropriate unless it shall first have received such advice or concurrence of the Lenders and shall be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any of the Loan Documents in accordance with a request of the Lenders or the Required Lenders, as the case may be, and such request and any action taken or failure to act pursuant to this Agreement shall be binding on the Lenders and all holders of the Notes. The Agent shall not be required to take any action which exposes the Agent to personal liability or which is contrary to the Loan Documents or applicable law. In absence of instructions from the Lenders, the Agent shall have authority, in its sole discretion, to take or not to take any action, and any such action or failure to act shall be binding on the Lenders and on all holders of the Notes. Each Lender and each holder of any Notes shall execute and delivery such additional instruments, including powers of attorney in favor of the Agent, as may be necessary or desirable to enable the Agent to exercise its powers under this Agreement and under the Loan Documents.

(b) Whether or not a Default or Event of Default shall have occurred, the Agent may from time to time exercise such rights of the Agent and the Lenders under the Loan Documents as it determines may be necessary or desirable to protect the Collateral and the interests of the Agent and the Lenders therein and under the Loan Documents. In addition, the Agent may, without the consent of the Lenders, release the Lender's security interest in Collateral having an aggregate value equal to or less than $1,000,000 (as valued by the Agent in its reasonable discretion) in any consecutive 12-month period, which amount shall be in addition to the releases of security interests with respect to sales which are otherwise permitted by this Agreement.

(c) Neither the Agent nor any of its directors, officers, employees or agents shall incur any liability by acting in reliance on any notice, consent, certificate, statement or other writing (which may be a bank wire, telex, facsimile or similar writing) believed by any of them to be genuine or to be signed by the proper party or parties.

10.3 Indemnification. Without limiting the obligations of the Borrower under this Agreement or under any other Loan Document, the Lenders jointly and severally agree to indemnify the Agent (to the extent not reimbursed by the Borrower), ratably in accordance with their Pro Rata Share of their respective Loan Commitments (or if the Loan Commitments have terminated, their Pro Rata Share of Total Loans Outstanding), jointly and severally, for any and all liabilities, obligations, claims, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may at any time be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of this Agreement or any other Loan Document or any documents contemplated by or referred to in this Agreement or therein or the transactions contemplated by this Agreement or thereby or the enforcement of any of the terms of this Agreement or thereof or of any such other documents; provided, that no Lender shall be liable for any of the foregoing to the extent they result from the gross negligence or willful misconduct of the Agent. Without limiting the foregoing, each Lender agrees to reimburse the Agent promptly on demand in proportion to its share of its respective Commitments for any out-of-pocket expenses, including attorney fees, including, without limitation at trial, on appeal or review, or in a bankruptcy proceeding, incurred by the Agent in connection with the negotiations, preparation, execution, delivery, modification, administration or enforcement or preservation of any Loan Document.

10.4 Reimbursement. Without limiting the provisions of Section 10.3, the Lenders and the Agent by this Agreement agree that the Agent shall not be obliged to make available to any Person any sum which the Agent is expecting to receive for the account of that Person until the Agent has determined that it has received that sum. The Agent may, however, disburse funds prior to determining that the sums which the Agent expects to receive have been finally and unconditionally paid to the Agent if the Agent wishes to do so. If and to the extent that the Agent does disburse funds and it later becomes apparent that the Agent did not then receive a payment in an amount equal to the sum paid out, then any Person to whom the Agent made the funds available shall, on demand from the Agent refund to the Agent the sum paid to that Person. If the Agent in good faith reasonably concludes that the distribution of any amount received by it in such capacity under this

Agreement or under the other Loan Documents might involve it in liability, it may refrain from making the distribution until its right to make the distribution shall have been adjudicated by a court of competent jurisdiction. If a court of competent jurisdiction shall adjudge that any amount received and distributed by the Agent is to be repaid, each Person to whom any such distribution shall have been made shall either repay to the Agent its proportionate share of the amount so adjudged to be repaid or shall pay over the same in such manner and to such Persons as shall be determined by such court.

10.5 Non-Reliance on Agent and Other Lenders. Each Lender represents that it has, independently and without reliance on the Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of the financial condition and affairs of the Loan Parties and decision to enter into this Agreement and the other Loan Documents and agrees that it will, independently and without reliance upon the Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own appraisals and decisions in taking or not taking action under this Agreement or any other Loan Document. The Agent shall not be required to keep informed as to the performance or observance by the Loan Parties thereof, the other Loan Documents or any other document referred to or provided for in this Agreement or therein or by any other Person of any other agreement or to make inquiry of, or to inspect the properties or books of, any Person. Except for notices, reports and other documents and information expressly required to be furnished to the Lenders by the Agent under this Agreement, the Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning any Person which may come into the possession of the Agent or any of its affiliates. Unless any Lender shall, promptly after obtaining knowledge thereof, object to any action taken by the Agent under this Agreement (other than actions to which the provisions of Section 11.7(b) are applicable and other than actions which constitute gross negligence or willful misconduct by the Agent), such Lender shall conclusively be presumed to have approved the same.

10.6 Resignation or Removal of Agent. The Agent may resign at any time by giving 30 days prior written notice thereof to the Lenders and the Borrower. Upon 30 days prior written notice from all Lenders except Agent requesting that Agent resign, Agent will resign. In the event of resignation, Agent may require that any successor Agent replace Agent as the Swingline Lender. Upon any such resignation, the Required Lenders shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Lenders and shall have accepted such appointment within 30 days after the retiring Agent's giving of notice of resignation or within 30 days after Agent's resignation if requested by all Lenders except Agent, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent. Upon the acceptance of any appointment as Agent under this Agreement by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation, the provisions of this Agreement shall continue in effect for its benefit with respect to any actions taken or omitted to be taken by it while it was acting as Agent.

SECTION XI.

MISCELLANEOUS

11.1 Notices. Unless otherwise specified in this Agreement, all notices under this Agreement to any party to this Agreement shall be in writing and shall be deemed to have been given when delivered, if hand delivered, and shall be deemed to have been given: when sent, if sent by confirmed electronic facsimile transmission; when sent, if sent by telex answer back received; on the first Business Day after being delivery to any overnight delivery service for guaranteed next business day delivery; or three days after being mailed, if sent by certified or registered mail, return receipt requested, postage pre-paid; in each case addressed to such party at its address indicated below:

If to the Borrower, at

360 East Jackson Street
Medford, Oregon 97501

Attention: Sidney B. DeBoer Telephone: (541) 776-6401
Facsimile: (541) 776-6861

with a copy to:

Foster, Pepper & Shefelman
101 SW Main Street, 15th Floor Portland, Oregon 97204
Attention: Kenneth E. Roberts, Jr.

Telephone: (503) 221-1151

Facsimile: (503) 221-1510

If to the Agent or U.S. Bank, at

131 East Main Street
Medford, Oregon 97501

Attention: Laurence L. Rivelli Telephone: (541) 770-1124
Facsimile: (800) 962-0059

with a copy to:

U.S. Bank National Association Ninth Floor
1420 Fifth Avenue, WWH749
Seattle, Washington 98101
Attention: Caron Carlyon
Telephone: (206) 344-3605
Facsimile: (206) 344-2882

If to any other Lender, to its address set forth on Schedule 1-B attached to this Agreement; or at any other address specified by such party in writing.

11.2 Expenses. Whether or not the transactions contemplated by this Agreement shall be consummated, the Loan Parties jointly and severally promise to reimburse (a) the Agent, and the Initial Lenders for all reasonable out-of-pocket fees and disbursements (including all Attorneys' Fees, appraisal and collateral examination fees, due diligence investigation expenses and syndication expenses) incurred or expended in connection with the negotiation, preparation, execution, delivery, filing or recording, or the administration or interpretation of this Agreement and the other Loan Documents, or the consummation of the transactions contemplated by this Agreement, or any amendment, modification, approval, consent or waiver of this Agreement or thereof, and (b) the Agent and all of the Lenders for all reasonable out-of-pocket costs, fees and disbursements (including all Attorneys' Fees, appraisal and collateral examination fees, and collection expenses) incurred or expended in connection with the enforcement of any Obligations, the exercise of any remedies under any Loan Documents or with respect to the Collateral or the satisfaction of any Indebtedness of the Borrower under this Agreement or thereunder, or in connection with any litigation, proceeding or dispute in any way related to the credit under this Agreement. The Borrower will pay any taxes (including any interest and penalties in respect thereof), other than any Lender's federal and state income taxes, payable on or with respect to the transactions contemplated by the Loan Documents (the Borrower by this Agreement agreeing to indemnify the Agent and the Lenders with respect thereto). For purposes of this Agreement and the other Loan Documents, "Attorneys' Fees" shall mean the reasonable fees and disbursements of attorneys (including all paralegals and other staff

employed by such attorneys and the reasonably allocated costs of internal counsel), whether incurred at trial, on appeal or review, in a bankruptcy proceeding or in any other way relating to Obligations, the Loan Documents and the transactions contemplated by this Agreement, including, without limitation as provided in Sections 11.2 and 11.3 of this Agreement.

11.3 Indemnification. The Loan Parties agrees to indemnify and hold harmless the Agent and the Lenders, as well as their respective shareholders, directors, offices, agents, attorneys, subsidiaries and affiliates, from and against all damages, losses, settlement payments, obligations, liabilities, claims, suits, penalties, assessments, citations, directives, demands, judgments, actions or causes of action, whether statutorily created or under the common law, all reasonable costs and expenses (including, without limitation, Attorneys' Fees and reasonable fees and disbursements of engineers and consultants) and all other liabilities whatsoever (including, without limitation, liabilities under Environmental Laws) which shall at any time or times be incurred, suffered, sustained or required to be paid by any such indemnified Person (except any of the foregoing which result from the gross negligence or willful misconduct of the indemnified Person) on account of or in relation to or any way in connection with any of the arrangements or transactions contemplated by, associated with or ancillary to this Agreement, the other Loan Documents or any other documents executed or delivered in connection herewith or therewith, all as the same may be amended from time to time, whether or not all or part of the transactions contemplated by, associated with or ancillary to this Agreement, any of the other Loan Documents or any such other documents are ultimately consummated. In any investigation, proceeding or litigation, or the preparation therefor, the Lenders shall select their own counsel and, in addition to the foregoing indemnity, the Borrower agrees to pay promptly the reasonable fees and expenses of such counsel. In the event of the commencement of any such proceeding or litigation, the Borrower shall be entitled to participate in such proceeding or litigation with counsel of its choice at its own expense, provided that such counsel shall be reasonably satisfactory to the Agent. The Borrower authorizes the Agent and the Lenders to charge any deposit account or Note Record which it may maintain with any of them for any of the foregoing. The covenants of this Section 11.3 shall survive payment or satisfaction of payment of all amounts owing with respect to the Notes, any other Loan Document or any other Obligation.

11.4 Survival of Covenants, Etc. Unless otherwise stated in this Agreement, all covenants, agreements, representations and warranties made in this Agreement, in the other Loan Documents or in any documents or other papers delivered by or on behalf of any Loan Party pursuant to this Agreement shall be deemed to have been relied upon by the Agent and the Lenders, notwithstanding any investigation thereto or hereafter made by any of them, and shall survive the making by the Lenders of the Loans as in this Agreement contemplated, and shall continue in full force and effect so long as any Obligation remains outstanding and unpaid or any Lender has any obligation to make any Loans under this Agreement. All statements contained in any certificate or other writing delivered by or on behalf of the Borrower pursuant to this Agreement or in connection with the transactions contemplated by this Agreement shall constitute representations and warranties by the Borrower under this Agreement.

11.5 Set-Off. Regardless of the adequacy of any Collateral or other means of obtaining repayment of the Obligations, but subject to the provisions of Section 2.8(d) of this Agreement, any deposits, balances or other sums credited by or due from the head office of any Lender or any of its branch offices to the Borrower may, at any time and from time to time after the occurrence of a Default under this Agreement, upon notice to the Agent but without notice to the Borrower or compliance with any other condition precedent now or hereafter imposed by statute, rule of law, or otherwise (all of which are by this Agreement expressly waived) be set off, appropriated, and applied by such Lender against any and all Obligations of the Borrower in such manner as the head office of such Lender or any of its branch offices in its sole discretion may determine, and the Borrower by this Agreement grants each such Lender a continuing security interest in such deposits, balances or other sums for the payment and performance of all such Obligations.

11.6 No Waivers. No failure or delay by the Agent or any Lender in exercising any right, power or privilege under this Agreement, under the Notes or under any other Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. No waiver shall extend to or affect any Obligation not expressly waived or impair any right consequent thereon. No course of dealing or omission on the part of the Agent or the Lenders in exercising any right shall operate as a

waiver thereof or otherwise be prejudicial to this Agreement. No notice to or demand upon the Borrower shall entitle the Borrower to other or further notice or demand in similar or other circumstances. The rights and remedies in this Agreement and in the Notes and the other Loan Documents are cumulative and not exclusive of any rights or remedies otherwise provided by agreement or law.

11.7 Amendments, Waivers, Etc.

(a) Except as otherwise set forth in this Agreement with respect to actions by the Agent or as otherwise set forth in any Loan Document, neither this Agreement, the Notes nor any other Loan Document nor any provision of this Agreement, the Notes, or the Loan Documents may be amended, waived, discharged or terminated except by a written instrument signed by the Agent on behalf of the Lenders or by the Required Lenders, and in the case of amendments, by the Borrower.

(b) (i) Except where this Agreement or any of the other Loan Documents authorizes or permits the Agent to act alone and except as otherwise expressly provided in this Section 11.7(b), any action to be taken (including the giving of notice) by the Lenders may be taken, and any consent or approval required or permitted by this Agreement or any other Loan Document to be given by the Lenders may be given, and any term of this Agreement, any other Loan Document or any other instrument, document or agreement related to this Agreement or the other Loan Documents or mentioned therein may be amended, and the performance or observance by the Borrower or any other Person of any of the terms thereof and any Default or Event of Default (as defined in any of the above-referenced documents or instruments) may be waived (either generally or in a particular instance and either retroactively or prospectively), in each case only with the written consent of the Required Lenders; provided, however, that (a) no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Required Lenders or all the Lenders, as the case may be, affect the rights, duties or liabilities of the Agent under this Agreement or any other Loan Document, (b) any fee or other amount payable solely to the Agent may be amended with the consent of Borrower and the Agent, (c) no amendment, waiver or consent, unless in writing and signed by the Swingline Lender in addition to the Required Lenders or all Lenders as the case may be, shall affect the rights, duties or liabilities of the Swingline Lender under this Agreement or any other Loan Document, and (d) no amendment, waiver or consent, unless in writing and signed by U.S. Bank in addition to the Required Lenders or all Lenders, as the case may be, shall affect the rights, duties or liabilities of U.S. Bank under this Agreement or any other Loan Document with respect to the Total Demonstrator Vehicle Commitment; provided, further, that the Swingline Lender may increase the Swingline Commitment (not to exceed $10,000,000) and the Fee associated with such Commitment without the consent of any other Lender, and U.S. Bank may increase the Fee associated with the Total Demonstrator Vehicle Commitment without the consent of any other Lender.

(ii) Notwithstanding the foregoing, no amendment, waiver or consent shall do any of the following unless in writing and signed by ALL of the Lenders:

(A) increase the amount of or extend the Maturity Date or the termination date of any Commitment of any Lender, or increase the Total New Vehicle Commitment, Total Program and Used Vehicle Commitment, the Total Demonstrator Vehicle Commitment, or the Acquisition Loan Commitment;

(B) postpone or delay any date fixed by this Agreement or any other Loan Document for any payment of principal, interest, fees or other amounts due to any Lender under this Agreement or under any other Loan Document (except as they relate to Swingline Loans or Demonstrator Vehicle Loans, which shall only require the consent of the Lender(s) having a Swingline Loan Commitment or a Demonstrator Vehicle Loan Commitment, respectively);

(C) reduce the principal of, or the rate of interest on any Obligations, including any Loan, or any fees or other amounts payable under this Agreement or under any other Loan Document (except as they relate to Swingline Loans or Demonstrator Vehicle Loans, which shall only require the consent of the Lender(s) having a Swingline Loan Commitment or a Demonstrator Vehicle Loan Commitment, respectively);

(D) change the definition of Required Banks which are required to take any action under this Agreement;

(E) amend this Section 11.7(b), or any provision in this Agreement which requires consent on other action by all Lenders;

(F) release all or a substantial part of the Collateral for the Obligations; or

(G) release any Guarantor.

11.8 Binding Effect of Agreement. This Agreement shall be binding upon and inure to the benefit of the Loan Parties, the Agent, the Lenders and their respective successors and assigns; provided that the Loan Parties may not assign or transfer its rights or obligations under this Agreement.

11.9 Captions; Counterparts. The captions in this Agreement are for convenience of reference only and shall not define or limit the provisions of this Agreement. This Agreement and any amendment of this Agreement may be executed in several counterparts and by each party on a separate counterpart, each of which when so executed and delivered shall be an original, but all of which together shall constitute one instrument. In proving this Agreement it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought.

11.10 Attorney-in-Fact. Each Loan Party irrevocably appoints the Agent as its attorney-in-fact to execute, deliver and file from time to time in the name of any Loan Party or the Lenders, any trust receipts, security agreements, financing statements, continuation statements and amendments thereto and any and all other documents and instruments that the Lenders may require in connection with evidencing and securing the Obligations under this Agreement and implementing the provisions of this Agreement, which appointment shall be deemed to be a power coupled with an interest.

11.11 Entire Agreement, Etc. The Loan Documents and any other documents executed in connection herewith or therewith express the entire understanding of the parties with respect to the transactions contemplated by this Agreement and replace and supersede the Commitment Letter, dated August 27, 1997, signed by the Borrower and U.S. Bank and any other agreement between the Borrower and U.S. Bank specifically providing the Borrower with a line of credit from U.S. Bank with respect to the financing of the Loan Parties' inventory.

11.12 Waiver of Jury Trial. EACH LOAN PARTY, THE AGENT AND THE LENDERS BY THIS AGREEMENT WAIVE THEIR RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT, THE NOTES OR ANY OF THE OTHER LOAN DOCUMENTS, ANY RIGHTS OR OBLIGATIONS UNDER THIS AGREEMENT OR THEREUNDER OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS. EXCEPT AS PROHIBITED BY LAW, EACH LOAN PARTY BY THIS AGREEMENT WAIVE ANY RIGHT THEY MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION REFERRED TO IN THE PRECEDING SENTENCE ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. EACH LOAN PARTY (a) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE AGENT OR THE LENDERS HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE AGENT OR LENDERS WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS AND (b) ACKNOWLEDGE THAT THE AGENT AND THE LENDERS HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS TO WHICH EACH IS A PARTY BECAUSE OF, AMONG OTHER THINGS, EACH LOAN PARTY'S WAIVERS AND CERTIFICATIONS CONTAINED IN THIS AGREEMENT.

11.13 Governing Law. THIS AGREEMENT IS A CONTRACT UNDER THE LAWS OF THE STATE OF OREGON AND SHALL FOR ALL PURPOSES BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF OREGON (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OF LAW OR CHOICE OF LAW, RULES OR PRINCIPLES). EACH LOAN PARTY CONSENTS TO THE NON-EXCLUSIVE JURISDICTION OF ANY OF THE FEDERAL OR STATE COURTS LOCATED IN MULTNOMAH COUNTY IN THE STATE OF OREGON IN CONNECTION WITH ANY SUIT TO ENFORCE THE RIGHTS OF THE LENDERS UNDER THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS. EACH LOAN PARTY IRREVOCABLY WAIVES ANY OBJECTION WHICH THEY MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH ACTION BROUGHT IN THE COURTS REFERRED TO IN THE PRECEDING SENTENCE AND IRREVOCABLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY SUCH ACTION THAT SUCH ACTION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

11.14 Payments Set Aside. To the extent any payments on the Obligations or proceeds of any Collateral or the proceeds of such enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other Person under any law or equitable cause, then, to the extent of such recovery, the Obligation or part thereof originally intended to be satisfied, and all rights and remedies therefor, shall be revived and shall continue in full force and effect, and the Agent's and the Lenders' rights, powers and remedies under this Agreement and each other Loan Document shall continue in full force and effect, as if such payment had not been made or such enforcement or setoff had not occurred. In such event, each Loan Document shall be automatically reinstated and the Loan Parties shall take such action as may be reasonably requested by the Agent and the Lenders to effect such reinstatement.

11.15 Credit Agreement Controls. If there are any conflicts or inconsistencies among this Agreement and any of the other Loan Documents, the provisions of this Agreement shall prevail and control.

11.16 Severability. The provisions of this Agreement are severable and if any one clause or provision of this Agreement shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part of this Agreement, in such jurisdiction, and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision of this Agreement in any jurisdiction.

11.17 Disclosure. UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY THE LENDERS AFTER OCTOBER 3, 1989, CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY THE LENDERS TO BE ENFORCEABLE.

11.18 Confidentiality. Agent and each Lender agree to take normal and reasonable precautions and exercise due care to maintain the confidentiality of all information identified as "confidential" or "secret" by Borrower and provided to it by Borrower, or by the Agent on Borrower's behalf, under this Agreement or any other Loan Document, and it shall not use any such information other than in connection with or in enforcement of this Agreement and the other Loan Documents or in connection with other business now or hereafter existing or contemplated with Borrower; except to the extent such information (a) was or becomes generally available to the public other than as a result of disclosure by Agent or the Lender, or (b) was or becomes available on a non-confidential basis from a source other than Agent or Borrower; provided, however, that Agent and any Lender may disclose such information (i) at the request or pursuant to any requirement of any governmental body or regulatory or self-regulatory body to which the Agent or Lender is subject or in connection with an examination of such Agent or Lender by any such authority; (ii) pursuant to subpoena or other court process; (iii) when required to do so in accordance with the provisions of any applicable law; (iv) to the extent reasonably required in connection with any litigation or proceeding to which the Agent, any Lender or their respective Affiliates may be party; (v) to the extent reasonably required in connection with the exercise of any remedy hereunder or under any other Loan Document; (vi) to such Agent or Lender's independent auditors and other professional advisors provided that such Person agrees to keep such information confidential to the same extent required of the Lenders hereunder; (vii) to any Participant or Assignee, actual or potential, provided that such Person agrees to keep such information confidential to the same extent required of the Lenders hereunder; (viii) as to Agent or any Lender or its Affiliate, as expressly permitted under the terms of any other document or agreement regarding confidentiality to which the Borrower is a party or is deemed a party with such Lender or such Affiliate; and (ix) to its Affiliates provided that such Person agrees to keep such information confidential to the same extent required of the Lenders hereunder; provided, that with respect to disclosures under clauses (ii), (iv), and (v), Agent and such Lender shall use commercially reasonable efforts to notify the Borrower (unless such notification is prohibited by any applicable law) of the proposed disclosure before such disclosure is made to reasonably afford the Borrower the opportunity to seek to prevent such disclosure. Agent and each Lender acknowledge that Borrower has designated its projections, budgets and pro forma financial statements as "confidential."

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the date set forth in the preamble to this Agreement.

BORROWER:

LITHIA MOTORS, INC.

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer
Chairman of the Board and
Chief Executive Officer

AGENT:

U.S. BANK NATIONAL ASSOCIATION

By:
Name:
Title:

LENDERS:

U.S. BANK NATIONAL ASSOCIATION

By:
Name:
Title:

U.S. BANK (for purposes of Section 9.3):

U.S. BANK NATIONAL ASSOCIATION

By:
Name:
Title:

AFFILIATES AND SUBSIDIARIES:

LITHIA HOLDING COMPANY, L.L.C.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: Manager

LITHIA TLM, L.L.C.

By: Lithia Motors, Inc., as Manager

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: Chairman of the Board and
Chief Executive Officer

LITHIA'S GRANTS PASS AUTO CENTER, L.L.C.

By: Lithia Motors, Inc., as Manager

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: Chairman of the Board and
Chief Executive Officer

LITHIA DODGE, L.L.C.

By: Lithia Motors, Inc., as Manager

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: Chairman of the Board and
Chief Executive Officer

LITHIA CHRYSLER PLYMOUTH JEEP EAGLE, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA MTLM, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LGPAC, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA DM, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

SATURN OF SOUTHWEST OREGON, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA HPI, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA DE, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA DC, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA FN, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA TKV, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA FVHC, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA VWC, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA NB, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA BB, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA MB, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA JEB, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA RENTALS, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA AUTO SERVICES, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA SALMIR, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA BNM, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA MMF, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA FMF, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA JEF, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA NF, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA FINANCIAL CORPORATION

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

SCHEDULE 1-A

AFFILIATES AND SUBSIDIARIES

LITHIA HOLDING COMPANY, L.L.C.

LITHIA TLM, L.L.C.
Medford, OR

LITHIA'S GRANTS PASS AUTO CENTER, L.L.C.
Grants Pass, OR

LITHIA DODGE, L.L.C.
Medford, OR

LITHIA CHRYSLER PLYMOUTH JEEP EAGLE, INC.
Medford, OR

LITHIA MTLM, INC.
Medford, OR

LGPAC, INC.
Grants Pass, OR

LITHIA DM, INC.
Medford, OR

SATURN OF SOUTHWEST OREGON, INC.
Medford, OR

LITHIA HPI, INC.
Medford, OR

LITHIA DE, INC.
Eugene, OR

LITHIA DC, INC.
Concord, CA

LITHIA FN, INC.
Napa, CA

LITHIA TKV, INC.
Vacaville, CA

LITHIA FVHC, INC.
Concord, CA

LITHIA VWC, INC.
Concord, CA

LITHIA NB, INC.
Bakersfield, CA

LITHIA BB, INC.
Bakersfield, CA

LITHIA MB, INC.
Bakersfield, CA

LITHIA JEB, INC.
Bakersfield, CA

LITHIA AUTO SERVICES, INC.
Medford, OR

LITHIA SALMIR, INC.
Reno, NV

LITHIA BNM, INC.
Medford, OR

LITHIA MMF, INC.
Fresno, CA

LITHIA FMF, INC.
Fresno, CA

LITHIA JEF, INC.
Fresno, CA

LITHIA NF, INC.
Fresno, CA

LITHIA FINANCIAL CORPORATION
Medford, OR

SCHEDULE 1-B

COMMITMENTS OF THE LENDERS

	New Vehicle Commitment	Swingline Commitment	Program and Used Vehicle Commitment	Demonstrator Vehicle Commitment	Acquisition Loan Commitment
U.S. Bank National Association 111 SW Fifth Avenue Suite 400 Portland, OR 97208	100%	100%	100%	100%	100%
Total	100%	100%	100%	100%	100%

EXHIBIT A-1

FORM OF

NEW VEHICLE NOTE

$80,000,000 December 22, 1997

FOR VALUE RECEIVED, the undersigned (the "Borrower") absolutely and unconditionally promises to pay to the order of [LENDER] ("Payee") at the office of U.S. Bank National Association, 10800 NE 8th, Suite 900, Bellevue, WA 98004, or at any such other place as the Agent may specify from time to time, in lawful money of the United States of America:

(a) on the Maturity Date, the principal amount of EIGHTY MILLION DOLLARS ($80,000,000) or, if less, the aggregate unpaid principal amount of New Vehicle Loans advanced by the Payee to the Borrower pursuant to the Credit Agreement, dated as of December 22, 1997, as amended or supplemented from time to time (the "Credit Agreement"), by and among the Borrower, the Agent and the Lenders (as defined therein); and

(b) interest on the principal balance thereof from time to time outstanding from the date thereof through and including the date on which such principal amount is paid in full, at the times and at the rates provided in the Credit Agreement.

This Note evidences borrowings under, is subject to the terms and conditions of and has been issued by the Borrower in accordance with the terms of the Credit Agreement and is one of the New Vehicle Notes referred to therein. The Payee and any holder thereof is entitled to the benefits and subject to the conditions of the Credit Agreement and may enforce the agreements of the Borrower contained therein, and any holder thereof may exercise the respective remedies provided for by this Agreement or otherwise available in respect thereof, all in accordance with the respective terms thereof. This Note is secured by the Security Documents described in the Credit Agreement.

All capitalized terms used in this Note and not otherwise defined herein shall have the same meanings herein as in the Credit Agreement.

The Borrower has the right in certain circumstances and the obligation under certain other circumstances to repay or prepay the whole or part of the principal of this Note on the terms and conditions specified in the Credit Agreement.

The Lender is hereby authorized to record (i) the date and amount of each Loan made by it, (ii) the interest rate option selected, (iii) the interest rate, (iv) the Interest Period applicable to LIBOR Loans and (v) the date and amount of each continuation or conversion of, and each payment or prepayment of principal of, any Loans, on its Note Record. No failure so to record or any error in so recording shall affect the obligation of the Borrower to repay the Lender's Loans, together with interest thereon, as provided in the Credit Agreement.

If any Event of Default shall occur, the entire unpaid principal amount of this Note and all of the unpaid interest accrued thereon may become or be declared due and payable in the manner and with the effect provided in the Credit Agreement.

The Borrower and every endorser and guarantor of this Note or the obligation represented by this Agreement waive presentment, demand, notice, protest and all other demands and notice in connection with the delivery, acceptance, performance, default or enforcement of this Note, assent to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of collateral and to the addition or release of any other party or Person primarily or secondarily liable.

This Note may only be amended by an instrument in writing executed pursuant to the provisions of Section 11.7 of the Credit Agreement. Transfer, sale or assignment of any rights under this Note is subject to the provision of Sections 9.1 and 9.2 of the Credit Agreement.

This Note shall be deemed to take effect under the laws of the state of Oregon and for all purposes shall be construed in accordance with such laws (without regard to conflicts of laws or choice of laws, rules or principles).

Each Loan Party acknowledges receipt of a copy of this Agreement.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY THE LENDERS AFTER OCTOBER 3, 1989, CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY THE LENDERS TO BE ENFORCEABLE.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed by its duly authorized officer as of the day and year first above written.

LITHIA MOTORS, INC.

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer
Chairman of the Board and Chief Executive Officer

EXHIBIT A-2

FORM OF

SWINGLINE NOTE

$5,000,000 December 22, 1997

FOR VALUE RECEIVED, the undersigned (the "Borrower") absolutely and unconditionally promises to pay to the order of [LENDER] ("Payee") at the office of U.S. Bank National Association, 10800 NE 8th, Suite 900, Bellevue, WA 98004, or at any such other place as the Agent may specify from time to time, in lawful money of the United States of America:

(a) on the Maturity Date, the principal amount of FIVE MILLION DOLLARS ($5,000,000) or, if less, the aggregate unpaid principal amount of Swingline Loans advanced by the Payee to the Borrower pursuant to the Credit Agreement, dated as of December 22, 1997, as amended or supplemented from time to time (the "Credit Agreement"), by and among the Borrower, the Agent and the Lenders (as defined therein); and

(b) interest on the principal balance thereof from time to time outstanding from the date thereof through and including the date on which such principal amount is paid in full, at the times and at the rates provided in the Credit Agreement.

This Note evidences borrowings under, is subject to the terms and conditions of and has been issued by the Borrower in accordance with the terms of the Credit Agreement and is one of the Swingline Notes referred to therein. The Payee and any holder thereof is entitled to the benefits and subject to the conditions of the Credit Agreement and may enforce the agreements of the Borrower contained therein, and any holder thereof may exercise the respective remedies provided for by this Agreement or otherwise available in respect thereof, all in accordance with the respective terms thereof. This Note is secured by the Security Documents described in the Credit Agreement.

All capitalized terms used in this Note and not otherwise defined herein shall have the same meanings herein as in the Credit Agreement.

The Borrower has the right in certain circumstances and the obligation under certain other circumstances to repay or prepay the whole or part of the principal of this Note on the terms and conditions specified in the Credit Agreement.

The Lender is hereby authorized to record (i) the date and amount of each Loan made by it, (ii) the interest rate, and (iii) the date and amount of each payment or prepayment of principal of, any Loans, on its Note Record. No failure so to record or any error in so recording shall affect the obligation of the Borrower to repay the Lender's Loans, together with interest thereon, as provided in the Credit Agreement.

If any Event of Default shall occur, the entire unpaid principal amount of this Note and all of the unpaid interest accrued thereon may become or be declared due and payable in the manner and with the effect provided in the Credit Agreement.

The Borrower and every endorser and guarantor of this Note or the obligation represented by this Agreement waive presentment, demand, notice, protest and all other demands and notice in connection with the delivery, acceptance, performance, default or enforcement of this Note, assent to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of collateral and to the addition or release of any other party or Person primarily or secondarily liable.

This Note shall be deemed to take effect under the laws of the state of Oregon and for all purposes shall be construed in accordance with such laws (without regard to conflicts of laws or choice of laws, rules or principles).

This Note may only be amended by an instrument in writing executed pursuant to the provisions of Section 11.7 of the Credit Agreement. Transfer, sale or assignment of any rights under this Note is subject to the provision of Sections 9.1 and 9.2 of the Credit Agreement.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY THE LENDERS AFTER OCTOBER 3, 1989, CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY THE LENDERS TO BE ENFORCEABLE.

Each Loan Party acknowledges receipt of a copy of this Agreement.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed by its duly authorized officer as of the day and year first above written.

LITHIA MOTORS, INC.

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer
Chairman of the Board and Chief Executive Officer

EXHIBIT A-3

FORM OF

PROGRAM AND USED VEHICLE NOTE

$30,000,000 December 22, 1997

FOR VALUE RECEIVED, the undersigned (the "Borrower") absolutely and unconditionally promises to pay to the order of [LENDER] ("Payee") at the office of U.S. Bank National Association, 10800 NE 8th, Suite 900, Bellevue, WA 98004, or at any such other place as the Agent may specify from time to time, in lawful money of the United States of America:

(a) on the Maturity Date, the principal amount of THIRTY MILLION DOLLARS ($30,000,000) or, if less, the aggregate unpaid principal amount of Program and Used Vehicle Loans advanced by the Payee to the Borrower pursuant to the Credit Agreement, dated as of December 22, 1997, as amended or supplemented from time to time (the "Credit Agreement"), by and among the Borrower, the Agent and the Lenders (as defined therein); and

(b) interest on the principal balance thereof from time to time outstanding from the date thereof through and including the date on which such principal amount is paid in full, at the times and at the rates provided in the Credit Agreement.

This Note evidences borrowings under, is subject to the terms and conditions of and has been issued by the Borrower in accordance with the terms of the Credit Agreement and is one of the Program and Used Vehicle Notes referred to therein. The Payee and any holder thereof is entitled to the benefits and subject to the conditions of the Credit Agreement and may enforce the agreements of the Borrower contained therein, and any holder thereof may exercise the respective remedies provided for by this Agreement or otherwise available in respect thereof, all in accordance with the respective terms thereof. This Note is secured by the Security Documents described in the Credit Agreement.

All capitalized terms used in this Note and not otherwise defined herein shall have the same meanings herein as in the Credit Agreement.

The Borrower has the right in certain circumstances and the obligation under certain other circumstances to repay or prepay the whole or part of the principal of this Note on the terms and conditions specified in the Credit Agreement.

The Lender is hereby authorized to record (i) the date and amount of each Loan made by it, (ii) the interest rate option selected, (iii) the interest rate, (iv) the Interest Period applicable to LIBOR Loans and (v) the date and amount of each continuation or conversion of, and each payment or prepayment of principal of, any Loans, on its Note Record. No failure so to record or any error in so recording shall affect the obligation of the Borrower to repay the Lender's Loans, together with interest thereon, as provided in the Credit Agreement.

If any Event of Default shall occur, the entire unpaid principal amount of this Note and all of the unpaid interest accrued thereon may become or be declared due and payable in the manner and with the effect provided in the Credit Agreement.

The Borrower and every endorser and guarantor of this Note or the obligation represented by this Agreement waive presentment, demand, notice, protest and all other demands and notice in connection with the delivery, acceptance, performance, default or enforcement of this Note, assent to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of collateral and to the addition or release of any other party or Person primarily or secondarily liable.

This Note shall be deemed to take effect under the laws of the state of Oregon and for all purposes shall be construed in accordance with such laws (without regard to conflicts of laws or choice of laws, rules or principles).

This Note may only be amended by an instrument in writing executed pursuant to the provisions of Section 11.7 of the Credit Agreement. Transfer, sale or assignment of any rights under this Note is subject to the provision of Sections 9.1 and 9.2 of the Credit Agreement.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY THE LENDERS AFTER OCTOBER 3, 1989, CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY THE LENDERS TO BE ENFORCEABLE.

Each Loan Party acknowledges receipt of a copy of this Agreement.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed by its duly authorized officer as of the day and year first above written.

LITHIA MOTORS, INC.

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer
Chairman of the Board and Chief Executive Officer

EXHIBIT A-4

FORM OF

DEMONSTRATOR VEHICLE NOTE

$750,000 December 22, 1997

FOR VALUE RECEIVED, the undersigned (the "Borrower") absolutely and unconditionally promises to pay to the order of [LENDER] ("Payee") at the office of U.S. Bank National Association, 10800 NE 8th, Suite 900, Bellevue, WA 98004, or at any such other place as the Agent may specify from time to time, in lawful money of the United States of America:

(a) on the Maturity Date, the principal amount of SEVEN HUNDRED FIFTY THOUSAND ($750,000) or, if less, the aggregate unpaid principal amount of Demonstrator Vehicle Loans advanced by the Payee to the Borrower pursuant to the Credit Agreement, dated as of December 22, 1997, as amended or supplemented from time to time (the "Credit Agreement"), by and among the Borrower, the Agent and the Lenders (as defined therein); and

(b) interest on the principal balance thereof from time to time outstanding from the date thereof through and including the date on which such principal amount is paid in full, at the times and at the rates provided in the Credit Agreement.

This Note evidences borrowings under, is subject to the terms and conditions of and has been issued by the Borrower in accordance with the terms of the Credit Agreement and is one of the Demonstrator Vehicle Notes referred to therein. The Payee and any holder thereof is entitled to the benefits and subject to the conditions of the Credit Agreement and may enforce the agreements of the Borrower contained therein, and any holder thereof may exercise the respective remedies provided for by this Agreement or otherwise available in respect thereof, all in accordance with the respective terms thereof. This Note is secured by the Security Documents described in the Credit Agreement.

All capitalized terms used in this Note and not otherwise defined herein shall have the same meanings herein as in the Credit Agreement.

The Borrower has the right in certain circumstances and the obligation under certain other circumstances to repay or prepay the whole or part of the principal of this Note on the terms and conditions specified in the Credit Agreement.

The Lender is hereby authorized to record (i) the date and amount of each Loan made by it, (ii) the interest rate, and (iii) the date and amount of each payment or prepayment of principal of, any Loans, on its Note Record. No failure so to record or any error in so recording shall affect the obligation of the Borrower to repay the Lender's Loans, together with interest thereon, as provided in the Credit Agreement.

If any Event of Default shall occur, the entire unpaid principal amount of this Note and all of the unpaid interest accrued thereon may become or be declared due and payable in the manner and with the effect provided in the Credit Agreement.

The Borrower and every endorser and guarantor of this Note or the obligation represented by this Agreement waive presentment, demand, notice, protest and all other demands and notice in connection with the delivery, acceptance, performance, default or enforcement of this Note, assent to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of collateral and to the addition or release of any other party or Person primarily or secondarily liable.

This Note shall be deemed to take effect under the laws of the state of Oregon and for all purposes shall be construed in accordance with such laws (without regard to conflicts of laws or choice of laws, rules or principles).

This Note may only be amended by an instrument in writing executed pursuant to the provisions of Section 11.7 of the Credit Agreement. Transfer, sale or assignment of any rights under this Note is subject to the provision of Sections 9.1 and 9.2 of the Credit Agreement.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY THE LENDERS AFTER OCTOBER 3, 1989, CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY THE LENDERS TO BE ENFORCEABLE.

Each Loan Party acknowledges receipt of a copy of this Agreement.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed by its duly authorized officer as of the day and year first above written.

LITHIA MOTORS, INC.

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer
Chairman of the Board and Chief Executive Officer

EXHIBIT A-5A

FORM OF

ACQUISITION REVOLVING NOTE

$30,000,000 December 22, 1997

FOR VALUE RECEIVED, the undersigned (the "Borrower") absolutely and unconditionally promises to pay to the order of [LENDER] ("Payee") at the office of U.S. Bank National Association, 10800 NE 8th, Suite 900, Bellevue, WA 98004, or at any such other place as the Agent may specify from time to time, in lawful money of the United States of America:

(a) on the Maturity Date, the principal amount of THIRTY MILLION DOLLARS ($30,000,000) or, if less, the aggregate unpaid principal amount of Acquisition Revolving Loans advanced by the Payee to the Borrower pursuant to the Credit Agreement, dated as of December 22, 1997, as amended or supplemented from time to time (the "Credit Agreement"), by and among the Borrower, the Agent and the Lenders (as defined therein); and

(b) interest on the principal balance thereof from time to time outstanding from the date thereof through and including the date on which such principal amount is paid in full, at the times and at the rates provided in the Credit Agreement.

This Note evidences borrowings under, is subject to the terms and conditions of and has been issued by the Borrower in accordance with the terms of the Credit Agreement and is one of the Acquisition Revolving Notes referred to therein. The Payee and any holder thereof is entitled to the benefits and subject to the conditions of the Credit Agreement and may enforce the agreements of the Borrower contained therein, and any holder thereof may exercise the respective remedies provided for by this Agreement or otherwise available in respect thereof, all in accordance with the respective terms thereof. This Note is secured by the Security Documents described in the Credit Agreement.

All capitalized terms used in this Note and not otherwise defined herein shall have the same meanings herein as in the Credit Agreement.

The Borrower has the right in certain circumstances and the obligation under certain other circumstances to repay or prepay the whole or part of the principal of this Note on the terms and conditions specified in the Credit Agreement.

The Lender is hereby authorized to record (i) the date and amount of each Loan made by it, (ii) the interest rate option selected, (iii) the interest rate, (iv) the Interest Period applicable to LIBOR Loans and (v) the date and amount of each continuation or conversion of, and each payment or prepayment of principal of, any Loans, on its Note Record. No failure so to record or any error in so recording shall affect the obligation of the Borrower to repay the Lender's Loans, together with interest thereon, as provided in the Credit Agreement.

If any Event of Default shall occur, the entire unpaid principal amount of this Note and all of the unpaid interest accrued thereon may become or be declared due and payable in the manner and with the effect provided in the Credit Agreement.

The Borrower and every endorser and guarantor of this Note or the obligation represented by this Agreement waive presentment, demand, notice, protest and all other demands and notice in connection with the delivery, acceptance, performance, default or enforcement of this Note, assent to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of collateral and to the addition or release of any other party or Person primarily or secondarily liable.

This Note shall be deemed to take effect under the laws of the state of Oregon and for all purposes shall be construed in accordance with such laws (without regard to conflicts of laws or choice of laws, rules or principles).

This Note may only be amended by an instrument in writing executed pursuant to the provisions of Section 11.7 of the Credit Agreement. Transfer, sale or assignment of any rights under this Note is subject to the provision of Sections 9.1 and 9.2 of the Credit Agreement.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY THE LENDERS AFTER OCTOBER 3, 1989, CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY THE LENDERS TO BE ENFORCEABLE.

Each Loan Party acknowledges receipt of a copy of this Agreement.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed by its duly authorized officer as of the day and year first above written.

LITHIA MOTORS, INC.

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer
Chairman of the Board and Chief Executive Officer

EXHIBIT A-5B

FORM OF

ACQUISITION TERM NOTE

[$_____] December 22, 1997

FOR VALUE RECEIVED, the undersigned (the "Borrower") absolutely and unconditionally promises to pay to the order of [LENDER] ("Payee") at the office of U.S. Bank National Association, 10800 NE 8th, Suite 900, Bellevue, WA 98004.

(a) the principal amount of [_____ DOLLARS ($_____)] in installments as provided in the Credit Agreement, dated as of December 22, 1997, as amended or supplemented from time to time (the "Credit Agreement"), by and among the Borrower, the Agent and the Lenders (as defined therein), with the unpaid balance thereof due and payable in full on the date five years from the Maturity Date; and

(b) interest on the principal balance thereof from time to time outstanding from the date thereof through and including the date on which such principal amount is paid in full, at the times and at the rates provided in the Credit Agreement.

This Note evidences borrowings under, is subject to the terms and conditions of and has been issued by the Borrower in accordance with the terms of the Credit Agreement and is one of the Acquisition Term Notes referred to therein. The Payee and any holder thereof is entitled to the benefits and subject to the conditions of the Credit Agreement and may enforce the agreements of the Borrower contained therein, and any holder thereof may exercise the respective remedies provided for by this Agreement or otherwise available in respect thereof, all in accordance with the respective terms thereof. This Note is secured by the Security Documents described in the Credit Agreement.

All capitalized terms used in this Note and not otherwise defined herein shall have the same meanings herein as in the Credit Agreement.

The Borrower has the right in certain circumstances and the obligation under certain other circumstances to repay or prepay the whole or part of the principal of this Note on the terms and conditions specified in the Credit Agreement.

If any Event of Default shall occur, the entire unpaid principal amount of this Note and all of the unpaid interest accrued thereon may become or be declared due and payable in the manner and with the effect provided in the Credit Agreement.

The Borrower and every endorser and guarantor of this Note or the obligation represented by this Agreement waive presentment, demand, notice, protest and all other demands and notice in connection with the delivery, acceptance, performance, default or enforcement of this Note, assent to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of collateral and to the addition or release of any other party or person primarily or secondarily liable.

This Note shall be deemed to take effect under the laws of the state of Oregon and for all purposes shall be construed in accordance with such laws (without regard to conflicts of laws or choice of laws, rules or principles).

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY THE LENDERS AFTER OCTOBER 3, 1989, CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY THE LENDERS TO BE ENFORCEABLE.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed by its duly authorized officer as of the day and year first above written.

LITHIA MOTORS, INC.

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer
Chairman of the Board and Chief Executive Officer

EXHIBIT 10.30.2

SECURITY AGREEMENT

AMONG

U.S. BANK NATIONAL ASSOCIATION,
as Agent and Lender

AND

LITHIA MOTORS, INC., and its
AFFILIATES and SUBSIDIARIES

Dated: December 22, 1997

This SECURITY AGREEMENT, dated as of December 22, 1997 (this "Agreement"), is entered into by and among LITHIA MOTORS, INC., LITHIA HOLDING COMPANY, L.L.C., LITHIA TLM, L.L.C., LITHIA'S GRANTS PASS AUTO CENTER, L.L.C., LITHIA DODGE, L.L.C., LITHIA CHRYSLER PLYMOUTH JEEP EAGLE, INC., LITHIA MTLM, INC., LGPAC, INC., LITHIA DM, INC., SATURN OF SOUTHWEST OREGON, INC., LITHIA HPI, INC., LITHIA DE, INC., LITHIA DC, INC., LITHIA FN, INC., LITHIA TKV, INC., LITHIA FVHC, INC., LITHIA VWC, INC., LITHIA NB, INC., LITHIA BB, INC., LITHIA MB, INC., LITHIA JEB, INC., LITHIA RENTALS, INC., LITHIA AUTO SERVICES, INC., LITHIA SALMIR, INC., LITHIA BNM, INC., LITHIA MMF, INC., LITHIA FMF, INC., LITHIA JEF, INC., LITHIA NF, INC., and LITHIA FINANCIAL CORPORATION, (each a "Loan Party" and collectively, the "Loan Parties") and the Lenders (each as defined below), and U.S. Bank National Association, as agent for the Lenders, as defined below, (in such capacity, the "Agent"). The Agent's address for purposes hereof is U.S. Bank National Association, 131 East Main Street, Medford, Oregon 97501. The mailing address for all Loan Parties for purposes of this Security Agreement and any financing statements is 360 East Jackson Street, Medford, Oregon 97504.

A. Concurrently with execution of this Agreement, Lithia Motors, Inc. (the "Borrower") and the Loan Parties have entered a Credit Agreement with U.S. Bank National Association and the financial institutions who are from time to time parties thereto (the "Lenders") and U.S. Bank National Association, as agent for the Lenders (in such capacity, the "Agent"), (as the same may be amended, modified, supplemented or extended from time to time and any number of substitutions, renewals and replacements thereof or therefor, the "Credit Agreement"), pursuant to which the Lenders have agreed to extend credit to the Borrower for the benefit of the Loan Parties from time to time.

B. It is a condition precedent to the Agent and the Lenders entering into the Credit Agreement and making extensions of credit under the Credit Agreement that the Loan Parties execute and deliver this Agreement and grant the security interests provided in this Agreement;

NOW, THEREFORE, to induce the Agent and the Lenders to enter into the Credit Agreement and the Lenders to make or extend to the Borrower one or more loans, advances or other extensions of credit upon the terms and subject to the conditions set forth therein, and in consideration thereof, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, each Loan Party agrees as follows:

Section 1. Definitions.

(a) Capitalized terms used in this Agreement but not defined in this Agreement shall have the meaning ascribed to them in the Credit Agreement. All terms defined in the UCC shall have the meanings ascribed in the UCC.

(b) Collateral. All of each Loan Parties' right, title, and interest in and to the following personal property, whether now owned or existing or subsequently acquired or arising or in which any Loan Party now has or subsequently acquires any rights: (i) accounts (including without limitation accounts receivable and rebates, credits, refunds, and similar items), instruments, chattel paper, documents, contracts (including without

limitation the Material Agreements), general intangibles, goods (including without limitation all Vehicles and all other inventory, equipment and consumer goods), proceeds of letters of credit, and fixtures; (ii) all products, proceeds, rents and profits thereof; and (iii) all of the books and records related to any of the foregoing.

(c) Security Interests. The security interests and liens granted pursuant to Section 2 of this Agreement, as well as all other security interests created or assigned as additional security for the Obligations pursuant to this Agreement or any other Loan Document.

(d) UCC. The Uniform Commercial Code as the same may, from time to time, be in effect in the state of Oregon; provided however, in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of the security interest in any Collateral is governed by the Uniform Commercial Code as in effect in the jurisdiction other than the State of Oregon, the term "UCC" shall mean the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions of this Agreement relating to such attachment, perfection or priority and for purposes of definitions related to such provisions.

Section 2. Grant.

To secure the full and punctual payment and performance of the Obligations (including, without limitation, arising under or relating to the Notes or the Guaranty), each Loan Party hereby assigns and pledges to the Agent for the benefit of the Lenders all of its respective rights, title and interest in, and grants to the Agent for the benefit of the Lenders a continuing security interest in the Collateral. The Security Interests are granted as security only and shall not subject the Agent or the Lenders to, or transfer to the Agent or the Lenders or in any way affect or modify, any obligation or liability of any Loan Party with respect to any of the Collateral or any transaction in connection therewith. Each of the Lenders shall be deemed to hold an equitable interest, proportionate to such Lender's Commitment in relation to the Total Commitment, in the Collateral.

Section 3. Representations, Warranties and Covenants.

The Loan Parties do hereby, jointly and severally, make the following representations and warranties and agree to the following covenants, each of which representations, warranties and covenants shall be continuing and in force so long as this Agreement is in effect or any Obligation remains outstanding:

3.1 Name; Location; Changes.

(a) The name of each Loan Party set forth in Section 1(a) of its Perfection Certificate, in the form attached hereto as Exhibit A is the true and correct legal name of such Loan Party and, except as otherwise disclosed to the Agent in the Perfection Certificate, such Loan Party has not done business as or used any other name.

(b) The address of each Loan Party set forth in Section 2(a) of its Perfection Certificate is such Loan Party's chief executive office and the place where its business records are kept. Except as disclosed in the Perfection Certificate, all tangible Collateral of such Loan Party is located at such chief executive office.

(c) No Loan Party will change its name, identity or chief executive office or place where its business records are kept; or move any tangible Collateral to a location other than those set forth in its Perfection Certificate unless the Borrower shall have given the Agent at least 30 days' prior written notice thereof and such Loan Party shall have delivered to the Agent such new UCC financing statements or other documentation as may be necessary or required by the Agent to ensure the continued perfection and priority of the Security Interest.

(d) If any Collateral is leased or held for lease to customers of any Loan Party and is of a type normally used in more than one state (such as Vehicles and similar items), the Loan Party's chief executive office is the address shown at the beginning of this Agreement.

3.2 Ownership of Collateral; Absence of Liens and Restrictions. Each Loan Party is, and in the case of property acquired after the date of this Agreement will be, the sole legal and equitable owner of the Collateral of such Loan Party, holding good and marketable title to the same, free and clear of all Encumbrances except for the Security Interests and Permitted Encumbrances, and has good right and legal authority to assign, deliver and create a security interest in such Collateral in the manner contemplated by this Agreement. The Collateral is genuine and is what it is purported to be. The Collateral is not subject to any restriction that would prohibit or restrict the assignment, delivery or creation of the Security Interests contemplated under this Agreement.

3.3 First Priority Security Interest. This Agreement creates a valid and continuing lien on and security interest in the Collateral, and upon the filing of UCC financing statements in the appropriate offices for the locations of Collateral listed in each Loan Party's Perfection Certificate, the Security Interests will be perfected (except to the extent a security interest may not be perfected by filing under the UCC) before all other Encumbrances, except for Permitted Encumbrances and as contemplated by
Section 9.3 of the Credit Agreement, and will be enforceable as such against creditors of the Loan Party, any owner of the real property where any of the Collateral is located, any purchaser of such real property and any present or future creditor obtaining a lien on such real property.

3.4 No Conflicts. Neither any Loan Party nor any of the Loan Party's respective predecessors has performed any acts or is bound by any agreements that might prevent the Agent from enforcing the Security Interests or any of the terms of this Agreement or that would limit the Agent in any such enforcement. Except as specifically disclosed in a Perfection Certificate, no financing statement under the UCC of any state or other instrument evidencing a lien that names any Loan Party as debtor is on file in any jurisdiction, and no Loan Party has signed any such document or any agreement authorizing the filing of any such financing statement or instrument.

3.5 Sales and Further Encumbrances. No Loan Party will sell, grant, assign or transfer any interest in, or permit to exist any Encumbrance on, any of the Collateral of such Loan Party, except the Security Interests and as permitted by the Credit Agreement.

3.6 Fixture Conflicts; Required Waivers. Each Loan Party intends that the Collateral of such Loan Party shall remain personal property of such Loan Party and shall not be deemed to be a fixture irrespective of the manner of its attachment to any real estate. Each Loan Party will deliver to the Agent such disclaimers, waivers, or other documents as the Agent may request to confirm the foregoing, executed by each person having an interest in such real estate.

3.7 Validity of Receivables. Each account, document chattel paper, instrument and general intangible (collectively, "Receivable") constituting Collateral arises and will arise in the ordinary course of a Loan Party's business out of or in connection with the sale or lease of goods or the rendering of services and is and shall be a valid, legal and binding obligation of the party purported to be obligated thereon, enforceable in accordance with its terms and free of material setoffs, defenses or counterclaims. No Loan Party has any knowledge of any fact that would materially impair the validity or collectibility of any Receivable.

3.8 Inspection; Verification of Receivables. Each Loan Party shall keep complete and accurate books and records relating to the Collateral, and upon request of the Agent shall stamp or otherwise mark such books and records in such manner as the Agent may reasonably request to reflect the Security Interests. Each Loan Party will allow the Agent or its designees to examine, inspect and make extracts from or copies of such Loan Party's books and records, inspect the Collateral and arrange for verification of Receivables constituting Collateral directly with any debtors or by other methods, under reasonable procedures established by the Agent after consultation with such Loan Party. The Agent may require each Loan Party to assemble the Collateral for such inspection in a reasonably convenient place, and in all other ways each Loan Party shall assist the Agent in making such inspection. The Borrower agrees to pay in full any item or unit of Collateral that is not located at a Loan Party's premises or accounted for by a Loan Party to the Agent in accordance with the terms of the Credit Agreement.

3.9 Receivables: Collection and Delivery of Proceeds. Each Loan Party will diligently collect all of its Receivables constituting Collateral until the Agent exercises its rights to collect the Receivables pursuant to this Agreement. If any Receivables are at any time evidenced by promissory notes, trade acceptances or other instruments for the payment of money, such Loan Party will promptly deliver the same to the Agent appropriately endorsed to the Agent's order, and, regardless of the form of such endorsement, each Loan Party hereby waives presentment, demand, notice of dishonor, protest, notice of protest and all other notices with respect thereto. Each Loan Party shall, at the request of the Agent at any time, notify debtors, and the Agent may itself, after the occurrence and during the continuance of a Default, notify debtors directly of the security interest of the Agent in any Receivable and that payment thereof is to be made directly to the Agent. Any proceeds of Receivables or inventory constituting Collateral received by each Loan Party, whether in the form of cash, checks, notes or other instruments, shall be held in trust for the Agent, and, if requested by the Agent, such Loan Party shall deliver said proceeds daily to the Agent, without commingling, in the identical form received (properly endorsed or assigned

where required to enable the Agent to collect same). Upon request of the Agent at any time, each Loan Party will (i) enter into a lockbox arrangement with one or more financial institutions (which may include the Agent or any of the Lenders) deemed acceptable by the Agent for the collection of such proceeds and/or (ii) maintain its deposit accounts at the Agent or at another financial institution that has agreed to accept drafts drawn on it by the Agent under a written depository transfer agreement or other arrangement with the Agent and to block such account and waive its own rights as against such account.

3.10 Inventory. At least monthly and whenever else reasonably requested by the Agent, each Loan Party shall make a physical count of all Vehicle inventory and shall furnish to the Agent a report (certified by an authorized officer of the Loan Party to be true, correct and complete) of such physical count, such report to be in such form and with such specificity as may be reasonably requested by the Agent.

3.11 Insurance. Each Loan Party will keep the Collateral of such Loan Party insured at all times by insurance in such form and amounts as may be reasonably satisfactory to the Agent, and in any event (without specific request by the Agent) will insure such Collateral against physical hazard on an "all risks" basis, including fire, theft and, in the case of Vehicles, collision. Such insurance shall be with insurance companies reasonably satisfactory to the Agent and shall be payable to the Agent as loss payee and such Loan Party, as their respective interests may appear. Such insurance shall provide for not less than 30 days' prior notice of cancellation, change in form or nonrenewal to the Agent and shall insure the interest of the Agent regardless of any breach or violation by such Loan Party or any other person of the warranties, declarations or covenants contained in such policies. Each Loan Party shall insure the Collateral in amounts sufficient to prevent the application of any co-insurance provisions and shall insure the Collateral at all times in an amount at least equal to the amount of the Obligations. Each Loan Party shall evidence its compliance with the foregoing by delivering a certificate with respect to each policy concurrently with the execution of this Agreement, annually thereafter, and from time to time upon the request of the Agent.

WARNING

Unless each Loan Party provides the Agent with evidence of the insurance coverage as required by the Credit Agreement or any Loan Document, the Agent may purchase insurance at the Loan Party's expense to protect the Lenders' interest. This insurance may, but need not, also protect the Loan Party's interest. If the Collateral becomes damaged, the coverage the Agent purchases may not pay any claim any Loan Party makes or any claim made against any Loan Party. Each Loan Party may later cancel this coverage by providing evidence that the Loan Party has obtained property coverage elsewhere.

Each Loan Party is responsible for the cost of any insurance purchased by the Agent. The cost of this insurance may be added to the Total Loan Outstandings. If the cost is added to the Total Loan Outstandings, the highest interest rate on the underlying Loan will apply to this added amount. The effective date of coverage may be the date any Loan Party's prior coverage lapsed or the date the Loan Party failed to provide proof of coverage.

The coverage the Agent purchases may be considerably more expensive than insurance any Loan Party can obtain on its own and may not satisfy any need for property damage coverage or any mandatory liability insurance requirements imposed by applicable law.

3.12 Maintenance and Use; Payment of Taxes. Each Loan Party will preserve, protect and keep the Collateral of such Loan Party in good order and repair, will not use the same in violation of law or any policy of insurance thereon and will pay promptly when due all taxes and assessments on such Collateral or on its use or operation, except as otherwise permitted by the Credit Agreement.

3.13 General Intangibles.

(a) Each Loan Party will apply for, and diligently pursue applications for, registration of its ownership of the general intangibles constituting Collateral and for which registration is appropriate, and will use such other measures as are appropriate to preserve its rights in its other general intangibles constituting Collateral. Each Loan Party will, at the reasonable request of the Agent, retain off-site current copies of all materials created by or furnished to such Loan Party on which is recorded

then-current information about any computer programs or data bases that such Loan Party has developed or otherwise has the right to use from time to time. Such materials include, without limitation, magnetic or other computer media on which object, source or other code is recorded or that contain documentation of those computer programs or data bases, in the nature of listing printouts, narrative descriptions, flow diagrams and similar things. Each Loan Party will, at the request of the Agent, deliver a set of such copies to the Agent for safekeeping and retention or transfer in the event of foreclosure.

(b) The Loan Parties shall timely and diligently pursue the enforcement of each material covenant or obligation of each other party to each Material Agreement. The Borrower will promptly notify the Agent in writing of any material default under any such agreement or any revocation, termination, cancellation or expiration thereof (other than with respect to Material Agreements that are purchase and sale agreements in connection with an Acquisition), specifying the nature and period of existence thereof and what action the Loan Parties are taking or propose to take with respect thereto. Promptly upon becoming available, the Borrower shall deliver to the Agent copies of all notices and other documents received by any Loan Party that describe any event which would materially and adversely affect (i) the condition (financial or otherwise), operations, business, or properties of any Loan Party or the ability of any Loan Party to perform timely its obligations under any such material agreement or any Loan Document, or
(ii) the ability of any other party to any such Material Agreement to perform timely its obligations under any such Material Agreement to which it is a party.

No Loan Party will cause, or suffer to exist, any expiration, termination, revocation, or cancellation of, or material default under, any Material Agreement, regardless of cause, or cause, or suffer to exist, any such Material Agreement to not be in full force and effect or not constitute the legal, valid and binding obligations of the parties thereto, or assign or grant to a Person any right or interest arising therefrom and will not, without the prior written consent of the Required Lenders, materially modify or amend any such Material Agreement.

3.14 Further Assurances. Upon the reasonable request of the Agent, and at the sole expense of such Loan Party, the Loan Party will promptly execute and deliver such further instruments and documents and take such further actions as the Agent may deem desirable to obtain the full benefits of this Agreement and of the rights and powers in this Agreement granted, including, without limitation, filing of any financing statement or notice under the UCC or other applicable law, execution of assignments or mortgages of general intangibles and transfer of Collateral (other than inventory and equipment) to the Agent's possession. Each Loan Party authorizes the Agent to file any such financing or continuation statement, or amendments thereto, without the signature of such Loan Party to the extent permitted by applicable law and to file a copy of this Agreement in lieu of a financing statement. If any amount payable under or in connection with any of the Collateral of any Loan Party shall be or become evidenced by any promissory note or other instrument, such note or instrument shall be immediately delivered to the Agent, duly endorsed in a manner satisfactory to it. If any Receivables of any Loan Party arise from contracts with the United States of America or any department, agency or instrumentality thereof, such Loan Party will immediately notify the Agent thereof and execute any assignments and take any steps reasonably requested by the Agent in order that all monies due and to become due thereunder shall be assigned and paid to the Agent under the Assignment of Claims Act of 1940. If any Collateral is at any time in the possession or control of any warehouseman, bailee or agents of any Loan Party or processors, such Loan Party shall, upon request of the Agent, notify such warehouseman, bailee, agent or processor of the Security Interests and to hold all such Collateral for the Agent's Receivable subject to the Agent's instructions.

3.15 Obligation to Enter Into the Guaranty Agreement. The Loan Parties shall promptly sign the Guaranty as required by the Credit Agreement.

Section 4. Notices and Reports Pertaining to Collateral.

Each Loan Party will, with respect to the Collateral:

(a) promptly furnish to the Agent, from time to time upon request, reports in form and detail satisfactory to the Agent;

(b) promptly notify the Agent of (i) any Encumbrance (except Permitted Encumbrances) asserted against the Collateral, including any attachment, levy, execution or other legal process levied against any of the Collateral, (ii) any default or event of default (including any occurrence that with the giving of notice or the passage of time would constitute a

default) under any Material Agreement, and (iii) of any information received by the Loan Party relating to the Collateral, including the Receivables, the debtors or other persons obligated in connection therewith, that may in any way adversely affect the value of the Collateral or the rights and remedies of the Agent with respect thereto;

(c) promptly notify the Agent when it obtains knowledge of actual or imminent bankruptcy or other insolvency proceeding of any account debtor or issuer of securities;

(d) deliver to the Agent, as the Agent may from time to time request, delivery receipts, customers' purchase orders, shipping instructions, bills of lading and any other evidence of shipping arrangements;

(e) concurrently with the reports required to be furnished under subsection (a) of this Section, and immediately if material in amount, notify the Agent of any return or adjustment, rejection, repossession or loss or damage of or to merchandise represented by Receivables or constituting inventory and of any credit, adjustment or dispute arising in connection with the goods or services represented by Receivables or constituting inventory; and

(f) promptly after the application by such Loan Party for registration of any general intangibles, or promptly after the execution and delivery of any Material Agreement, notify the Agent thereof.

Each Loan Party authorizes the Agent to destroy all invoices, delivery receipts, reports and other types of documents and records submitted to the Agent in connection with the transactions contemplated in this Agreement at any time after 12 months from the time such items are delivered to the Agent.

Section 5. Agent's Rights and Remedies in General.

(a) So long as any Event of Default has occurred and is continuing:

(i) the Agent may, at its option, without notice or demand, cause all of the Obligations to become immediately due and payable and take immediate possession of the Collateral, and for that purpose the Agent may, so far as any Loan Party can give authority therefor, enter upon any premises on which any of the Collateral is situated and remove the same therefrom or remain on such premises and in possession of such Collateral for purposes of conducting a sale or enforcing the rights of the Agent;

(ii) each Loan Party will, upon demand, assemble the Collateral and make it available to the Agent at a place and time designated by the Agent that is reasonably convenient to both parties;

(iii) the Agent may collect and receive all income and proceeds in respect of any Collateral and exercise all rights of any Loan Party with respect thereto;

(iv) the Agent may sell, lease or otherwise dispose of any Collateral at a public or private sale, with or without having such Collateral at the place of sale and upon such terms and in such manner as the Agent may determine, and the Agent may purchase any Collateral at any such sale. Unless such Collateral threatens to decline rapidly in value or is of the type customarily sold on a recognized market, the Agent shall send to the Loan Party owning such Collateral prior written notice (which, if given within five (5) days of any sale, shall be deemed to be reasonable) of the time and place of any public sale of such Collateral or of the time after which any private sale or other disposition thereof is to be made. Each Loan Party agrees that upon any such sale such Collateral shall be held by the purchaser free from all claims or rights of every kind and nature, including any equity of redemption or similar rights, and all such equity of redemption and similar rights are hereby expressly waived and released by such Loan Party. In the event any consent, approval or authorization of any governmental agency is necessary to effectuate any such sale, such Loan Party shall execute all applications or other instruments as may be required; and

(v) in any jurisdiction where the enforcement of its rights under this Agreement is sought, the Agent shall have, in addition to all other rights and remedies, the rights and remedies of an Agent under the Uniform Commercial Code and other applicable law.

(b) The Agent may perform any covenant or agreement of any Loan Party contained in this Agreement that the Loan Party has failed to perform, and in so doing the Agent may expend such sums as it may reasonably deem advisable in the performance thereof, including, without limitation, the payment of any taxes or insurance premiums, payment to obtain a release of an Encumbrance or potential Encumbrance, expenditures made in defending against any adverse

claim and all other expenditures that the Agent may make for the protection of any Collateral or that it may be compelled to make by operation of law. All such sums and amounts so expended shall be repaid by the Loan Party upon demand, shall constitute additional Obligations and shall bear interest from the date such amounts are expended at the highest rate per annum provided in the Credit Agreement to be paid on Prime Rate Loans after the occurrence of an Event of Default. No such performance of any covenant or agreement by the Agent on behalf of such Loan Party, and no such advance or expenditure therefor, shall relieve the Loan Party of any Event of Default under the terms of this Agreement or the other Loan Documents.

(c) Before any disposition of Collateral pursuant to this Agreement, the Agent may, at its option, cause any of the Collateral to be repaired or reconditioned (but not upgraded unless mutually agreed) in such manner and to such extent as to make it saleable.

(d) The Agent is hereby granted a license or other right to use, without charge, each Loan Party's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks and advertising matter, or any property of a similar nature, relating to the Collateral in completing the production of, advertising for sale and selling any Collateral; and each Loan Party's rights under all licenses and all franchise agreements shall inure to the Agent's benefit (provided, however, that nothing in this Agreement shall require the Agent to operate the business of any Loan Party in connection with the sale of any Collateral).

(e) The Agent shall be entitled to retain the proceeds of any disposition of the Collateral and to apply them, first, to its reasonable expenses of retaking, holding, protecting and maintaining and preparing for disposition and disposing of the Collateral, including attorneys' fees and other legal expenses incurred by it in connection therewith; and second, to the payment of the Obligations in such order of priority as the Agent shall determine. Any surplus remaining after such application shall be paid to the Loan Parties or to whomever may be legally entitled thereto, provided that in no event shall the Loan Parties be credited with any part of the proceeds of the disposition of the Collateral until such proceeds shall have been received in cash by the Agent. The Loan Parties shall remain liable for any deficiency.

(f) Each Loan Party hereby appoints the Agent and each of the Agent's designees or agents as attorney-in-fact of such Loan Party, irrevocably and with power of substitution, with full authority in the name of such Loan Party, the Agent or otherwise, for sole use and benefit of the Agent, but at such Loan Party's expense, so long as an Event of Default is continuing, to take any and all of the actions specified above in this Section and elsewhere in this Agreement. This power of attorney is a power coupled with an interest and shall be irrevocable for so long as any of the Obligations or Commitments remain outstanding.

Section 6. Agent's Rights and Remedies with Respect to Collateral.

The Agent may, at its option, at any time and from time to time after the occurrence and during the continuance of an Event of Default, without notice to or demand on any Loan Party, take the following actions with respect to the Collateral:

(a) with respect to any Receivable (i) demand, collect and receipt for any amounts relating thereto, as the Agent may determine; (ii) commence and prosecute any actions in any court for the purposes of collecting any such Receivables and enforcing any other rights in respect thereof; (iii) defend, settle or compromise any action brought and, in connection therewith, give such discharges or releases as the Agent may deem appropriate; (iv) receive, open and dispose of mail addressed to any Loan Party and endorse title documents, checks, notes, drafts, acceptances, money orders, bills of lading, warehouse receipts or other instruments or documents evidencing payment, shipment or storage of the goods giving rise to such Receivables or securing or relating to such Receivables, on behalf of and in the name of such Loan Party; and (v) sell, assign, transfer, make any agreement in respect of, or otherwise deal with or exercise rights in respect of, any such Receivables or the goods or services that have given rise thereto, as fully and completely as though the Agent were the absolute owner thereof for all purposes; and

(b) with respect to any equipment and inventory (i) make, adjust and settle claims under any insurance policy related thereto and place and pay for appropriate insurance thereon; (ii) discharge taxes and other Encumbrances at any time levied or placed thereon; (iii) make repairs or provide maintenance with respect thereto; and (iv) pay any necessary filing

fees and any taxes arising as a consequence of any such filing. The Agent shall have no obligation to make any such expenditures, nor shall the making thereof relieve the Loan Party of its obligation to make such expenditures.

Section 7. The Agent's Duties.

The powers conferred on the Agent under this Agreement are solely to protect its and the Lenders' interest in the Collateral and shall not impose any duty upon it to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for moneys actually received by it under this Agreement, the Agent shall have no duty as to maturities, tenders, or other matters relative to any Collateral, whether or not the Agent or any Lender has or is deemed to have knowledge of such matters, or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral. The Agent shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its possession if such Collateral is accorded treatment substantially equal to that which it accords its own property.

Section 8. Setoff Rights.

Regardless of the adequacy of any Collateral or any other means of obtaining repayment for any Obligations, the Agent may at any time and from time to time, after the occurrence of an Event of Default and without notice to the Borrower or any other Loan Party (any such notice being expressly waived by the Borrower and each other Loan Party) and to the fullest extent permitted by law, set off and apply any and all deposits (general or special, time or demand, provisional or final) and other sums credited by or due from the Agent to the Borrower or any other Loan Party or subject to withdrawal by the Borrower or any other Loan Party and any other property and securities at any time in the possession or control of the Agent against any Obligations, whether or not the Agent shall have made any demand for such Obligations and although such Obligations may be contingent or unmatured.

Section 9. Security Interest Absolute.

All rights of the Agent or the Lenders and the Security Interest granted under this Agreement, and all obligations of each Loan Party under this Agreement, shall be absolute and unconditional, notwithstanding:

9.1 Any lack of validity, regularity, or enforceability of the Credit Agreement, the Notes, any other Loan Document or any other agreement or instrument relating thereto;

9.2 Any change in the time, manner, or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the Credit Agreement, the Notes or the other Loan Documents, including, without limitation, any increase in the Obligations resulting from the extension of any additional credit to any Loan Party;

9.3 Any taking, exchange, substitution, release, or nonperfection of any other Collateral, or taking, release, or amendment or waiver of or consent to departure from any Guaranty, for all or any of the Obligations;

Section 10. Continuing Security Interest.

This Agreement shall create a continuing security interest in the Collateral and shall (a) remain in full force and effect until the later of (i) the payment in full of the Obligations and all other amounts payable under this Agreement and the complete performance of all other Obligations and (ii) the expiration or termination of the Commitments; (b) be binding on each Loan Party, and its successors and assigns; and (c) inure to the benefit of, and be enforceable by, the Agent and its successors, transferees, and assigns. To the extent any payments on the Obligations or proceeds of any Collateral or the proceeds of such enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other Person under any law or equitable cause, then, to the extent of such recovery, the Obligation or part thereof originally intended to be satisfied, and all rights and remedies therefor, shall be revived and shall continue in full force and effect, and the Agent's and the Lenders' rights, powers and remedies under this Agreement and each other Loan Document shall continue in full force and effect, as if such payment had not been made or such enforcement or setoff had not occurred. In such event, each Loan Document shall be automatically reinstated and the Loan Parties shall take such action as may be reasonably requested by the Agent and the Lenders to effect such reinstatement.

Section 11. Waivers.

Each Loan Party waives presentment, demand, notice, protest, notice of acceptance of this Agreement, notice of any loans made, credit or other extensions granted, Collateral received or delivered and any other action taken in reliance hereon and all other demands and notices of any description, except for such demands and notices as are expressly required to be provided to such Loan Party under this Agreement or any other document evidencing the Obligations. Each Loan Party waives, to the full extent permitted by law, the benefit of all appraisement, valuation, stay, extension and redemption laws now or hereafter in force and all rights of marshaling in the event of any sale or disposition of any of the Collateral. With respect to both the Obligations and any Collateral, each Loan Party assents to any extension or postponement of the time of payment or any other forgiveness or indulgence; to any substitution, exchange or release of Collateral; to the addition or release of any party or person primarily or secondarily liable; and to the acceptance of partial payment thereon and the settlement, compromise or adjustment of any thereof, all in such manner and at such time or times as the Agent may deem advisable. The Agent may exercise its rights with respect to any Collateral without resorting, or regard, to other collateral or sources of reimbursement for Obligations. The Agent shall not be deemed to have waived any of its rights with respect to the Obligations or the Collateral unless such waiver is in writing and signed by the Agent. No delay or omission on the part of the Agent in exercising any right and no course of dealing shall operate as a waiver of such right or any other right. A waiver on any one occasion shall not bar or waive the exercise of any right on any future occasion. All rights and remedies of the Agent in the Obligations or the Collateral, whether evidenced hereby or by any other instrument or papers, are cumulative and not exclusive of any remedies provided by law or any other agreement and may be exercised separately or concurrently.

Section 12. Expenses.

Each Loan Party agrees to indemnify, defend, reimburse, and hold the Agent and Each Lender harmless from and against any and all claims, losses, damages, judgments, liabilities, penalties, fines, fees, costs and expenses (including attorneys' fees and expenses) arising from or relating to this Agreement (including, without limitation, enforcement of this Agreement). Each Loan Party shall, on demand, pay or reimburse the Agent for all reasonable expenses (including attorneys' fees and disbursements of outside counsel and allocated costs of in-house counsel) (whether or not there is a lawsuit, and including without limitation for bankruptcy proceedings (and including efforts to modify or vacate any automatic stay or injunction), appeals, petitions for review and any anticipated post judgment collection services) incurred or paid by the Agent in connection with the preparation, negotiation, and closing and the administration or enforcement of this Agreement; its periodic examinations of the Collateral and any other amounts permitted to be expended by the Agent hereunder, including, without limitation, such expenses as are incurred to preserve the value of the Collateral and the validity, perfection, priority and value of any Security Interest created by this Agreement; the custody, collection, sale, realization or other disposition of, or the use or operation of, any of the Collateral; or the exercise by the Agent of any of the rights conferred upon it under this Agreement. The obligation to pay any such amount shall be an additional Obligation secured hereby, and each such amount shall bear interest from the time of demand at the rate per annum equal to the Prime Rate plus the Applicable Margin plus 3%.

Section 13. Notices.

Any demand or notice to be given pursuant to this Agreement shall be given in accordance with the terms of Section 11.1 ("Notices") of the Credit Agreement.

Section 14. Joinder.

Each Loan Party agrees that from time to time in the event that it shall acquire or form any Subsidiary or Affiliate, it shall cause such Subsidiary or Affiliate to execute and deliver the Joinder Agreement and a Perfection Certificate, and that upon the execution and delivery of the Joinder Agreement, this Agreement shall become the binding obligation of such Subsidiary or Affiliate and shall create a valid and continuing lien on and security interest in the Collateral of such Subsidiary or Affiliate.

Section 15. Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of each Loan Party and its respective successors and assigns, and shall be binding upon, inure to the benefit of and be enforceable by the Agent, the Lenders and their respective successors and assigns; provided that no Loan Party shall assign or transfer its rights or obligations under this Agreement.

Section 16. Governing Law.

THIS AGREEMENT IS A CONTRACT UNDER THE LAWS OF THE STATE OF OREGON AND SHALL FOR ALL PURPOSES BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OR OREGON (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OF LAW OR CHOICE OF LAW PROVISIONS, RULES, OR PRINCIPLES). EACH LOAN PARTY CONSENTS TO THE NON-EXCLUSIVE JURISDICTION OF ANY OF THE FEDERAL OR STATE COURTS LOCATED IN MULTNOMAH COUNTY IN THE STATE OF OREGON IN CONNECTION WITH ANY ACTION TO ENFORCE THE RIGHTS OF THE AGENT UNDER THIS AGREEMENT. EACH LOAN PARTY IRREVOCABLY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH ACTION BROUGHT IN THE COURTS REFERRED TO IN THE PRECEDING SENTENCE AND HEREBY IRREVOCABLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY SUCH ACTION THAT SUCH ACTION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

Section 17. Waiver of Jury Trial.

EACH LOAN PARTY AND THE AGENT HEREBY WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT, ANY RIGHTS OR OBLIGATIONS UNDER THIS AGREEMENT OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS. EXCEPT AS PROHIBITED BY LAW, EACH LOAN PARTY HEREBY WAIVES ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION REFERRED TO IN THE PRECEDING SENTENCE ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. EACH LOAN PARTY (a) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE AGENT HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE AGENT WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS AND (b) ACKNOWLEDGES THAT THE AGENT HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BECAUSE OF, AMONG OTHER THINGS, SUCH LOAN PARTY'S WAIVERS AND CERTIFICATIONS CONTAINED IN THIS AGREEMENT.

Section 18. Credit Agreement Controls.

If there are any conflicts or inconsistencies among the Credit Agreement and this Agreement, the provisions of the Credit Agreement shall prevail and control.

Section 19. Severability.

The provisions of this Agreement are severable and if any one clause or provision of this Agreement shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part of this Agreement, in such jurisdiction, and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision of this Agreement in any jurisdiction.

Section 20. General.

This Agreement and the other Loan Documents constitute the entire understanding and agreement of the parties with respect to the matters set forth in this Agreement. This Agreement may not be amended or modified except by a writing signed by the Borrower, the Agent and the Loan Party against whom enforcement is sought. This Agreement and any amendment of this Agreement may be executed in several counterparts and by each party on a separate counterpart, each of which when so executed and delivered shall be an original, but all of which together shall constitute one instrument.
Section headings are for convenience of reference only and are not a part of this Agreement. In the event that any Collateral or any deposit or other sum due from or credited by the Agent is held or stands in the name of any Loan Party and another or others jointly, the Agent may deal with the same for all purposes as if it belonged to or stood in the name of such Loan Party alone.

Section 21. Disclosure.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY THE LENDERS AFTER OCTOBER 3, 1989, CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY THE LENDERS TO BE ENFORCEABLE.

IN WITNESS WHEREOF, each Loan Party has duly executed this Agreement as of the date set forth in the preamble to this Agreement.

LITHIA MOTORS, INC.

By: /s/ Sidney B. DeBoer
Sidney B. DeBoer
Chairman of the Board and
Chief Executive Officer

AFFILIATES AND SUBSIDIARIES:
LITHIA HOLDING COMPANY, L.L.C.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: Manager

LITHIA TLM, L.L.C.

By: Lithia Motors, Inc. as Manager

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: Chairman of the Board and
Chief Executive Officer

LITHIA'S GRANTS PASS AUTO CENTER, L.L.C.

By: Lithia Motors, Inc. as Manager

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: Chairman of the Board and
Chief Executive Officer

LITHIA DODGE, L.L.C.

By: Lithia Motors, Inc. as Manager

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: Chairman of the Board and
Chief Executive Officer

LITHIA CHRYSLER PLYMOUTH JEEP EAGLE, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA MTLM, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LGPAC, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA DM, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

SATURN OF SOUTHWEST OREGON, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA HPI, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA DE, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA DC, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA FN, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA TKV, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA FVHC, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA VWC, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA NB, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA BB, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA MB, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA JEB, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA RENTALS, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA AUTO SERVICES, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA SALMIR, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA BNM, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA MMF, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA FMF, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA JEF, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA NF, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

LITHIA FINANCIAL CORPORATION

By: /s/ Sidney B. DeBoer
Name: Sidney B.DeBoer
Title: President

ACCEPTED IN PORTLAND,
OREGON AS OF THE DATE
FIRST ABOVE WRITTEN

U.S. BANK NATIONAL ASSOCIATION, as Agent

By: /s/ U.S. Bank National Association
Name:
Title:

Exhibit A

PERFECTION CERTIFICATE
TO
SECURITY AGREEMENT

dated _____
of _____

The undersigned, _____, a
[corporation/llc] (the "Loan Party"), hereby certifies to U.S. Bank National Association, with reference to a certain Security Agreement dated December 22, 1997 between the Borrower, the other Loan Parties, and the Agent (terms defined in such Security Agreement shall have the same meanings in this Perfection Certificate as specified in the Security Agreement), as follows:

Section 1. Names.

(a) The exact corporate name of the Loan Party as it appears on its organizational documents and its taxpayer identification number are as follows:

(b) The following is a list of all other names (including trade names or similar appellations) used by the Loan Party, and any other businesses or organizations to which the Loan Party became the successor by merger, consolidation, acquisition, change in form, nature or jurisdiction of organization or otherwise, now or at any previous time:

Section 2. Locations.

(a) The chief executive office of the Loan Party is located at the following address:

(b) The following is a list of all other locations in the United States of America in which the Loan Party maintains any books or records relating to any of the Collateral consisting of Accounts, chattel paper, General Intangibles or mobile goods:

Currently:

Street and Number County State Zip Code

Within the last four months, if different:

Street and Number County State Zip Code

(c) The following is a list of all other places of business of the Loan Party in the United States of America:

Currently:

Street and Number County State Zip Code

Within the last four months, if different:

Street and Number County State Zip Code

(d) The following is a list of all other locations in the United States of America where any of the Collateral is located:

Currently:

Street and Number County State Zip Code

Within the last four months, if different:

Street and Number County State Zip Code

(e) The following are the names and addresses of all persons or entities other than the Loan Party, such as lessees, consignees, warehousemen or purchasers of chattel paper, that have possession or are intended to have possession of any of the Collateral consisting of chattel paper, inventory or equipment:

Currently:

Street and Number County State Zip Code

Within the last four months, if different:

Street and Number County State Zip Code

Section 3. Fixtures.

Set forth below is the information required by UCC ? 9-402(5) of each state in which any of the Collateral consisting of fixtures are or are to be located and the name and address of each real estate recording office where a mortgage on the real estate on which such fixtures are or are to be located would be recorded:

Section 4.

Other UCC Filings. Financing statements in favor of secured parties other than the Agent have been filed in the Uniform Commercial Code filing offices in the jurisdictions and real estate recording offices identified below:

Filing No. Date Filing Office Secured Party Collateral

IN WITNESS WHEREOF, the undersigned executes this Perfection Certificate on _____, 199_.

[LOAN PARTY]

By: _____ Name:
Title:

EXHIBIT 10.30.3

GUARANTY

AMONG

U.S. BANK NATIONAL ASSOCIATION,
as Agent and Lender

AND

LITHIA MOTORS, INC., and its
AFFILIATES and SUBSIDIARIES

Dated: December 22, 1997

This Guaranty is entered into as of this December 22, 1997, by LITHIA HOLDING COMPANY, L.L.C., LITHIA TLM, L.L.C., LITHIA'S GRANTS PASS AUTO CENTER, L.L.C., LITHIA DODGE, L.L.C., LITHIA CHRYSLER PLYMOUTH JEEP EAGLE, INC., LITHIA MTLM, INC., LGPAC, INC., LITHIA DM, INC., SATURN OF SOUTHWEST OREGON, INC., LITHIA HPI, INC., LITHIA DE, INC., LITHIA DC, INC., LITHIA FN, INC., LITHIA TKV, INC., LITHIA FVHC, INC., LITHIA VWC, INC., LITHIA NB, INC., LITHIA BB, INC., LITHIA MB, INC., LITHIA JEB, INC., LITHIA RENTALS, INC., LITHIA AUTO SERVICES, INC., LITHIA SALMIR, INC., LITHIA BNM, INC., LITHIA MMF, INC., LITHIA FMF, INC., LITHIA JEF, INC., LITHIA NF, INC., and LITHIA FINANCIAL CORPORATION, (each a "Guarantor" and collectively, the "Guarantors") in favor of the Agent and the Lenders (each as defined below).

RECITALS:

A. Concurrently with execution of this Guaranty, Lithia Motors, Inc. (the "Borrower") and the Guarantors have entered into a Credit Agreement with U.S. Bank National Association and the financial institutions who are from time to time parties thereto (the "Lenders"), and U.S. Bank National Association, as agent for the Lenders (in such capacity, the "Agent"), (as the same may be amended, modified, supplemented or extended from time to time and any number of substitutions, renewals and replacements thereof or therefor, the "Credit Agreement"), pursuant to which the Lenders have agreed to extend credit to the Borrower for the benefit of the Loan Parties from time to time.

B. The Lenders' obligations to extend credit to the Borrower are subject, among other things, to execution of this Guaranty by the Guarantors.

For valuable consideration, the Guarantors hereby agree as follows:

1. Definitions and Other Interpretive Provisions. Capitalized terms used but not defined in this Guaranty shall have the meanings ascribed to them in the Credit Agreement. The "Rules of Interpretation" in section 1.2 of the Credit Agreement shall be applicable to this Guaranty and are hereby incorporated into this Guaranty.

2. Continuing Guaranty. The Guarantors absolutely, irrevocably, and unconditionally, jointly and severally, guarantee the full and punctual payments and performance of the Obligations whether any such Obligation is voluntarily or involuntarily incurred, due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined; whether the Borrower may be liable individually or jointly with others; whether recovery on the Obligations may be or may become barred or unenforceable against the Borrower or any other Loan Party for any reason whatsoever; and whether the Obligations arise from transactions which may be voidable on account of ultra vires, or otherwise; together with all costs, expenses and Attorney Fees incurred in connection with or relating to, the collection of the Obligations, the collection and sale of any Collateral for the Obligations or this Guaranty, or the enforcement of this Guaranty. The provisions of this Guaranty shall extend and be applicable to all renewals, replacements, amendments, extensions, consolidations and modifications of the Obligations and the Loan Documents underlying the Obligations, and any and all references in this Guaranty to the Obligations or any Loan Document shall be deemed to include any such renewals, replacements, amendments, extensions, consolidations, or modifications thereof.

3. Nature of Guaranty. The Guarantors' liability under this Guaranty shall be open, continuous, direct and immediate and not conditional or contingent on the pursuit of any remedies against the Borrower or any Loan Party or any other Person. The Guarantors intend to guarantee at all times the performance and prompt payment when due, whether at maturity or earlier by reason of acceleration or otherwise, of all Obligations. Accordingly, no payments made upon the Obligations will discharge or diminish the continuing liability of the Guarantors in connection with any remaining portions of the Obligations or any of the Obligations which subsequently arise or is thereafter incurred or contracted. Even if this Guaranty has been terminated, if any payment or other transfer to any Lender on account of any Obligations guaranteed hereby is avoided or set aside under any applicable bankruptcy, insolvency or fraudulent conveyance law or law for the relief of debtors or on any other basis, or if any Lender in its sole discretion consents in good faith to any such avoidance or set aside, such Obligations and the liability of the Guarantors under this Guaranty shall be deemed to continue or be reinstated to the extent of such payment or transfer.

The Guarantors acknowledge that they are liable for the full amount of all Obligations for the reason that in addition to receiving loan proceeds from the Borrower, the Guarantors are receiving substantial corporate benefits by the Agent making this credit facility available to Lithia Motors, Inc., its Subsidiaries and Affiliates. The corporate benefits include the ability of the Loan Parties to consolidate credit so that the Loan Parties may take advantage of lower interest rates, including the ability to obtain LIBOR Loans.

The Guarantors acknowledge that the Agent is relying on the Guarantors to guaranty all the Obligations hereunder even though the Guarantors may not directly receive all the loan proceeds under the Credit Agreement.

4. Duration of Guaranty. This Guaranty will take effect when received by the Agent without the necessity of any acceptance by any Lender, or any notice to the Guarantors or to the Borrower, and will continue in full force until all Obligations incurred or contracted shall have been fully and finally paid and satisfied and all other obligations of the Guarantors under this Guaranty shall have been performed in full. Release of any other guarantor for or termination of any other guaranty of the Obligations shall not affect the liability of any other Guarantor under this Guaranty. It is anticipated that fluctuations may occur in the aggregate amount of Obligations covered by this Guaranty, and it is specifically acknowledged and agreed by the Guarantors that reductions in the amount of Obligations, even to zero dollars ($0.00), shall not constitute a termination of this Guaranty. This Guaranty is binding upon the Guarantors and the Guarantors' successors and assigns as to any guaranteed Obligations at all times, and remains binding even though the Obligations guaranteed may from time to time equal zero dollars ($0.00).

5. Guarantors' Authorization to Lenders. Each Guarantor authorizes, the Agent and each Lender without notice or demand and without lessening the Guarantor's liability under this Guaranty, from time to time: (a) to make one or more additional secured or unsecured loans to the Borrower, to lease equipment or other goods to the Borrower, or otherwise to extend additional credit to the Borrower; (b) to alter, compromise, renew, extend, accelerate, or otherwise change one or more times the time for payment or other terms of the Obligations or any part of the Obligations, including increases and decreases of the rate of interest on the Obligations; extensions may be repeated and may be for longer than the original loan term; (c) to take and hold security for the payment of this Guaranty or the Obligations, and exchange, enforce, waive, subordinate, fail or decide not to perfect, and release any such security, with or without the substitution of new collateral; (d) to release, substitute, agree not to sue, or deal with any one or more of the Loan Parties or any Loan Party's sureties, endorsers, or other guarantors on any terms or in any manner Agent may choose; (e) to determine how, when and what application of payments and credits shall be made on the Obligations; (f) to apply such security and direct the order or manner of sale thereof, including without limitation, any nonjudicial sale permitted by the terms of the controlling security agreement or deed of trust, as Agent in its discretion may determine; (g) to sell, transfer, assign, or grant participations in any or any part of the Obligations; and
(h) to assign or transfer this Guaranty in whole or in part.

6. Guarantors' Representations and Warranties. Each Guarantor jointly and severally represents and warrants to the Lenders that (a) no representations or agreements of any kind have been made to the Guarantors which would limit or qualify in any way the terms of this Guaranty; (b) this Guaranty is executed at the Borrower's and each other Loan Party's request and not at the request of the Lenders; (c) each Guarantor has full power,

right and authority to enter into this Guaranty; (d) the provisions of this Guaranty do not conflict with or result in a default under any agreement or other instrument binding upon any Guarantor and do not result in a violation of any law, regulation, court decree or order applicable to the Guarantor;
(e) such Guarantor has not and will not, without the prior written consent of the Lenders, sell, lease, assign, encumber, hypothecate, transfer, or otherwise dispose of its assets, or any interest therein, except as may be permitted by the Credit Agreement; (f) upon the Lenders' request, a Guarantor will provide to the Lenders financial and credit information in form acceptable to the Lenders, and all such financial information which currently has been, and all future financial information which will be provided to the Lenders is and will be true and correct in all material respects and fairly presents the financial condition of the Guarantor as of the dates the financial information is provided; (g) no material adverse change has occurred in any Guarantor's financial condition since the date of the most recent financial statements provided to the Lenders and no event has occurred which may materially adversely affect a Guarantor's financial condition; (h) no litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against any Guarantor is pending or threatened; (i) the Lenders have made no representation to any Guarantor as to the creditworthiness of the Borrower or any other Loan Party; and (j) the Guarantors have established adequate means of obtaining from the Borrower or any other Loan Party on a continuing basis information regarding the Borrower's and each other Loan Party's financial condition. The Guarantors agree to keep adequately informed from such means of any facts, events, or circumstances which might in any way affect the Guarantors' risks under this Guaranty, and the Guarantors further agree that the Lenders shall have no obligation to disclose to the Guarantors any information or documents acquired by the Lenders in the course of their relationship with the Borrower or any other Loan Party.

7. Guarantors' Waivers.

7.1 Except as prohibited by applicable law, each Guarantor waives any right to require the Lenders (a) to continue lending money or to extend other credit to the Borrower or any other Loan Party; (b) to make any presentment, protest, demand, or notice of any kind, including notice of any nonpayment of the Obligations or of any nonpayment related to any collateral, or notice of any action or nonaction on the part of the Borrower or any other Loan Party, any Lender, any surety, endorser, or other guarantor in connection with the Obligations or in connection with the creation of new or additional loans or obligations; (c) to resort for payment or to proceed directly or at once against any Person, including the Borrower, any other Loan Party, or any other Guarantor; (d) to proceed directly against or exhaust any collateral held by the Lenders from the Borrower, any other Loan Party, any other Guarantor, or any other Person; (e) to give notice of the terms, time, and place of any public or private sale of personal property security from the Borrower or any other Loan Party held by the Lenders or to comply with any other applicable provisions of the Uniform Commercial Code;
(f) to pursue any other remedy within any Lender's power; or (g) to commit any act or omission of any kind, or at any time, with respect to any matter whatsoever.

7.2 If now or hereafter (a) the Borrower or any other Loan Party shall be or become insolvent, and (b) the Obligations shall not at all times until paid be fully secured by Collateral pledged by the Borrower or any other Loan Party, each Guarantor hereby forever waives and relinquishes in favor of each Lender and Borrower, or such other Loan Party, and their respective successors, any claim or right to payment the Guarantor may now have or hereafter have or acquire against the Borrower or such other Loan Party, by subrogation or otherwise, so that at no time shall the Guarantor be or become a "creditor" of the Borrower, or such other Loan Party, within the meaning of 11 U.S.C. Section 547(b), or any successor provision of the Federal bankruptcy laws.

7.3 Each Guarantor waives any and all rights or defenses arising by reason of (a) any "one action" or "anti-deficiency" law or any other law which may prevent the Lenders from bringing any action, including a claim for deficiency, against a Guarantor, before or after any Lender's commencement or completion of any foreclosure action, either the judicially or by exercise of a power of sale; (b) any election of remedies by any Lender which destroys or otherwise adversely affects a Guarantor's subrogation rights or a Guarantor's rights to proceed against the Borrower, or any other Loan Party, for reimbursement, including without limitation, any loss of rights the Guarantor may suffer by reason of any law limiting, qualifying, or discharging the Obligations; (c) any disability or other defense of the Borrower, of any other Loan Party, of any other Guarantor of the Obligations, or of any other Person, or by reason of the cessation of the Borrower's or any other Loan Party's liability from any cause whatsoever, other than payment in full in legal tender, of the Obligations; (d) any right to claim discharge of the Obligations on the basis of unjustified impairment of any collateral for the Obligations; (e) any lack of notice to which the Guarantor might otherwise be entitled; (f) the inaccuracy of any representation or warranty by the Borrower or any other Loan Party contained in any Loan Document; (g) any assertion or claim that the automatic stay provided by 11

U.S.C. 362 (arising on the voluntary or involuntary bankruptcy proceeding of the Borrower or any other Loan Party) or any other stay provided under any other debtor relief law (whether statutory, common law, case law or otherwise) of any jurisdiction whatsoever, now or hereafter in effect, which may be or become applicable, shall operate or be interpreted to stay, interdict, condition, reduce or inhibit the ability of the Agent to enforce any rights, whether now existing or hereafter acquired, which the Agent may have against the Borrower or any other Loan Party; (h) any statute of limitations, if at any time any action or suit brought by any Lender against a Guarantor is commenced, there are outstanding Obligations of the Borrower or any other Loan Party to any Lender which are not barred by any applicable statute of limitations; or (i) any defenses given to any Guarantor at law or in equity other than actual payment and performance of the Obligations. If payment is made by the Borrower or any other Loan Party, whether voluntarily or otherwise, or by any third party, on the Obligations and thereafter the Lenders are forced to remit the amount of that payment to the Borrower's or such other Loan Party's trustee in bankruptcy or to any similar person under any federal or state bankruptcy law or law for the relief of debtors, the Obligations shall be considered unpaid for the purpose of enforcement of this Guaranty.

7.4 Guarantors warrant and agree that each of the waivers set forth above is made with the Guarantors' full knowledge of its significance and consequences and that, under the circumstances, the waivers are reasonable and not contrary to public policy or law. If any such waiver is determined to be contrary to any applicable law or public policy, such waiver shall be effective only to the extent permitted by law or public policy.

8. Lenders' Right of Setoff. In addition to all liens upon and rights of setoff against the moneys, securities or other property of any Guarantor given to the Lenders by law, the Lenders shall have, with respect to the Guarantor's obligations to the Lenders under this Guaranty and to the extent permitted by law, a contractual possessory security interest in and a right of setoff against, and the Guarantor hereby assigns, conveys, delivers, pledges, and transfers to the Lenders all of its right, title and interest in and to, all deposits, moneys, securities and other property now or hereafter in the possession of or on deposit with the Lenders, whether held in a general or special account or deposit, whether held jointly with someone else, or whether held for safekeeping or otherwise. Every such security interest and right of setoff may be exercised without demand upon or notice to the Guarantor. No security interest or right of setoff shall be deemed to have been waived by any act or conduct on the part of the Lenders or by any neglect to exercise such right of setoff or to enforce such security interest or by any delay in so doing. Every right of setoff and security interest shall continue in full force and effect until such right of setoff or security interest is specifically waived or released by the Lenders in accordance with the terms of the applicable Loan Documents.

9. Subordination of Borrower's Debt to Guarantors. The Guarantors agree that the Obligations of the Borrower or any other Loan Party to the Lenders, whether now existing or hereafter created, shall be prior to any claim that any Guarantor may now have or hereafter acquire against the Borrower or such other Loan Party, whether or not the Borrower or such other Loan Party becomes insolvent. Each Guarantor hereby expressly subordinates any claim it may have against the Borrower or any other Loan Party, upon any account whatsoever, to any claim that the Lenders may now or hereafter have against the Borrower or such other Loan Party. In the event of insolvency and consequent liquidation of the assets of the Borrower or any other Loan Party, through bankruptcy, by an assignment for the benefit of creditors, by voluntary liquidation, or otherwise, the assets of the Borrower or such other Loan Party applicable to the payment of the claims of both Lenders and the Guarantors shall be paid to the Agent or the Lenders and shall be first applied to the Obligations of the Borrower or such other Loan Party to Lenders. Each Guarantor hereby assigns to Lenders all claims which they may have or acquire against the Borrower or any other Loan Party or against any assignee or trustee in bankruptcy of the Borrower or such other Loan Party; provided, however, that such assignment shall be effective only for the purpose of assuring to Lenders full payment in legal tender of the Obligations. If the Lenders so request, any notes or credit agreements now or hereafter evidencing any debts or obligations of the Borrower or any other Loan Party to any Guarantor shall be marked with a legend that the same are subject to this Guaranty and shall be delivered to the Lenders. The Guarantors agree, and the Lenders hereby are authorized, in the name of any Guarantor, from time to time to execute and file financing statements and continuation statements and to execute such other documents and to take such other actions as the Lenders deem necessary or appropriate to perfect, preserve and enforce its rights under this Guaranty.

10. Amendments. This Guaranty and the other Loan Documents constitutes the entire understanding and agreement of the parties as to the matters set forth in this Guaranty and may be amended only by an agreement in writing entered into in accordance with the provisions of the Credit Agreement.

11. Attorney Fees; Expenses. The Guarantors agree to pay upon demand all of Lenders' costs and expenses, including Lenders' legal fees and expenses, incurred in connection with the enforcement of this Guaranty. The Lenders may pay someone else to help enforce this Guaranty, and the Guarantors shall pay the costs and expenses of such enforcement. Costs and expenses include the Lenders' attorneys' fees and legal expenses and disbursements whether or not there is a lawsuit, of outside counsel, and allocated costs of in-house counsel, including attorneys' fees and legal expenses for bankruptcy proceedings (and including efforts to modify or vacate any automatic stay or injunction), appeals, petitions for review, and any anticipated post-judgment collection services. The Guarantors also shall pay all court costs and such additional fees as may be directed by the court.

12. Notices. Any demand or notice to be given pursuant to this Guaranty shall be given in accordance with the terms of Section 11.1 ("Notices") of the Credit Agreement.

13. Successors and Assigns. This Guaranty may be assigned and transferred by any Lender to any assignee and transferee of any Obligations; however, the duties and obligations of the Guarantors may not be delegated or transferred by the Guarantors without the written consent of all Lenders. The rights and privileges of the Lenders shall inure to the benefit of their respective successors and assigns, and the duties and obligations of the Guarantors shall bind their respective successors and assigns.

14. No Waiver by Lender. No Lender shall be deemed to have waived any rights under this Guaranty unless such waiver is given in writing and signed by the Lender. No failure or delay on the part of any Lender in exercising any right, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. Failure by any Lender to insist upon strict performance hereof shall not constitute a relinquishment of its right to demand strict payment by any person on any Obligations, with knowledge of a default on any Obligations or of a breach of this Guaranty, or both, shall not be construed as a waiver of the default or breach.

15. Interpretation; Partial Invalidity. Whenever possible each provision of this Guaranty shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Guaranty shall be prohibited by or invalid under such law, such provisions shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Guaranty.

16. Joinder. Each Guarantor agrees that from time to time in the event that it shall acquire or form any Subsidiary or Affiliate, it shall cause such Subsidiary or Affiliate to execute and deliver a Joinder Agreement, and that upon such execution and delivery, this Guaranty shall become the binding obligation of such Subsidiary or Affiliate.

17. Governing Law. THIS GUARANTY IS A CONTRACT UNDER THE LAWS OF THE STATE OF OREGON AND SHALL FOR ALL PURPOSES BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OR OREGON (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OF LAW OR CHOICE OF LAW PROVISIONS, RULES, OR PRINCIPLES). EACH GUARANTOR CONSENTS TO THE NON-EXCLUSIVE JURISDICTION OF ANY OF THE FEDERAL OR STATE COURTS LOCATED IN MULTNOMAH COUNTY IN THE STATE OF OREGON IN CONNECTION WITH ANY ACTION TO ENFORCE THE RIGHTS OF THE AGENT UNDER THIS GUARANTY. EACH GUARANTOR IRREVOCABLY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH ACTION BROUGHT IN THE COURTS REFERRED TO IN THE PRECEDING SENTENCE AND HEREBY IRREVOCABLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY SUCH ACTION THAT SUCH ACTION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

18. Waiver of Jury Trial. EACH GUARANTOR AND THE AGENT HEREBY WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS GUARANTY, ANY RIGHTS OR OBLIGATIONS UNDER THIS GUARANTY OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS. EXCEPT AS PROHIBITED BY LAW, EACH GUARANTOR HEREBY WAIVES ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION REFERRED TO IN THE PRECEDING SENTENCE ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER

THAN, OR IN ADDITION TO, ACTUAL DAMAGES. EACH GUARANTOR (a) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE AGENT HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE AGENT WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS AND (b) ACKNOWLEDGES THAT THE AGENT HAS BEEN INDUCED TO ENTER INTO THIS GUARANTY BECAUSE OF, AMONG OTHER THINGS, SUCH GUARANTOR'S WAIVERS AND CERTIFICATIONS CONTAINED IN THIS GUARANTY.

19. Credit Agreement Controls. If there are any conflicts or inconsistencies among the Credit Agreement and this Guaranty, the provisions of the Credit Agreement shall prevail and control.

20. Disclosure.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY THE LENDERS AFTER OCTOBER 3, 1989, CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY THE LENDERS TO BE ENFORCEABLE.

THE GUARANTORS ACKNOWLEDGE RECEIPT OF A COPY OF THIS GUARANTY, AND EACH UNDERSIGNED GUARANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS GUARANTY AND AGREES TO ITS TERMS. IN ADDITION, EACH GUARANTOR UNDERSTANDS THAT THIS GUARANTY IS EFFECTIVE UPON THE GUARANTOR'S EXECUTION AND DELIVERY OF THIS GUARANTY TO THE LENDERS AND THAT THE GUARANTY WILL CONTINUE UNTIL TERMINATED IN THE MANNER SET FORTH IN THE SECTION TITLED "DURATION OF GUARANTY." NO FORMAL ACCEPTANCE BY THE LENDERS IS NECESSARY TO MAKE THIS GUARANTY EFFECTIVE.

IN WITNESS WHEREOF, the undersigned have duly executed this Guaranty as of the date set forth in the preamble to this Guaranty.

LITHIA HOLDING COMPANY, L.L.C.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: Manager

LITHIA TLM, L.L.C.

By: Lithia Motors, Inc., as Manager

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: Chairman of the Board and Chief Executive Officer

LITHIA'S GRANTS PASS AUTO CENTER, L.L.C.

By: Lithia Motors, Inc., as Manager

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: Chairman of the Board and Chief Executive Officer

LITHIA DODGE, L.L.C.

By: Lithia Motors, Inc., as Manager

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: Chairman of the Board and Chief Executive Officer

LITHIA CHRYSLER PLYMOUTH JEEP EAGLE, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA MTLM, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LGPAC, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA DM, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

SATURN OF SOUTHWEST OREGON, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA HPI, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA DE, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA DC, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA FN, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA TKV, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA FVHC, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA VWC, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA NB, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA BB, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA MB, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA JEB, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA RENTALS, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA AUTO SERVICES, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA SALMIR, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA BNM, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA MMF, INC.

By: /s/ Sidney B. DeBoer

Name: Sidney B. DeBoer
Title: President

LITHIA FMF, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA JEF, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA NF, INC.

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

LITHIA FINANCIAL CORPORATION

By: /s/ Sidney B. DeBoer
Name: Sidney B. DeBoer
Title: President

ACCEPTED IN PORTLAND OREGON AS OF THE DATE FIRST ABOVE WRITTEN

U.S. BANK NATIONAL ASSOCIATION, as Agent

By: _____
Name:
Title:

EXHIBIT 10.33.1

AGREEMENT FOR PURCHASE AND SALE OF BUSINESS ASSETS

THIS AGREEMENT is entered into by and between E.W.H. GROUP, INC., a California corporation, dba "HADDAD JEEP/EAGLE AND CHUCK HADDAD MITSUBISHI" (hereinafter referred to as "Seller"), and LITHIA MOTORS, INC. or its nominee (hereinafter referred to as the "Buyer").

RECITALS:

Seller is a California business corporation engaged in the business of selling and servicing Jeep/Eagle and Mitsubishi motor vehicles and related parts and accessories from premises located at 4500 Rudnick Court and 5200 Gasoline Alley, Bakersfield, California 93313 (the "Business Real Property"), under franchise issued by Chrysler Corporation and Mitsubishi Motor Sales of America, Inc.

Buyer wishes to purchase from Seller, and Seller is willing to sell to Buyer, all assets relating to Seller's Jeep/Eagle and Mitsubishi franchise at 4500 Rudnick Court and 5200 Gasoline Alley, Bankersfield, California, conditioned upon the granting to Buyer of an exclusive franchise for the sale of new Jeep/Eagle and Mitsubishi motor vehicles in the same geographical area as Seller's franchise.

Buyer (or a related entity) also wishes to purchase, lease or sublease all of the real property and improvements which constitute the Business Real Property, and the purchase of Seller's business assets shall be conditioned upon the simultaneous closing of the purchase, lease or sublease of that real property by Buyer.

NOW, THEREFORE, IN CONSIDERATION OF the mutual promises set forth herein, the parties agree as follows:

1. Definitions. In this Agreement, the following words shall have the indicated meanings:

(a) "Closing" shall refer to the consummation of the transaction contemplated under this Agreement in accordance with the terms hereof, and "Closing Date" shall refer to the actual date of Closing. "Target Closing Date" shall refer to September 1, 1997. "Final Closing Date" shall refer to September 30, 1997.

(b) "Seller's Business" shall refer to any and all activities conducted by Seller in Bakersfield, California, relating to the marketing and sale of new Jeep/Eagle and Mitsubishi vehicles and associates parts and accessories, and the repair and servicing of new or used Jeep/Eagle and Mitsubishi vehicles.

(c) "Purchased Assets" shall refer to those assets which are identified in Paragraph 2 as being purchased and sold by the parties hereunder.

(d) Seller's "Equipment" shall refer to all non-inventory items of tangible personal property presently owned or used by Seller in connection with Seller's Business, including all of Seller's machinery, tools, signs, office equipment, computer equipment, computer programs, microfiches, parts lists, repair manuals, sales or service brochures, furniture and fixtures, and all of Seller's leasehold improvements to the Business Real Property. Within 20 days after the date of this Agreement, Seller shall provide to Buyer a list of the "Equipment", which list shall be attached hereto as Exhibit "A". Attached to this Agreement as Exhibit "B" is a listing prepared by Seller of certain personal items being retained by Seller and not being purchased by Buyer.

(e) Seller's "Intangible Assets" shall refer to Seller's telephone and fax numbers, service customer lists, sales customer lists, vehicle service records, all rights of Seller under contracts assigned to and assumed by Buyer pursuant to this Agreement, all goodwill associated with Seller's Business, and all other intangible rights and interest of any value relating to Seller's Business; provided, however, that Seller's business name ("Haddad Jeep/Eagle and Chuck Haddad Mitsubishi") is not included within the Intangible Assets being sold by Seller hereunder.

(f) "Business Real Property" shall refer to all of the real property located in Bakersfield, California which has been used in connection with Seller's business, including but not limited to the premises at 4500 Rudnick Court and 5200 Gasoline Alley, Bakersfield, California.

(g) "Franchisor" shall refer to Chrysler Corporation and Mitsubishi Motor Sales of America, Inc.

(h) "New Vehicle" shall refer to a Jeep/Eagle and Mitsubishi motor vehicle which: (i) is unregistered and unused, (ii) is from the 1997 or 1998 model year, (iii) has been driven for less than 200 odometer miles, and (iv) may be represented or warranted to consumers as "new" under California law. "Rollback Vehicle" shall mean an unregistered vehicle from the 1997 or 1998 model year which has been sold to a customer by Seller but returned because of the customer's inability to obtain financing for the

purchase "Demonstrator Vehicle" shall mean an unregistered vehicle form the 1997 or 1998 model year which has been used and operated by Seller on dealer plates for sales demonstration purposes. "Used Vehicle" shall mean any vehicle which is not a "new vehicle", a "demonstrator vehicle" or a "rollback vehicle" as defined in the three preceding sentences.

(i) "Data of this Agreement" shall refer to the first date upon which this Agreement has been signed by all of the parties.

(j) All amounts payable by Buyer to Seller at Closing shall be paid by certified check drawn against a bank of Buyer's choice having offices located in Jackson County, Oregon, or by whatever other means shall be acceptable to Seller.

2. Purchased Assets. Seller agrees to sell to Buyer, and Buyer agrees to purchase from Seller, the assets identified in Paragraphs 3, 4, 5, 6, 7, 8, 9, and 10 of this Agreement (the "Purchased Assets"). Excluded from this transaction are Seller's cash, accounts receivable, notes receivable, banking accounts and deposits, and all other assets not identified in Paragraphs 3, 4, 5, 6, 7, 8, 9, and 10 of this Agreement.

3. Inventory Of New Vehicles, Demonstrator Vehicles and Rollback Vehicles. Buyer shall purchase Seller's entire inventory of new Jeep/Eagle and Mitsubishi vehicles, as that inventory exists on the Closing Date. Buyer also shall purchase Seller's entire inventory of demonstrator vehicles and rollback vehicles (up to a maximum of five rollback vehicles), as that inventory exists on the Closing Date.

(a) Price of New Vehicles. The purchase price for each of Seller's new vehicles shall be equal to Seller's factory invoice cost, reduced by any factory hold-backs, factory rebates, factory incentives, carry-over model allowances, floor plan allowances, finance cost allowances, advertising allowances, and any other items which should reasonably be deducted in order to establish Seller's actual net cost for each vehicle, and further reduced by the actual net cost for any and all accessories, equipment and parts which are missing from a vehicle. Seller shall be entitled to receive directly from Chrysler Corporation all holdbacks, rebates, incentives, allowances and other items referred to in the preceding sentence which reduce Buyer's purchase price for Seller's new vehicles. Seller's actual net cost for new vehicles shall include Seller's actual net costs for any and all parts and accessories reasonably installed by Seller to new vehicles in the ordinary course of business, but shall not include any other vehicle preparation charges, labor charges or other dealer charges of any kind.

(b) Deduction for Damage to New Vehicles. Immediately prior to Closing, Buyer and Seller shall jointly inspect Seller's inventory of new vehicles. If any new vehicle purchased by Buyer from Seller is damaged, the price for that vehicle, as determined under subparagraph 3(a), shall be reduced by the actual net cost to Buyer of repairing that damage. If Buyer and Seller are unable to agree upon the actual new cost to Buyer of repairing the damage to a vehicle, then Buyer and Seller shall select an independent third party to determine that repair cost, which determination shall be binding upon both Buyer and Seller.

(c) Payment for New Vehicles. The aggregate purchase price for all new vehicles purchased by Buyer from Seller shall be paid in full at Closing.

(d) Purchase Orders for New Vehicles. Immediately prior to Closing, Buyer and Seller shall jointly review Seller's outstanding purchase orders for new vehicles ordered from Seller by customers but not delivered prior to Closing. At Closing, Seller shall assign to Buyer, and Buyer shall assume from Seller, all of Seller's rights (including customer deposits) and obligations (including sales commissions) under such purchase orders; provided, however, that buyer shall not be obligated to assume Seller's rights or obligations with respect to any new vehicle purchase order which is at a price less than factory invoice, or which provides for a trade-in at a price or under terms unacceptable to Buyer. At Closing, Buyer shall reimburse Seller for all deposits made to Seller with respect to ordered but undelivered new vehicles.

(e) Price for Demonstrator Vehicles and Rollback Vehicles. The price for each demonstrator and rollback vehicle shall be determined as provided in subparagraphs 3(a) and 3(b) and then reduced by $.30 per mile for each odometer mile on that vehicle. The purchase price for demonstrator vehicles and rollback vehicles shall be paid at Closing.

4. Inventory Of Used Vehicles. Buyer intends to purchase Seller's entire inventory of used vehicles, as that inventory exists at Closing. However, Buyer shall not be obligated to purchase any used vehicle for which Buyer and Seller are unable to agree upon a purchase price.

(a) Disclosures. Seller shall be obligated, prior to Closing, to: (i) disclose to Buyer any and all facts concerning each used vehicle which Seller would be legally obligated to disclose to a consumer (including but not limited to known damage and usage history), and (ii) provide to Buyer legal odometer statements and free and clear title for each of the used vehicles.

(b) Price for Used Vehicles. Used vehicles shall be purchased on an individual basis. It is Buyer's intention to purchase all of Seller's used vehicles. However, if Buyer and Seller cannot agree on the value of one or more used vehicles, then those vehicles whose value is not agreed upon shall remain the property of the Seller, and Buyer shall not be obligated to purchase those vehicles. Buyer and Seller agree to establish the proposed purchase price for all of Seller's used vehicles at least three business days prior to the anticipated Closing Date.

(c) Payment for Used Vehicles. The aggregate purchase price for Seller's inventory of used vehicles shall be paid in full at Closing.

(d) Storage of Used Vehicles Which are not Purchased by Buyer. Seller shall have ten (10) days after Closing within which to remove from the Business Real Property any of Seller's used vehicles which are not purchased by Buyer. Buyer shall store those vehicles in accordance with Buyer's normal business practices. Seller shall have sole and exclusive risk and liability for any damage or loss to Seller's used vehicles while so stored on the Business Real Property after Closing, and Buyer shall have no liability or obligation of any kind by reason of any such damage or loss.

5. Inventory Of New parts and Accessories. Buyer shall purchase Seller's entire inventory of new, current (non-obsolete), undamaged Jeep/Eagle and Mitsubishi vehicle parts and accessories manufactured by Franchisor and/or third party suppliers, as that inventory exists on the Closing Date. Buyer shall have no obligation to purchase from Seller any parts or accessories which are used, damaged or obsolete. For purposes of this Paragraph 5, a part or accessory shall be "obsolete" on the Closing date if not then returnable to the supplier from which that part was originally purchased, or if not then listed in the supplier's then-current price and parts books. Prior to Closing, Seller shall maintain Seller's inventory of parts and accessories at a level consistent with good business practices and Seller's normal and regular course of business.

(a) Price for Parts and Accessories. The purchase price for each item in Seller's inventory of new, current and undamaged parts and accessories for Jeep/Eagle and Mitsubishi vehicles (whether manufactured by Franchisor or third party suppliers) shall be the net cost for that item as set forth in the then most recent price book published by the supplier of that item, reduced by any discounts (including quantity purchase or stock order discounts), rebates, incentives or allowances which should reasonably be taken into account in order to establish what Buyer's net cost for that item would be if that item was purchased by Buyer directly from that supplier at the time of Closing.

(b) Determination of Inventory of Parts and Accessories. Seller's inventory of new, current and undamaged Jeep/Eagle and Mitsubishi parts and accessories shall be determined immediately prior to Closing (or on whatever earlier date shall be selected by mutual agreement of the parties) by a third party inventory service selected by mutual agreement of the parties. Buyer and Seller each shall be responsible for 50% of the fees charged by the inventory service for conducting the inventory.

(c) Payment for Inventory of New Parts and Accessories. The purchase price for Seller's inventory of parts and accessories shall be paid in full at Closing.

6. Equipment. Within twenty (20) days after the date of this Agreement, Seller shall provide to Buyer a list of the Equipment being purchased and sold hereunder, which list shall be attached hereto as Exhibit "A". Prior to closing Buyer will have the right to inspect the equipment. Seller is retaining, and is not selling to Buyer, those personal items of Seller's Equipment which are listed on Exhibit "B" attached hereto.

(a) Price for Equipment. The aggregate purchase price for all items of Seller's Equipment (including leasehold improvements) which are being purchased hereunder shall be Four Hundred Thousand and 00/100 Dollars ($400,000.00). Seller agrees that Buyer shall have the right to allocate the aggregate purchase price for the Equipment among the various items of Equipment in whatever manner Buyer, in the exercise of its discretion, believes will best reflect the relative fair market values of those items.

(b) Payment for Equipment. The purchase price for the Equipment shall be paid as follows:

(1) Prior to or simultaneously with the execution of this Agreement, Buyer is making an earnest money deposit to Capital City Escrow, Inc., in Sacramento, California, in the amount of $100,000.00, which earnest

money deposit, together with all interest earned thereon, shall be credited at Closing against the purchase price for the Equipment.

(2) The $300,000.00 balance of the purchase price for the Equipment shall be paid in full at Closing.

7. Supplies. Buyer shall purchase all of the gas, oil, nuts, bolts, and other automotive supplies which are held for use in Seller's Business; provided, however, that buyer shall not be obligated to purchase used, damaged or obsolete items or supplies. The price for all such supplies shall be Seller's actual net cost, as determined by mutual agreement of the parties, and shall be paid to Seller at Closing.

8. Contractual Rights and Obligations. At Closing, Buyer shall assume all rights and obligations of Seller under those certain equipment leases and other contracts identified on Exhibit "C" attached hereto, which Exhibit "C" shall be prepared and attached hereto within 20 days after the date of this Agreement. Buyer shall have the right to refuse to permit any one or more of Seller's leases or other contracts to be included in Exhibit "C" (and assumed by Buyer under this Agreement). Seller warrants that all of Seller's obligations under the contracts listed on Exhibit "C" shall be current at the time of Closing. Seller agrees to indemnify buyer against all obligations under the contracts identified on Exhibit "C" which relate to periods prior to Closing. Buyer agrees to indemnify Seller against all obligations under the contracts identified on Exhibit "C" which relate to periods after Closing. The amount of any obligation assumed by Buyer pursuant to this Paragraph 8 shall be credited at Closing against the $400,000.00 purchase price for the Equipment.

9. Repair Work in Progress. Buyer shall purchase all of Seller's vehicle repair work in progress (in-house and subcontracted), at a price equal to Seller's actual net cost (before profit and overhead) for all work completed prior to Closing. The purchase price for work in progress shall be paid at Closing.

10. Intangible Assets. Buyer shall purchase all of Seller's Intangible Assets.

(a) The aggregate purchase price for Seller's Intangible Assets shall be One Million Five Hundred Thousand and 00/100 Dollars ($1,500,000.00). This $1,500,000.00 purchase price shall be allocated among the items which constitute the Intangible Assets as determined by Buyer in the reasonable exercise of Buyer's discretion; provided, however, that no value shall be allocated to the non-transferable Jeep/Eagle and Mitsubishi franchise issued by the Franchisor. This $1,500,000.00 purchase price shall be paid at Closing.

(b) In order for Buyer to receive the full benefit of the intangible good will being purchased by Buyer, it will be necessary for Seller to perform no-charge repair work and vehicle warranty work with respect to vehicles repaired or sold by Seller prior to Closing. In partial consideration of the $1,500,000.00 amount being paid by Buyer for the Intangible Assets, Seller agrees to perform the no-charge repair in his own shop (Haddad Dodge) for a period of six (6) months after Closing in order to satisfy: (i) customers who are dissatisfied with repair services provided by Seller prior to Closing, and (ii) warranty claims with respect to new or used vehicles purchased from Seller prior to Closing.

11. Bulk Transfers. It is the intention of the parties that this transaction comply with Division Six of the California Uniform Commercial Code, more commonly known as Uniform Commercial Code -Bulk Transfers, and Seller shall take all actions necessary to comply therewith.

12. Limitation On Liabilities Assumed. Except as provided in subparagraph 3(d), Paragraph 8 and Paragraph 9, Buyer shall not, by reason of this Agreement or Buyer's purchase of the Purchased Assets, take responsibility for any liabilities, debts or obligations of Seller (including Seller's trade payables, account payables, obligations to employees, or tax liabilities).

13. Warranties Of Seller. Elias W. Haddad and Seller make the following warranties to Buyer, with the intent that Buyer rely thereon:

(a) Corporate Organization. Seller is a corporation organized, validly existing, and in good standing under the laws of the State of California. Seller is qualified to do business in the State of California, and has full power and authority to own, use, and sell its assets.

(b) Corporate Authority. Seller's board of directors and shareholders have authorized the execution and delivery of this Agreement to Buyer and the carrying out of its provisions. This Agreement will not violate any judicial, governmental or administrative decree, order, writ,

injunction, or judgment, and will not conflict with or constitute a default under Seller's bylaws, or any contract, agreement, or other instrument to which Seller is a party or by which it may be bound.

(c) Employee Issues. No employees of Seller are members of any union. Within 10 days after the date of this Agreement, Seller shall provide to Buyer the following: (i) a census of Seller's employees, (ii) a written disclosure of all benefits made available to Seller's employees (including qualified and non-qualified retirement plans), and (iii) access to all personnel files for seller's employees. All employee benefit plans maintained by seller for its employees shall be fully funded prior to Closing. Seller shall pay all wages, commissions, accrued vacation pay and other accrued compensation earned by Seller's employees prior to Closing (together with all accrued FICA and withholding taxes). Seller shall terminate the employment of all of Seller's employees effective as of the close of business on the Closing Date. At Buyer's sole discretion, Buyer may (but shall not be obligated to) hire any of Seller's employees. Buyer also represents and warrants to Seller that it has conducted its own independent investigation and due diligence of all of Seller's employees, Buyer does so based upon its own investigation without any representations, disclosures or warranties of any description by Seller. Further, both Buyer and Seller agree that they shall not, for a period of two (2) years following Closing, employ or offer employment to any of each others employees except (1) if such employee was terminated by his/her respective employer or (2) if such employee voluntarily terminates his/her employment, then the former employer must consent to such employment.

(d) Undisclosed Liabilities and Contractual Commitments. Except as otherwise disclosed in this Agreement (or in an attached Exhibit), the following statements are true as of the date of this Agreement and shall be true at Closing: (i) Seller does not have any liabilities which might have a material impact on Buyer's use of the Purchased Assets, (ii) Seller is not a party to any contracts or commitments which might have a material impact on Buyer's use of the Purchased Assets, (iii) no law suit or action, administrative proceeding, arbitration proceeding, governmental investigation, or other legal or equitable proceeding of any kind is pending or threatened against Seller which might adversely affect the value of the Purchased Assets, and (iv) Seller has all licenses, permits and authorizations required by any federal, state or local governmental or regulatory agency in order to operate Seller's Business, and knows of no reason why any such license or permit might be subject to revocation. If any claim is asserted against Buyer after Closing with respect to any obligation of Seller which Seller has failed to disclose to Buyer in writing, or which Seller has disclosed but failed to pay, then Buyer shall give prompt written notice of that claim to Seller. Seller shall indemnify Buyer with respect to all such obligations.

(e) Condition of Equipment. Buyer is to verify at the time of Closing that each item of Equipment shall be in good operating condition and following Closing the Buyer has agreed that the purchase of Equipment is "as is" without any warranty of any description by Seller.

(f) Good Title. Seller has, and shall transfer to Buyer at Closing, good and marketable title to all of the Purchased Assets, free and clear of all security interests, liens, equitable interests, leases, assessments, restrictions, reservations, or other burdens of any kind. All current and accrued taxes which may become a lien against any of the Purchased Assets shall have been paid by Seller prior to Closing (including property taxes, sales taxes and excise taxes).

(g) No Toxic Materials Discharged. Upon the execution of this Agreement, Seller at its cost shall engage an appropriate environmental firm which is acceptable to Buyer to conduct an investigation or produce a Phase One Environmental Report regarding the Business Real Property. In addition, Seller shall make available to Buyer copies of all other environmental reports and certificates (of which Seller has knowledge) with respect to the Business Real Property. If the Phase One Environmental Report discloses any likelihood of contamination, Seller shall have until the Closing Date to remedy that contamination (unless Buyer waives the requirement for remediation). In the event it is apparent that a remedy can not be completed by the Closing Date, then Seller can either elect to rescind the transaction in its entirety or place sufficient funds into the escrow at the Closing Date to cover the expense of the required remedy.

Except as disclosed by Seller on Exhibit "D" attached hereto, (i) no activity in connection with Seller's Business prior to Closing shall have produced any toxic materials, the presence or use of which upon the Business Real Property would violate any federal, state, local or other governmental law, regulation or order or would require reporting to any governmental authority and (ii) the Business Real Property is otherwise free and clear of any toxic materials. For purposes of this subparagraph (h), the phrase "toxic materials" shall include but not be limited to any and all substances deemed to be pollutants, toxic materials or hazardous materials under any state or federal law.

(h) Franchisor's Consent. Seller shall take all actions which are reasonably necessary on Seller's part to obtain the consent of the Franchisor to the issuance to Buyer of an exclusive franchise for the sale of new Jeep/Eagle and Mitsubishi vehicles in the same geographical area as Seller's current franchise in Bakersfield, California.

(i) Indemnification for Breach of Warranties. Elias W. Haddad and Seller shall indemnify Buyer against all losses, damages and costs (including attorney fees and court costs) relating to any warranty made by Seller in this Agreement which is false, misleading, incomplete or inaccurate (either on the date of this Agreement or at the time of Closing). If at any time prior to Closing Seller determines that any warranty made by Seller is this Agreement is incorrect, incomplete or misleading, then Seller shall advise Buyer of that fact and shall provide to Buyer in writing whatever other information shall be necessary to cause that warranty to be correct, complete and not misleading.

(j) Shareholder Warranties. Neither the shareholders or officers of the Seller will be required to make any individual warranties. Further, Buyer acknowledges that the Seller has made no representations or promises of any description regarding the past, present or future profitability of the franchises, that buyer has conducted it own due diligence and has approached Seller on its own and requested Seller to sell its franchises, and that Seller shall not be required to furnish any financial records nor allow any audit of financial records or tax returns of the business and that the Buyer has not relied upon any financial records or tax returns in making its decision to purchase the business.

14. Conduct Of Business Pending Closing. Seller warrants that during the period beginning on the date of this Agreement and ending at Closing:
(i) Seller shall continue to operate Seller's Business in the usual and ordinary course, and in substantial conformity with all applicable laws, ordinances, regulations, rules or orders; (ii) Seller shall not allow any liens to be placed against any of the Purchased Assets unless those liens are discharged prior to Closing; (iii) Seller shall not take any action which may cause a material adverse change in the operations of Seller's Business; (iv) Seller shall not conduct any sale which shall use the words or phrases "Going Out of Business Sale" or other words or phrases having similar meanings; (v) Seller shall use its best efforts to preserve the value of the Jeep/Eagle and Mitsubishi franchise in Bakersfield, California.

15. Representations and Warranties Of Buyer. Buyer hereby makes the following representations and warranties to Seller, with the intent that Seller rely thereon:

(a) Organization. Lithia Motors, Inc. is a corporation organized, validly existing and in good standing under the laws of the State of Oregon, and is entitled to own property and to carry on its business.

(b) Authority. This Agreement must be authorized by the board of directors of Lithia Motors, Inc. within (10) days after the date of this agreement. This Agreement will not violate the provision of any judicial, governmental or administrative decree, order, writ, injunction, or judgment, or conflict with or constitute a default under, the Article or bylaws of Lithia Motors, Inc., or any contract, agreement, or other instrument to which Lithia Motors, Inc. is a party.

16. Additional Conditions Precedent To Buyer's Obligations. The obligation of Buyer to close this transaction is subject to each of the following conditions (each of which is for the benefit of Buyer and may be waived by Buyer), and Buyer shall have the right to rescind this Agreement if any of the following conditions is not satisfied in accordance with its terms.

(a) Buyer shall have obtained from Franchisor, prior to the Final Closing Date, an exclusive franchise to sell new Jeep/Eagle and Mitsubishi vehicles in the same geographical area as Seller's current franchise in Bakersfield, California (as evidenced by the issuance to Buyer by Franchisor of an appropriate Dealership Sales and Service Agreement, and the approval of Buyer as the publicly owned Dealer-Operator of the franchise), and Buyer agrees to use its best reasonable efforts to obtain that franchise.

(b) Buyer shall be reasonably satisfied with any facility improvement requirements which are imposed by Franchisor.

(c) Buyer shall have been permitted to inspect the business real property. All leases and subleases which are necessary for the beneficial use by Buyer of the Business Real Property shall be closed concurrently with this transaction under terms and conditions which are acceptable to Buyer. Buyer shall have been reasonably satisfied with the physical condition of the business real property, and with all aspects of the business real property.

(d) All of Seller's agreement and warranties set forth in this Agreement shall be true, correct, complete and not misleading at Closing; provided that Buyer's decision to close this transaction shall not release Seller from liability to Buyer for any warranty which is subsequently determined to be incorrect, incomplete or misleading.

(e) Buyer is satisfied with the kind, quality and/or value of the items listed on Exhibit "A" and does not notify Seller to the contrary pursuant to Paragraph 6.

(f) This agreement shall have been authorized by the board of directors of Lithia Motors, Inc. within 10 days after the date of this agreement.

17. Closing. The parties shall make all reasonable effort to close the purchase and sale under this Agreement at or before 5:00 p.m., Pacific Standard Time, on or before the Final Closing Date, at the offices of Capital City Escrow, Inc. in Sacramento, California, or at such other location as shall be selected by mutual agreement of the parties.

(a) The parties agree to establish a closing escrow account at Capital City Escrow, Inc. in Sacramento, California, (the "Closing Escrow Agent). Buyer and Seller each shall pay one-half (1/2) of the closing escrow fees. Buyer and Seller agree to execute whatever reasonable escrow instructions may be required by Closing Escrow Agent in connection with this transaction. In the event of any conflict between those escrow instructions and this Agreement, the terms of this Agreement shall prevail. Upon the execution of this Agreement, Buyer shall deliver to Closing Escrow Agent the sum of $100,000.00 (the deposit), which amount shall immediately be placed into an interest bearing account. The deposit plus interest shall be credited to Buyer and shall be applied against the purchase price for the Equipment at Closing as provided in Paragraph 6, or if the Closing fails to occur, then the deposit shall be disbursed as set forth hereinafter.

(b) In all events, the Closing of the transaction contemplated under this Agreement shall occur (if at all) on or before the Final Closing Date.

(c) If this transaction closes as provided herein, then actual possession and all risk of loss, damage or destruction with respect to the Purchased Assets, shall be deemed to have been delivered to Buyer at 11:59
p.m., Pacific Standard Time, on the Closing Date.

(d) At Closing, and coincidentally with the performance of the obligations to be performed by Buyer at Closing, Seller shall deliver to Buyer the following: (i) all bills of sale, assignments and other instruments of transfer, in form and substance reasonably satisfactory to Buyer, which shall be necessary to convey the Purchased Assets to Buyer; and
(ii) all other documents required under this Agreement.

(e) At Closing, and coincidentally with the performance of all obligations required of Seller at Closing, Buyer shall deliver to Seller the following: (i) payment for the Purchased Assets; and (ii) all other payments and documents required under this Agreement. Buyer shall be responsible for all sales taxes payable in connection with the transaction.

(f) If Closing does not take place on or before the Final Closing Date because there has been a failure of any condition precedent set forth in Paragraph 16 or because Seller has elected to rescind the Agreement pursuant to subparagraph 13(g), then: (i) all rights and obligations of both parties under this Agreement shall terminate, (ii) Buyer shall be entitled to a refund of the entire $100,000.00 earnest money deposit (and interest earned thereon) referred to in subparagraph 6(b), and (iii) this Agreement and all predecessor agreements shall thereafter be void and of no effect.

(g) If Closing does not take place on or before the Final Closing Date because of Buyer's material breach of this Agreement, then the $100,000.00 earnest money deposit delivered by Buyer to the Closing Escrow Agent (together with all interest earned thereon while held by the Closing Escrow Agent) shall be forfeited to Seller as Seller's sole and exclusive remedy for Buyer's breach, and Seller shall have no other rights or remedies against Buyer by reason of that breach. THIS SUM REPRESENTS A REASONABLE ESTIMATE BY BUYER AND SELLER OF SELLER'S DAMAGES IN THE EVENT OF SUCH A DEFAULT, IT BEING EXTREMELY DIFFICULT TO ASCERTAIN SELLER'S PRECISE DAMAGES. If Closing does not take place on or before the Final Closing Date because of Seller's material breach of this Agreement, then Buyer shall be entitled to:
(i) a refund of the entire $100,000.00 earnest money deposit previously delivered by buyer to the Closing Escrow Agent (together with all interest earned thereon while held by the Closing Escrow Agent), (ii) any and all other rights and remedies for that breach which are specified in this Agreement or which may be provide by law or in equity.

(h) Both parties agree to make a good faith effort to execute and deliver all documents, with exception of Seller's financial or tax records and complete all actions necessary to consummate this transaction.

18. Seller's Accounts Receivable. For a period of 6 months after Closing, Buyer shall, on Seller's behalf, and at no charge to Seller, accept any payment with respect to Seller's customer receivables and other receivables arising out of the operation of Seller's Business prior to Closing. All collected receivables from vehicle sales shall be delivered to Seller within ten (10) days after collection, and all other collected receivables shall be delivered to Seller on a monthly basis. Buyer shall have no obligation to undertake collection efforts with respect to Seller's receivables, and Buyer's only obligation shall be to account for an pay only Seller's receivables with are actually received by Buyer.

19. Survival Of Representations. All representations, warranties, indemnification obligations and covenants made in this Agreement shall survive the Closing, and shall remain in effect until the expiration of the latest period allowable in any applicable statute of limitations.

20. Assignment By Buyer. Lithia Motors, Inc. shall have the right to assign all rights and obligations of Lithia Motors, Inc. as "Buyer" under this Agreement. In the vent of any such assignment, the assignee shall assume all rights and obligations of Buyer under this Agreement, and Lithia Motors, Inc. shall remain jointly liable for all obligations of the Buyer.

21. Lease of Real Property. As a condition to the Closing of the transaction contemplated under this Agreement, Buyer (or a related entity) agrees to sublease the Business Real Property under the following general terms and conditions, and Buyer's obligation to close the transaction contemplated under this Agreement shall be subject to the condition that Buyer is simultaneously able to enter into an agreement with the owner of the Business Real Property which allows Buyer to sublease the Business Real Property under the following general terms and under such additional terms as are reasonably satisfactory to Buyer:

(a) Buyer has reviewed the Westwind Properties lease for the Mitsubishi Store and the Charles and Shirley Leggio lease for the Jeep/Eagle Store and accepts the terms and conditions of the leases.

22. First Right of Refusal. Seller agrees to grant Buyer "First Right of Refusal" to any purchase offer for Bakersfield Dodge dba "Haddad Dodge" located at 3000 Harris Road, Bakersfield, California. Any purchase offer must be a signed written agreement, Buyer must respond to offer within 10 days from date Buyer is notified. Further should Seller desire to sell but has no offer then Seller agrees to contact Buyer first.

23. Miscellaneous.

(a) There are no oral agreements or representations between the parties which affect this transaction, and this Agreement supersedes all previous negotiations, warranties, representations and understandings between the parties. True copies of all documents referenced in this Agreement are attached hereto. If any provision of this Agreement shall be determined to be void by any court of competent jurisdiction, then that determination shall not affect any other provision of this Agreement, and all other provisions shall remain in full force and effect. If any provision of this Agreement id capable of two constructions, only one of which would render the provision valid, then the provision shall have the meaning which renders it valid. The paragraph headings in this Agreement are for convenience purposes only, and do not in any way define or construe the contents of this Agreement.

(b) This Agreement shall be governed and performed in accordance with the laws of the state of California. Each of the parties hereby irrevocably submits to the jurisdiction of the courts of Kern County, California, and agrees that any legal proceedings with respect to this Agreement shall be filed and heard in the appropriate court in Kern County, California.

(c) This Agreement may be executed in multiple counterparts, each of which shall be an original, and all of which shall constitute a single instrument, when signed by both of the parties. This Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the respective parties.

(d) Waiver by either party of strict performance of any provision of this Agreement shall not be a waiver of, and shall not prejudice the party's right to subsequently require strict performance of, the same provision or any other provision. The consent or approval of either party to any act by the other party of a nature requiring consent or approval shall not render unnecessary the consent to or approval of any subsequent similar act.

(e) All notices provided for herein shall be in writing and shall be deemed to be duly given when mailed by United States certified mail, postage prepaid, to the last-known address of the party entitled to receive the notice, or when personally delivered to that party.

(f) Time of the essence to this Agreement.

(g) Should any party hereto institute any action or proceedings to enforce or interpret any provision hereof, or for damages by reason of any alleged breach of any provision of this Agreement, the prevailing party shall be entitled to recover from the losing party or parties such amount as the court may adjudge to be reasonable attorney's fees for services rendered to the prevailing party in such action or proceeding. The term "prevailing party" as used in this section shall include, without limitation, any party who is made a defendant in litigation in which damages and/or other relief may be sought against such party and a final judgment or dismissal or decree is entered in such litigation in favor of such party defendant.

(h) Seller and Buyer agrees to hold the other party harmless from any claims relative to their respective obligations or operation of the dealership. Therefore, Seller would agree to hold Lithia Motors harmless from any claims dealing with the operation of the business up to the point of sale and Lithia Motors would agree to hold Seller harmless from any claims which arise after the time of sale.

IN WITNESS WHEREOF, the parties have executed this Agreement on the dates indicated below.

SELLER: E.W.H. GROUP, INC., a California corporation

By: /s/ Elias W. Haddad 7-14-97
Elias W. Haddad, President

ELIAS W. HADDAD

By: /s/ Elias W. Haddad 7-14-97
Elias W. Haddad

BUYER: LITHIA MOTORS, INC. (OR NOMINEE)

By: /s/ Brad Gray 7-14-97
Brad Gray, Executive Vice President

EXHIBIT "A" TO AGREEMENT FOR PURCHASE AND SALE OF BUSINESS ASSETS

Between E.W.H. GROUP, INC., as "Seller", and

LITHIA MOTORS, INC. (OR NOMINEE), as Buyer

LIST OF EQUIPMENT, FURNITURE AND FIXTURES BEING SOLD BY SELLER

[See pages attached hereto.]

EXHIBIT "B" TO AGREEMENT FOR PURCHASE AND SALE OF BUSINESS ASSETS

Between E.W.H. GROUP, INC., as "Seller", and

LITHIA MOTORS, INC. (OR NOMINEE), as Buyer

LIST OF EQUIPMENT, FURNITURE AND FIXTURES BEING RETAINED BY SELLER

[See pages attached hereto.]

EXHIBIT "C" TO AGREEMENT FOR PURCHASE AND SALE OF BUSINESS ASSETS

Between E.W.H. GROUP, INC., as "Seller", and

LITHIA MOTORS, INC. (OR NOMINEE), as Buyer

LISTING OF LEASES AND AGREEMENTS BEING ASSUMED

[See pages attached hereto.]

EXHIBIT "D" TO AGREEMENT FOR PURCHASE AND SALE OF BUSINESS ASSETS

Between E.W.H. GROUP, INC., as "Seller", and

LITHIA MOTORS, INC. (OR NOMINEE), as Buyer

DISCLOSURE OF TOXIC MATERIALS

[See pages attached hereto.]

ADDENDUM TO
AGREEMENT FOR PURCHASE AND SALE OF BUSINESS ASSETS

This Addendum is entered into by and between E.W.H. Group, Inc., a California corporation, dba "Haddad Jeep/Eagle" (hereinafter referred to as the "Seller"), and Lithia Motors, Inc. or its nominee (hereinafter referred to as the "Buyer").

RECITALS:

Buyer and Seller have entered into an Agreement for Purchase and Sale of Business Assets dated July 14, 1997, relating to assets owned by Seller used in connection with the operation of Jeep/Eagle and Mitsubishi motor vehicle franchises (the "Original Agreement"). (The Original Agreement and this Addendum are referred to collectively herein as the "Agreement".)

The asset purchase contemplated by the Original Agreement did not close by the "Final Closing Date" of September 30, 1997. Nevertheless, Buyer and Seller desire to proceed with purchase and sale of certain of the assets covered by the Original Agreement under the terms of the Original Agreement, as modified as by this Addendum. The parties desire to modify the Original Agreement to establish a new Closing Date; to specify that only the Seller's assets relating to the marketing and sale of Jeep/Eagle vehicles and related business activities are included in the purchase, and the assets relating solely to Seller's business of sales of Mitsubishi vehicles will be excluded; to modify the purchase price to reflect the change in assets being acquired; to increase the amount placed in escrow to $200,000.00; and to modify certain of the terms of the escrow.

AGREEMENT

In consideration of the mutual promises set forth herein and in the Original Agreement, the parties hereby agree that the Original Agreement is reinstated and is amended as provided as follows:

1. The definition of "Target Closing Date" in Subparagraph 1(a) is modified to refer to March 16, 1998. The definition of "Final Closing Date" in Subparagraph 1(a) is modified to refer to March 30, 1998.

2. The Original Agreement is amended throughout to eliminate references to Mitsubishi vehicles and to Seller's franchise issued by Mitsubishi Motor Sales of America, Inc., including, but not limited to the specific changes set forth in this Addendum. The following definitions are so amended:

2.1 The definition of "Seller's Business" in Subparagraph 1(b) is modified to delete "and Mitsubishi".

2.2 The definition of "Franchisor" in Subparagraph 1(g) of the Original Agreement shall refer to Chrysler Corporation. References to "Mitsubishi Motor Sales of America, Inc." are deleted.

2.3 The definition of "New Vehicle" in Subparagraph 1(h) is modified to eliminate "and Mitsubishi."

3. The definition of "Business Real Property" in Subparagraph 1(f) is amended to delete "and 5200 Gasoline Alley", and other references in the Agreement to the 5200 Gasoline Alley property are also deleted.

4. Reference to purchases of inventory in Paragraph 3 of the Original Agreement are modified to delete "and Mitsubishi."

5. Paragraph 5 of the Original Agreement relating to purchase of new parts and accessories is modified to eliminate "and Mitsubishi."

6. Paragraph 6 of the Original Agreement dealing with purchase and sale of Equipment is modified as follows:

6.1 Prior to the Closing date, Buyer and Seller shall review the list of Equipment being purchased and sold designated as Exhibit A and shall delete from Exhibit A any Equipment related solely to operation of Seller's Mitsubishi franchise.

6.2 The purchase price for the Equipment stated in Subparagraph 6(a) is reduced to Two Hundred Thousand and No/100 Dollars ($200,000.00).

6.3 The earnest money deposit referred to in Subparagraph 6(b)(1) shall be increased by Buyer from $100,000.00 to $200,000.00, which amount shall be credited at Closing against the purchase price for the equipment and all interest earned shall be credited to the purchase price for Intangible Assets.

6.4 Subparagraph 6(b)(2) of the Original Agreement is deleted.

7. The gas, oil, nuts, bolts and other automotive supplies purchased by Buyer pursuant to Paragraph 7, shall not be separately priced. The price of such items is part of the purchase price for the Equipment.

8. Between the date of this Addendum and the Closing Date, Buyer and Seller shall review equipment leases and other contracts identified in Exhibit C. Buyer may eliminate any contracts which relate to the Mitsubishi franchise. The amount of any obligation assumed by Buyer pursuant to Paragraph 8 shall be credited at Closing against the purchase price for Intangible Assets.

9. The vehicle repair work in progress (in-house and subcontracted) purchased by Buyer pursuant to Section 9 shall not be separately priced, but shall be included in the purchase price for the Equipment.

10. In Subparagraph 10(a), the purchase price for Seller's Intangible Assets is modified to be One Million Three Hundred Thousand and No/100 Dollars ($1,300,000.00). References to "and Mitsubishi" are deleted from Paragraph 10.

11. In Subparagraph 13(h) reference to "and Mitsubishi" is deleted.

12. In Paragraph 14 "and Mitsubishi" is deleted.

13. The conditions to Buyer's obligations to close in Paragraph 16 are modified as follows:

13.1 In Subparagraph 16(a) the reference to "and Mitsubishi" is deleted.

13.2 In the absence of new requirements imposed by Franchisor prior to the Closing Date, the condition in Subparagraph 16(b) is deemed satisfied and shall not an additional condition to Closing.

13.3 Subparagraph 16(c) is amended to read "All leases and subleases which are necessary for the beneficial use by Buyer of the business real property shall be closed concurrently with this transaction under terms and conditions which are acceptable to Buyer." The other provisions of that Subparagraph have been satisfied and are no longer conditions to Closing.

13.4 The condition in Subparagraph 16(d) remains unmodified.

13.5 The conditions in Subparagraph 16(e) and 16(f) are satisfied and are no longer conditions to Closing.

14. Paragraph 17, dealing with the Closing, is amended as follows:

14.1 Upon execution of this Addendum, Buyer shall deliver to escrow agent an additional sum of $100,000.00 increasing the escrow deposit to $200,000.00. The deposit plus interest shall be credited to Buyer and shall be applied against the purchase price, first, for the Equipment at Closing as provided in Paragraph 6, with any additional amount shall be applied to the purchase price for intangible assets, or if the Closing fails to occur then the deposit shall be disbursed as set forth in Paragraph 17, as amended by this section.

14.2 Subparagraph 17(f) is amended to change $100,000.00 to $200,000.00.

14.3 Subparagraph 17(g) is amended to replace $100,000.00 with

$200,000.00 in each place it appears.

14.4 Subparagraph 17(h) is renumbered as 17(i) and a new Subparagraph 17(h) is added as follows:

"(h) Buyer agrees that the Escrow Agent is authorized and instructed to release the $200,000.00 deposit to Seller on March 31, 1998 if Buyer fails or refuses to close the transaction on or before that date for any reason other than (i) a material breach of the Agreement by Seller, or (ii) a failure of any of the remaining conditions precedent in Paragraph 16 of the Agreement, as modified by this Addendum. If Buyer wishes to prevent release of the $200,000.00 deposit to Seller on March 31, 1998 on the basis that there has been a material breach of the Agreement by Seller, then Buyer must both (a) on or before March 30, 1998, notify the Closing Escrow Agent and Seller in writing (which may be by fax) that there has been a material

breach of the Agreement by Seller, and (b) on or before May 1, 1998, submit to the Closing Escrow Agent and to Seller a written statement (which may be by fax) specifying each and every alleged material breach (in sufficient detail to provide reasonable notice to Seller as to the specific nature of each alleged material breach). If Buyer wishes to prevent release of the $200,000.00 deposit to Seller on March 31, 1998, on the basis that there has been a failure of any of the remaining conditions precedent set forth in Paragraph 16 of the Agreement, as modified by this Addendum, then Buyer must both (a) on or before March 30, 1998, notify Closing Escrow Agent and Seller in writing (which may be by fax) that such condition has not been satisfied, and (b) on or before May 1, 1998, deliver to Closing Escrow Agent and Seller a written statement (which may be by fax) specifying the condition or conditions which were not satisfied (in sufficient detail to provide reasonable notice to Seller of each condition). In the event of any litigation between the parties regarding the failure to consummate the transaction, Buyer's claims or defenses shall be limited to those matters identified in the detailed written statement (due May 1, 1998), and the failure to include an alleged breach or condition in the detailed written statement shall constitute a waiver of that alleged breach or unsatisfied condition."

15. In Paragraph 21 of the Agreement, the reference in Subparagraph 21(a) to Buyer's review of the "Westwind Properties lease for the Mitsubishi Store" is deleted.

16. Between the date of this Addendum and the Closing Date, Seller will permit Buyer's representatives to have access to Seller's business premises and employees for the purpose of installing its systems and making preparation for Buyer to commence immediate operation of the business following the Closing.

17. Buyer has submitted a franchise application to Franchisor. Buyer will submit an extension request not later than five business days following the receipt of this Addendum executed by Seller.

18. Each of the parties hereby waives and releases, any and all claims it may have against the other party relating to the failure of the transactions contemplated by the Agreement to close by September 30, 1997.

19. This Addendum may be executed and delivered by exchange of facsimile copies showing signatures of the parties hereto, and those signatures need not be affixed to the same copy. The facsimile copies showing the signatures of the parties hereto will constitute originally signed copies of the same agreement requiring no further execution. The parties agree that they will promptly forward signed originals of this Addendum. However, signed facsimile documents will remain binding even if the originals are not sent or received.

20. Except as amended by the Addendum, the Agreement remains in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Addendum on the dates indicated below.

SELLER: E.W.H. GROUP, INC., a California corporation

By: /s/ Elias W. Haddad Dated:
Elias W. Haddad, President

ELIAS W. HADDAD

By: /s/ Elias W. Haddad Dated:
Elias W. Haddad

BUYER: LITHIA MOTORS, INC. (OR NOMINEE)

By: /s/ Brad Gray Dated:
Brad Gray, Executive Vice President

EXHIBIT 21.1
SUBSIDIARIES OF LITHIA MOTORS, INC.

Name of Subsidiary	Jurisdiction of Incorporation	Name under which Business is Conducted
Lithia TLM, LLC	Oregon	Lithia Toyota Lincoln Mercury; Lithia Lincoln Mercury
Lithia Grants Pass Auto Center, LLC	Oregon	Lithia's Grants Pass Auto Center; Xprsss Lube
Lithia Dodge, LLC	Oregon	Lithia Dodge; Lithia Mazda; Xpress Lube; Lithia Dodge Chry Ply Mazda Jeep Eagle
Lithia Properties, LLC	Oregon	Lithia Insurance
Lithia MTLM, Inc.	Oregon	Lithia Toyota Lincoln Mercury
LGPAC, Inc.	Oregon	Lithia's Grants Pass Auto Center
Lithia DM, Inc.	Oregon	Lithia Chrysler Plymouth Jeep Eagle, Inc.; Lithia Dodge Chry Ply Mazda Jeep Eagle
Lithia HPI, Inc.	Oregon	Lithia Honda Pontiac Suzuki Isuzu; Lithia Honda; Honda Automobiles of Medford; Lithia Isuzu; Lithia Pontiac; Lithia Suzuki; Lithia Volkswagen Audi
Saturn of Southwest Oregon, Inc.	Oregon	Saturn of Southwest Oregon
Lithia DE, Inc.	Oregon	Lithia Dodge of Eugene
Lithia Chrysler Plymouth Jeep Eagle, Inc.	Oregon	Lithia Chrysler Plymouth; Lithia Dodge Chry Ply Mazda Jeep Eagle
Lithia BNM, Inc.	Oregon	Lithia Nissan; Medford BMW
Lithia DC, Inc.	California	Lithia Dodge of Concord; Lithia Isuzu of Concord
Lithia FN, Inc.	California	Lithia Ford of Napa

Lithia TKV, Inc.	California	Lithia Toyota of Vacaville
Lithia FVHC, Inc.	California	Lithia Sun Valley Ford
Lithia VWC, Inc.	California	Lithia Sun Valley Volkswagen
Lithia NB, Inc.	California	Lithia Nissan of Bakersfield
Lithia BB, Inc.	California	Lithia BMW of Bakersfield; Lithia Acura of Bakersfield
Lithia MB, Inc.	California	Lithia Mitsubishi of Bakersfield
Lithia JEB, Inc.	California	Lithia Jeep Eagle of Bakersfield
Lithia JEF, Inc.	California	Lithia Jeep Eagle of Fresno
Lithia NF, Inc.	California	Lithia Nissan of Fresno
Lithia FMF, Inc.	California	Lithia Ford of Fresno
Lithia MMF, Inc.	California	Lithia Mazda of Fresno
Lithia Real Estate, Inc.	Oregon	Lithia Real Estate, Inc.
Lithia Financial Corporation	Oregon	Lithia Financial Corporation
Lithia Rentals, Inc.	Oregon	Avis Rent A Car; Discount Rent-A-Car
Lithia Auto Services, Inc.	Oregon	Cellular World; Lithia Body & Paint; Thrift Auto Supply
Lithia Auto Services of California, Inc.	California	Lithia Auto Services of California, Inc.
Lithia Aircraft, Inc.	Oregon	Lithia Aircraft, Inc.
Lithia SALMIR, Inc.	Nevada	Dick Donnelly Isuzu; Dick Donnelly Suzuki; Dick Donnelly Audi; Dick Donnelly Lincoln/Mercury

EXHIBIT 23.1

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Lithia Motors, Inc. and Subsidiaries

We consent to incorporation by reference in the registration statements (Nos. 333-45553 and 333-43593) on Form S-8 of Lithia Motors, Inc. of our report dated February 6, 1998, relating to the consolidated balance sheets of Lithia Motors, Inc. and Subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1997, which report appears in the December 31, 1997 annual report on Form 10-K of Lithia Motors, Inc.

KPMG PEAT MARWICK LLP

Portland, Oregon,
March 20, 1998

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD START	JAN 01 1997
PERIOD END	DEC 31 1997
CASH	18,454
SECURITIES	0
RECEIVABLES	8,082
ALLOWANCES	0
INVENTORY	89,845
CURRENT ASSETS	119,887
PP&E	19,087
DEPRECIATION	2,822
TOTAL ASSETS	166,526
CURRENT LIABILITIES	96,017
BONDS	109,528
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	28,628
OTHER SE	9,190
TOTAL LIABILITY AND EQUITY	166,526
SALES	274,393
TOTAL REVENUES	319,795
CGS	245,812
TOTAL COSTS	266,363
OTHER EXPENSES	41,794
LOSS PROVISION	81
INTEREST EXPENSE	(3,004)
INCOME PRETAX	9,497
INCOME TAX	3,538
INCOME CONTINUING	5,959
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	5,959
EPS PRIMARY	.85
EPS DILUTED	.82

ARTICLE 5

RESTATED:

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	DEC 31 1996
CASH	15,413
SECURITIES	0
RECEIVABLES	2,273
ALLOWANCES	13
INVENTORY	28,152
CURRENT ASSETS	49,089
PP&E	6,689
DEPRECIATION	2,073
TOTAL ASSETS	63,754
CURRENT LIABILITIES	28,868
BONDS	27,660
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	24,683
OTHER SE	53
TOTAL LIABILITY AND EQUITY	63,754
SALES	142,844
TOTAL REVENUES	142,844
CGS	118,647
TOTAL COSTS	118,647
OTHER EXPENSES	20,277
LOSS PROVISION	29
INTEREST EXPENSE	1,353
INCOME PRETAX	3,916
INCOME TAX	(813)
INCOME CONTINUING	4,042
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	4,042
EPS PRIMARY	0.94
EPS DILUTED	0.88

ARTICLE 5

RESTATED:

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS	6 MOS	9 MOS
FISCAL YEAR END	DEC 31 1997	DEC 31 1997	DEC 31 1997
PERIOD START	JAN 01 1997	JAN 01 1997	JAN 01 1997
PERIOD END	MAR 31 1997	JUN 30 1997	SEP 30 1997
CASH	13,528	15,296	7,379
SECURITIES	0	0	0
RECEIVABLES	3,630	4,055	6,381
ALLOWANCES	0	0	0
INVENTORY	39,100	42,626	50,748
CURRENT ASSETS	58,637	64,438	68,080
PP&E	11,739	12,568	15,833
DEPRECIATION	3,481	3,752	3,900
TOTAL ASSETS	77,574	87,221	101,301
CURRENT LIABILITIES	32,142	37,621	45,050
BONDS	33,537	42,720	52,825
PREFERRED MANDATORY	0	0	0
PREFERRED	0	0	0
COMMON	28,581	28,548	28,549
OTHER SE	4,375	5,741	7,321
TOTAL LIABILITY AND EQUITY	77,574	87,221	101,301
SALES	52,032	115,738	178,400
TOTAL REVENUES	54,704	121,126	206,699
CGS	45,074	100,496	160,156
TOTAL COSTS	45,755	101,462	172,850
OTHER EXPENSES	7,164	15,581	26,743
LOSS PROVISION	11	31	58
INTEREST EXPENSE	146	651	1,374
INCOME PRETAX	1,864	4,090	6,663
INCOME TAX	720	1,579	2,573
INCOME CONTINUING	1,144	2,511	4,090
DISCONTINUED	0	0	0
EXTRAORDINARY	0	0	0
CHANGES	0	0	0
NET INCOME	1,144	2,511	4,090
EPS PRIMARY	0.17	0.36	0.59
EPS DILUTED	0.16	0.35	0.56