

LITHIA MOTORS INC

FORM 10-K (Annual Report)

Filed 03/31/99 for the Period Ending 12/31/98

Address	150 NORTH BARTLETT STREET MEDFORD, OR 97501
Telephone	541-776-6401
CIK	0001023128
Symbol	LAD
SIC Code	5500 - Retail-Auto Dealers & Gasoline Stations
Industry	Auto Vehicles, Parts & Service Retailers
Sector	Consumer Cyclical
Fiscal Year	12/31

LITHIA MOTORS INC

FORM 10-K (Annual Report)

Filed 3/31/1999 For Period Ending 12/31/1998

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended: December 31, 1998

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
(State or other jurisdiction of
incorporation
or organization)

93-0572810
(I.R.S. Employer
Identification No.)

360 E. JACKSON STREET, MEDFORD, OREGON
(Address of principal executive offices)

97501
(Zip Code)

541-776-6899

(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:
CLASS A COMMON STOCK, WITHOUT PAR VALUE
Securities registered pursuant to Section 12(g) of the Act: NONE
(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 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 \$54,895,978 as of February 26, 1999 based upon the last sales price (\$18.44) as reported by the New York Stock Exchange.

The number of shares outstanding of the Registrant's Common Stock as of March 12, 1999 was: Class A: 6,149,688 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 Proxy Statement for its 1999 Annual Meeting of Shareholders.

LITHIA MOTORS, INC.
1998 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 following:

- The cyclical nature of automobile sales;
- The Company's ability to negotiate profitable, accretive acquisitions;
- The Company's ability to secure manufacturer approvals for acquisitions; and
- The Company's ability to retain existing management.

See Exhibit 99 for a discussion of risk factors.

GENERAL

Lithia is a leading operator and retailer in the highly fragmented automotive industry. We offer 23 brands of new vehicles, through 56 franchises in 28 locations in the western United States. We currently operate 14 dealerships in California, 9 in Oregon, 2 in Washington and 3 in Nevada. Lithia 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.

Lithia Motors, Inc. was founded in 1946 and its two senior executives have managed Lithia for over 28 years. Management has developed and implemented its acquisition and operating strategies which have enabled Lithia to successfully identify, acquire and integrate dealerships, achieving financial performance superior to industry averages. Since December 1996 when we completed our initial public offering, we have acquired 23 dealerships and are actively pursuing additional acquisitions. During 1998, the Company's skill in integrating dealerships resulted in 22% sales growth and 44% pre tax income growth at the first ten stores that were purchased since Lithia's initial public offering.

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 1998. Currently, the largest 100 dealer groups generate less than 12% of total industry sales and control approximately 5% of all franchised automobile dealerships. Based on a current annual revenue run rate of \$850 million, we believe that we are one of the 20 largest automobile retailers in the country.

Further consolidation of the automotive retailing industry is expected due to:

- The high cost of entry into the franchised automobile business;
- Many dealerships owned by individuals who are nearing retirement age; and
- The desire of manufacturers to strengthen their dealer networks through consolidation.

GROWTH STRATEGY

Lithia has become a leading acquirer and operator of automobile dealerships in the western and inter-mountain United States. We target acquisitions in markets where we have the opportunity to build a significant market presence. We generally try to acquire an entire group at one time (a "Platform") or acquire one or two stores at a time ("Fill-ins"). Lithia's current core markets are South-Central Oregon, Northern California, South-Central Valley, California, Northern Nevada and Eastern Washington. Lithia makes acquisitions on an opportunistic basis with a keen focus on maximizing its return on investment. As such, Lithia's acquisition pricing discipline has played a key role in its acquisition activities. Lithia's strict discipline in purchasing stores, combined with its ability to rapidly improve profitability by implementing the Lithia operating model into acquired stores, has effectively allowed Lithia to build its own dealership groups.

Since our initial public offering in December 1996, we have completed the purchase of 23 dealerships with pre-acquisition annual revenues of approximately \$684 million.

OPERATING STRATEGY

After acquiring a new store, Lithia implements its proven operating model to maximize the overall franchise value of each location. Lithia's operating strategy consists of the following elements:

VALUE PARTNERSHIP WITH MANUFACTURERS. Lithia 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 Lithia'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. Lithia relies on this help and encourages their assistance as a welcome partner. Lithia cooperates in facility design, in marketing efforts and in program support.

PROVIDE A BROAD RANGE OF PRODUCTS AND SERVICES. Lithia 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.

By offering new and used vehicles and an array of complementary services at each of its locations, Lithia seeks to increase customer traffic and meet specific customer needs. We believe that offering numerous new vehicle brands appeals to a variety of customers, minimizes dependence on any one manufacturer, and reduces our exposure to supply problems and product cycles.

EMPHASIZE SALES OF HIGHER MARGIN PRODUCTS AND SERVICES. Lithia generates substantial incremental revenue and net income by arranging the financing for the sale of vehicles and by selling insurance, extended service contracts and vehicle maintenance. In 1998, Lithia arranged financing for 74% of its new vehicle sales and 71% of its used vehicle sales, compared to 42% and 51%, respectively, for the average automobile dealership in the United States (1997 data).

EMPLOY PROFESSIONAL MANAGEMENT TECHNIQUES. Each dealership is its own profit center and is managed by an experienced general manager who has primary responsibility for inventory, advertising, pricing and personnel. In order to provide additional support towards improving performance, each dealership has available to it a 5-person team of specialists in new vehicle sales, used vehicle sales, finance and insurance, service and parts, and back office administration. Lithia compensates its general managers and department managers based on the profitability of their dealerships and departments, respectively. Senior management monitors each dealership's sales, profitability and inventory on a daily basis.

FOCUS ON CUSTOMER SATISFACTION AND LOYALTY. Lithia emphasizes customer satisfaction and a reputation for quality and fairness. Lithia trains its sales personnel to identify an appropriate vehicle for each of its customers at an affordable price.

Lithia's "Priority You" customer service plan provides:

- A customer credit check within 10 minutes;
- A used vehicle appraisal within 30 minutes;
- Paper work completed within 90 minutes for a vehicle purchase;
- A 10-day/500-mile "no questions asked" right of exchange on any used vehicle sold;
- A 60-day/3,000 mile warranty on all used vehicles sold; and
- A donation to a local charity or educational organization for every vehicle sold.

We believe that "Priority You" helps differentiate us from other dealerships.

We believe the application of this operating strategy provides us with a competitive advantage over many dealerships and it is critical to our ability to achieve levels of profitability superior to industry averages.

Lithia has received a number of dealer quality and customer satisfaction awards from various manufacturers. 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. Most recently, Lithia Dodge of Eugene, Oregon became a National Charger Club member in recognition of high sales volume and customer satisfaction. Also, Lithia Isuzu of Reno was recognized as the number one retail Isuzu dealer in the country and Sendai Club member as well as receiving the 1998 President's Cup.

DEALERSHIP OPERATIONS

Lithia owns and operates 28 dealership locations, 14 in California, 9 in Oregon, 3 in Nevada and 2 in Washington. Each of Lithia's dealerships sell new and used vehicles and related automotive parts and services.

Lithia's dealerships, brands sold and percentage of current annual revenues by region are as follows:

Region	Location	Number of Franchises	Brands	% of Current Annual Revenues
South-Central Oregon	Medford, OR	4	Honda, Suzuki, Isuzu, Volkswagen	34%
	Medford, OR	3	Toyota, Lincoln-Mercury	
	Medford, OR	6	Dodge, Dodge Truck, Chrysler, Plymouth, Mazda, Jeep	
	Medford, OR	1	Saturn	
	Medford, OR	2	Nissan, BMW	
	Grants Pass, OR	5	Dodge, Dodge Truck, Chrysler, Plymouth, Jeep	
	Eugene, OR	2	Dodge, Dodge Trucks	
	Eugene, OR	1	Toyota	
	Eugene, OR	1	Nissan	
Northern California	Vacaville, CA	1	Toyota	27%
	Concord, CA	2	Dodge, Dodge Trucks	
	Concord, CA	2	Volkswagen, Isuzu	
	Concord, CA	1	Ford	
	Napa, CA	3	Ford, Lincoln-Mercury	
	Redding, CA	1	Chevrolet	
	Redding, CA	1	Toyota	
South-Central Valley, CA	Bakersfield, CA	1	Nissan	19%
	Bakersfield, CA	2	BMW, Acura	
	Bakersfield, CA	1	Jeep	
	Fresno, CA	1	Ford	
	Fresno, CA	2	Mazda, Suzuki	
	Fresno, CA	1	Nissan	
	Fresno, CA	2	Jeep, Hyundai	
Northern Nevada	Reno, NV	5	Isuzu, Lincoln-Mercury, Suzuki, Audi Volkswagen	10%
	Reno, NV	1	Isuzu, Lincoln-Mercury, Suzuki	
	Sparks, NV	-(1)		
Eastern Washington	Spokane, WA	1	Chevrolet	10%
	Spokane, WA	3	Subaru, BMW, Volvo	

(1) The Sparks, Nevada location represents satellite franchises of the main Reno location.

NEW VEHICLE SALES. Lithia sells 23 domestic and imported brands ranging from economy to luxury cars, sport utility vehicles, minivans and light trucks. The following table sets forth, by manufacturer, the percentage of new vehicle sales by Lithia during the fourth quarter of 1998.

MANUFACTURER	1998 FOURTH QUARTER PERCENTAGE OF NEW VEHICLE SALES
Chrysler (Chrysler, Plymouth, Dodge, Jeep, Dodge Trucks)	31.2
Ford (Ford, Lincoln, Mercury)	19.3
Toyota	12.0
General Motors (Chevrolet, Saturn)	8.8
Volkswagen, Audi	6.4
Isuzu	5.7
Nissan	5.6
BMW	3.2
Honda (Acura, Honda)	2.8
Subaru	1.8
Suzuki	1.0
Mazda	0.9
Volvo	0.8
Hyundai	0.5

	100.0%

The following table sets forth Lithia's unit and dollar sales of new vehicles for each of the past five years:

(dollars in thousands)	1994	1995	1996	1997	1998
Units	2,744	2,715	3,274	7,493	17,708
Sales	\$51,154	\$53,277	\$65,092	\$161,294	\$388,431

Lithia 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. Lithia also exchanges vehicles with other dealers to accommodate customer demand and to balance inventory.

As is customary in the automobile industry, the final sales price of a new vehicle is generally negotiated with the customer. However, at Lithia's Saturn dealership, the final sales price does not deviate from the posted price.

USED VEHICLE SALES. Used vehicle sales are an important part of our overall profitability. Lithia retains a full-time used vehicle manager at each of its locations.

Lithia acquires the majority of its used vehicles through customer trade-ins, but also acquires them 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.

Lithia 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.

The following table sets forth Lithia's unit and dollar sales of used vehicles for each of the past five years:

(dollars in thousands)	1994	1995	1996	1997	1998
Retail units	3,372	3,302	4,156	7,148	13,645
Retail sales	\$36,382	\$36,997	\$48,697	\$88,571	\$174,223
Wholesale units	1,834	1,842	2,348	4,990	9,532
Wholesale sales	\$ 5,999	\$ 7,064	\$ 9,914	\$24,528	\$46,321
Total units	5,206	5,144	6,504	12,138	23,177
Total sales	\$42,381	\$44,061	\$58,611	\$113,099	\$220,544

Lithia's "Priority You" 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. We generally sell each used vehicle within 60 days of acquisition.

VEHICLE FINANCING AND LEASING. Lithia believes that the availability of financing at its dealerships is critical to its ability to sell vehicles and ancillary products and services. Lithia provides a variety of financing and leasing alternatives to meet the needs of each customer. We believe our ability to offer customer-tailored financing on a "same day" basis provides us with an advantage over many of our competitors, particularly smaller competitors who do not generate sufficient volume to attract the diversity of financing sources that are available to us.

Because of the high profit margins which are typically generated through sales of F&I products, Lithia seeks to arrange financing for every vehicle it sells. Lithia has arranged financing for a larger percentage of its transactions than the industry average. During 1998, Lithia financed or arranged for financing for over 74% of its new vehicle sales and 71% of its used vehicle sales, compared to an industry average of 42% and 51%, respectively (latest 1997 data).

Lithia maintains close relationships with a wide variety of financing sources that are best suited to satisfy its customers' particular needs and that maximize income. 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.

Lithia generally arranges financing for its customers from third party sources to avoid the risk of default. However, if we believe the credit risk is manageable, we occasionally directly finance or lease the vehicle to the customer. In these cases, Lithia bears the risk of default. Historically, Lithia has directly financed only a limited number of vehicle sales.

SERVICE, BODY AND PARTS. Lithia considers its service, body and parts operations to be an integral part of its customer service program and an important element of establishing customer loyalty. Lithia provides parts and service primarily for the new vehicle brands sold by its dealerships but may also service other vehicles. In 1998, Lithia's service, body and parts operations generated \$72.2 million in revenues, or 10.1% of total revenues. Lithia uses a variable pricing structure designed to reflect the difficulty and sophistication of different types of repairs and the cost and availability of parts.

The service, body and parts business provides an important recurring revenue stream to the dealerships. Lithia 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 service, body and parts departments are countercyclical to new car sales as owners repair existing vehicles rather than buy new vehicles. We believe this helps mitigate the effects of a downturn in the new vehicle sales cycle.

Lithia operates three collision repair centers, one each in Northern California, Eastern Washington and South-Central Oregon.

ANCILLARY SERVICES AND PRODUCTS. Lithia's F&I managers 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 Lithia's overall profitability.

Lithia sells third-party extended-service contracts, which cover all designated repairs. 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 can purchase similar extended-service contracts.

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

SALES AND MARKETING

We believe that our "Priority You" program described earlier helps differentiate us from many other dealerships, thereby increasing customer traffic and developing stronger customer loyalty.

Advertising and marketing play a significant role in our success. A large portion of an auto retailers' advertising and marketing expenses are provided for by the automobile manufacturers. The manufacturers also provide Lithia with market research, which assists Lithia in developing its own advertising and marketing campaigns.

Lithia utilizes most forms of media in its advertising, including television, our internet web site, newspaper, radio and direct mail, including periodic mailers to previous customers. Lithia uses advertising to develop its image as a reputable dealer, offering quality service, affordable automobiles and financing for all buyers. In addition, Lithia's individual dealerships sponsor price discounts or other promotions designed to attract customers. By owning a cluster of dealerships in a particular market, we can save money from volume discounts and other media concessions. Lithia also participates as a member of a number of advertising cooperatives or associations whose members pool their resources and expertise together with those of the manufacturer to develop advertising campaigns.

Lithia has dedicated resources to developing and maintaining its web site (www.lithia.com). We believe that our web site is a valuable lead-generation tool. A visitor to Lithia's web site is able to do the following at each of Lithia's locations:

- access the manufacturer sites for product information;
- order a new vehicle;
- view all used vehicle inventory;
- schedule a service appointment;
- order parts and accessories; and
- download customer discount coupons

We believe that regional and national auto retailers, such as Lithia, are best positioned to take advantage of the internet as an effective marketing tool.

MANAGEMENT INFORMATION SYSTEM

Lithia'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 computers and work stations.

Senior management is able to access detailed information from all of its locations regarding:

- inventory;
- total unit sales and mix of new and used vehicle sales;
- lease and finance transactions;
- sales of ancillary products and services;
- key cost items and profit margins; and
- the relative performance of the dealerships.

Each dealership's general manager can access the same information. With this information, management can quickly analyze the results of operations, identify trends in the business, and focus on areas that require attention or improvement. We believe that our management information system also allows our general managers to quickly respond to changes in consumer preferences and purchasing patterns, thereby maximizing inventory turnover.

We believe that our management information system is a key factor in successfully incorporating newly acquired businesses. Following each acquisition, Lithia immediately installs its management information system at the dealership location, thereby quickly making the financial, accounting and other operational data easily accessible throughout the organization. With access to such data, management can more efficiently execute Lithia's operating strategy at the newly acquired dealership.

RELATIONSHIPS WITH AUTOMOBILE MANUFACTURERS

Lithia 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 typical automobile franchise agreement specifies the locations within a designated market area at which the dealer may sell vehicles and related products and perform certain approved services. 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;
- service facilities and equipment;
- inventories of vehicles and parts;
- minimum working capital;
- training of personnel; and
- performance standards regarding sales volume and customer satisfaction.

Each manufacturer closely monitors compliance with these requirements and requires 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 if there is:

- a 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
- poor sales performance or low customer satisfaction index

Each franchise agreement authorizes at least one person to manage the dealership's operations. The manufacturer must approve changes in management or transfers of ownership of the dealership.

COMPETITION

The automobile business 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. Lithia principally competes with other automobile dealers, both publicly and privately held, in the same general vicinity of its dealership locations, as well as automobile "superstores." In addition, certain regional and national car rental companies operate retail used car lots to dispose of their used rental cars.

REGULATION

Lithia'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 Lithia's dealerships, service centers, collision repair 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. A manufacturer may not:

- terminate or fail to renew a franchise without good cause; or
- prevent any reasonable changes in the capital structure or the manner in which a dealership is financed

Manufacturers may object to a sale or change of management based on 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." A manufacturer or the dealer must 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.

We must provide written disclosures on new vehicles of mileage and pricing information. In addition, financing and insurance activities are subject to credit reporting, debt collection, and insurance industry regulation.

Imported automobiles are subject to United States customs duties. Lithia may, from time to time, have to pay claims for duties, penalties or other charges.

Lithia's business, particularly parts, service and collision repair operations involves hazardous or toxic substances or wastes. Lithia has been required to remove storage tanks containing such substances or wastes. Federal, state and local authorities establishing health and environmental quality standards regulate the handling and storage of hazardous materials. These governmental authorities also regulate remediation of contaminated sites, which could be Lithia facilities or sites to which Lithia sends hazardous or toxic substances or wastes for treatment, recycling or disposal. We believe that we do not have any material environmental liabilities and that compliance with environmental regulations will not, have a material adverse effect on Lithia's results of operations or financial condition.

EMPLOYEES

As of December 31, 1998, we employed approximately 1,850 persons on a full-time equivalent basis. The service department employees at Lithia Concord Dodge and Lithia Sun Valley Ford, Volkswagen, Isuzu are bound by collective bargaining agreements. The Company believes it has a good relationship with its employees.

ITEM 2. PROPERTIES

Lithia's dealerships and other facilities consist primarily of automobile showrooms, display lots, service facilities, three collision repair and paint shops, rental agencies, supply facilities, automobile storage lots, parking lots and offices. We believe our facilities are currently adequate for our needs and are in good repair. Lithia owns some of its properties, but generally prefers to lease its properties providing future flexibility to relocate its retail stores as demographics change. Lithia also holds some undeveloped land for future expansion.

ITEM 3. LEGAL PROCEEDINGS

Lithia is a party to litigation that arises in the normal course of its business operations. We do not believe that we are presently a party to litigation that will have a material adverse effect on our business or operations.

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

No matters were submitted to a vote of Lithia's shareholders during the quarter ended December 31, 1998.

PART II

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

MATTERS

Lithia's Class A Common Stock began trading on the New York Stock Exchange on January 22, 1999 under the symbol LAD. Prior to that time, the Class A Common Stock traded on the Nasdaq National Market under the symbol LMTR. The quarterly high and low sales prices of the Class A Common Stock for the period from January 1, 1997 through December 31, 1998 were as follows:

1997	High	Low
Quarter 1	\$ 13.13	\$ 10.50
Quarter 2	12.38	9.50
Quarter 3	14.25	10.50
Quarter 4	19.00	13.63
1998		
Quarter 1	\$ 17.25	\$ 12.00
Quarter 2	17.00	13.13
Quarter 3	18.25	10.38
Quarter 4	17.88	9.25

The number of shareholders of record and approximate number of beneficial holders of Class A Common Stock at March 16, 1999 was 1,675 and 1,300, respectively. All shares of Lithia's Class B Common Stock are held by Lithia Holding Company LLC. There were no cash dividends declared or paid subsequent to Lithia's initial public offering in December 1996. Lithia does not intend to declare or pay cash dividends. Lithia 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 and will depend upon Lithia's results of operations, financial position and capital requirements, general business conditions, restrictions imposed by financing arrangements, if any, and legal restrictions on the payment of dividends. Lithia's agreements with Ford Credit preclude the payment of cash dividends without the prior consent of Ford Credit.

ITEM 6. SELECTED FINANCIAL DATA

YEAR ENDED DECEMBER 31,

(in thousands, except per share amounts)	1994 (1)	1995 (1)	1996 (1)	1997	1998
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Revenues:					
New vehicles	\$ 51,154	\$ 53,277	\$ 65,092	\$ 161,294	\$ 388,431
Used vehicles	42,381	44,061	58,611	113,099	220,544
Service, body and parts	9,972	10,961	13,197	29,828	72,216
Other revenues	5,916	5,897	5,944	15,574	33,549
Total revenues	109,423	114,196	142,844	319,795	714,740
Cost of sales	88,148	92,054	117,025	265,049	599,379
Gross profit	21,275	22,142	25,819	54,746	115,361
Selling, general and administrative	14,781	16,333	19,830	40,625	85,188
Depreciation and amortization	1,954	1,907	1,756	2,483	3,469
Income from operations	4,540	3,902	4,233	11,638	26,704
Floorplan interest expense	(535)	(957)	(697)	(2,179)	(7,108)
Other interest expense	(419)	(433)	(656)	(824)	(2,735)
Other income, net	1,001	1,215	1,349	862	921
Income before minority interest and income taxes	4,587	3,727	4,229	9,497	17,782
Minority interest	(458)	(778)	(687)	-	-
Income before income taxes (1)	\$ 4,129	\$ 2,949	3,542	9,497	17,782
Income tax (expense) benefit			813	(3,538)	(6,993)
Net income			\$ 4,355	\$ 5,959	\$ 10,789
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Income before taxes and minority interest, as reported	\$ 4,587	\$ 3,727	\$ 4,229		
Pro forma provision for taxes (2)	(1,743)	(1,430)	(1,623)		
Pro forma net income	\$ 2,844	2,297	\$ 2,606		
Basic net income per share (3)	\$ 0.17	\$ 0.50	\$ 0.56	\$ 0.85	\$ 1.18
Diluted net income per share (3)	\$ 0.16	\$ 0.47	\$ 0.52	\$ 0.82	\$ 1.14

AS OF DECEMBER 31,

(in thousands)	1994 (1)	1995 (1)	1996 (1)	1997	1998
CONSOLIDATED BALANCE SHEET DATA:					
Working capital	\$ 9,325	\$ 10,626	\$ 25,431	\$ 23,870	\$ 53,553
Total assets	41,981	44,117	68,964	166,526	294,398
Short-term debt	23,511	22,300	22,000	85,385	132,310
Long-term debt, less current maturities	6,748	10,743	6,160	26,558	41,420
Total shareholders' equity	6,094	3,716	27,914	37,877	91,511

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

(2) 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.

(3) The per share amounts are pro forma for 1994, 1995 and 1996 and actual for 1997 and 1998.

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

GENERAL

In 1998, Lithia generated record revenues, net income, EBITDA and unit sales of new and used vehicles as follows (dollars in thousands):

	1997	1998	% INCREASE
	-----	-----	-----
Revenues	\$319,795	\$714,740	123%
EBITDA	\$14,983	\$31,094	108%
Net income	\$5,959	\$10,789	81%
Unit sales:			
New	7,493	17,708	136%
Retail used	7,148	13,645	91%

The following table shows selected condensed financial data expressed as a percentage of total revenues for the periods indicated for the average automotive dealer in the United States.

AVERAGE U.S. DEALERSHIP STATEMENT OF OPERATIONS DATA:	YEAR ENDED DECEMBER 31,	
	1996	1997
	-----	-----
Revenues:		
New vehicles	57.7 %	58.3 %
Used vehicles	30.4	29.8
Parts and service, other	11.9	11.9
	-----	-----
	100.0 %	100.0 %
Gross profit	12.9	12.7
Total dealership expense	11.3	11.4
Income before taxes	1.5 %	1.4 %

Source: NADA INDUSTRY ANALYSIS DIVISION

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

LITHIA MOTORS, INC.	YEAR ENDED DECEMBER 31,		
	1996 (1)	1997	1998
	-----	-----	-----
Revenues:			
New vehicles	45.6%	50.4%	54.3%
Used vehicles	41.0%	35.4%	30.9%
Service, body and parts	9.2%	9.3%	10.1%
Other revenues	4.2%	4.9%	4.7%
	-----	-----	-----
Total revenues	100.0%	100.0%	100.0%
Gross profit	18.1%	17.1%	16.1%
Selling, general and administrative	13.9%	12.7%	11.9%
Income from operations	3.0%	3.6%	3.7%

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

1998 COMPARED TO 1997

REVENUES. Revenues increased \$394.9 million, or 123% to \$714.7 million for the year ended December 31, 1998 from \$319.8 million in 1997. Total vehicles sold during 1998 increased by 21,254, or 108%, to 40,885 from 19,631 during 1997. Same store sales growth was 14.7% in 1998 compared to industry growth for new vehicles of 2.9% for 1998. During 1998, the Company's skill in integrating dealerships resulted in 22% sales growth and 44% pre tax income growth at the first ten stores that were purchased since Lithia's initial public offering.

NEW VEHICLES. In 1998 new vehicle sales of \$388.4 million constituted 54.3% of total revenues compared to \$161.3 million, or 50.4% of new vehicle sales, in 1997. The increase is primarily a result of acquisitions, strong internal growth and a 1.9% increase in the average selling price of new vehicles during 1998 to \$21,935 from \$21,526 in 1997.

RETAIL USED VEHICLES. In 1998 and 1997, the Company sold 13,645 and 7,148 retail used vehicles, respectively, generating revenues of \$174.2 million and \$88.6 million, respectively. Used vehicle revenue constituted 24.4% and 27.7% of total revenue in 1998 and 1997, respectively. Average selling prices for retail used vehicles increased 3.0% to \$12,768 in 1998 from \$12,391 in 1997.

SERVICE, BODY AND PARTS. Lithia derives additional revenue from the sale of parts and accessories, maintenance and repair services and collision repair work. Revenues from these types of services increased 142% in 1998 to \$72.2 million from \$29.8 million in 1997. This increase is primarily the result of internal growth and dealership acquisitions.

OTHER REVENUES. Other revenues consist primarily of financing and insurance ("F&I") transactions. Other revenues increased 115% to \$33.5 million during 1998, from \$15.6 million during 1997, due primarily to internal growth and dealership acquisitions that increased total sales.

GROSS PROFIT. Gross profit increased 111% during 1998 to \$115.4 million, compared with \$54.7 million for 1997, primarily because of the increase in new and used vehicle unit sales during the period. The overall gross profit margin achieved was 16.1% for 1998 compared to 17.1% for 1997. The decrease in gross profit margin was primarily a result of the acquisition of several new dealerships during 1997 and 1998, which were generating gross margins lower than those of Lithia's pre-existing stores. Lithia's overall gross margin percentage increased throughout 1998 as it integrated its new dealerships into its existing operations. The overall gross margin in the fourth quarter of 1998 was 16.9%. Lithia's gross profit margin continues to exceed the average U.S. dealership gross profit margin of 12.7% for the full year of 1997.

The gross profit margin achieved on new vehicle sales during 1998 and 1997 was 10.1% and 11.4%, respectively. This compares favorably with the average gross profit margin of 6.4% realized by franchised automobile dealers in the United States on sales of new vehicles in 1997. Excluding wholesale transactions, the gross profit margin on used vehicle sales was 11.0% in 1998 and 11.4% in 1997, as compared to the industry average for 1997 of 10.9%.

Sales of used vehicles to other dealers and to wholesalers are frequently at, or close to, cost.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. Selling, general and administrative ("SG&A") expense increased \$44.6 million, or 110%, to \$85.2 million for 1998 compared to \$40.6 million for 1997. SG&A as a percentage of total revenues decreased to 11.9% for 1998 from 12.7% for 1997. The increase in SG&A was due primarily to increased selling, or variable, expense related to the increase in sales and the number of total locations. The decrease in SG&A as a percent of total revenues is a result of economies of scale gained as the fixed expenses are spread over a larger revenue base and from economies of scale as Lithia consolidates multiple stores in a single market.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense increased \$1.0 million or 40% to \$3.5 million for the year ended December 31, 1998 compared to \$2.5 million for 1997 primarily as a result of increased property and equipment and goodwill related to acquisitions in late 1997 and 1998. Depreciation and amortization was 0.5% of total revenues in 1998 compared to 0.8% in 1997.

INCOME FROM OPERATIONS. Income from operations increased to \$26.7 million (3.7% of total revenues) for the year ended December 31, 1998 compared to \$11.6 million (3.6% of total revenues) in 1997. In addition to gaining efficiencies related to economies of scale, Lithia has seen improvements in the operating margins at stores that it has acquired and operated for a full year, bringing them more in line with its pre-existing stores. Income from operations was 4.4% of total revenues in the fourth quarter of 1998.

INTEREST EXPENSE. Interest expense increased \$6.8 million or 228% to \$9.8 million for the year ended December 31, 1998 compared to \$3.0 million for 1997, primarily as a result of increased floorplan notes payable related to increased inventories as a result of the increase in stores owned and vehicles sold.

INCOME TAX EXPENSE. Lithia's effective tax rate for 1998 was 39.3% compared to 37.3% for 1997. Lithia'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 effective rate.

NET INCOME. Net income rose 81% to \$10.8 million (1.5% of total revenues) for the year ended December 31, 1998 compared to \$6.0 million (1.9% of total revenues) for 1997, as a result of the individual line item changes discussed above.

1997 COMPARED TO 1996

REVENUES. Revenues 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. In 1997 and 1996, Lithia 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 total revenues, respectively.

RETAIL USED VEHICLES. In 1997 and 1996, Lithia sold 7,148 and 4,156 retail used vehicles, respectively, generating revenues of \$88.6 million and \$48.7 million, which constituted 27.7% and 34.1% of total revenue, respectively. Average selling prices for retail used vehicles increased 5.8% to \$12,391 in 1997 from \$11,717 in 1996.

SERVICE, BODY AND PARTS. Lithia derives additional revenue from the sale of parts and accessories, maintenance and repair services and collision repair work. Revenues from these types of services increased 126% in 1997 to \$29.8 million from \$13.2 million in 1996, primarily as a result of the increased number of dealership locations.

OTHER REVENUES. Other revenues consist primarily of financing and insurance ("F&I") transactions. Other revenues increased 162% to \$15.6 million during 1997, from \$5.9 million during 1996, due primarily to dealership acquisitions that increased total sales.

GROSS PROFIT. Gross profit increased 112% during 1997 to \$54.7 million, compared with \$25.8 million for 1996, primarily because of the increase in new and used vehicle unit sales during the period. Total gross profit margin decreased to 17.1% for 1997 from 18.1% 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 Lithia's existing stores.

The gross profit margin 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. Excluding wholesale transactions, Lithia's gross profit margin on used vehicle sales was 11.4% in 1997 and 12.8% in 1996, compared to the industry average for 1996 of 11.0%.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. Lithia'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 \$0.7 million, or 41%, to \$2.5 million for the year ended December 31, 1997 compared to \$1.8 million for 1996 primarily as a result of increased property and equipment and goodwill related to acquisitions in 1997. Depreciation and amortization was 0.8% of sales in 1997 compared to 1.2% in 1996.

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 Lithia's initial public offering.

INCOME TAX EXPENSE. Prior to December 18, 1996, Lithia 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 its initial public offering on December 18, 1996, and in connection with its restructuring, Lithia 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.

Lithia's effective tax rate for 1997 was 37.3% compared to 38.4% (on a pro forma basis) for 1996. Lithia'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 effective 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 (1.8% of total sales), on a pro forma basis, for 1996, as a result of the individual line item changes discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Lithia's principal needs for capital resources are to finance acquisitions and capital expenditures and for working capital. Lithia has relied primarily upon internally generated cash flows from operations, borrowings under its credit facilities and the proceeds from public equity offerings to finance its operations and expansion. In May 1998, Lithia closed an offering of 3.15 million newly issued shares of its Class A Common Stock for net proceeds of \$42.5 million. The proceeds were used to pay down Lithia's lines of credit until needed for future acquisitions.

Ford Credit, Toyota Motor Credit Corporation, Chrysler Financial Corporation and General Motors Acceptance Corporation have agreed to floor all of Lithia's new vehicles for their respective brands with Ford serving as the primary lender for all other brands. There are no formal limits to these commitments for new vehicle wholesale financing.

Ford Credit has also extended a \$60 million revolving line of credit for used vehicles and a \$75 million acquisition line of credit to purchase dealerships of any brand. These commitments have an expiration date of November 23, 2000 with interest due monthly. Lithia has the right to elect to extend the term on these lines of credit for an additional two years at November 23, 1999. Lithia also has the option to convert the acquisition line into a five-year term loan on November 23, 1999 or November 23, 2000. In addition, U.S. Bank N.A. has extended a \$10 million revolving line of credit for leased vehicles.

The lines with Ford Credit are cross-collateralized and are secured by inventory, accounts receivable, intangible assets and equipment. The other new vehicle lines are secured by new vehicle inventory of the relevant dealerships.

The Ford Credit lines of credit contain financial covenants requiring Lithia to maintain compliance with, among other things, specified ratios of (i) total debt to tangible base capital; (ii) total adjusted debt to tangible base capital; (iii) current ratio; (iv) fixed charge coverage; and (v) net cash. Lithia is currently in compliance with all such financial

covenants. The Ford Credit lines of credit agreements also preclude the payment of cash dividends without the prior consent of Ford Credit.

Interest rates on all of the above facilities ranged from 6.5% to 8.0% at december 31, 1998. Amounts outstanding on the lines at december 31, 1998 were as follows (in thousands):

Acquisition Line	\$	-
Used Vehicle Line		5,000
New and Program Vehicle Lines		124,167
Leased Vehicle Line		4,000

	\$	133,167

Since December 1996 when Lithia completed its initial public offering, it has acquired 23 dealerships. The aggregate net investment was approximately \$74.2 million (excluding borrowings on its credit lines to finance acquired vehicle inventories and equipment and the purchase of any real estate).

Lithia anticipates that it will be able to satisfy its cash requirements at least through December 31, 1999, including its currently anticipated growth, primarily with cash flow from operations, borrowings under available credit facilities and cash currently available.

SEASONALITY AND QUARTERLY FLUCTUATIONS

Historically, Lithia'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 may be lower during the first and fourth quarters than during the other quarters of each fiscal year. 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.

YEAR 2000

GENERAL. Lithia has identified three major areas of concern:

- (i) The functionality of its internal systems and the Company's ability to run its daily business after January 1, 2000;
- (ii) The visual representation of "2000;" and
- (iii) Third party systems.

Lithia expects to be Year 2000 compliant by July 1, 1999. Lithia is utilizing the NADA dealer guide to assist in resolving its Year 2000 issues and problems.

INTERNAL SYSTEMS. Lithia is in the process of analyzing and updating its internal systems, including its dealer management systems, dealer communication systems, personal computer systems, shared port systems and phone systems. Lithia estimates that it is 90 percent complete with implementing various manufacturer upgrades to its systems in order to make them Year 2000 compliant. We estimate that our internal systems we will be fully Year 2000 compliant by July 1, 1999.

Like all businesses, Lithia is at risk from external infrastructure failures that could arise from Year 2000 failures. It is not clear that electrical power, telephone and computer networks, for example, will be fully functional across the nation in the year 2000. Investigation and assessment of infrastructures, like the nation's power grid, is beyond the scope and resources of Lithia. Investors should use their own awareness of the issues in the nation's infrastructure to make ongoing infrastructure risk assessments and their potential impact to a company's performance.

VISUAL REPRESENTATION. Lithia is currently working on ensuring that all report date stamps, timekeeping devices, etc. are Year 2000 compliant. We estimate that we are approximately 95 percent complete with this process.

THIRD PARTIES. Lithia has begun a Year 2000 supplier audit program. It has contacted all of its critical suppliers to inform them of its Year 2000 expectations, and requests have been made for each vendor's compliance program and/or Year 2000 compliance assurance. In regard to the automobile manufacturers, Lithia has received written or other confirmation that they are Year 2000 compliant, except for Subaru. Subaru has assured Lithia that they expect to be Year 2000 compliant prior to January 1, 2000.

It should be noted that there have been predictions of failures of key components in the transportation infrastructure due to the Year 2000 problem. It is possible that there could be delays in rail, over-the-road and air shipments due to failure in transportation control systems. Investigation and validation of the world's transportation infrastructure is beyond the scope and the resources of Lithia. Investors should use their own awareness of the issues in the transportation infrastructure to make ongoing infrastructure risk assessments and their potential impact to a company's performance.

ACQUISITIONS. Acquisitions in 1999 will be subject to strict due diligence for Year 2000 compliance.

COST. Lithia expects to incur costs totaling approximately \$1,054,000 to ensure Year 2000 compliance, approximately \$810,000 of which has already been incurred since the end of 1997. A majority of the \$1,054,000 represents replacement of non-compliant systems, and therefore will be capitalized and amortized over a three to five year period. This estimate could change depending on variances not anticipated in the initial bids.

RISK. The failure to correct a material Year 2000 problem could result in an interruption in, or a failure of, certain normal business activities or operations. Such failures could materially and adversely affect Lithia's results of operations, liquidity and financial condition. Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of the Year 2000 readiness of third-party suppliers, Lithia is unable to determine, at this time, whether the consequences of Year 2000 failures will have a material impact on the its results of operations, liquidity or financial condition. Lithia's efforts to help ensure Year 2000 preparedness have, and will continue to, significantly reduce its level of uncertainty about the Year 2000 problem. We believe that, with completion of the above mentioned plans, the possibility of significant interruptions of normal operations should be reduced.

Lithia is currently developing contingency plans in regard to its internal systems and supplier issues, as well as for the more global infrastructure issues.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities (SFAS 133). SFAS 133 establishes accounting and reporting standards for all derivative instruments. SFAS 133 is effective for fiscal years beginning after June 15, 1999. Lithia does not have any derivative instruments and, accordingly, the adoption of SFAS 133 will have no impact on its financial position or results of operations.

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 for each of the eight quarters in the two-year period ended December 31, 1998 is as follows:

IN THOUSANDS, EXCEPT PER SHARE DATA -----	1ST QUARTER -----	2ND QUARTER -----	3RD QUARTER -----	4TH QUARTER -----
1997 -----				
Total revenues	\$ 54,704	\$ 66,422	\$ 85,573	\$ 113,096
Gross profit (1)	9,255	11,043	14,568	19,880
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
1998 -----				
Total Revenues	\$ 146,198	\$ 173,541	\$ 195,914	\$ 199,087
Gross profit (1)	22,946	27,098	31,752	33,565
Income before income taxes	2,466	3,629	5,965	5,722
Income taxes	947	1,407	2,307	2,333
Net income	1,519	2,222	3,658	3,390
Basic net income per share	0.22	0.24	0.36	0.33
Diluted net income per share	0.21	0.24	0.35	0.32

(1) Restated to conform with current presentation.

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 Proxy Statement for its 1999 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 Proxy Statement for its 1999 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 Proxy Statement for its 1999 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 1999 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:

	Page

Report of Independent Public Accountants	F-1
Consolidated Balance Sheets - December 31, 1998 and 1997	F-2
Consolidated Statements of Operations for the years ended December 31, 1998, 1997 and 1996	F-3
Consolidated Statements of Changes in Shareholders' Equity - December 31, 1998, 1997 and 1996	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996	F-5
Notes to Consolidated Financial Statements	F-6

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, 1998:

1. Form 8-K dated October 15, 1998 under Items 2 and 7, as filed with the Securities and Exchange Commission on October 28, 1998.
2. Form 8-K dated November 2, 1998 under Items 2 and 7, as filed with the Securities and Exchange Commission on November 12, 1998.
3. Form 8-K/A dated October 15, 1998 under Items 2 and 7, as filed with the Securities and Exchange Commission on December 30, 1998.

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

Exhibits	Description
2.1	(d) Agreement for Purchase and Sale of Business Assets between Magnussen Dodge, Inc. and Lithia Motors, Inc. dated January 21, 1997
2.2	(c) Agreement for Purchase and Sale of Business Assets between Magnussen-Barbee Ford, Lincoln-Mercury, Inc. and Lithia Motors, Inc. dated February 21, 1997
2.3	(f) Agreement for Purchase and Sale of Business Assets between Sun Valley Ford, Inc. and Lithia Motors, Inc. dated April 2, 1997
2.4	(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
2.5	(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
2.6	(i) Agreement for Purchase and Sale of Business Assets between Century Ford, Inc. and Lithia Motors, Inc. dated September 1, 1997
2.7	(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
2.8	(k) 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.
2.9	(k) 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.
2.10	(m) Agreement for Purchase and Sale of Business Assets between Boyland Auto Group dba Boyland Toyota, Dorian Boyland and Lithia Motors, Inc.
2.11	(l) Agreement for Purchase and Sale of Business Assets between Rodway Chevrolet Co. and Lithia Motors, Inc., dated March 19, 1998.
2.12	(l) Stock Purchase Agreement between William N. Hutchins, Hutchins Eugene Nissan, Inc. and Hutchins Imported Motors and Lithia Motors, Inc., dated June 18, 1998.
2.13	(n) First, Second and Third Addenda to Stock Purchase Agreement by and between William N. Hutchins, Hutchins Imported Motors, Inc. and Hutchins Eugene Nissan, Inc. and Lithia Motors, Inc., dated June 18, 1998.
2.14	(o) Restated Stock Purchase Agreement, by and between Phil S. Camp, Jerry W. Camp, Jr., Julie A. Camp McKay, Chris E. Camp, Travis W. Camp, Carter B. Camp and Camp Automotive, Inc. and Lithia Motors, Inc., dated August 1, 1998.
3.1	(a) Restated Articles of Incorporation of Lithia Motors, Inc.
3.2	(a) Bylaws of Lithia Motors, Inc.
4	(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
10.1.5	(l) Amendment No. 1 to the Lithia Motors, Inc. 1996 Stock Incentive Plan
10.2	(b) 1997 Non-Discretionary Stock Option Plan for Non-Employee Directors
10.3	(k) 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)
10.4.2	(1) (a) Chrysler Corporation Dealer Agreement Additional Terms and Provisions

Exhibits -----	Description -----
10.5.1	(k) 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	(k) 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	(k) American Honda Automobile Dealer Sales and Service Agreement Standard Provisions.
10.5.4	(k) Agreement between American Honda Motor Company, Inc. and Lithia Motors, Inc. et al. dated December 17, 1996.
10.5.5	(k) 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	(k) 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	(k) 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	(a) General Motors Dealer Sales and Service Agreement Standard Provisions
10.9	(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	(k) Saturn Distribution Corporation Retailer Agreement, dated June 16, 1997, between Saturn Distribution Corporation and Saturn of Southwest Oregon, Inc.
10.10.2	(k) 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 [cad 229] additional provisions to Toyota Dealer Agreement, dated November 15, 1996 between Toyota Motor Sales, USA, Inc. and Lithia TKV, Inc.
10.12.1	(k) 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	(k) Suzuki Dealer Sales and Service Agreement Standard Provisions.
10.13	(k) BMW Dealer Agreement, dated October 3, 1997, between BMW of North America, Inc. and Lithia BB, Inc.
10.14	(k) Hyundai Motor America Dealer Sales and Service Agreement, dated January 26, 1998, between Hyundai Motor America and Lithia JEF, Inc.
10.15.1	(k) 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	(k) Nissan Standard Provisions

Exhibits -----	Description -----
10.16.1	(k) 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	(k) 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	(a) Commercial Lease, dated April 1, 1992, between Billy J. Wilson et al and Wilson/Malasoma, Inc. relating to facility in Vacaville, California.
10.19	(d) Lease between Solano Way Partnership and Lithia Real Estate, Inc. dated February 14, 1997
10.20	(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.
10.21.1	(g) Promissory Note for Leasehold Improvements issued by Lithia Motors, Inc. to Sun Valley Ford, Inc. dated August 8, 1997.
10.21.2	(g) Promissory Note for Intangible Assets issued by Lithia Motors, Inc. to Sun Valley Ford, Inc. dated August 8, 1997.
10.21.3	(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
10.21.4	(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.
10.22.1	(k) Lease Agreement among Paul H. Snider and Dick Donnelly Automotive Enterprises, Inc. dated October 17, 1989
10.22.2	(k) Lease Agreement among Richard M. Donnelly and Susan K. Donnelly and Lithia Real Estate, Inc. dated October 1, 1997
10.23	(k) Real Property Lease Agreement among Eloy C. Renfrow and Lithia Real Estate, Inc. dated October 2, 1997
10.24	(k) Lease Agreement among BR Enterprises and Lithia Motors, Inc. dated September 3, 1997
10.25	(k) Real Property Lease Agreement among James D. Plummer and Lithia Real Estate, Inc. dated October 14, 1997
10.26	(k) Lease Agreement among Teddy Bear Havas Motors, Inc. and United American Funding, Inc. dated July 28, 1992
10.27	(a) Management Contract between Lithia Leasing, Inc. and Lithia Properties LLC.
10.28	(a) Purchase and Sale Agreement, dated December 13, 1996, between Lithia Properties and Lithia Real Estate, Inc.
10.29	\$75,000,000 Credit Agreement dated November 23, 1998 between Ford Motor Credit Company and Lithia Motors, Inc.
10.30	\$60,000,000 Credit Agreement dated November 23, 1998 between Ford Motor Credit Company and Lithia Motors, Inc.
10.31	Chevrolet Dealer Sales and Service Agreement dated October 13, 1998 between General Motors Corporation, Chevrolet Motor Division and Camp Automotive, Inc.
10.32	Subaru Dealership Agreement dated October 16, 1998 by and between Subaru of America, Inc./Western Region and Camp Automotive, Inc.
21	Subsidiaries of Lithia Motors, Inc.
23	Consent of KPMG Peat Marwick LLP
27	Financial Data Schedule
99	Risk Factors

- (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.
- (k) Incorporated by reference from the Company's Form 10-K for the year ended December 31, 1997 as filed with the Securities and Exchange Commission on March 31, 1998.
- (l) Incorporated by reference from the Company's Form 10-Q for the quarter ended June 30, 1998 as filed with the Securities and Exchange Commission on August 13, 1998.
- (m) Incorporated by reference from the Company's Registration Statement No. 333-47525 on Form S-1 dated May 1, 1998.
- (n) Incorporated by reference from the Company's Form 10-Q for the quarter ended September 30, 1998 as filed with the Securities and Exchange Commission on November 12, 1998.
- (o) Incorporated by reference from the Company's Form 8-K dated October 15, 1998 as filed with the Securities and Exchange Commission on October 28, 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 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 Soscol 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 at 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 identical agreement (except for the price paid and the purchase rather than the 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 29, 1999

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 29, 1999:

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 ----- Thomas Becker	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, 1998 and 1997, 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, 1998. 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, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, 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 19, 1999

**LITHIA MOTORS, INC.
AND SUBSIDIARIES**
Consolidated Balance Sheets
(in thousands)

	December 31,	
	1998	1997
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 20,879	\$ 18,454
Trade receivables	17,287	7,655
Notes receivable, current portion, net of allowance for doubtful accounts of \$714 and zero	3,074	427
Inventories, net	157,455	89,845
Vehicles leased to others, current portion	861	738
Prepaid expenses and other	1,933	913
Deferred income taxes	2,707	1,855
Total Current Assets	204,196	119,887
Property and Equipment, net of accumulated depreciation of \$3,907 and \$2,822	32,933	16,265
Vehicles Leased to Others, less current portion	5,647	4,588
Notes Receivable, less current portion	7,173	309
Goodwill, net of accumulated amortization of \$1,180 and \$293	42,951	24,062
Other Non-Current Assets, net of accumulated amortization of \$103 and \$63	1,498	1,415
Total Assets	\$ 294,398	\$ 166,526
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes payable	\$ 515	\$ -
Flooring notes payable	124,167	82,598
Current maturities of long-term debt	7,601	2,688
Current portion of capital leases	27	99
Trade payables	6,313	3,874
Accrued liabilities	12,020	6,758
Total Current Liabilities	150,643	96,017
Long-Term Debt, less current maturities	38,994	24,242
Long-Term Capital Lease Obligation, less current portion	2,426	2,316
Deferred Revenue	2,076	2,519
Other Long-Term Liabilities	1,606	447
Deferred Income Taxes	7,142	3,108
Total Liabilities	202,887	128,649
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 6,105 and 2,926	70,871	28,117
Class B common stock authorized 25,000 shares; issued and outstanding 4,110 and 4,110	511	511
Additional paid-in capital	150	59
Retained earnings	19,979	9,190
Total Shareholders' Equity	91,511	37,877
Total Liabilities and Shareholders' Equity	\$ 294,398	\$ 166,526

See accompanying notes to consolidated financial statements.

**LITHIA MOTORS, INC.
AND SUBSIDIARIES**
Consolidated Statements of Operations
(in thousands, except per share amounts)

	Years Ended December 31,		
	1998	1997	1996(1)
Revenues:			
New vehicle sales	\$ 388,431	\$ 161,294	\$ 65,092
Used vehicle sales	220,544	113,099	58,611
Service, body and parts	72,216	29,828	13,197
Other revenues	33,549	15,574	5,944
	-----	-----	-----
Total revenues	714,740	319,795	142,844
Cost of sales	599,379	265,049	117,025
	-----	-----	-----
Gross profit	115,361	54,746	25,819
Selling, general and administrative	85,188	40,625	19,830
Depreciation and amortization	3,469	2,483	1,756
	-----	-----	-----
Income from operations	26,704	11,638	4,233
Other income (expense)			
Floorplan interest expense	(7,108)	(2,179)	(697)
Other interest expense	(2,735)	(824)	(656)
Other income, net	921	862	1,349
	-----	-----	-----
	(8,922)	(2,141)	(4)
	-----	-----	-----
Income before minority interest and income taxes	17,782	9,497	4,229
Minority interest	-	-	(687)
	-----	-----	-----
Income before income taxes	17,782	9,497	3,542
Income tax (expense) benefit	(6,993)	(3,538)	813
	-----	-----	-----
Net income	\$ 10,789	\$ 5,959	\$ 4,355
	-----	-----	-----
Basic net income per share	\$ 1.18	\$ 0.85	\$ 0.94 (2)
	-----	-----	-----
Diluted net income per share	\$ 1.14	\$ 0.82	\$ 0.88 (2)
	-----	-----	-----
Pro Forma Net Income Data (unaudited)			

Income before minority interest and income taxes, as reported			\$ 4,229
Pro forma income taxes			(1,623)

Pro forma net income			\$ 2,606

Pro forma basic net income per share			\$ 0.56

Pro forma diluted net income per share			\$ 0.52

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

(2) Not comparable to 1998 and 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.

See accompanying notes to consolidated financial statements.

**LITHIA MOTORS, INC.
AND SUBSIDIARIES**
Consolidated Statements of Changes in Shareholders' Equity
(in thousands)

	Common Stock				Additional Paid In Capital	Retained Earnings (1)	Total Shareholders' Equity
	Class A		Class B				
	Shares	Amount	Shares	Amount			
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' overallotment option	375	3,783	-	-	-	-	3,783
Compensation for stock option issuances	-	-	-	-	59	-	59
Exercise of stock options	51	162	-	-	-	-	162
Balance at December 31, 1997	2,926	28,117	4,110	511	59	9,190	37,877
Net income	-	-	-	-	-	10,789	10,789
Issuance of Class A Common Stock, net of offering expenses of \$594	3,151	42,498	-	-	-	-	42,498
Compensation for stock option issuances	-	-	-	-	78	-	78
Tax benefit of disqualifying dispositions	-	-	-	-	13	-	13
Issuance of Class A Common Stock in connection with acquisition	13	125	-	-	-	-	125
Exercise of stock options	15	131	-	-	-	-	131
Balance at December 31, 1998	6,105	\$ 70,871	4,110	\$ 511	\$ 150	\$ 19,979	\$ 91,511

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

See accompanying notes to consolidated financial statements.

**LITHIA MOTORS, INC.
AND SUBSIDIARIES**
Consolidated Statements of Cash Flows
(in thousands)

	Years Ended December 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net income	\$ 10,789	\$ 5,959	\$ 4,355
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:			
Depreciation and amortization	3,469	2,483	1,756
Compensation related to stock option issuances	78	59	-
(Gain) loss on sale of assets	30	(1)	(239)
(Gain) loss on sale of vehicles leased to others	33	(286)	-
Deferred income taxes	565	336	(906)
Minority interest in income	-	-	687
Equity in income of affiliate	(7)	(102)	(44)
(Increase) decrease net of effect of acquisitions, in:			
Trade and installment contract receivables, net	(6,714)	(5,087)	(852)
Inventories	(17,614)	(9,009)	(7,120)
Prepaid expenses and other	(1,614)	(678)	(19)
Other noncurrent assets	204	(486)	(196)
Increase (decrease) net of effect of acquisitions, in:			
Floorplan notes payable	21,425	9,122	(3,283)
Trade payables	(2,759)	1,440	979
Accrued liabilities	2,500	4,252	797
Other liabilities	(1,039)	(2,274)	3,095
Net cash provided by (used in) operating activities	9,346	5,728	(990)
Cash flows from investing activities:			
Notes receivable issued	(639)	(249)	(540)
Principal payments received on notes receivable	3,456	304	500
Capital expenditures	(3,934)	(8,801)	(395)
Proceeds from sale of assets	223	16	765
Expenditures for vehicles leased to others	(9,322)	(6,750)	(6,537)
Proceeds from sale of vehicles leased to others	8,481	5,330	5,760
Cash paid for acquisitions	(36,531)	(25,220)	(6,937)
Distribution from affiliate	-	204	-
Net cash used in investing activities	(38,266)	(35,166)	(7,384)
Cash flows from financing activities:			
Net borrowings on notes payable	-	-	(625)
Net borrowings (repayments) on used vehicle line of credit	(15,500)	15,500	-
Principal payments on long-term debt	(39,083)	(15,917)	(25,336)
Proceeds from issuance of long-term debt	43,287	28,951	21,635
Proceeds from issuance of common stock and minority interest	42,641	3,945	24,172
Proceeds from minority interest share receivable	-	-	676
Dividends and distributions	-	-	(6,441)
Net cash provided by financing activities	31,345	32,479	14,081
Increase in cash and cash equivalents	2,425	3,041	5,707
Cash and cash equivalents:			
Beginning of period	18,454	15,413	9,706
End of period	\$ 20,879	\$ 18,454	\$ 15,413
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ 9,728	\$ 3,206	\$ 1,823
Cash paid during the period for income taxes	6,482	3,011	-
Supplemental schedule of noncash investing and financing activities:			
Debt extinguishment upon transfer of property	\$ -	\$ -	\$ 1,112
Contribution of minority interest in S Corporation	-	-	131
Earnings upon Restructuring to Class B Common Stock	-	-	421
Contribution of excess S Corporation retained earnings upon Restructuring to Class B Common Stock	-	-	-
Stock issued in connection with acquisition	125	-	-
Assumption of mortgage related to acquisition	1,345	-	-

See accompanying notes to consolidated financial statements.

LITHIA MOTORS, INC.

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1998, 1997 AND 1996

(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 23 domestic and imported makes of new automobiles and light trucks at 28 locations, 14 in California, nine in Oregon, three in Nevada and two in Washington. 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 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 28 locations, the Company offers, collectively, 23 makes of new vehicles including Dodge, Dodge Trucks, Chrysler, Plymouth, Jeep, Ford, Lincoln-Mercury, Toyota, Volkswagen, Audi, Isuzu, Chevrolet, Saturn, Nissan, Honda, Acura, BMW, Mazda, Suzuki, Hyundai, Subaru and Volvo.

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 and to decrease net income by \$426, or \$0.09 per diluted share for the year ended December 31, 1996.

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.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. Amortization of capitalized leased assets is computed on a straight-line basis over the term of the lease.

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 \$476 and \$468 at December 31, 1998 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 statement of operations for the year ended December 31, 1996 reflects a provision 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 that period.

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,	1998			1997			1996		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
BASIC EPS									
Income available to Common Shareholders	\$ 10,789	9,147	\$ 1.18	\$ 5,959	6,988	\$0.85	\$4,355	4,657	\$0.94
EFFECT OF DILUTIVE SECURITIES									
Stock Options	-	323		-	315		-	316	
DILUTED EPS									
Income available to Common Shareholders	\$ 10,789	9,470	\$ 1.14	\$ 5,959	7,303	\$0.82	\$4,355	4,973	\$0.88

108, zero and zero shares issuable pursuant to stock options have not been included in the above calculations for 1998, 1997 and 1996, respectively, since they would have been antidilutive.

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 values of long-term debt and notes receivable for leased vehicles accounted for as sales-type leases were estimated by discounting the future cash flows using market interest rates and do 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 \$5,749, \$2,678 and \$1,297 for the years ended December 31, 1998, 1997 and 1996, respectively.

GOODWILL

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

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.

Finance fees represent revenue earned by the Company for notes placed with financial institutions in connection with customer vehicle financing net of estimated chargebacks. 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.

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 manufacturers. 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.

SEGMENT REPORTING

The Company adopted Statement of Financial Accounting Standards No. 131 (SFAS 131), DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION for the year ended December 31, 1998. Based upon definitions contained within SFAS 131, the Company has determined that it operates in one segment.

RECLASSIFICATIONS

Certain items previously reported in specific financial statement captions have been reclassified to conform with the current 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). Certain inventories of dealerships acquired in 1998 amounting to \$13,529 at December 31, 1998 are valued using the last-in first-out (LIFO) method of accounting and have an insignificant LIFO reserve at December 31, 1998.

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

	DECEMBER 31,			
	1998		1997	
	INVENTORY COST	NOTES PAYABLE	INVENTORY COST	NOTES PAYABLE
New and program vehicles	\$ 112,990	\$ 124,167	\$ 63,457	\$ 67,098
Used vehicles	34,599	5,000	21,524	15,500
Parts and accessories	9,866	-	4,864	-
Total inventories	\$ 157,455	\$ 129,167	\$ 89,845	\$ 82,598

The inventory balance is generally reduced by manufacturer's purchase discounts. Such reduction is not reflected in the related floor plan liability.

All new vehicles are pledged to collateralize floor plan notes payable to financial institutions. The floor plan notes payable bear interest, payable monthly on the outstanding balance, at a rate of interest determined by the lender, subject to incentives. The floor plan notes are due when the related vehicle is sold. As such, these floor plan notes payable are shown as a current liability in the accompanying consolidated balance sheets.

Used vehicles are pledged to collateralize a \$60 million line of credit.

(3) PROPERTY, PLANT AND EQUIPMENT

DECEMBER 31,	1998	1997
Buildings and improvements	\$ 17,107	\$ 7,449
Service equipment	5,566	3,992
Furniture, signs and fixtures	5,077	4,340
	27,750	15,781
Less accumulated depreciation	(3,907)	(2,822)
	23,843	12,959
Land	8,648	2,924
Construction in progress	442	382
	\$ 32,933	\$ 16,265

(4) VEHICLES LEASED TO OTHERS AND RELATED LEASE RECEIVABLES

DECEMBER 31,	1998	1997
Vehicles leased to others	\$ 7,267	\$ 6,531
Less accumulated depreciation	(759)	(1,205)
	6,508	5,326
Less current portion	(861)	(738)
	\$ 5,647	\$ 4,588

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 RECEIVABLE UNDER SALES-TYPE LEASES

At one of its locations, the Company leases vehicles to customers under sales-type leases. The following lists the components of the net investment in sales-type leases, classified as notes receivable in the consolidated balance sheets.

DECEMBER 31,	1998	1997
-----	-----	-----
Total minimum lease payments to be received	\$11,796	\$ -
Allowance for uncollectible notes and repossession losses	(599)	-
	-----	-----
Unearned interest income	11,197 (1,960)	- -
	-----	-----
	\$ 9,237	\$ -
	-----	-----
	-----	-----

(6) LINES OF CREDIT AND LONG-TERM DEBT

Ford Credit, Toyota Motor Credit Corporation, Chrysler Financial Corporation and General Motors Acceptance Corporation have agreed to floor all of Lithia's new vehicles for their respective brands with Ford serving as the primary lender for all other brands. There are no formal limits to these commitments for new vehicle wholesale financing.

Ford Credit has also extended a \$60 million revolving line of credit for used vehicles and a \$75 million acquisition line of credit to purchase dealerships of any brand. These commitments have an expiration date of November 23, 2000 with interest due monthly. Lithia has the right to elect to extend the term on these lines of credit for an additional two years at November 23, 1999. Lithia also has the option to convert the acquisition line into a five-year term loan on November 23, 1999 or November 23, 2000. In addition, U.S. Bank N.A. has extended a \$10 million revolving line of credit for leased vehicles.

The lines with Ford Credit are cross-collateralized and are secured by inventory, accounts receivable, intangible assets and equipment. The other new vehicle lines are secured by new vehicle inventory of the relevant dealerships.

The Ford Credit lines of credit contain financial covenants requiring Lithia to maintain compliance with, among other things, specified ratios of

(i) total debt to tangible base capital; (ii) total adjusted debt to tangible base capital; (iii) current ratio; (iv) fixed charge coverage; and (v) net cash. The Ford Credit lines of credit agreements also preclude the payment of cash dividends without the prior consent of Ford Credit.

Interest rates on all of the above facilities ranged from 6.5% to 8.0% at December 31, 1998. Amounts outstanding on the lines at December 31, 1998 were as follows (in thousands):

Acquisition Line	\$	-
Used Vehicle Line		5,000
New and Program Vehicle Lines		124,167
Leased Vehicle Line		4,000

	\$	133,167

Long-term debt consists of the following:

DECEMBER 31,	1998	1997
-----	-----	-----
Lease vehicle line of credit	\$ 4,000	\$ 5,211
Acquisition line of credit	-	5,000
Used vehicle flooring line of credit	5,000	-
General corporate line of credit	-	4,827
Mortgages payable in monthly installments of \$83, including interest between 8.18% and 9.375%, maturing fully September 2010; secured by land and buildings	9,499	4,102
Notes payable in monthly installments of \$144 plus interest calculated daily at LIBOR plus 2.20%, maturing fully November 2003; secured by equipment	8,328	-
Notes payable in monthly installments of \$225 plus interest between 7.21% and 8.50%, maturing at various dates through 2004; secured by vehicles leased to others	7,584	-
Notes payable related to acquisitions, with interest rates between 7.00% and 9.00%, maturing at various dates between November 1999 and November 2008	12,679	7,782
Note payable in monthly installments of \$3, including interest at 10.25%, maturing fully August 2000	20	8
	-----	-----
	47,110	26,930
Less current maturities	(8,116)	(2,688)
	-----	-----
	\$ 38,994	\$ 24,242
	-----	-----
	-----	-----

The schedule of future principal payments on long-term debt after December 31, 1998 is as follows:

YEAR ENDING DECEMBER 31,	

1999	\$ 8,116
2000	15,407
2001	5,469
2002	4,694
2003	2,774
Thereafter	10,650

Total principal payments	\$ 47,110

(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 1998 and 1997 and pro forma income taxes on the Company's earnings for 1996 (unaudited) are as follows:

DECEMBER 31,	1998	1997	(unaudited pro forma) 1996
-----	-----	-----	-----
Current:			
Federal	\$ 5,387	\$ 2,967	\$ 1,860
State	1,041	444	387
	-----	-----	-----
	6,428	3,411	2,247
	-----	-----	-----
Deferred:			
Federal	436	114	(517)
State	129	13	(107)
	-----	-----	-----
	565	127	(624)
	-----	-----	-----
Total	\$ 6,993	\$ 3,538	\$ 1,623
	-----	-----	-----
	-----	-----	-----

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

DECEMBER 31,	1998	1997
-----	-----	-----
Deferred tax assets:		
Allowance and accruals	\$ 1,425	\$ 470
Deferred revenue	1,282	1,126
	-----	-----
Total deferred tax assets	2,707	1,596
	-----	-----
Deferred tax liabilities:		
LIFO recapture and acquired LIFO inventories	(4,398)	(1,841)
Property and equipment, principally due to differences in depreciation	(2,744)	(1,008)
	-----	-----
Total deferred tax liabilities	(7,142)	(2,849)
	-----	-----
Total	\$ (4,435)	\$ (1,253)
	-----	-----
	-----	-----

The reconciliation between the statutory federal income tax expense at 35% in 1998 and 34% in 1997 and 1996 and the Company's income tax expense for 1998, 1997 and 1996 is shown in the following tabulation. The following tabulation also reconciles the expected corporate federal income tax expense for 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,	1998	1997	1996
-----	-----	-----	-----
Statutory federal taxes	\$ 6,224	\$ 3,229	\$ 1,438
State taxes, net of federal income tax benefit	751	278	184
Other	18	31	1
-----	-----	-----	-----
Income tax expense	\$ 6,993	\$ 3,538	\$ 1,623
-----	-----	-----	-----

(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, 1998, 1997 and 1996 was approximately \$3,824, \$64 and \$88, respectively.

The Company's potential loss is limited to the difference between the present value of the installment contract at the date of the repossession and the amount for which the vehicle is resold. Based upon historical loss percentages, an estimated loss reserve of \$255, \$0 and \$0 is reflected in the Company's consolidated balance sheets as of December 31, 1998, 1997 and 1996.

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 Company also leases certain equipment under capital leases.

The minimum lease payments under the operating and capital leases after December 31, 1998 are as follows:

YEAR ENDING DECEMBER 31,	OPERATING	CAPITAL
-----	-----	-----
1999	\$ 6,315	\$ 309
2000	5,878	312
2001	5,832	312
2002	5,367	312
2003	4,942	312
Thereafter	36,573	5,200
-----	-----	-----
Total minimum lease payments	\$ 64,907	6,757
-----	-----	-----
Less amounts representing interest		(4,304)
-----		-----
Present value of future minimum lease payments		\$ 2,453

Rental expense for all operating leases was \$5,659, \$2,764 and \$2,353 for the years ended December 31, 1998, 1997 and 1996, 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 \$285, \$138 and \$100 were recognized for the years ended December 31, 1998, 1997 and 1996, respectively. Employees may contribute to the plan under certain circumstances.

(11) RESTRUCTURING AND OFFERINGS 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.

In May 1998, the Company closed an offering of 3.15 million newly issued shares of its Class A Common Stock for net proceeds of \$42.5 million. The proceeds have been used to pay down the Company's lines of credit until needed for future acquisitions.

(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, as amended, for the granting of up to 1,085 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"). Subject to shareholder approval at the Company's 1999 Annual Meeting of Shareholders to be held in May 1999, the total number of options that may be issued under the 1996 Stock Incentive Plan will be increased by 915, to a total of 2,000. 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, 1998, 1,043 shares of Class A common stock were reserved for issuance under the Plan and 495 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
Additional shares reserved	415	-	-
Options granted	(155)	155	14.65
Options canceled	34	(34)	16.22
Options exercised	-	(6)	3.02
	-----	-----	-----
Balances, December 31, 1998	495	548	\$ 5.80
	-----	-----	-----

The Company issued non-qualified options during 1998 and 1997 to certain members of management at an exercise price of \$1.00 per share. Compensation expense, which is equal to the difference between the market price and the exercise price, is recognized ratably in accordance with the 4-year vesting schedule.

In 1998, the Board of Directors of the Company and the shareholders approved the implementation of an Employee Stock Purchase Plan (the "Purchase Plan"), and reserved a total of 250 shares of Class A Common Stock for issuance under the Purchase Plan. The Purchase Plan is intended to qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended, and is administered by the Compensation Committee of the Board. Eligible employees are entitled to contribute up to 10 percent of their base pay for the purchase of stock. The purchase price for shares purchased under the Purchase Plan is 85 percent of the lesser of the fair market value at the beginning or end of the purchase period. A total of 9 shares of the Company's Class A common stock were issued under the Purchase Plan during 1998.

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 plans 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 or the Purchase Plan (collectively the "Plans").

The Company has computed, for pro forma disclosure purposes, the value of options granted under the Plans, 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,	1998	1997	1996
Risk-free interest rate	5.50%	6.25%	6.50%
Expected dividend yield	0.00%	0.00%	0.00%
Expected lives	6.7 years	6.8 years	6.5 years
Expected volatility	53.41%	45.50%	60.00%

Using the Black-Scholes methodology, the total value of options granted during 1998, 1997 and 1996 was \$1,119, \$320 and \$709, respectively, which would be amortized on a pro forma basis over the vesting period of the options, typically four to five years. The weighted average fair value of options granted during 1998, 1997 and 1996 was \$8.61, \$7.20 per share and \$1.62 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,	1998		1997		1996	
	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA
Net income	\$10,789	\$10,227	\$ 5,959	\$ 5,723	\$ 4,355	\$ 3,612
Basic net income per share	\$1.18	\$1.12	\$0.85	\$0.82	\$0.94	\$0.78
Diluted net income per share	\$1.14	\$1.09	\$0.82	\$0.79	\$0.88	\$0.73

The following table summarizes stock options outstanding at December 31, 1998:

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT 12/31/98	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES EXERCISABLE AT 12/31/98	WEIGHTED AVERAGE EXERCISE PRICE
\$ 1.00	28	7.7	\$ 1.00	10	\$ 1.00
3.02 - 3.32	382	4.4	3.11	219	3.17
10.75 - 11.00	27	6.9	10.80	7	10.80
14.31 - 14.75	87	7.1	14.73	3	14.31
16.23	24	4.0	16.23	-	-
\$1.00 - 16.23	548	5.1	\$ 5.80	239	\$ 3.44

At December 31, 1997 and 1996, respectively, 151 and 167 shares were exercisable at weighted average exercise prices of \$3.28 and \$3.27, respectively.

(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 \$1,464, \$1,442 and \$2,132 for the years ended December 31, 1998, 1997 and 1996, respectively relating to these properties.

The Company provides management services to Lithia Properties, LLC. Other income includes management fees of \$12, \$12 and \$477 for the years ended December 31, 1998, 1997 and 1996, 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 \$9,201 at December 31, 1998.

Lithia Properties constructed a new body and paint shop for use by the Company, which was completed in April 1997. The Company purchased the facility and improvements together with a 5.3 acre parcel held for future development in Medford, Oregon, in 1997. The total purchase price for these properties was \$2.7 million. Lithia Properties retained and after purchase of the facility, the Company continued to retain, Mark DeBoer Construction, Inc. as the general contractor for the project. Mark DeBoer, the owner of Mark DeBoer Construction, Inc., is the son of Sidney B. DeBoer and is one of the members of Lithia Properties. The general contractor fee was \$128, an arrangement the Company believes is fair in comparison with fees negotiated with independent third parties.

During 1998, Lithia Properties paid Mark DeBoer Construction, Inc. \$821 for remodeling certain of the Company's facilities. The Company believes the amount paid is fair in comparison with fees negotiated with independent third parties.

(14) ACQUISITIONS The following table sets forth the total purchase price, cash paid, debt incurred and the net investment for acquisitions made by the Company during 1996, 1997 and 1998:

NAME	DATE	TOTAL PAID	CASH PAID	DEBT INCURRED	NET INVESTMENT (1)
Roberts Dodge(2)	December 1996	\$ 5,751	\$ 1,913	\$ 3,838	\$ 3,507
Melody Vacaville Toyota	December 1996	5,740	2,946	2,794	3,854
1996 TOTAL		\$11,491	\$ 4,859	\$ 6,632	\$ 7,361
Magnussen Dodge Isuzu	April 1997	\$10,905	\$ 2,822	\$ 8,083	\$ 3,760
Magnussen-Barbee Ford, L/M	July 1997	7,916	3,093	4,823	3,720
Sun Valley Ford, Volkswagen	August 1997	17,962	5,356	12,606	7,573
Dick Donnelly Lincoln/Mercury, Isuzu, Suzuki, Audi	October 1997	12,916	6,139	6,777	6,676
Bakersfield Nissan-BMW	October 1997	9,240	4,274	4,966	5,814
Century Ford Mazda	December 1997	12,915	4,023	8,892	5,314
1997 TOTAL		\$71,854	\$25,707	\$46,147	\$32,857
Quality Nissan Jeep(2)	January 1998	\$ 8,404	\$ 7,097	\$ 1,307	\$ 4,405
Reno Volkswagen	February 1998	1,400	411	989	293
Medford Nissan, BMW	February 1998	3,231	546	2,685	2,326
Haddad Jeep/Eagle	March 1998	4,912	1,528	3,384	2,063
Rodway Chevrolet(2)	June 1998	11,488	5,094	6,394	3,783
Boyland Toyota(2)	July 1998	3,919	2,300	1,619	2,588
Camp Automotive	October 1998	11,535	8,000	3,535	11,535
Hutchins Toyota(2)	November 1998	6,955	5,000	1,955	6,955
1998 TOTAL		\$51,844	\$29,976	\$21,868	\$33,948

(1) Net investment consists of the amount of goodwill, working capital, notes issued to sellers and other initial investments.

(2) Excludes real property purchased for \$2,330, \$5,560, \$4,050, \$1,650 and \$1,750, respectively.

The unaudited pro forma results of operations including Camp Automotive, Inc., 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.

YEAR ENDED DECEMBER 31,	1998	1997	1996
Total revenues	\$ 790,151	508,720	\$ 440,058
Net income	12,118	8,682	3,429
Basic earnings per share	1.32	1.24	0.74
Diluted earnings per share	1.28	1.19	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) SUBSEQUENT EVENT (UNAUDITED) In March 1999, the Company announced that it entered into definitive agreements with the Moreland Automotive Group to acquire a seven-dealership platform in four Colorado and Nevada markets. Lithia's net investment will be approximately \$50 million, paid for with a combination of cash, Class A Common Stock and a new series of redeemable Preferred Stock. Upon completion of this acquisition, which is expected in the second quarter of 1999, the Company will have annualized revenues of over \$1.2 billion.

EXHIBIT 10.29

CREDIT AGREEMENT

This Credit Agreement (this "Agreement") dated November 23, 1998 is entered into between LITHIA MOTORS, INC., an Oregon corporation, ("Borrower") and FORD MOTOR CREDIT COMPANY, a Delaware corporation ("Lender"). The parties hereto agree as follows:

Borrower has requested Lender to extend a revolving line of credit to Borrower in the principal amount not to exceed \$75,000,000.00 (the "Loan") in order to fund dealership acquisitions.

Lender is willing to make the Loan to Borrower provided that Borrower grants to Lender a security interest in the Collateral and provides such other security as required by this Agreement and that Borrower complies with the conditions precedent and other terms and conditions of this Agreement and the Security Documents (as defined herein).

Now therefore, in consideration of the promises, covenants and undertakings set forth herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the parties hereto, Lender and Borrower hereby agree as follows:

1. DEFINITIONS

1.1 The following terms used in this Agreement shall have the following meanings, applicable both to the singular and the plural forms of the terms defined.

(a) "ACQUISITION" means any transaction, or any series of related transactions, consummated on or after the date of this Agreement, by which the Borrower or a subsidiary holding company (i) acquires any going business or all or substantially all of the assets of any automobile dealership and/or related operations (e.g. body shop and service repair centers), whether through purchase of assets, merger or otherwise or (ii) directly or indirectly acquires (in one transaction or as the most recent transaction in a series of transactions) at least a majority (in number of votes) of the securities of such a corporation which have ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) or a majority (by percentage of voting power) of the outstanding equity interests of such an entity.

(b) "ACQUISITION DOCUMENTS" means all documents, instruments and agreements entered into in connection with any Acquisition.

(c) "ADVANCE" means any loan made by the Lender under SECTION 2.1 hereof.

(d) "AFFILIATE" of any Person means any other Person directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if the controlling Person is the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) of greater than five percent (5%) or more of any class of voting securities (or other voting interests) of the controlled Person or possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of Capital Stock, by contract or otherwise.

(e) "AGREEMENT" means this Agreement, as it may be amended, restated or otherwise modified and in effect from time to time.

(f) "AGREEMENT ACCOUNTING PRINCIPLES" means generally accepted accounting principles in effect from time to time, applied in a manner consistent with that used in preparing the financial statements referred to in SECTION 5.1(A) hereof, PROVIDED, HOWEVER, all PRO FORMA financial

statements reflecting Acquisitions shall be prepared in accordance with the requirements established by the Commission for acquisition accounting for reporting acquisitions by public companies (whether or not such Acquisitions are required to be publicly reported).

(g) "APPLICABLE COMMERCIAL PAPER RATE" means the Commercial Paper Rate PLUS three percent (3.0%) per annum.

(h) "ASSET SALE" means, with respect to any Person, the sale, lease, conveyance, disposition or other transfer by such Person of any of its assets (including by way of a sale-leaseback transaction and including the sale or other transfer of any of the Equity Interests of any Subsidiary of such Person).

(i) "AUTHORIZED OFFICER" means any of the chief executive officer, president, chief financial officer or Vice President of Accounting of the Borrower, acting singly.

(j) "BENEFIT PLAN" means a defined benefit plan as defined in Section 3(35) of ERISA (other than a Multi-employer Plan) in respect of which the Borrower or any other member of the Controlled Group is, or within the immediately preceding six (6) years was, an "employer" as defined in Section 3(5) of ERISA.

(k) "BORROWER GUARANTY" means that certain Guaranty, dated as of even date herewith, pursuant to which the Borrower guaranties all Lithia Dealership obligations arising under any Wholesale Line, as it may be amended, restated or otherwise modified and in effect from time to time.

(l) "BORROWER PLEDGES" means each of (i) that certain Pledge Agreement, dated as of even date herewith, from the Borrower to the Lender pursuant to which the Borrower pledges the Capital Stock of certain corporate Subsidiaries, as it may be amended, restated or otherwise modified and in effect from time to time, (ii) that certain Pledge Agreement, dated as of even date herewith, from the Borrower to the Lender pursuant to which the Borrower pledges the Capital Stock of certain limited liability company Subsidiaries, as it may be amended, restated or otherwise modified and in effect from time to time and (iii) any other pledge of Capital Stock delivered by a member of the Lithia Group from time to time to the Lender.

(m) "BORROWER SECURITY AGREEMENT" means that certain Security Agreement, dated as of even date herewith, from the Borrower to the Lender pursuant to which the Borrower pledged all of its assets to secure the Obligations hereunder and the obligations of each Lithia Dealership under any Wholesale Line provided by the Lender to such Lithia Dealership, as it may be amended, restated or otherwise modified and in effect from time to time.

(n) "CAPITAL EXPENDITURES" means, for any period, the aggregate of all expenditures (other than in connection with Permitted Acquisitions), whether paid in cash or accrued as liabilities, including Capitalized Lease Obligations, by the Borrower and its Subsidiaries during that period that, in conformity with Agreement Accounting Principles, are required to be included in or reflected by the property, plant, equipment or similar fixed asset accounts reflected in the consolidated balance sheet of the Borrower and its Subsidiaries.

(o) "CAPITAL STOCK" means (i) in the case of a corporation, corporate stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, (iii) in the case of a partnership, partnership interests (whether general or limited), (iv) in the case of a limited liability company, any and all membership interests or other equivalents (however designated) and (v) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

(p) "CAPITALIZED LEASE" of a Person means any lease of property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

(q) "CAPITALIZED LEASE OBLIGATIONS" of a Person means the amount of the obligations of such Person under Capitalized Leases which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

(r) "CASH EQUIVALENTS" means (i) marketable direct obligations issued or unconditionally guaranteed by the United States government and backed by the full faith and credit of the United States government; (ii) domestic and Eurodollar certificates of deposit and time deposits, bankers' acceptances and floating rate certificates of deposit issued by any commercial bank organized under the laws of the United States, any state thereof, the District of Columbia, or its branches or agencies; (iii) shares of money market, mutual or similar funds having assets in excess of \$100,000,000 and the investments of which are limited to investment grade securities (i.e., securities rated at least BAA by Moody's Investors Service, Inc. or at least BBB by Standard & Poor's Corporation); (iv) commercial paper of United States and foreign banks and bank holding companies and their subsidiaries and United States and foreign finance, commercial industrial or utility companies which, at the time of acquisition, are rated A-1 (or better) by Standard & Poor's Ratings Group or P-1 (or better) by Moody's Investors Services, Inc.; (v) corporate bonds, mortgage-backed securities and municipal bonds in each case of a domestic issuer rated at the date of acquisition not less than AAA by Moody's Investor Services, Inc. or AAA by Standard & Poor's Corporation with maturities of no more than two (2) years from the date of acquisition; and (vi) money market funds with respect to which not less than 90% of such funds are invested in the type of investments specified in clauses (i) through (v) above; PROVIDED, unless the context otherwise requires, that the maturities of such Cash Equivalents shall not exceed 365 days.

(s) "CHANGE OF CONTROL" means an event or series of events by which:

(i) Lithia Holding Company, L.L.C. ceases to own, directly or indirectly, more than 51.0% of the voting power of the Borrower's Capital Stock ordinarily having the right to vote at an election of directors or the Principal ceases to control Lithia Holding Company, L.L.C.;

(ii) during any period of 24 consecutive calendar months, individuals:

(a) who were directors of the Borrower on the first day of such period, or

(b) whose election or nomination for election to the board of directors of the Borrower was recommended or approved by at least a majority of the directors then still in office who were directors of the Borrower on the first day of such period, or whose election or nomination for election was so approved, shall cease to constitute a majority of the board of directors of the Borrower;

(iii) the Borrower consolidates with or merges into another corporation or conveys, transfers or leases all or substantially all of its property to any Person, or any corporation consolidates with or merges into the Borrower, in either event pursuant to a transaction in which the outstanding Capital Stock of the Borrower is reclassified or changed into or exchanged for (A) cash or Cash Equivalents or (B) securities, and the holders of the Capital Stock in the Borrower immediately prior to such transaction do not, as a result of such transaction, own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the Borrower's Capital Stock or the Capital Stock of its successor entity in such transaction; or

(iv) Borrower ceases to own, directly or indirectly, 80.0% of any Subsidiary;

(t) "CHARTER DOCUMENTS" means (i) in the case of a corporation, such entity's articles of incorporation and by-laws, (ii) in the case of a limited liability company, such entity's articles of organization and operating agreement or equivalent (however designated), (iii) in the case of a partnership, such entity's partnership agreement or equivalent (however designated) and (iv) in the case of an association or other business entity not described above, such entity's founding documents (however designated).

(u) "CODE" means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time, or any successor statute.

(v) "COLLATERAL" means all property and interests in property now owned or hereafter acquired by the Borrower or any of its Subsidiaries in or upon which a security interest, lien or mortgage is granted to the Lender, whether under the Borrower Security Agreement, under any of the other Collateral Documents or under any of the other Loan Documents.

(w) "COLLATERAL DOCUMENTS" means all agreements, instruments and documents executed in connection with this Agreement that are intended to create or evidence Liens to secure the Obligations and all Floor Plan Indebtedness, including, without limitation, the Borrower Security Agreement, the Borrower Pledges, the subsidiary holding company pledges, each Dealership Security Agreement and all other security agreements, mortgages, deeds of trust, loan agreements, notes, guaranties, subordination agreements, pledges, powers of attorney, consents, assignments, contracts, fee letters, notices, leases, financing statements and all other written matter whether heretofore, now, or hereafter executed by or on behalf of the Borrower or any of its Subsidiaries and delivered to the Lender, together with all agreements and documents referred to therein or contemplated thereby.

(x) "COMMERCIAL PAPER RATE" means the interest rate for "1-Month Finance Paper Placed Directly" under the column entitled "Week Ending" for the Friday preceding the last Monday of a calendar month as reported in the Federal Reserve Statistical Release No. H.15 (519) issued by the Federal Reserve Board. In the event such Release is discontinued or modified to eliminate the reporting of a 30-day commercial paper rate, then Lender will substitute, in its sole discretion, a comparable report or release of the 30-day commercial paper rate published by a comparable source.

(y) "COMMISSION" means the Securities and Exchange Commission and any Person succeeding to the functions thereof.

(z) "COMMITMENT" means \$75,000,000 MINUS the amount of any Decision Reserve, if any, in effect from time to time.

(aa) "CONSOLIDATED NET WORTH" means, at a particular date, the amount by which the total consolidated assets (other than amounts for Equipment and real estate) of the Borrower and its consolidated Subsidiaries exceeds the total consolidated liabilities (other than liabilities for Equipment and real estate) of the Borrower and its consolidated Subsidiaries.

(bb) "CONTAMINANT" means any waste, pollutant, hazardous substance, toxic substance, hazardous waste, special waste, petroleum or petroleum-derived substance or waste, asbestos, polychlorinated biphenyls ("PCBS"), or any constituent of any such substance or waste, and includes but is not limited to these terms as defined in Environmental, Health or Safety Requirements of Law.

(cc) "CONTINGENT OBLIGATION", as applied to any Person, means any Contractual Obligation, contingent or otherwise, of that Person with respect to any Indebtedness of another or other obligation or liability of another, including, without limitation, any such Indebtedness, obligation or liability of another directly or indirectly guaranteed, endorsed (otherwise than for collection or

deposit in the ordinary course of business), co-made or discounted or sold with recourse by that Person, or in respect of which that Person is otherwise directly or indirectly liable, including Contractual Obligations (contingent or otherwise) arising through any agreement to purchase, repurchase, or otherwise acquire such Indebtedness, obligation or liability or any security therefor, or to provide funds for the payment or discharge thereof (whether in the form of loans, advances, stock purchases, capital contributions or otherwise), or to maintain solvency, assets, level of income, or other financial condition, or to make payment other than for value received.

(dd) "CONTRACTUAL OBLIGATION", as applied to any Person, means any material provision of any equity or debt securities issued by that Person or any material indenture, mortgage, deed of trust, security agreement, pledge agreement, guaranty, contract, undertaking, agreement or instrument, in each case in writing, to which that Person is a party or by which it or any of its properties is bound, or to which it or any of its properties is subject.

(ee) "CONTRIBUTION AGREEMENT" means that certain Contribution Agreement, dated as of even date herewith, as it may be amended, restated or otherwise modified and in effect from time to time.

(ff) "CONTROLLED GROUP" means the group consisting of (i) any corporation which is a member of the same controlled group of corporations (within the meaning of Section 414(b) of the Code) as the Borrower; (ii) a partnership or other trade or business (whether or not incorporated) which is under common control (within the meaning of Section 414(c) of the Code) with the Borrower; and (iii) a member of the same affiliated service group (within the meaning of Section 414(m) of the Code) as the Borrower, any corporation described in CLAUSE (I) above or any partnership or trade or business described in CLAUSE (II) above.

(gg) "CONTROLLED SUBSIDIARY" of any Person means a Subsidiary of such Person (i) 80% or more of the total Equity Interests or other ownership interests of which (other than directors' qualifying shares) shall at the time be owned by such Person or by one or more wholly-owned Subsidiaries of such Person and (ii) of which such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies, whether through the ownership of voting securities, by agreement or otherwise.

(hh) "CURRENT ASSETS" means, at a particular date, all amounts which would, in conformity with Agreement Accounting Principles, be included under current assets on a balance sheet as at such date.

(ii) "CURRENT LIABILITIES" means, at a particular date, all amounts which would, in conformity with Agreement Accounting Principles, be included under current liabilities on a balance sheet as at such date.

(jj) "CUSTOMARY PERMITTED LIENS" means:

(i) Liens (other than Environmental Liens, liens in favor of the IRS and liens in favor of the PBGC) with respect to the payment of taxes, assessments or governmental charges in all cases which are not yet due or (if foreclosure, distraint, sale or other similar proceedings shall not have been commenced) which are being contested in good faith by appropriate proceedings properly instituted and diligently conducted and with respect to which adequate reserves or other appropriate provisions are being maintained in accordance with Agreement Accounting Principles;

(ii) statutory Liens of landlords and liens of suppliers, mechanics, carriers, materialmen, warehousemen or workmen and other similar liens imposed by law created in the ordinary course of business for amounts not yet due or which are being contested in good

faith by appropriate proceedings properly instituted and diligently conducted and with respect to which adequate reserves or other appropriate provisions are being maintained in accordance with Agreement Accounting Principles;

(iii) liens (other than Environmental liens, liens in favor of the IRS and liens in favor of the PBGC) incurred or deposits made, in each case, in the ordinary course of business in connection with worker's compensation, unemployment insurance or other types of social security benefits or to secure the performance of bids, tenders, sales, contracts (other than for the repayment of borrowed money), surety, appeal and performance bonds; PROVIDED that (A) all such liens do not in the aggregate materially detract from the value of the Borrower's or such Subsidiary's assets or property taken as a whole or materially impair the use thereof in the operation of the businesses taken as a whole, and (B) with respect to liens securing bonds to stay judgments or in connection with appeals do not secure at any time an aggregate amount exceeding \$250,000;

(iv) liens arising with respect to zoning restrictions, easements, licenses, reservations, covenants, rights-of-way, utility easements, building restrictions and other similar charges or encumbrances on the use of real property which do not in any case materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of the Borrower or any of its Subsidiaries;

(v) liens of attachment or judgment with respect to judgments, writs or warrants of attachment, or similar process against the Borrower or any of its Subsidiaries which do not constitute an Event of Default under SECTION 6.1(H) hereof; and

(vi) any interest or title of the lessor in the property subject to any operating lease entered into by the Borrower or any of its Subsidiaries in the ordinary course of business.

(kk) "DEALERSHIP GUARANTORS" means each Lithia Dealership, Lithia Financial Corporation and Lithia Real Estate, Inc., providing a Dealership Guaranty and/or a Dealership Security Agreement to the Lender, and their respective successors and assigns.

(ll) "DEALERSHIP GUARANTY" means that certain Dealership Guaranty in the form attached hereto as Exhibit C-1, provided by a Lithia Dealership to the Lender, as the same may be amended, modified, supplemented and/or restated, and as in effect from time to time.

(mm) "DEALERSHIP SECURITY AGREEMENT" means any Security Agreement in the form attached hereto as Exhibit D-1, pursuant to which a Lithia Dealership grants the Lender a security interest in all of its assets, as the same may be amended, modified, supplemented and/or restated, and as in effect from time to time.

(nn) "DISQUALIFIED STOCK" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to the date that is 91 days after the Termination Date.

(oo) "DOL" means the United States Department of Labor and any Person succeeding to the functions thereof.

(pp) "EBITDA" means, for any period, on a consolidated basis for the Borrower and its Subsidiaries, the sum of the amounts for such period, without duplication, of:

(i) Net Income,

PLUS (ii) Interest Expense,

PLUS (iii) charges against income for foreign, federal, state and local taxes, to the extent deducted in computing Net Income,

PLUS (iv) depreciation expense, to the extent deducted in computing Net Income,

PLUS (v) amortization expense, including, without limitation, amortization of goodwill, other intangible assets and Transaction Costs, to the extent deducted in computing Net Income,

PLUS (vi) other non-cash charges classified as long-term deferrals in accordance with Agreement Accounting Principles, to the extent deducted in computing Net Income,

MINUS (vii) all extraordinary gains (and any nonrecurring unusual gains arising in or outside of the ordinary course of business not included in extraordinary gains determined in accordance with Agreement Accounting Principles which have been included in the determination of Net Income).

EBITDA shall be calculated for any period by including the actual amount for the applicable period ending on such day, including the EBITDA attributable to Permitted Acquisitions occurring during such period on a PRO FORMA basis for the period from the first day of the applicable period through the date of the closing of each Permitted Acquisition, utilizing (a) where available or required pursuant to the terms of this Agreement, historical audited and/or reviewed unaudited financial statements obtained from the seller, broken down by fiscal quarter in the Borrower's reasonable judgment or (b) unaudited financial statements (where no audited or reviewed financial statements are required pursuant to the terms of this Agreement) reviewed internally by the Borrower, broken down in the Borrower's reasonable judgment.

(qq) "EBITDAR" means, for any period, on a consolidated basis for the Borrower and its Subsidiaries, the sum of the amounts for such period, without duplication, of (i) EBITDA and (ii) Rentals.

(rr) "ENVIRONMENTAL, HEALTH OR SAFETY REQUIREMENTS OF LAW" means all Requirements of Law derived from or relating to federal, state and local laws or regulations relating to or addressing pollution or protection of the environment, or protection of worker health or safety, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 ET SEQ., the Occupational Safety and Health Act of 1970, 29 U.S.C. Section 651 ET SEQ., and the Resource Conservation and Recovery Act of 1976, 42 U.S.C. Section 6901 ET SEQ., in each case including any amendments thereto, any successor statutes, and any regulations or guidance promulgated thereunder, and any state or local equivalent thereof.

(ss) "ENVIRONMENTAL PROPERTY TRANSFER ACT" means any applicable requirement of law that conditions, restricts, prohibits or requires any notification or disclosure triggered by the closure of any property or the transfer, sale or lease of any property or deed or title for any property for environmental reasons, including, but not limited to, any so-called "Industrial Site Recovery Act" or "Responsible Property Transfer Act."

(tt) "EQUIPMENT" means all of the Borrower's and each Dealership Guarantor's present and future furniture, machinery, service vehicles, supplies and other equipment and any and all

accessions, parts and appurtenances attached to any of the foregoing or used in connection therewith, and any substitutions therefor and replacements, products and proceeds thereof.

(uu) "EQUITY INTERESTS" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

(vv) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time including (unless the context otherwise requires) any rules or regulations promulgated thereunder.

(ww) "FAIR VALUE" means (a) with respect to the Capital Stock of the Borrower, the closing price for such Capital Stock on the trading date immediately preceding the date of the applicable acquisition agreement; and (b) with respect to other assets, the value of the relevant asset as of the date of acquisition or sale determined in an arm's-length transaction conducted in good faith between an informed and willing buyer and an informed and willing seller under no compulsion to buy.

(xx) "FLOOR PLAN INDEBTEDNESS" means any and all loans, advances, debts, liabilities and obligations owing by a Lithia Dealership to the Lender of any kind or nature, present or future, arising under a Wholesale Line whether or not evidenced by any note, guaranty or other instrument, whether or not for the payment of money, whether arising by reason of an extension of credit, loan, guaranty, indemnification, or in any other manner, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising and however acquired. The term includes, without limitation, all interest, charges, expenses, fees, attorneys' fees and disbursements, paralegals' fees (in each case whether or not allowed), and any other sum chargeable to the Borrower or a Lithia Dealership under any Wholesale Line.

(yy) "HEDGING OBLIGATIONS" of a Person means any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (i) any and all agreements, devices or arrangements designed to protect at least one of the parties thereto from the fluctuations of interest rates, exchange rates or forward rates applicable to such party's assets, liabilities or exchange transactions, including, but not limited to, dollar-denominated or cross-currency interest rate exchange agreements, forward currency exchange agreements, interest rate cap or collar protection agreements, forward rate currency or interest rate options, puts and warrants, and (ii) any and all cancellations, buy backs, reversals, terminations or assignments of any of the foregoing.

(zz) "INDEBTEDNESS" of any Person means, without duplication, such Person's (a) obligations for borrowed money, (b) obligations representing the deferred purchase price of property or services (other than accounts payable arising in the ordinary course of such Person's business payable on terms customary in the trade), (c) obligations, whether or not assumed, secured by liens or payable out of the proceeds or production from property or assets now or hereafter owned or acquired by such Person, (d) obligations which are evidenced by notes, acceptances or other instruments, (e) Capitalized Lease Obligations, (f) reimbursement obligations with respect to letters of credit (other than commercial letters of credit) issued for the account of such Person,

(g) Hedging Obligations, (h) Off Balance Sheet Liabilities and (i) Contingent Obligations in respect of obligations of another Person of the type described in the foregoing clauses (a) through (h). The amount of Indebtedness of any Person at any date shall be without duplication (i) the outstanding balance at such date of all unconditional obligations as described above and the maximum liability of any such Contingent Obligations at such date and (ii) in the case of Indebtedness of others secured by a lien to which the property or assets owned or held by such Person is subject, the lesser of the fair market value at such date of any asset subject to a lien securing the Indebtedness of others and the amount of the Indebtedness secured.

- (aaa) "INTEREST EXPENSE" means, for any period, the total interest expense of the Borrower and its consolidated Subsidiaries, whether paid or accrued (including the interest component of Capitalized Leases, commitment and letter of credit fees), but excluding interest expense not payable in cash (including amortization of discount), all as determined in conformity with Agreement Accounting Principles.
- (bbb) "INVENTORY" shall mean any and all motor vehicles, tractors, trailers, service parts and accessories and other inventory of the Borrower and each Dealership Guarantor.
- (ccc) "INVESTMENT" means, with respect to any Person, (i) any purchase or other acquisition by that Person of any Indebtedness, Equity Interests or other securities, or of a beneficial interest in any Indebtedness, Equity Interests or other securities, issued by any other Person, (ii) any purchase by that Person of all or substantially all of the assets of a business conducted by another Person, and (iii) any loan, advance (other than deposits with financial institutions available for withdrawal on demand, prepaid expenses, accounts receivable, advances to employees and similar items made or incurred in the ordinary course of business) or capital contribution by that Person to any other Person, including all Indebtedness to such Person arising from a sale of property by such Person other than in the ordinary course of its business.
- (ddd) "IRS" means the Internal Revenue Service and any Person succeeding to the functions thereof.
- (eee) "LITHIA DEALERSHIP" means any Subsidiary dealership and/or related body shop or service repair center owned, operated or acquired by the Borrower or any Subsidiary of the Borrower.
- (fff) "LITHIA GROUP" means each of the Borrower and each Subsidiary of the Borrower.
- (ggg) "LITHIA GUARANTIES" means each of the Borrower Guaranty, each Dealership Guaranty and the Contribution Agreement.
- (hhh) "LOAN DOCUMENTS" means this Agreement, the Note, the Lithia Guaranties, the Collateral Documents and all other documents, instruments and agreements executed in connection therewith or contemplated thereby, as the same may be amended, restated or otherwise modified and in effect from time to time.
- (iii) "MAINTENANCE CAPITAL EXPENDITURES" shall have the meaning set forth in Section 5.4 (d).
- (jjj) "MAJORITY ACQUISITION" means any Acquisition of Equity Interests of an entity, in which Borrower is not permitted to hold 100% of such Equity Interest because of limitations imposed by the relevant automotive manufacturer's franchise agreement.
- (kkk) "MARGIN STOCK" shall have the meaning ascribed to such term in Regulation U.
- (lll) "MATERIAL SUBSIDIARY" means (a) any "Significant Subsidiary" as defined in Regulation S-X issued pursuant to the Securities Act and the Exchange Act and (b) any other Subsidiary of the Borrower which at any time comprises five percent (5%) or more of the Borrower's Tangible Base Capital.
- (mmm) "MAXIMUM RATE" means the maximum nonusurious interest rate under applicable law.

(nnn) "MINORITY HOLDER" means any holder of an Equity Interest in a Subsidiary which such Equity Interest may not exceed 20% of the Capital Stock of such Subsidiary.

(ooo) "MULTI-EMPLOYER PLAN" means a "Multi-employer Plan" as defined in Section 4001(a)(3) of ERISA which is, or within the immediately preceding six (6) years was, contributed to by either the Borrower or any member of the Controlled Group.

(ppp) "NET CASH" means the value of (A) the difference between (i) the inventory of Borrower and its Subsidiaries, including new vehicles and demonstration vehicles, less (ii) the outstanding Indebtedness owed by Borrower and its Subsidiaries for such new vehicles and demonstration vehicles plus (B) cash of Borrower and its Subsidiaries (C) receivables of Borrowers and its Subsidiaries for new finance contracts, plus (D) vehicle account receivable of Borrower and its Subsidiaries (E) holdbacks of Borrower and its Subsidiaries, less (F) customer deposits, less (G) the sum of one months principal payments on all outstanding Indebtedness of Borrower of its Subsidiaries, less (H) accommodations of Borrower and its Subsidiaries (I) average monthly expenses of Borrower and its Subsidiaries, less (J) net cash excess of Borrower and its Subsidiaries; as these terms are defined and reported on Borrower's and/or its Subsidiaries Ford Motor Company Dealer Financial Statement and determined in accordance with Agreement Accounting Principals.

(qqq) "NET INCOME" means, for any period, the net earnings (or loss) after taxes of the Borrower and its Subsidiaries on a consolidated basis for such period taken as a single accounting period determined in conformity with Agreement Accounting Principles.

(rrr) "NOTE" means that certain promissory note, in substantially the form of EXHIBIT A hereto, duly executed by the Borrower and payable to the order of the Lender in the amount of \$75,000,000.00 including any amendment, restatement, modification, renewal or replacement thereof.

(sss) "OBLIGATIONS" means all Advances, debts, liabilities, obligations, covenants and duties owing by the Borrower or a Lithia Dealership to the Lender or any Indemnitee, of any kind or nature, present or future, arising under this Agreement, the Note, the Collateral Documents or any other Loan Document, whether or not evidenced by any note, guaranty or other instrument, whether or not for the payment of money, whether arising by reason of an extension of credit, loan, guaranty, indemnification, or in any other manner, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising and however acquired. The term includes, without limitation, all interest, charges, expenses, fees, attorneys' fees and disbursements, paralegals' fees (in each case whether or not allowed), and any other sum chargeable to the Borrower or a Lithia Dealership under this Agreement or any other Loan Document.

(ttt) "OFF BALANCE SHEET LIABILITIES" of a Person means (a) any repurchase obligation or liability of such Person or any of its Subsidiaries with respect to accounts or notes receivable sold by such Person or any of its Subsidiaries, (b) any liability under any sale and leaseback transactions which do not create a liability on the consolidated balance sheet of such Person, (c) any liability under any financing lease or so-called "synthetic" lease transaction, or (d) any obligations arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the consolidated balance sheets of such Person and its Subsidiaries.

(uuu) "OTHER FLOOR PLAN INDEBTEDNESS" means loans advances, debts, liabilities and obligations owing by a Lithia Dealership to a floor plan lender for the financing of new vehicle inventory.

(vvv) "PAYMENT DATE" means the fifteenth day of each calendar month, PROVIDED, HOWEVER if such day is not a business day, then the Payment Date shall be the next succeeding business day following such fifteenth day.

(www) "PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

(xxx) "PERMITTED EXISTING INDEBTEDNESS" means the Indebtedness of the Borrower and its Subsidiaries identified as such on SCHEDULE 1 to this Agreement.

(yyy) "PERMITTED EXISTING INVESTMENTS" means the Investments of the Borrower and its Subsidiaries identified as such on SCHEDULE 2 to this Agreement.

(zzz) "PERMITTED EXISTING LIENS" means the Liens on assets of the Borrower and its Subsidiaries identified as such on SCHEDULE 3 to this Agreement.

(aaaa) "PERMITTED REFINANCING INDEBTEDNESS" means any replacement, renewal, refinancing or extension of any Indebtedness permitted by this Agreement that (i) does not exceed the aggregate principal amount (plus associated fees and expenses) of the Indebtedness being replaced, renewed, refinanced or extended, (ii) does not rank at the time of such replacement, renewal, refinancing or extension senior to the Indebtedness being replaced, renewed, refinanced or extended, and (iii) does not contain terms (including, without limitation, terms relating to security, amortization, interest rate, premiums, fees, covenants, event of default and remedies) materially less favorable to the Borrower or to the Lender than those applicable to the Indebtedness being replaced, renewed, refinanced or extended.

(bbbb) "PERSON" means any individual, corporation, firm, enterprise, partnership, trust, incorporated or unincorporated association, joint venture, joint stock company, limited liability company or other entity of any kind, or any government or political subdivision or any agency, department or instrumentality thereof.

(cccc) "PLAN" means an employee benefit plan defined in Section 3(3) of ERISA in respect of which the Borrower or any member of the Controlled Group is, or within the immediately preceding six (6) years was, an "employer" as defined in Section 3(5) of ERISA.

(dddd) "PRINCIPAL" means Sidney B. DeBoer or a successor, or successors, reasonably acceptable to Lender.

(eeee) "RECEIVABLE(S)" means and includes all of the Borrower's and each Dealership Guarantor's presently existing and hereafter arising or acquired accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds and other obligations of third persons of any kind, now or hereafter existing, whether arising out of or in connection with the sale or lease of goods, the rendering of services or otherwise, and all rights now or hereafter existing in and to all security agreements, leases, and other contracts securing or otherwise relating to any such accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds or obligations of third persons.

(ffff) "REGULATION T" means Regulation T of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by and to brokers and dealers of securities for the purpose of purchasing or carrying margin stock (as defined therein).

(gggg) "REGULATION U" means Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying Margin Stock applicable to member banks of the Federal Reserve System.

(hhhh) "REGULATION X" means Regulation X of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by foreign lenders for the purpose of purchasing or carrying margin stock (as defined therein).

(iiii) "RELATED PARTY" with respect to the Principal means (i) any spouse or immediate family member of such Principal or (ii) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding the outstanding Equity Interest of which consist of such Principal and/or such other Persons referred to in the immediately preceding clause (i).

(jjjj) "RELEASE" means any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration into the indoor or outdoor environment, including the movement of Contaminants through or in the air, soil, surface water or groundwater.

(kkkk) "RENTALS" of a Person means the aggregate fixed amounts payable by such Person under any lease of personal property but does not include any amounts payable under Capitalized Leases of such Person.

(llll) "REPORTABLE EVENT" means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days after such event occurs, PROVIDED, HOWEVER, that a failure to meet the minimum funding standards of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

(mmmm) "RESTRICTED DEALERSHIP" means any Lithia Dealership, the franchise agreement with respect to which contains restrictions on such Lithia Dealership's ability to pledge its assets as collateral for the Obligations.

(nnnn) "RESTRICTED PAYMENT" means (i) any dividend or other distribution, direct or indirect, on account of any Equity Interests of the Borrower now or hereafter outstanding, except a dividend payable solely in the Borrower's Capital Stock (other than Disqualified Stock) or in options, warrants or other rights to purchase such Capital Stock, (ii) any redemption, retirement, purchase or other acquisition for value, direct or indirect, of any Equity Interests of the Borrower or any of its Subsidiaries now or hereafter outstanding, other than in exchange for, or out of the proceeds of, the substantially concurrent sale (other than to a Subsidiary of the Borrower) of other Equity Interests of the Borrower (other than Disqualified Stock), and (iii) any payment of a claim for the rescission of the purchase or sale of, or for material damages arising from the purchase or sale of any Equity Interests of the Borrower or any of the Borrower's Subsidiaries, or of a claim for reimbursement, indemnification or contribution arising out of or related to any such claim for damages or rescission.

(oooo) "REVOLVING CREDIT AVAILABILITY" means, at any particular time, the amount by which the Commitment at such time exceeds the Revolving Credit Obligations at such time.

(pppp) "REVOLVING CREDIT OBLIGATIONS" means, at any particular time, the sum of the outstanding principal amount of all Advances at such time.

(qqqq) "SCALED ASSETS" means with respect to the Lithia Group, the sum of (A) an amount equal to 75% of the Lithia Group's Receivables which constitute factory receivables, (B) an amount equal to 60% of the Lithia Group's Receivables which constitute current finance receivables, (C) an amount equal to 60% of the Lithia Group's Receivables which constitute receivables for parts and services (after netting any amounts payable in connection with such parts and services by any member of the Lithia Group), (D) an amount equal to 55% of the Lithia Group's Inventory which constitutes parts and accessories, (E) an amount equal to 80% of the difference between (i) that portion of the Lithia Group's Inventory which constitutes used vehicles and (ii) the amount of any Floor Plan Indebtedness of any member of the Lithia Group incurred or available in connection with such used vehicles, and (F) an amount equal to 45% of the difference between (i) the value of the Lithia Group's Equipment and (ii) the amount of Indebtedness of any member of the Lithia Group incurred in connection with such Equipment. The value of the Lithia Group's Scaled Assets shall be calculated by the Lender and shall be determined based on the financial statements and monthly factory statements delivered to the Lender pursuant to SECTION 5.1(A). Scaled Assets shall be measured as of the Effective Date and as of the end of each calendar quarter.

(rrrr) "SECRETARY'S CERTIFICATE" with respect to any entity in the Lithia Group, means any certificate, delivered by a secretary, assistant secretary, managing member, general partner of such entity which certifies (i) the names and true signatures of the incumbent officers or managers of such entity authorized to sign each Transaction Document to which it is a party and the other documents to be executed thereunder, (ii) a true and correct copy of such entity's Certificate of Incorporation, or similar charter document and all amendments thereto, (iii) a true and correct copy of the by-laws or similar governing document of such entity and all amendments thereto, and (iv) a true and correct copy of the resolutions of such entity's board of directors or members approving and authorizing the execution, delivery and performance by such entity of each Transaction Document to which it is a party and the other documents to be executed thereunder;

(ssss) "SINGLE EMPLOYER PLAN" means a Plan maintained by the Borrower or any member of the Controlled Group for employees of the Borrower or any member of the Controlled Group.

(tttt) "SUBSIDIARY" of a Person means (i) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or controlled, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (ii) any partnership, association, joint venture or similar business organization more than 50% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled. Unless otherwise expressly provided, all references herein to a "Subsidiary" shall mean a Subsidiary of the Borrower. Provided, however, that "Subsidiary" , shall not include Lithia Financial Corporation or Lithia Real Estate, Inc.

(uuuu) "TANGIBLE BASE CAPITAL" means, at a particular date of calculation, the amount determined by the Lender to be equal to :

(i) Consolidated Net Worth

PLUS (ii) the sum of

(a) Indebtedness of the Borrower or its Subsidiaries to officers of the Borrower, which Indebtedness is subordinated in writing to the Obligations on terms and conditions acceptable to the Lender; and

(b) an amount equal to 64% of the LIFO reserve (as determined in accordance with Agreement Accounting Principles) reflected on the Borrower's balance sheet;

MINUS

(iii) the sum of

(a) Receivables with respect to which the account debtor is a director, officer, employee, Subsidiary or Affiliate of the Borrower or other amounts (whether or not classified as Receivables) from Affiliates of the Borrower or its Subsidiaries (other than those payable within 30 days and incurred in the ordinary course of business); and

(b) that part of the Borrower's and its Subsidiaries (on a consolidated basis) capitalization or reserves attributable to any writing up of book values on any fixed assets after the date of the most recently delivered financial statements of the Borrower and its Subsidiaries;

(c) the aggregate amount of the Borrower's and its Subsidiaries Investments in Affiliates (other than the Borrower's Subsidiaries);

(d) organizational expenses related to start-up of operations with respect to the Borrower and its Subsidiaries;

(e) goodwill and other intangible assets (as determined in accordance with Agreement Accounting Principles);

(f) any amount paid to a third-party as consideration for no-competition agreements;

(g) the value of daily rental franchise payments made by the Borrower or its Subsidiaries under any franchise agreements (net of any amounts owed by a franchisor to Borrower or its Subsidiaries); and

(h) other assets (including, without limitation, airplanes, cattle, etc.) not related to the operations of the Dealerships as automobile dealerships.

(vvvv) "TERMINATION DATE" means the earlier of (a) two (2) years after the date hereof and agreed to by the Lender and (b) the date of termination of the Commitment pursuant to either of SECTION 2.3 or SECTION 7.1 hereof.

(wwww) "TERMINATION EVENT" means (i) a Reportable Event with respect to any Benefit Plan; (ii) the withdrawal of the Borrower or any member of the Controlled Group from a Benefit Plan during a plan year in which the Borrower or such Controlled Group member was a "substantial employer" as defined in

Section 4001(a)(2) of ERISA or the cessation of operations which results in the termination of employment of twenty percent (20%) of Benefit Plan participants who are employees of the Borrower or any member of the Controlled Group; (iii) the imposition of an obligation on the Borrower or any member of the Controlled Group under Section 4041 of ERISA to provide affected parties written notice of intent to terminate a Benefit Plan in a distress termination described in Section 4041(c) of ERISA; (iv) the institution by the PBGC of proceedings to terminate a Benefit Plan; (v) any event or condition which might constitute grounds under Section 4042 of ERISA for the Termination of, or the appointment of a trustee to administer, any Benefit Plan; or (vi) the partial or complete withdrawal of the Borrower or any member of the Controlled Group from a Multi-employer Plan.

(xxxx) "TOTAL ADJUSTED DEBT" means, for any period, on a consolidated basis for the Borrower and its Subsidiaries, the amount of Total Debt less any Floor Plan Indebtedness and less Indebtedness for Equipment and real estate.

(yyyy) "TOTAL DEBT" means, for any period, on a consolidated basis for the Borrower and its Subsidiaries, the sum of Indebtedness of the Borrower and its Subsidiaries, other than Hedging Obligations and other than Indebtedness for Equipment and real estate.

(zzzz) "TRANSACTION COSTS" means the fees, costs and expenses payable by the Borrower in connection with the execution, delivery and performance of the Transaction Documents.

(aaaaa) "TRANSACTION DOCUMENTS" means the Loan Documents and the Acquisition Documents.

(bbbbb) "UNFUNDED LIABILITIES" means (i) in the case of Single Employer Plans, the amount (if any) by which the present value of all vested nonforfeitable benefits under all Single Employer Plans exceeds the fair market value of all such Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plans, and (ii) in the case of Multi-employer Plans, the withdrawal liability that would be incurred by the Controlled Group if all members of the Controlled Group completely withdrew from all Multi-employer Plans.

(ccccc) "UNMATURED DEFAULT" means an event which, but for the lapse of time or the giving of notice, or both, would constitute an Event of Default.

(dddd) "UNRESTRICTED DEALERSHIP" means any Lithia Dealership other than a Restricted Dealership.

(eeee) "WHOLESALE LINE" means any wholesale credit line made by the Lender to a Lithia Dealership.

Any accounting terms used in this Agreement which are not specifically defined herein shall have the meanings customarily given them in accordance with generally accepted accounting principles in existence as of the date hereof.

1.2 REFERENCES. The existence throughout the Agreement of references to the Borrower's Subsidiaries is for a matter of convenience only. Any references to Subsidiaries of the Borrower set forth herein shall (i) with respect to representations and warranties which deal with historical matters be deemed to include each of the Subsidiaries existing on the date hereof, and (ii) shall not in any way be construed as consent by the Lender to the establishment, maintenance or acquisition of any Subsidiary, except as may otherwise be permitted hereunder.

1.3 EFFECTIVENESS OF THIS AGREEMENT. Upon the satisfaction of all of the conditions precedent set forth in SECTION 3.1 of this Agreement (the date upon which such conditions precedent are satisfied being hereinafter referred to as the "EFFECTIVE DATE"), this Agreement shall become effective.

2. THE LOAN

2.1 (a) **ADVANCES.** Upon the satisfaction of the conditions precedent set forth in SECTIONS 3.1 and 3.2, from and including the date of this Agreement and prior to the Termination Date, the Lender shall, on the terms and conditions set forth in this Agreement, make Advances to the Borrower from time to time, in an amount not to exceed the Revolving Credit Availability at such time; PROVIDED, HOWEVER, at no time shall the Revolving Credit Obligations exceed the Commitment at such time, and further provided that at no time shall the aggregate amount of Advances as Working Capital Funds exceed one hundred percent (100%) of the Scaled Assets value (as determined by Lender). Subject to the terms of this Agreement, the Borrower may borrow, repay and reborrow Advances at any time prior to the Termination Date. Any Advance of Working Capital Funds of over \$5,000,000.00 shall be subject to Lender's prior written consent, which consent Lender may withhold for any reason.

(b) **CONVERSION.** Subject to the requirements of Sections 3.1 and 3.2, Borrower may elect, or Lender may require Borrower to, convert all or any portion of the principal balance outstanding under the Loan on the anniversary date of this Agreement and on the Maturity Date to a five year amortizing loan. Either Borrower or Lender, as the case may be, shall notify the other party of its election no earlier than 90 days and no later than 60 days prior to the anniversary date of this Agreement or the Maturity Date, as the case may be, of the amount of the outstanding principal balance to be converted to a term loan.

2.2 OPTIONAL PAYMENTS; MANDATORY PREPAYMENTS.

(a) **OPTIONAL PAYMENTS.** The Borrower may from time to time repay or prepay, without penalty or premium all or any part of outstanding Advances; PROVIDED, that the Borrower may not so prepay Advances unless it shall have provided at least one business day's written notice to the Lender of such prepayment.

(b) **MANDATORY PREPAYMENTS.** If at any time and for any reason the Revolving Credit Obligations are greater than the Commitment then the Borrower shall immediately make a mandatory prepayment of the Obligations in an amount equal to such excess. If at any time and for any reason the aggregate amount of Working Capital Funds advanced is greater than one hundred percent (100%) of the Scaled Assets value (as determined by Lender) then Borrower shall immediately make a mandatory prepayment of the Obligations in an amount equal to such excess. Amounts equal to a Decision Reserve or net cash proceeds of an Asset Sale in connection with or following restoration, rebuilding or replacement of insured property shall be mandatorily applied against the Revolving Credit Obligations in the amounts and in the manner set forth in SECTION 5.2(G) hereof. All of the mandatory prepayments made under this SECTION 2.2(B) shall be applied first to Advances maturing on such date and then to subsequently maturing Advances in order of maturity.

2.3 **CHANGES IN THE COMMITMENT. REDUCTION OF COMMITMENT.** The Borrower may permanently reduce the Commitment in whole, or in part, in an aggregate minimum amount of \$5,000,000 and integral multiples of \$1,000,000 in excess of that amount (unless the Commitment is reduced in whole), upon at least three (3) business days' written notice to the Lender, which notice shall specify the amount of any such reduction; PROVIDED, HOWEVER, that the amount of the Commitment may not be reduced below the aggregate principal amount of the outstanding Revolving Credit Obligations. All accrued commitment fees shall be payable on the effective date of any partial or complete termination of the obligations of the Lender to make Advances hereunder.

2.4 **METHOD OF BORROWING.** The Borrower shall give the Lender irrevocable notice in substantially the form of EXHIBIT B hereto (a "BORROWING NOTICE") not later than 10:00 a.m. (Eastern Standard Time) on the business day preceding the Borrowing Date of each Advance, specifying: (i) the Borrowing Date (which shall be a business day) of such Advance; (ii) the aggregate amount of such Advance; (iii) the use of proceeds of such Advance, and (iv) the account or accounts into which

the Advances should be funded. Not later than 2:00 p.m. (Eastern Standard Time) on each Borrowing Date, the Lender shall make available its Advance, in funds immediately available to the Borrower at such account or accounts as shall have been notified to the Lender. Each Advance shall bear interest from and including the date of the making of such Advance to (but not including) the date of repayment thereof at the Applicable Commercial Paper Rate, changing when and as the underlying Commercial Paper Rate changes, which such interest shall be payable in accordance with SECTION 2.9(B).

2.5 MINIMUM AMOUNT OF EACH ADVANCE. Each Advance shall be in the minimum amount of \$250,000 (and in multiples of \$50,000 if in excess thereof), PROVIDED, HOWEVER, that any Advance may be in the amount of the unused Commitment.

2.6 DEFAULT RATE; LATE PAYMENT FEE. After the occurrence and during the continuance of an Event of Default, at the option of the Lender, the interest rate(s) applicable to the Advances shall be equal to the Applicable Commercial Paper Rate PLUS three percent (3.0%) per annum. If any of the principal balance or interest on the Note or other sum due thereunder is not paid within ten (10) days of when due, Borrower shall pay to Lender a late charge payment equal to five percent (5%) of the amount of such installment or the maximum rate permitted by law, whichever is less.

2.7 METHOD OF PAYMENT. All payments of principal, interest, and fees hereunder shall be made, without setoff, deduction or counterclaim, in immediately available funds to the Lender at the Lender's address specified pursuant to ARTICLE X, or at any other address specified in writing by the Lender to the Borrower, by 2:00 p.m. (Eastern Standard Time) on the date when due.

2.8 ADVANCES, TELEPHONIC NOTICES. The Lender is authorized to record the principal amount of each Advance and each repayment with respect to its Advances on the schedule attached to the Note; PROVIDED, HOWEVER, that the failure to so record shall not affect the Borrower's obligations under the Note. The Borrower authorizes the Lender to extend Advances and to transfer funds based on telephonic notices made by any person or persons the Lender in good faith believes to be authorized to act on behalf of the Borrower. The Borrower agrees to deliver promptly to the Lender a written confirmation, signed by an Authorized Officer, if such confirmation is requested by the Lender, of each telephonic notice. If the written confirmation differs in any material respect from the action taken by the Lender, (i) the telephonic notice shall govern absent manifest error and (ii) the Lender shall promptly notify the Authorized Officer who provided such confirmation of such difference.

2.9 PROMISE TO PAY; INTEREST AND COMMITMENT FEES; INTEREST PAYMENT DATES; INTEREST AND FEE BASIS; TAXES.

(a) **PROMISE TO PAY.** The Borrower unconditionally promises to pay when due the principal amount of each Advance and all other Obligations incurred by it, and to pay all unpaid interest accrued thereon, in accordance with the terms of this Agreement and the Note.

(b) **INTEREST PAYMENT DATE.**

(i) **INTEREST PAYABLE ON ADVANCES.** Interest accrued on each Advance shall be payable on each Payment Date, commencing with the first such date to occur after the date hereof and at maturity (whether by acceleration or otherwise). On each Payment Date, the Borrower shall pay interest at the Applicable Commercial Paper Rate on each Advance outstanding on such date.

(ii) **INTEREST ON OTHER OBLIGATIONS.** Interest accrued on the principal balance of all other Obligations shall be payable in arrears (i) on the last day of each calendar month, commencing on the first such day following the incurrence of such Obligation, (ii) upon repayment thereof in full or in part, and (iii) if not theretofore paid in full, at the time such other Obligation becomes due and payable (whether by acceleration or otherwise).

(c) **COMMITMENT FEES.** The Borrower shall pay to the Lender, from and after the date hereof until the date on which the Commitment shall be terminated in whole, a commitment fee equal to one-eighth of one percent (0.125%) per annum, on the amount by which (A) the Commitment in effect from time to time exceeds (B) the Revolving Credit Obligations in effect from time to time. All such commitment fees payable under this CLAUSE (C) shall be payable annually in arrears on each anniversary occurring after the Effective Date and, in addition, on the date on which the Commitment shall be terminated in whole.

(d) **INTEREST AND FEE BASIS.** Interest and fees shall be calculated for actual days elapsed on the basis of a 365 or when appropriate 366, day year. Interest shall be payable for the day an Obligation is incurred but not for the day of any payment on the amount paid if payment is received prior to 2:00 p.m. (Eastern Standard Time) at the place of payment. If any payment of principal of or interest on an Advance or any payment of any other Obligations shall become due on a day which is not a business day, such payment shall be made on the next succeeding business day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

2.10 TERMINATION DATE. This Agreement shall be effective until the Termination Date. Notwithstanding the termination of this Agreement on the Termination Date, until all of the Obligations (other than contingent indemnity obligations, but including all Floor Plan Indebtedness) shall have been fully and indefeasibly paid and satisfied and all financing arrangements between the Borrower and the Lender in connection with this Agreement shall have been terminated (other than with respect to Hedging Obligations), all of the rights and remedies under this Agreement and the other Loan Documents shall survive and the Lender shall be entitled to retain its security interest in and to all existing and future Collateral.

2.11 TAXES. (a) Any and all payments by the Borrower hereunder shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings or any liabilities with respect thereto including those arising after the date hereof as a result of the adoption of or any change in any law, treaty, rule, regulation, guideline or determination of a governmental authority or any change in the interpretation or application thereof by a governmental authority but excluding such taxes (including income taxes, franchise taxes and branch profit taxes) as are imposed on or measured by the Lender's income by the United States of America or any governmental authority of the jurisdiction under the laws of which the Lender is organized or having jurisdiction over the Lender by virtue of the Lender's location(s) (other than solely as a result of the transaction evidenced by this Agreement) (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings, and liabilities which the Lender determines to be applicable to this Agreement, the other Loan Documents, the Commitment or the Advances being hereinafter referred to as "TAXES"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under the other Loan Documents to the Lender, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this SECTION 2.11(A)) the Lender receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges, or similar levies which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement, the other Loan Documents, the Commitment or the Advances (hereinafter referred to as "OTHER TAXES").

(c) The Borrower indemnifies the Lender for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any governmental authority on amounts payable under this SECTION 2.11 paid by the Lender and any liability (including penalties, interest, and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within thirty (30) days after the date the Lender makes written demand therefor. A certificate as to any additional amount payable to the Lender under this

SECTION 2.11 submitted to the Borrower by the Lender shall show in reasonable detail the amount payable and the calculations used to determine such amount and shall, absent manifest error, be final, conclusive and binding upon each of the parties hereto. With respect to such deduction or withholding for or on account of any Taxes and to confirm that all such Taxes have been paid to the appropriate governmental authorities, the Borrower shall promptly (and in any event not later than thirty (30) days after receipt) furnish to the Lender such certificates, receipts and other documents as may be required (in the judgment of the Lender) to establish any tax credit to which the Lender may be entitled.

(d) Within thirty (30) days after the date of any payment of Taxes or Other Taxes by the Borrower, the Borrower shall furnish to the Lender the original or a certified copy of a receipt evidencing payment thereof.

(e) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in this SECTION 2.11 shall survive the payment in full of principal and interest hereunder and the termination of this Agreement.

2.12 LOAN ACCOUNT. The Lender shall maintain in accordance with its usual practice an account or accounts (a "LOAN ACCOUNT") evidencing the Obligations of the Borrower to the Lender owing to the Lender from time to time, including the amount of principal and interest payable and paid to the Lender from time to time hereunder and under the Note. The entries made in the Loan Account shall be conclusive and binding for all purposes, absent manifest error, unless the Borrower objects to information contained in the Loan Account within thirty (30) days of the Borrower's receipt of such information.

3. CONDITIONS PRECEDENT

3.1 CONDITIONS OF EFFECTIVENESS. The Effective Date of this Agreement shall be on the date on which all of the following conditions shall have been satisfied:

(a) no law, regulation, order, judgment or decree of any governmental authority shall, and the Lender shall not have received any notice that litigation is pending or threatened which is likely to, (A) enjoin, prohibit or restrain the making of an Advance hereunder or (B) impose or result in the imposition of a material adverse effect;

(b) all due diligence materials requested by the Lender from the Borrower shall have been delivered to the Lender and such due diligence materials shall be in form and substance reasonably satisfactory to the Lender;

(c) the Borrower has furnished to the Lender each of the following, all in form and substance satisfactory to the Lender:

(i) this Agreement, duly executed by the Borrower;

(ii) the Note, duly executed by the Borrower in favor of the Lender;

(iii) a Dealership Guaranty executed by each Lithia Dealership which has not heretofore provided a Dealership Guaranty to the Lender, it being understood that if such Lithia Dealership is an Unrestricted Dealership, such Dealership Guaranty will be substantially in the form of the Dealership Guaranty attached hereto as EXHIBIT C-1, and if such Lithia Dealership is a Restricted Dealership, such Dealership Guaranty will be substantially in the form of the Dealership Guaranty attached hereto as EXHIBIT C-2;

(iv) a Dealership Security Agreement executed by each Lithia Dealership which has not heretofore provided a Dealership Security Agreement to the Lender, it being understood that if such Lithia Dealership is an Unrestricted Dealership, such Dealership Security Agreement will be substantially in the form of the Dealership Security Agreement attached hereto as EXHIBIT D-1, and if such Lithia Dealership is a Restricted Dealership, such Dealership Security Agreement will be substantially in the form of the Dealership Security Agreement attached hereto as EXHIBIT D-2;

(v) to the extent any Lithia Dealership has any Indebtedness other than Permitted Existing Indebtedness, pay-out letters, releases and UCC-3 Termination Statements, where applicable, from all third-party creditors releasing all liens securing any such Indebtedness;

(vi) certificates of good standing for the Borrower and each of the Dealership Guarantors from its jurisdiction of incorporation and each other jurisdiction where the nature of its business requires it to be qualified as a foreign corporation;

(vii) a Secretary's Certificate from the Borrower and each Lithia Dealership acquired by the Borrower on or prior to the date hereof.

(viii) a certificate, in form and substance satisfactory to the Lender, signed by the chief financial officer of the Borrower stating that as of the Effective Date, no Event of Default or Unmatured Default has occurred and is continuing and setting forth the calculation of the Lithia Group's Scaled Assets as of the Effective Date, and the representations and warranties of the Borrower are true and correct with full force and effect as if made on the Effective Date;

(ix) a written opinion of the Borrower's and Dealership Guarantors' counsel, addressed to the Lender, in form and substance satisfactory to the Lender;

(x) to the extent not included in the foregoing, the documents, instruments and agreements set forth on the closing list attached as EXHIBIT E hereto; and

(xi) such other documents as the Lender or its counsel may have reasonably requested.

3.2 CONDITIONS PRECEDENT TO EACH ADVANCE. The Lender shall not be required to make any Advance, unless on the applicable Borrowing Date:

(i) There exists no Event of Default or Unmatured Default; and

(ii) The representations and warranties contained in ARTICLE IV are true and correct as of such Borrowing Date (unless such representation and warranty expressly relates to an earlier date or is no longer true solely as a result of transactions permitted by this Agreement).

Each Borrowing Notice with respect to each such Advance shall constitute a representation and warranty by the Borrower that the conditions contained in SECTIONS 3.2(I) and (II) have been satisfied. If the Lender has a reasonable basis for believing an Event of Default or Unmatured Default may have occurred and is continuing or that the Borrower is not able to make one or more of the

representations and warranties set forth in ARTICLE IV, the Lender may require a duly completed officer's certificate in substantially the form of EXHIBIT F hereto as a condition to making an Advance.

3.3 CONDITION PRECEDENT TO ADDITIONAL ADVANCE. Notwithstanding anything to the contrary in this Agreement, the Lender shall be under no obligation to make an Advance to the Borrower hereunder until and unless the following requirements shall have been satisfied:

(i) There shall exist no liens on the Collateral other than Permitted Existing Liens and those Permitted Existing Liens appearing on SCHEDULE 1.1.3 marked with an asterisk shall have been released and or terminated, and the Borrower shall have confirmed delivery of such releases, UCC-3 termination statements or other documentation reasonably requested by the Lender evidencing such release or termination;

(ii) The loss payable endorsements referenced in SECTION 5.2(G) shall have been delivered to the Lender.

4. REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants as follows to the Lender as of the date hereof and as of the Effective Date and thereafter on each date as required by SECTION 4.2:

4.1 ORGANIZATION; CORPORATE POWERS. The Borrower and each of its Subsidiaries (i) is a corporation, limited liability company or limited partnership duly organized, validly existing under the laws of the jurisdiction of its organization, (ii) is duly qualified to do business and is in good standing under the laws of each jurisdiction in which failure to be so qualified and in good standing could reasonably be expected to have a material adverse effect and (iii) has all requisite corporate, company or partnership power and authority to own, operate and encumber its property and to conduct its business as presently conducted and as proposed to be conducted.

4.2 AUTHORITY.

(a) The execution, delivery, performance and filing, as the case may be, of each of the Transaction Documents which must be executed or filed by the Borrower as required by this Agreement on or prior to the Effective Date and to which the Borrower or any of its Subsidiaries is party, and the consummation of the transactions contemplated thereby, have been duly approved by the respective boards of directors or managers, or by the partners, as applicable, and, if necessary, the shareholders, members or partners, as applicable, of the Borrower and its Subsidiaries, and such approvals have not been rescinded. No other corporate, company or partnership action or proceedings on the part of the Borrower or its Subsidiaries are necessary to consummate such transactions.

(b) Each of the Transaction Documents to which the Borrower or any of its Subsidiaries is a party has been duly executed, delivered or filed, as the case may be, by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, is in full force and effect and no material term or condition thereof has been amended, modified or waived without the prior written consent of the Lender, and the Borrower and its Subsidiaries have, and, to the best of the Borrower's and its Subsidiaries' knowledge, all other parties thereto have, performed and complied with all the material terms, provisions, agreements and conditions set forth therein and required to be performed or complied with by such parties on or before the date hereof, and no unmaturing default, default or breach of any material covenant by any such party exists thereunder.

4.3 NO CONFLICT; GOVERNMENTAL CONSENTS. The execution, delivery and performance of each of the Loan Documents and other Transaction Documents to which the Borrower or any of its Subsidiaries is a party do not and will not (i) conflict with the Charter Documents of the Borrower or

any such Subsidiary, (ii) constitute a tortious interference with any Contractual Obligation of any Person or conflict with, result in a breach of or constitute (with or without notice or lapse of time or both) a default under any requirement of law (including, without limitation, any Environmental Property Transfer Act) or Contractual Obligation of the Borrower or any such Subsidiary, or require termination of any Contractual Obligation, (iii) result in or require the creation or imposition of any lien whatsoever upon any of the property or assets of the Borrower or any such Subsidiary, other than liens permitted by the Loan Documents, or (iv) require any approval of the Borrower's or any such Subsidiary's shareholders except such as have been obtained. The execution, delivery and performance of each of the Transaction Documents to which the Borrower or any of its Subsidiaries is a party do not and will not require any registration with, consent or approval of, or notice to, or other action to, with or by any governmental authority, including under any Environmental Property Transfer Act, except (i) filings, consents or notices which have been made, obtained or given, or which, if not made, obtained or given, individually or in the aggregate could not reasonably be expected to have a material adverse effect and (ii) filings necessary to create or perfect security interests in the Collateral.

4.4 FINANCIAL STATEMENTS.

(a) FINANCIAL INFORMATION. All balance sheets, statements of profit and loss and other financial data that have been given to Lender by or on behalf of Borrower (the "Financial Information") are complete and correct in all material respects, accurately present the financial condition of Borrower as of the dates, and the results of its operations for the periods specified in the Financial Information, and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods covered thereby. Except as specifically disclosed, as to amount, (and if over \$500,000, as to creditor or debtor, amount and security) by the Financial Information, Borrower does not have outstanding any loan or indebtedness, direct or contingent, to any party, other than the indebtedness due and owing to Lender, and none of its assets is subject to any security interest, lien or other encumbrance in favor of anyone other than Lender (except for the Permitted Existing Liens and liens permitted under Section 5.3 (c) arising subsequent to the date of this Agreement). There has been no change in the assets, liabilities or financial condition of Borrower from that set forth in the Financial Information other than changes in the ordinary course of affairs, none of which changes has been materially adverse to Borrower.

4.5 TAXES.

(a) TAX EXAMINATIONS. All deficiencies which have been asserted against the Borrower or any of the Borrower's Subsidiaries as a result of any federal, state, local or foreign tax examination for each taxable year in respect of which an examination has been conducted have been fully paid or finally settled or are being contested in good faith, and as of the date hereof no issue has been raised by any taxing authority in any such examination which, by application of similar principles, can be expected to result in assertion by such taxing authority of a material deficiency for any other year not so examined which has not been reserved for in the Borrower's consolidated financial statements to the extent, if any, required by Agreement Accounting Principles.

(b) PAYMENT OF TAXES. All tax returns and reports of the Borrower and its Subsidiaries required to be filed have been timely filed, and all taxes, assessments, fees and other governmental charges thereupon and upon their respective property, assets, income and franchises which are shown in such returns or reports to be due and payable have been paid except those items which are being contested in good faith and have been reserved for in accordance with Agreement Accounting Principles or for which the failure to file could not be reasonably expected to result in the payment of amounts by the Borrower and its Subsidiaries in the aggregate in excess of \$250,000. The Borrower has no knowledge of any proposed tax assessment against the Borrower or any of its Subsidiaries that will have or could reasonably be expected to have a material adverse effect.

4.6 LITIGATION; LOSS CONTINGENCIES AND VIOLATIONS. There is no action, suit, proceeding, arbitration or investigation before or by any governmental authority or private arbitrator pending or

threatened against the Borrower or any of its Subsidiaries or any property of any of them (i) challenging the validity or the enforceability of any material provision of the Transaction Documents or (ii) which will have or could be expected to have a material adverse effect. There is no material loss contingency within the meaning of Agreement Accounting Principles which has not been reflected in the consolidated financial statements of the Borrower and its Subsidiaries prepared and delivered pursuant to SECTION 5.1(A) for the fiscal period during which such material loss contingency was incurred. Neither the Borrower nor any of its Subsidiaries is (A) in violation of any applicable requirements of law which violation will have or could be expected to have a material adverse effect, or (B) subject to or in default with respect to any final judgment, writ, injunction, restraining order or order of any nature, decree, rule or regulation of any court or governmental authority which will have or could be expected to have a material adverse effect.

4.7 SUBSIDIARIES. SCHEDULE 4.8 to this Agreement (i) contains a description as of the Effective Date (or as of the date of any supplement thereto) of the corporate structure of, the Borrower and its Subsidiaries and any other Person in which the Borrower or any of its Subsidiaries holds an Equity Interest; and (ii) accurately sets forth as of the Effective Date (or as of the date of any supplement thereto) (A) the correct legal name, the jurisdiction of incorporation or formation and the jurisdictions in which each of the Borrower and the Subsidiaries of the Borrower is qualified to transact business as a foreign corporation or other foreign entity and (B) a summary of the direct and indirect partnership, joint venture, or other Equity Interests, if any, of the Borrower and each Subsidiary of the Borrower in any Person that is not a corporation. After the formation or acquisition of any New Subsidiary permitted under SECTION 5.3(F)(II), if requested by the Lender, the Borrower shall provide a supplement to SCHEDULE 4.8 to this Agreement. None of the issued and outstanding Capital Stock of the Borrower or any of its Subsidiaries is subject to any redemption or repurchase agreement. The outstanding Capital Stock of the Borrower and each of the Borrower's Subsidiaries is duly authorized, validly issued, fully paid and nonassessable and, is not (other than Capital Stock of Borrower) Margin Stock. The Borrower has no Subsidiaries other

(i) the Subsidiaries set forth on SCHEDULE 4.8 and (ii) any Subsidiaries acquired in connection with a Permitted Acquisition, in connection with which the Borrower shall have provided all of the documents, instruments and agreements as required by this Agreement.

4.8 ERISA. No Benefit Plan has incurred any accumulated funding deficiency (as defined in Sections 302(a)(2) of ERISA and 412(a) of the Code) whether or not waived. Neither the Borrower nor any member of the Controlled Group has incurred any liability to the PBGC which remains outstanding other than the payment of premiums, and there are no premium payments which have become due which are unpaid. Schedule B to the most recent annual report filed with the IRS with respect to each Benefit Plan and, if so requested, furnished to the Lender, is complete and accurate. Since the date of each such Schedule B, there has been no material adverse change in the funding status or financial condition of the Benefit Plan relating to such Schedule B. Neither the Borrower nor any member of the Controlled Group has (i) failed to make a required contribution or payment to a Multiemployer Plan or (ii) made a complete or partial withdrawal under Sections 4203 or 4205 of ERISA from a Multiemployer Plan, in either event which could result in any liability. Neither the Borrower nor any member of the Controlled Group has failed to make a required installment or any other required payment under Section 412 of the Code, in either case involving any material amount, on or before the due date for such installment or other payment. Neither the Borrower nor any member of the Controlled Group is required to provide security to a Benefit Plan under Section 401(a)(29) of the Code due to a Plan amendment that results in an increase in current liability for the plan year. Neither the Borrower nor any of its Subsidiaries maintains or contributes to any employee welfare benefit plan within the meaning of

Section 3(1) of ERISA which provides benefits to employees after termination of employment other than as required by Section 601 of ERISA. To the best of Borrower's knowledge, each Plan which is intended to be qualified under Section 401(a) of the Code as currently in effect is so qualified, and each trust related to any such Plan is exempt from federal income tax under Section 501(a) of the Code as currently in effect. To the best of Borrower's knowledge, the Borrower and all Subsidiaries are in compliance in all respects with the

responsibilities, obligations and duties imposed on them by ERISA and the Code with respect to all Plans. To the best of Borrower's knowledge, neither the Borrower nor any of its Subsidiaries nor any fiduciary of any Plan has engaged in a nonexempt prohibited transaction described in Sections 406 of ERISA or 4975 of the Code which could be expected to subject the Borrower or any Dealership Guarantor to material liability. Neither the Borrower nor any member of the Controlled Group has taken or failed to take any action which would constitute or result in a Termination Event, which action or inaction could be expected to subject the Borrower to liability. Neither the Borrower nor any Subsidiary is subject to any liability under Sections 4063, 4064, 4069, 4204 or 4212(c) of ERISA and no other member of the Controlled Group is subject to any liability under Sections 4063, 4064, 4069, 4204 or 4212(c) of ERISA which could be expected to subject the Borrower or any Dealership Guarantor to liability. Neither the Borrower nor any of its Subsidiaries has, by reason of the transactions contemplated hereby, any obligation to make any payment to any employee pursuant to any Plan or existing contract or arrangement. (For purposes of this SECTION 4.9 "material" means any noncompliance or basis for liability which could reasonably be likely to subject the Borrower or any of its Subsidiaries to liability individually or in the aggregate for all such matters in excess of \$250,000.)

4.9 ACCURACY OF INFORMATION. The information, exhibits and reports furnished by or on behalf of the Borrower and any of its Subsidiaries to the Lender in connection with the negotiation of, or compliance with, the Loan Documents, the representations and warranties of the Borrower and its Subsidiaries contained in the Transaction Documents, and all certificates and documents delivered to the Lender pursuant to the terms thereof, taken as a whole, do not contain as of the date furnished any untrue statement of fact or omit to state a fact necessary in order to make the statements contained herein or therein, taken as a whole, in light of the circumstances under which they were made, not misleading.

4.10 SECURITIES ACTIVITIES. Neither the Borrower nor any of its Subsidiaries is engaged in the business of extending credit for the purpose of purchasing or carrying Margin Stock.

4.11 MATERIAL AGREEMENTS. Neither the Borrower nor any of its Subsidiaries is a party to any Contractual Obligation or subject to any charter or other corporate restriction which individually or in the aggregate will have or could be expected to have a material adverse effect. Neither the Borrower nor any of its Subsidiaries has received notice or has knowledge that (i) it is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any Contractual Obligation applicable to it, or (ii) any condition exists which, with the giving of notice or the lapse of time or both, would constitute a default with respect to any such Contractual Obligation, in each case, except where such default or defaults, if any, individually or in the aggregate will not have or could not reasonably be expected to have a material adverse effect.

4.12 COMPLIANCE WITH LAWS; COMPLIANCE WITH FRANCHISE AGREEMENTS. The Borrower and its Subsidiaries are in compliance with all requirements of law applicable to them and their respective businesses, in each case where the failure to so comply individually or in the aggregate could be expected to have a material adverse effect. The execution, delivery and performance by each Lithia Dealership of any Loan Document to which it is a party does not and will not conflict with the franchise agreement to which it is a party. Each Lithia Dealership is operating under a valid and enforceable franchise agreement, which such franchise agreements prohibit certain transfers of ownership or control without the consent of the manufacturer.

4.13 ASSETS AND PROPERTIES. The Borrower and each of its Subsidiaries has good and marketable title to all of its assets and properties (tangible and intangible, real or personal) owned by it or a valid leasehold interest in all of its leased assets (except insofar as marketability may be limited by any laws or regulations of any governmental authority affecting such assets), except where the failure to have any such title will not have or could not be expected to have a material adverse effect, and all such assets and property are free and clear of all liens, except liens permitted under SECTION 5.3(C). Substantially all of the assets and properties owned by, leased to or used by the Borrower

and/or each such Subsidiary of the Borrower are in adequate operating condition and repair, ordinary wear and tear excepted. Neither this Agreement nor any other Transaction Document, nor any transaction contemplated under any such agreement, will affect any right, title or interest of the Borrower or such Subsidiary in and to any of its assets in a manner that will have or could reasonably be expected to have a material adverse effect.

4.14 STATUTORY INDEBTEDNESS RESTRICTIONS. Neither the Borrower nor any of its Subsidiaries is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act, or the Investment Company Act of 1940, or any other federal, state or local statute, ordinance or regulation which limits its ability to incur indebtedness or its ability to consummate the transactions contemplated hereby.

4.15 INSURANCE. The Borrower's and its Subsidiaries' insurance policies and programs reflect coverage that is reasonably consistent with prudent industry practice.

4.16 LABOR MATTERS. As of the date hereof, to the Borrower's and its Subsidiaries' knowledge, there are no labor disputes to which the Borrower or any of its Subsidiaries may become a party, including, without limitation, any strikes, lockouts or other disputes relating to such Persons' plants and other facilities.

4.17 ENVIRONMENTAL MATTERS. (a)(i) The operations of the Borrower's Subsidiaries, Lithia Financial Corporation, Lithia Real Estate, Inc. (collectively, the "Lithia Subsidiaries") and Borrower comply in all respects with Environmental, Health or Safety Requirements of Law;

(ii) the Borrower and the Lithia Subsidiaries have all permits, licenses or other authorizations required under Environmental, Health or Safety Requirements of Law and are in compliance with such permits;

(iii) neither the Borrower, any of the Lithia Subsidiaries nor any of their respective present property or operations, or any of their respective past property or operations, are subject to or the subject of, any investigation known to the Borrower or any of the Lithia Subsidiaries, any judicial or administrative proceeding, order, judgment, decree, settlement or other agreement respecting: (A) any violation of Environmental, Health or Safety Requirements of Law; (B) any remedial action under any Environmental, Health or Safety Requirements of Law; or (C) any claims or liabilities arising from the Release or threatened Release of a Contaminant into the environment;

(iv) there is not now, nor has there ever been on or in the property of the Borrower or any of the Lithia Subsidiaries any landfill, waste pile, underground storage tanks, aboveground storage tanks, surface impoundment or hazardous waste storage facility of any kind, any polychlorinated biphenyls (PCBs) used in hydraulic oils, electric transformers or other equipment, or any asbestos containing material that in the case of any of the foregoing could be expected to result in any claims or liabilities in excess of \$500,000.00; and

(v) neither the Borrower nor any of the Lithia Subsidiaries has any Contingent Obligation in connection with any Release or threatened Release of a Contaminant into the environment.

4.18 BENEFITS. Each of the Borrower and its Subsidiaries will benefit from the financing arrangement established by this Agreement. The Lender has stated and the Borrower acknowledges that, but for the agreement by each of the Dealership Guarantors to execute and deliver its respective Dealership Guaranty and Dealership Security Agreements, the Lender would not have made available the credit facilities established hereby on the terms set forth herein.

5. COVENANTS

The Borrower covenants and agrees that so long as any Commitment is outstanding and thereafter until payment in full of all of the Obligations (other than contingent indemnity obligations, but including Floor Plan Indebtedness), unless the Lender shall otherwise give its prior written consent:

5.1 REPORTING. The Borrower shall:

(a) FINANCIAL REPORTING. Furnish to the Lender:

(i) QUARTERLY REPORTS. As soon as practicable, and in any event within forty-five (45) days after the end of each fiscal quarter in each fiscal quarter, the consolidated and consolidating balance sheet of the Borrower and the Lithia Subsidiaries as at the end of such period and the related consolidated and consolidating statements of income and cash flows of the Borrower and the Lithia Subsidiaries for such fiscal quarter and for the period from the beginning of the then current fiscal year to the end of such fiscal quarter, certified by the chief financial officer of the Borrower on behalf of the Borrower as fairly presenting the consolidated and consolidating financial position of the Borrower and the Lithia Subsidiaries as at the dates indicated and the results of their operations and cash flows for the periods indicated in accordance with Agreement Accounting Principles, subject to normal year end adjustments.

(ii) ANNUAL REPORTS. As soon as practicable, and in any event within ninety (90) days after the end of each fiscal year, (a) the consolidated and consolidating balance sheet of the Borrower and the Lithia Subsidiaries as at the end of such fiscal year and the related consolidated and consolidating statements of income, stockholders' equity and cash flows of the Borrower and the Lithia Subsidiaries for such fiscal year, and in comparative form the corresponding figures for the previous fiscal year and (b) an audit report on the items listed in CLAUSE (A) hereof (other than the consolidating statements) of independent certified public accountants of recognized national standing, which audit report shall be unqualified and shall state that such financial statements fairly present the consolidated financial position of the Borrower and the Lithia Subsidiaries as at the dates indicated and the results of their operations and cash flows for the periods indicated in conformity with Agreement Accounting Principles and that the examination by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards. The deliveries made pursuant to this CLAUSE (II) shall be accompanied by any management letter prepared by the above-referenced accountants.

(iii) MONTHLY STATEMENTS. As soon as practicable, and in any event by the 25th day of each following month certified copies of direct (factory) statements provided to a manufacturer by any Lithia Dealership.

(iv) OFFICER'S CERTIFICATE. Together with each delivery of any financial statement pursuant to CLAUSES (I) and (II) of this SECTION 5.1(A), an Officer's Certificate of the Borrower, substantially in the form of EXHIBIT F attached hereto and made a part hereof, stating that no Event of Default or Unmatured Default exists, or if any Event of Default or Unmatured Default exists, stating the nature and status thereof and setting forth (X) such financial statements and information as shall be reasonably acceptable to the Lender and (Y) a valuation of the Collateral.

(b) NOTICE OF EVENT OF DEFAULT. Promptly upon any of the chief executive officer, president, chief financial officer, treasurer of the Borrower or any of the Lithia Subsidiaries obtaining knowledge (i) of any condition or event which constitutes an Event of Default or Unmatured Default, or (ii) that any Person has given any written notice to the Borrower or any Lithia Subsidiary of the Borrower or taken any other action with respect to a claimed default or event or condition of the type referred to in

SECTION 6.1(E), deliver to the Lender a notice specifying (a) the nature and period of existence of any such claimed default, Event of Default, Unmatured Default, condition or event, (b) the notice given or action taken by such Person in connection therewith, and (c) what action the Borrower has taken, is taking and proposes to take with respect thereto.

(c) LAWSUITS. (i) Promptly upon the Borrower obtaining knowledge of the institution of, or written threat of, any action, suit, proceeding, governmental investigation or arbitration against or affecting the Borrower or any of the Lithia Subsidiaries or any property of the Borrower or any of the Lithia Subsidiaries, which action, suit, proceeding, governmental investigation or arbitration exposes, or in the case of multiple actions, suits, proceedings, governmental investigations or arbitrations arising out of the same general allegations or circumstances which expose, in the Borrower's reasonable judgment, the Borrower or any of the Lithia Subsidiaries to liability in an amount aggregating \$500,000 or more, give written notice thereof to the Lender and provide such other information as may be reasonably available to enable the Lender and its counsel to evaluate such matters; and (ii) in addition to the requirements set forth in CLAUSE (I) of this SECTION 5.1(C), upon request of the Lender, promptly give written notice of the status of any action, suit, proceeding, governmental investigation or arbitration covered by a report delivered pursuant to CLAUSE (I) above or disclosed in any filing with the Commission and provide such other information as may be available to it that would not violate any attorney-client privilege by disclosure to the Lender to enable the Lender and its counsel to evaluate such matters.

(d) ERISA NOTICES. Deliver or cause to be delivered to the Lender, at the Borrower's expense, the following information and notices as soon as possible, and in any event:

(i) (a) within ten (10) business days after the Borrower obtains knowledge that a Termination Event has occurred, a written statement of the chief financial officer of the Borrower describing such Termination Event and the action, if any, which the Borrower has taken, is taking or proposes to take with respect thereto, and when known, any action taken or threatened by the IRS, DOL or PBGC with respect thereto and (b) within ten (10) business days after any member of the Controlled Group obtains knowledge that a Termination Event has occurred which could reasonably be expected to subject the Borrower or any member of the Controlled Group to liability individually or in the aggregate in excess of \$250,000, a written statement of the chief financial officer of the Borrower describing such Termination Event and the action, if any, which the member of the Controlled Group has taken, is taking or proposes to take with respect thereto, and when known, any action taken or threatened by the IRS, DOL or PBGC with respect thereto;

(ii) within ten (10) business days after the Borrower or any of the Lithia Subsidiaries obtains knowledge that a prohibited transaction (defined in Sections 406 of ERISA and Section 4975 of the Code) has occurred, a statement of the chief financial officer of the Borrower describing such transaction and the action which the Borrower or such Lithia Subsidiary has taken, is taking or proposes to take with respect thereto;

(iii) within ten (10) business days after the Borrower or any of the Lithia Subsidiaries receives notice of any unfavorable determination letter from the IRS regarding the qualification of a Plan under Section 401(a) of the Code, copies of each such letter;

(iv) within ten (10) business days after the filing thereof with the IRS, a copy of each funding waiver request filed with respect to any Benefit Plan and all communications received by the Borrower or a member of the Controlled Group with respect to such request;

(v) within ten (10) business days after receipt by the Borrower or any member of the Controlled Group of the PBGC's intention to terminate a Benefit Plan or to have a trustee appointed to administer a Benefit Plan, copies of each such notice;

(vi) within ten (10) business days after receipt by the Borrower or any member of the Controlled Group of a notice from a Multi-employer Plan regarding the imposition of withdrawal liability, copies of each such notice;

(vii) within ten (10) business days after the Borrower or any member of the Controlled Group fails to make a required installment or any other required payment under Section 412 of the Code on or before the due date for such installment or payment, a notification of such failure; and

(viii) within ten (10) business days after the Borrower or any member of the Controlled Group knows or has reason to know that (a) a Multi-employer Plan has been terminated, (b) the administrator or plan sponsor of a Multi-employer Plan intends to terminate a Multi-employer Plan, or (c) the PBGC has instituted or will institute proceedings under Section 4042 of ERISA to terminate a Multi-employer Plan.

For purposes of this SECTION 5.1(D), the Borrower, any of its Subsidiaries and any member of the Controlled Group shall be deemed to know all facts known by the Administrator of any Plan of which the Borrower or any member of the Controlled Group or such Subsidiary is the plan sponsor.

(e) LABOR MATTERS. Notify the Lender in writing, promptly upon the Borrower's learning thereof, of (i) any labor dispute to which the Borrower or any of its Subsidiaries may become a party, including, without limitation, any strikes, lockouts or other disputes relating to such Persons' plants and other facilities and (ii) any liability incurred under the Worker Adjustment and Retraining Notification Act with respect to the closing of any plant or other facility of the Borrower or any of its Subsidiaries.

(f) OTHER INDEBTEDNESS. Deliver to the Lender (i) a copy of each notice or communication regarding potential or actual defaults (including any accompanying officer's certificate) delivered by or on behalf of the Borrower or any of its Subsidiaries to the holders of funded Indebtedness pursuant to the terms of the agreements governing such Indebtedness, such delivery to be made at the same time and by the same means as such notice or other communication is delivered to such holders, and (ii) a copy of each notice or other communication regarding potential or actual defaults received by the Borrower or any of its Subsidiaries from the holders of funded Indebtedness pursuant to the terms of such Indebtedness, such delivery to be made promptly after such notice or other communication is received by the Borrower or any such Subsidiary.

(g) OTHER REPORTS. Deliver or cause to be delivered to the Lender copies of all financial statements, reports and notices, if any, sent or made available generally by the Borrower to its securities holders or filed with the Commission by the Borrower, all press releases made available generally by the Borrower or any of the Borrower's Subsidiaries to the public concerning developments in the business of the Borrower or any such Subsidiary and all notifications received from the Commission by the Borrower or its Subsidiaries pursuant to the Securities Exchange Act of 1934 and the rules promulgated thereunder (other than customary comment letters received in connection with registration statements or other routine communications between the Commission and the Borrower).

(h) ENVIRONMENTAL NOTICES. As soon as possible and in any event within ten (10) days after receipt by the Borrower or any of its Subsidiaries, a copy of (i) any notice or claim to the effect that the Borrower or any of its Subsidiaries is or may be liable to any Person as a result of the Release by the Borrower, any of its Subsidiaries, or any other Person of any Contaminant into the environment, and (ii) any notice alleging any violation of any Environmental, Health or Safety Requirements of Law by the Borrower or any of its Subsidiaries if, in either case, such notice or claim relates to an event which

could reasonably be expected to subject the Borrower or any Subsidiary to liability individually or in the aggregate in excess of \$500,000.

(i) OTHER INFORMATION. Promptly upon receiving a request therefor from the Lender, prepare and deliver to the Lender such other information with respect to the Borrower, any of its Subsidiaries, or the Collateral, including, without limitation, schedules identifying and describing the Collateral and any dispositions thereof, as from time to time may be reasonably requested by the Lender.

5.2 AFFIRMATIVE COVENANTS.

(a) EXISTENCE, ETC. Except for mergers permitted pursuant to SECTION 5.3(H), the Borrower shall, and shall cause each of its Subsidiaries to, at all times maintain its corporate, company or partnership existence, as applicable, and preserve and keep, or cause to be preserved and kept, in full force and effect its rights and franchises material to its businesses.

(b) POWERS; CONDUCT OF BUSINESS. The Borrower shall, and shall cause each of its Subsidiaries to, qualify and remain qualified to do business in each jurisdiction in which the nature of its business requires it to be so qualified and where the failure to be so qualified will have or could reasonably be expected to have a material adverse effect. The Borrower will, and will cause each Subsidiary to, carry on and conduct its business in substantially the same manner and in substantially the same fields of enterprise as it is presently conducted.

(c) COMPLIANCE WITH LAWS, ETC. The Borrower shall, and shall cause its Subsidiaries to, (a) comply with all requirements of law and all restrictive covenants affecting such Person or the business, properties, assets or operations of such Person, and (b) obtain as needed all permits necessary for its operations and maintain such permits in good standing, unless failure to comply or obtain could not be expected to have a material adverse effect.

(d) PAYMENT OF TAXES AND CLAIMS; TAX CONSOLIDATION. The Borrower shall pay, and cause each Lithia Subsidiaries to pay, (i) all taxes, assessments and other governmental charges imposed upon it or on any of its properties or assets or in respect of any of its franchises, business, income or property before any penalty or interest accrues thereon, and (ii) all claims (including, without limitation, claims for labor, services, materials and supplies) for sums which have become due and payable and which by law have or may become a lien (other than a lien permitted by SECTION 5.3(C)) upon any of the Borrower's or such Lithia Subsidiary's property or assets, prior to the time when any penalty or fine shall be incurred with respect thereto; PROVIDED, HOWEVER, that no such taxes, assessments and governmental charges referred to in CLAUSE (I) above or claims referred to in CLAUSE (II) above (and interest, penalties or fines relating thereto) need be paid if being contested in good faith by appropriate proceedings diligently instituted and conducted and if such reserve or other appropriate provision, if any, as shall be required in conformity with Agreement Accounting Principles shall have been made therefor. The Borrower will not, nor will it permit any of the Lithia Subsidiaries to, file or consent to the filing of any consolidated income tax return with any other Person other than the consolidated return of the Borrower.

(e) INSURANCE. The Borrower shall maintain for itself and the Lithia Subsidiaries, or shall cause each of the Lithia Subsidiaries to maintain in full force and effect, insurance policies and programs reflecting coverage that is reasonably consistent with prudent industry practice.

(f) INSPECTION OF PROPERTY; BOOKS AND RECORDS; DISCUSSIONS. The Borrower shall permit and cause each of the Borrower's Lithia Subsidiaries to permit, any authorized representative(s) designated by the Lender to visit and inspect any of the properties of the Borrower or any of the Lithia Subsidiaries, to examine, audit, check and make copies of their respective financial and accounting records, books, journals, orders, receipts and any correspondence and other data relating to their respective businesses or the transactions contemplated hereby or by the Acquisitions (including,

without limitation, in connection with environmental compliance, hazard or liability), and to discuss their affairs, finances and accounts with their officers and independent certified public accountants, all upon notice and at such times during normal business hours, as often as may be requested; PROVIDED, that while no Event of Default exists, all of the foregoing shall be at the expense of the Lender. The Borrower shall keep and maintain, and cause each of the Borrower's Lithia Subsidiaries to keep and maintain, in all respects, proper books of record and account in which entries in conformity with Agreement Accounting Principles shall be made of all dealings and transactions in relation to their respective businesses and activities, including, without limitation, transactions and other dealings with respect to the Collateral. If an Event of Default has occurred and is continuing, the Borrower, upon the Lender's request, shall turn over any such records to the Lender or its representatives. Neither Borrower nor any Lithia Subsidiary shall be required to violate any attorney-client privileged by disclosure to Lender.

(g) **INSURANCE AND CONDEMNATION PROCEEDS.** The Borrower directs (and, if applicable, shall cause its Subsidiaries to direct) all insurers under policies of property damage, boiler and machinery and business interruption insurance and payors of any condemnation claim or award relating to the property to pay all proceeds payable under such policies or with respect to such claim or award for any loss with respect to the Collateral directly to the Lender; PROVIDED, HOWEVER, in the event that such proceeds or award are less than \$250,000 ("EXCLUDED PROCEEDS"), unless an Event of Default shall have occurred and be continuing, the Lender shall remit such Excluded Proceeds to the Borrower or Subsidiary, as applicable. Each such policy shall contain a long-form loss-payable endorsement naming the Lender as loss payee, which endorsement shall be in form and substance reasonably acceptable to the Lender. The Lender shall, upon receipt of such proceeds (other than Excluded Proceeds) and at the Borrower's direction, either apply the same to the principal amount of the Advances outstanding at the time of such receipt and create a corresponding reserve against the Commitment in an amount equal to such application (the "DECISION RESERVE") or hold them as cash collateral for the Obligations in an interest bearing account. For up to 150 days from the date of any loss (the "DECISION PERIOD"), the Borrower may notify the Lender that it intends to restore, rebuild or replace the property subject to any insurance payment or condemnation award and shall, as soon as practicable thereafter, provide the Lender detailed information, including a construction schedule and cost estimates. Should an Event of Default occur at any time during the Decision Period, should the Borrower notify the Lender that it has decided not to rebuild or replace such property during the Decision Period, or should the Borrower fail to notify the Lender of the Borrower's decision during the Decision Period, then the amounts held as cash collateral pursuant to this SECTION 5.2(G) or as the Decision Reserve shall be applied as a mandatory prepayment of the Advances pursuant to SECTION 2.2(B). Proceeds held as cash collateral pursuant to this SECTION 5.2(G) or constituting the Decision Reserve shall be disbursed as payments for restoration, rebuilding or replacement of such property become due; PROVIDED, HOWEVER, should an Event of Default occur after the Borrower has notified the Lender that it intends to rebuild or replace the property, the Decision Reserve or amounts held as cash collateral shall be applied as a mandatory prepayment of the Advances pursuant to SECTION 2.2(B). In the event the Decision Reserve is to be applied as a mandatory prepayment to the Advances, the Borrower shall be deemed to have requested Advances in an amount equal to the Decision Reserve, and such Advances shall be made regardless of any failure of the Borrower to meet the conditions precedent set forth in ARTICLE III. Upon completion of the restoration, rebuilding or replacement of such property, the unused proceeds shall constitute net cash proceeds of an Asset Sale and shall be applied as a mandatory prepayment of the Advances pursuant to SECTION 2.2(B).

(h) **ERISA COMPLIANCE.** The Borrower shall, and shall cause each of the Borrower's Subsidiaries to, establish, maintain and operate all Plans, if any, to comply in all material respects with the provisions of ERISA, the Code, all other applicable laws, and the regulations and interpretations thereunder and the respective requirements of the governing documents for such Plans, except where the failure to comply will not or could not reasonably be expected to subject the Borrower and its Subsidiaries to liability individually or in the aggregate in excess of \$250,000.

(i) MAINTENANCE OF PROPERTY. The Borrower shall cause all property used or useful in the conduct of its business or the business of any Lithia Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Borrower may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; PROVIDED, HOWEVER, that nothing in this SECTION 5.2(I) shall prevent the Borrower from discontinuing the operation or maintenance of any of such property if such discontinuance is, in the judgment of the Borrower, desirable in the conduct of its business or the business of any Lithia Subsidiary and not disadvantageous in any material respect to the Lender.

(j) ENVIRONMENTAL COMPLIANCE. The Borrower and the Lithia Subsidiaries shall comply with all Environmental, Health or Safety requirements of law, except where noncompliance could not be expected to subject the Borrower and the Lithia Subsidiaries to liability individually or in the aggregate in excess of \$500,000. Neither the Borrower nor any of the Lithia Subsidiaries shall be the subject of any proceeding or investigation pertaining to (i) the Release by the Borrower or any of the Lithia Subsidiaries of any Contaminant into the environment or (ii) the liability of the Borrower or any of the Lithia Subsidiaries arising from the Release by any other Person of any Contaminant into the environment, which, in either case, subjects or is likely to subject the Borrower and the Lithia Subsidiaries individually or in the aggregate to liability in excess of the amount set forth above.

(k) USE OF PROCEEDS. The Borrower shall use the proceeds of the Advances to fund Permitted Acquisitions or for any other purpose related to Borrower's or Dealership Guarantor's business ("Working Capital Funds"), provided, however, that the aggregate amount of Advances outstanding at any given time as Working Capital Funds shall not exceed one hundred percent (100%) of the Scaled Assets value (as determined by Lender) . The proceeds of Advances hereunder may not be used to make any mandatory prepayment under SECTION 2.2(B). The Borrower will not nor will it permit any Subsidiary to, use any of the proceeds of the Loans to purchase or carry any Margin Stock or to make any Acquisition, other than any Permitted Acquisition pursuant to SECTION 5.3(F).

(l) ADDITION OF DEALERSHIP GUARANTORS. The Borrower shall cause each Lithia Dealership which has not heretofore provided a Dealership Guaranty to the Lender, to deliver to the Lender a Dealership Guaranty, in the form of Exhibit C-1, a Dealership Security Agreement in the form of Exhibit D-1, UCC-1 Financing Statements and an acknowledgment to be bound by the Contribution Agreement, together with appropriate corporate resolutions, opinions and other documentation in form and substance reasonably satisfactory to the Lender. Each Lithia Dealership shall provide such Dealership Guaranty and Collateral Documents prior to or simultaneously with its Acquisition.

(m) FUTURE LIENS ON REAL PROPERTY. The Borrower shall, and shall cause each of its Subsidiaries that is required to guarantee the Obligations and Lithia Financial Corporation and Lithia Real Estate, Inc., to deliver to Lender, immediately upon its acquisition or leasing of any real property after the date hereof, copies of any mortgage, deed of trust, collateral assignment or other appropriate instrument evidencing a lien upon any such acquired property that would be other than a Customary Permitted Lien if the real property were included in the Collateral (in the case of any acquisition of real property), or copies of a lease (in the case of a real property lease) and the Borrower or the applicable Subsidiary, as the case may be, shall use their best efforts provide the Lender with such opinions, landlord and mortgagee waivers as the Lender shall have reasonably requested in connection with such acquisition or leasing of real property, only if the term of such lease (without regard to any extension thereof at then current market rent) is more than five years or (ii) such lease has a material value by reason of a purchase option, below-market rent or otherwise.

(n) FRANCHISE AGREEMENTS. The Borrower shall use its best efforts to obtain waivers under existing and future franchise agreements on terms and conditions acceptable to the Lender sufficient to permit the security interests and liens contemplated hereunder. To the extent any franchise

agreement materially limits the security interests and liens contemplated hereunder or under any Collateral Document, the Borrower shall notify the Lender of such restriction or limitation and to the extent such franchise agreement relates to an Acquisition to be effected by the Borrower, prior to such Acquisition becoming a Permitted Acquisition, the Lender shall have provided its written approval of such franchise agreement.

(o) **MINORITY HOLDERS.** Borrower shall cause any minority holder holding an Equity Interest in a Subsidiary pursuant to a Majority Acquisition to pledge its Equity Interest to Lender in connection with said Permitted Acquisition (provided, however, that Phillip Camp shall not be required to pledge his 20% equity interest in Lithia VS, L.L.C.).

5.3 NEGATIVE COVENANTS.

(a) **INDEBTEDNESS.** Neither the Borrower nor any of its Subsidiaries shall directly or indirectly create, incur, assume or otherwise become or remain directly or indirectly liable with respect to any Indebtedness, except:

(i) the Obligations;

(ii) Permitted Existing Indebtedness and Permitted Refinancing Indebtedness;

(iii) Indebtedness in respect of obligations secured by Customary Permitted Liens;

(iv) Indebtedness constituting Contingent Obligations in respect of Indebtedness otherwise permitted hereunder;

(v) Indebtedness arising from intercompany loans from the Borrower to any Dealership Guarantor or from any Subsidiary to the Borrower or any Dealership Guarantor; PROVIDED that in each case such Indebtedness is subordinated upon terms satisfactory to the Lender to the obligations of the Borrower and its Subsidiaries with respect to the Obligations;

(vi) Guaranties by the Borrower of Indebtedness permitted to be incurred by any Subsidiary;

(vii) Indebtedness with respect to surety, appeal and performance bonds obtained by the Borrower or any of its Subsidiaries in the ordinary course of business;

(viii) Indebtedness arising under the Borrower Guaranty or any Dealership Guaranty;

(ix) Indebtedness (evidenced by a promissory note or notes) constituting that portion of the deferred purchase price payable by the Borrower in connection with a Permitted Acquisition, and Indebtedness (evidenced by a promissory note or notes) to shareholders, members or partners of a Subsidiary or a predecessor of such a subsidiary acquired in a Permitted Acquisition that are credited against the purchase price (the "Seller's Notes");

(x) Other Floor Plan Indebtedness;

(xi) Indebtedness incurred in connection with Capital Expenditures; and renewals and refinancings thereof;

(xii) Guaranties by Borrower of operating leases of Subsidiaries, including but not limited to leases of real property;

(xiii) Guaranties by Borrower of Indebtedness incurred by Lithia Financial Corporation and Lithia Real Estate, Inc.;

(xiv) Indebtedness of a dealership Subsidiary acquired in a Permitted Acquisition, including but not limited to:

- (a) recourse liability to purchasers of automobile chattel paper retail leases; and
- (b) Indebtedness to lenders providing wholesale lease financing.

(xv) Indebtedness not in excess of \$250,000 in connection with the liens set forth in Section 5.3(C)(v).

(b) SALES OF ASSETS. Neither the Borrower nor any of its Subsidiaries shall sell, assign, transfer, lease, convey or otherwise dispose of any property (including the Capital Stock of any Subsidiary), whether now owned or hereafter acquired, or any income or profits therefrom, or enter into any agreement to do so, except:

(i) sales of inventory in the ordinary course of business (and sales of automotive chattel paper and leases generated thereby);

(ii) the disposition in the ordinary course of business of equipment that is obsolete, excess or no longer useful in the Borrower's or its Subsidiaries' business;

(iii) transfers by a Dealership Guarantor to Lithia Financial Corporation of equipment, fixtures and vehicles to be leased by Lithia Financial Corporation to a Dealership Guarantor;

(iv) transfers by a Dealership Guarantor to Lithia Real Estate, Inc. of real property to be leased by Lithia Real Estate, Inc. to a Dealership Guarantor; and

(v) sales, assignments, transfers, leases, conveyances or other dispositions of other assets (including sales of Capital Stock of a Subsidiary) if such transaction (a) is for all cash consideration, (b) is for not less than Fair Value, (c) when combined with all such other transactions (each such transaction being valued at book value) (i) during the immediately preceding twelve-month period, represents the disposition of not greater than \$250,000, and

(ii) during the period from the date hereof to the date of such proposed transaction, represents the disposition of not greater than \$500,000 and (d) if a sale by the Borrower of Capital Stock in any Subsidiary, except as provided in subclause (c) above, the Borrower shall continue to own, of record and beneficially, with sole voting and dispositive power, 100% (unless required by the Subsidiary's franchise agreement to be less, in which event at least 80%) of the outstanding shares of Capital Stock of any such Subsidiary.

(c) LIENS. Neither the Borrower nor any of its Subsidiaries shall directly or indirectly create, incur, assume or permit to exist any Lien on or with respect to any of their respective property or assets, except:

(i) Permitted Existing Liens;

(ii) Customary Permitted Liens;

(iii) Liens securing the Obligations;

(iv) Liens securing the Indebtedness described in Section

(a)(ix), provided the amount of such liens shall not at any time exceed \$10,000,000;

(v) liens, for the purpose of securing Indebtedness described in Section 5.3 (a)(xiv) above, in chattel paper, vehicle leases to retail customers, the vehicles sold or leased thereunder, returns or repossessions of such vehicles, and proceeds of such collateral;

(vi) liens of General Motors Acceptance Corporation ("GMAC") in present and future contracts held by GMAC (in the case of a Lithia Dealership that sells chattel paper to GMAC);

(vii) liens of wholesalers or refiners of oil or other petroleum products in equipment supplied to Borrower or a Subsidiary in connection with contracts to supply such products;

(viii) liens securing the Other Floor Plan Indebtedness; and

(ix) Liens (other than on the stock of any Subsidiaries) securing other obligations not exceeding \$250,000 in the aggregate at any time outstanding.

In addition, neither the Borrower nor any of its Subsidiaries shall become a party to any agreement, note, indenture or other instrument, or take any other action, which would prohibit the creation of a lien on any of its properties or other assets in favor of the Lender as collateral for the Obligations; PROVIDED that any agreement, note, indenture or other instrument in connection with liens permitted pursuant to CLAUSE (I) above may prohibit the creation of a lien in favor of the Lender on the items of property subject to such lien.

(d) INVESTMENTS. Except to the extent permitted pursuant to PARAGRAPH (G) below, neither the Borrower nor any of its Subsidiaries shall directly or indirectly make or own any Investment except:

(i) Investments in Cash Equivalents;

(ii) Permitted Existing Investments in an amount not greater than the amount thereof on the date hereof;

(iii) Investments in trade receivables or received in connection with the bankruptcy or reorganization of suppliers and customers and in settlement of delinquent obligations of, and other disputes with, customers and suppliers arising in the ordinary course of business;

(iv) Investments consisting of intercompany loans from any Subsidiary to the Borrower or any other Subsidiary permitted by SECTION 5.3(A)(V);

(v) Investments in any Dealership Guarantor;

(vi) Investments constituting Permitted Acquisitions; and

(vii) Investments in addition to those referred to elsewhere in this SECTION 5.3(D) in an amount not to exceed \$500,000 in the aggregate at any time outstanding;

PROVIDED, HOWEVER, that the Investments described in CLAUSE (VII) above shall not be permitted if either an Event of Default or Unmatured Default shall have occurred and be continuing on the date thereof or would result therefrom.

(e) RESTRICTED PAYMENTS. Neither the Borrower nor any of its Subsidiaries shall declare or make any Restricted Payment, except:

(i) where the consideration therefor consists solely of Equity Interests (but excluding Disqualified Stock) of the Borrower or its Subsidiaries provided no Change of Control would occur as a result thereof; and

(ii) in connection with the payment of dividends by a Subsidiary to the Borrower.

(f) CONDUCT OF BUSINESS; SUBSIDIARIES; ACQUISITIONS. (i) Neither the Borrower nor any of its Subsidiaries shall engage in any business other than the businesses engaged in by the Borrower and its subsidiaries, collectively, on the date hereof and any business or activities which are substantially similar, related or incidental thereto.

(ii) The Borrower may create, acquire and/or capitalize any Subsidiary (a "NEW SUBSIDIARY") after the date hereof pursuant to any transaction that is permitted by or not otherwise prohibited by this Agreement; PROVIDED that upon the creation or acquisition of each New Subsidiary, the requirements set forth in SECTION 5.2(L) hereof shall have been satisfied and all New Subsidiaries that are Material Subsidiaries shall be Controlled Subsidiaries.

(iii) The Borrower shall not make any Acquisitions, other than Acquisitions meeting the following requirements (each such Acquisition constituting a "PERMITTED ACQUISITION"):

(a) no Event of Default or Unmatured Default shall have occurred and be continuing or would result from such Acquisition or the incurrence of any Indebtedness in connection therewith;

(b) in the case of an Acquisition of Equity Interests of an entity, such Acquisition shall be of one hundred percent (100%) of the Equity Interests of such entity except that in the case of a Majority Acquisition, such Acquisition shall be of at least eighty percent (80.0%) of the Equity Interests of such entity provided that the provisions of Section 5.2 (o) are complied with;

(c) the businesses being acquired shall be substantially similar, related or incidental to the businesses or activities engaged in by the Borrower and its Subsidiaries on the date hereof;

(d) prior to each such Acquisition, the Borrower shall deliver to the Lender a certificate from one of the Authorized Officers, demonstrating to the reasonable satisfaction of the Lender that after giving effect to such Acquisition and the incurrence of any Indebtedness hereunder and in connection herewith, on a PRO FORMA basis (both historically and on a projected basis), as if the Acquisition and such incurrence of Indebtedness had occurred on the first day of the twelve-month period ending on the last day of the Borrower's most recently completed fiscal quarter, the Borrower would have been in compliance with all of the covenants contained in this Agreement, including, without limitation, the financial covenants set forth in SECTION 5.4;

(f) the purchase is consummated pursuant to a negotiated acquisition agreement on a non-hostile basis;

(g) after giving effect to such Acquisition, the representations and warranties set forth in ARTICLE IV hereof shall be true and correct in all respects on and as of the date of such Acquisition with the same effect as though made on and as of such date; and

(h) the written consent of the Lender shall have been obtained in connection with any Acquisition if the acquisition price therefore (including the maximum amount of any deferred

portion thereof or contingency payments payable in connection therewith) (computed with any non-cash portion of the acquisition price being valued at the fair value thereof as of the date of computation) exceeds \$5,000,000 (such amount being net of new and used vehicle inventory, if such inventory is financed with a floor plan lender) for such Acquisition or series of related Acquisitions.

(i) the Borrower shall have obtained (and shall have based the calculations set forth above on) the most current year end audited financial statement and current direct statement for the target (in the event that audited statements are unavailable, Borrower will provide details with respect to the transactions and financial statements acceptable to Lender in its discretion), in each case obtained from the seller or provided by independent certified public accountants retained for the purposes of such Acquisition, broken down by fiscal quarter in the Borrower's reasonable judgment, copies of which shall be provided to the Lender.

(j) the Borrower shall have obtained either (i) a written approval for a new franchise agreement between the Lithia Dealership and the manufacturer on substantially the same terms as the franchise agreement entered into between the manufacturer and the entity to be acquired in such Permitted Acquisition or (ii) any consent required from a manufacturer for the continued enforceability and validity of such franchise agreement after the completion of a Permitted Acquisition shall have been obtained.

(g) **TRANSACTIONS WITH SHAREHOLDERS AND AFFILIATES.** Neither the Borrower nor any of its Subsidiaries shall directly or indirectly enter into or permit to exist any transaction (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with any holder or holders of any of the Equity Interests of the Borrower, or with any Affiliate of the Borrower which is not a Dealership Guarantor, on terms that are less favorable to the Borrower or any of its Subsidiaries, as applicable, than those that might be obtained in an arm's length transaction at the time from Persons who are not such a holder or Affiliate.

(h) **RESTRICTION ON FUNDAMENTAL CHANGES.** Neither the Borrower nor any of its Subsidiaries shall enter into any merger or consolidation, or liquidate, wind-up or dissolve (or suffer any liquidation or dissolution), or convey, lease, sell, transfer or otherwise dispose of, in one transaction or series of transactions, all or substantially all of the Borrower's or any such Subsidiary's business or property, whether now or hereafter acquired, except (i) transactions permitted under SECTIONS 5.3(B) or 5.3(G) (ii) the merger of a Subsidiary of the Borrower into a Person acquired or being acquired in connection with a Permitted Acquisition; (iii) the merger of a wholly-owned Subsidiary of the Borrower with and into the Borrower; and (iv) the merger of a Subsidiary of the Borrower with another Subsidiary of the Borrower; PROVIDED, HOWEVER, (i) with respect to any such permitted mergers involving any Dealership Guarantor, the surviving corporation in the merger shall also be or become a Dealership Guarantor; and (ii) after the consummation of any such transaction, the Borrower shall be in compliance with the provisions of SECTIONS 5.2(K) and 5.3(E).

(i) **SALES AND LEASEBACKS.** Neither the Borrower nor any of the Lithia Subsidiaries shall become liable, directly, by assumption or by Contingent Obligation, with respect to any lease, whether an operating lease or a Capitalized Lease, of any property (whether real or personal or mixed)

(i) which it or one of the Lithia Subsidiaries sold or transferred or is to sell or transfer to any other Person, or (ii) which it or one of the Lithia Subsidiaries intends to use for substantially the same purposes as any other property which has been or is to be sold or transferred by it or one of the Lithia Subsidiaries to any other Person in connection with such lease, other than a (A) Dealership Guarantor's sale to, and lease of Equipment from, Lithia Financial Corporation and (B) a Dealership Guarantor's sale to, and lease of real estate from, Lithia Real Estate, Inc.

(j) MARGIN REGULATIONS. Neither the Borrower nor any of its Subsidiaries, shall use all or any portion of the proceeds of any credit extended under this Agreement to purchase or carry Margin Stock.

(k) ERISA. The Borrower shall not

(i) engage, or permit any of its Subsidiaries to engage, in any prohibited transaction described in Sections 406 of ERISA or 4975 of the Code for which a statutory or class exemption is not available or a private exemption has not been previously obtained from the DOL;

(ii) permit to exist any accumulated funding deficiency (as defined in Sections 302 of ERISA and 412 of the Code), with respect to any Benefit Plan, whether or not waived;

(iii) fail, or permit any Controlled Group member to fail, to pay timely required contributions or annual installments due with respect to any waived funding deficiency to any Benefit Plan;

(iv) terminate, or permit any Controlled Group member to terminate, any Benefit Plan which would result in any liability of the Borrower or any Controlled Group member under Title IV of ERISA;

(v) fail to make any contribution or payment to any Multiemployer Plan which the Borrower or any Controlled Group member may be required to make under any agreement relating to such Multiemployer Plan, or any law pertaining thereto;

(vi) fail, or permit any Controlled Group member to fail, to pay any required installment or any other payment required under Section 412 of the Code on or before the due date for such installment or other payment; or

(vii) amend, or permit any Controlled Group member to amend, a Plan resulting in an increase in current liability for the plan year such that the Borrower or any Controlled Group member is required to provide security to such Plan under Section 401(a)(29) of the Code,

except where such transactions, events, circumstances, or failures will not have or is not likely to subject the Borrower and its Subsidiaries to liability individually or in the aggregate in excess of \$250,000.

(l) ISSUANCE OF EQUITY INTERESTS. The Borrower shall not issue any Equity Interests if as a result of such issuance a Change of Control shall occur. None of the Borrower's Subsidiaries shall issue any Equity Interests other than to the Borrower except as permitted in connection with a Majority Acquisition or as required to comply with the terms of the relevant franchise agreement with a particular automotive manufacturer.

(m) CORPORATE DOCUMENTS; FRANCHISE AGREEMENTS. Neither the Borrower nor any of its Subsidiaries shall amend, modify or otherwise change any of the terms or provisions in any of their respective constituent documents as in effect on the date hereof in any manner adverse in any respect to the interests of the Lender without the prior written consent of the Lender. The Borrower shall not permit any Lithia Dealership to amend, modify or otherwise change any of the terms or provisions of such Lithia Dealership's franchise agreement in any manner adverse in any respect to the interests of the Lender without the prior written consent of the Lender.

(n) FISCAL YEAR. Neither the Borrower nor any of its consolidated Subsidiaries shall change its fiscal year for accounting or tax purposes from a period consisting of the 12-month period ending on December 31 of each calendar year.

(o) SUBSIDIARY COVENANTS. The Borrower will not, and will not permit any Lithia Subsidiary to, create or otherwise cause to become effective any consensual encumbrance or restriction of any kind on the ability of any Lithia Subsidiary to (i) pay dividends or make any other distribution on its stock,

(ii) make any other Restricted Payment, (iii) pay any Indebtedness or other Obligation owed to the Borrower or any other Lithia Subsidiary, (iv) make loans or advances or other Investments in the Borrower or any other Lithia Subsidiary, or (v) sell, transfer or otherwise convey any of its property to the Borrower or any other Lithia Subsidiary, except as may be required to comply with any applicable financial covenants under the terms of the franchise or dealer agreement that Borrower or each of its Dealership Subsidiaries has with vehicle manufacturerers.

(p) HEDGING OBLIGATIONS. The Borrower shall not and shall not permit any of its Subsidiaries to enter into any interest rate, commodity or foreign currency exchange, swap, collar, cap or similar agreements evidencing Hedging Obligations, other than interest rate, foreign currency or commodity exchange, swap, collar, cap or similar agreements entered into by the Borrower or a Subsidiary pursuant to which the Borrower or such Subsidiary has hedged its actual interest rate, foreign currency or commodity exposure.

(r) NEGATIVE PLEDGE. With respect to any Dealership Guarantor operating under a franchise agreement with Toyota Motor Sales in USA, Inc, American Honda Motor Corporation, or Nissan in USA, Inc., Borrower hereby agrees that it shall not pledge or otherwise transfer its Capital Stock in such Dealership to any Person.

5.4 FINANCIAL COVENANTS. The Borrower shall comply with the following:

(a) TOTAL DEBT TO TANGIBLE BASE CAPITAL RATIO. The Borrower shall not at any time permit the ratio ("TBC RATIO") of Total Debt of the Lithia Group on a consolidated basis to Tangible Base Capital of the Lithia Group on a consolidated basis to be greater than 30:1.

(b) TOTAL ADJUSTED DEBT TO TANGIBLE BASE CAPITAL RATIO. The Borrower shall not at any time permit the ratio ("ADJUSTED TBC RATIO") of Total Adjusted Debt of the Lithia Group on a consolidated basis to Tangible Base Capital of the Lithia Group on a consolidated basis to be greater than 15:1.

(c) CURRENT RATIO. The Borrower shall not at any time permit the ratio (the "CURRENT RATIO") of Current Assets of the Lithia Group on a consolidated basis to Current Liabilities of the Lithia Group on a consolidated basis to be less than 1.2:1.

(d) FIXED CHARGE COVERAGE RATIO. The Borrower shall maintain a ratio ("FIXED CHARGE COVERAGE RATIO") of (i) EBITDAR LESS Capital Expenditures for tangible or intangible personal property paid in cash ("Maintenance Capital Expenditures"), to (ii) (a) Interest Expense PLUS (b) scheduled amortization of the principal portion of all Indebtedness for money borrowed (except for Seller's Notes) PLUS (c) Rentals PLUS (d) taxes paid in cash during such period of the Borrower and its consolidated Subsidiaries of at least 1.2:1 for each fiscal quarter ending from and after the Effective Date. In each case the Fixed Charge Coverage Ratio shall be determined as of the last day of each fiscal quarter for the four-quarter period ending on such day.

(e) NET CASH. Borrower shall maintain positive Net Cash.

All financial covenants set forth in this SECTION 5.4 shall be calculated by the Lender based on the calculations set forth in and the financial statements attached to Officer's Certificates

delivered hereunder and shall be binding on the Borrower for all purposes of this Agreement absent manifest error.

6. EVENT OF DEFAULTS

6.1 EVENT OF DEFAULTS. Each of the following occurrences shall constitute an Event of Default under this Agreement:

- (a) **FAILURE TO MAKE PAYMENTS WHEN DUE.** The Borrower shall (i) fail to pay when due any of the Obligations consisting of principal with respect to the Advances or (ii) shall fail to pay within ten (10) days of the date when due any of the other Obligations under this Agreement or the other Loan Documents.
- (b) **BREACH OF CERTAIN COVENANTS.** The Borrower shall fail duly and punctually to perform or observe any agreement, covenant or obligation binding on the Borrower under SECTIONS 5.2(F), 5.2(K), 5.3 or 5.4.
- (c) **BREACH OF REPRESENTATION OR WARRANTY.** Any representation or warranty made or deemed made by the Borrower to the Lender herein or by the Borrower or any of its Subsidiaries in any of the other Loan Documents or in any written certificate of any Authorized Officer at any time given by any such Person pursuant to any of the Loan Documents shall be false or misleading in any respect on the date as of which made (or deemed made).
- (d) **OTHER DEFAULTS.** The Borrower shall default in the performance of or compliance with any term contained in this Agreement (other than as covered by PARAGRAPHS (A), (B) or (C) of this SECTION 6.1), or the Borrower or any of the Lithia Subsidiaries shall default in the performance of or compliance with any term contained in any of the other Loan Documents, and such default shall continue for thirty (30) days after the occurrence thereof.
- (e) **DEFAULT AS TO OTHER INDEBTEDNESS.** The Borrower or any of the Lithia Subsidiaries shall fail to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) with respect to any Indebtedness (other than Indebtedness constituting the deferred portion of the purchase price of an asset which is subject to a good faith dispute, which, together with all such other outstanding disputed Indebtedness, is not in excess of \$500,000 and which is being contested by the Borrower, and provided that the Borrower has set aside adequate reserves covering such disputed Indebtedness) the outstanding principal amount of which Indebtedness is in excess of \$100,000; or any breach, default or event of default shall occur, or any other condition shall exist under any instrument, agreement or indenture pertaining to any such Indebtedness, if the effect thereof is to cause an acceleration, mandatory redemption, a requirement that the Borrower offer to purchase such Indebtedness or other required repurchase of such Indebtedness, or permit the holder(s) of such Indebtedness to accelerate the maturity of any such Indebtedness or require a redemption or other repurchase of such Indebtedness; or any such Indebtedness shall be otherwise declared to be due and payable (by acceleration or otherwise) or required to be prepaid, redeemed or otherwise repurchased by the Borrower or any of the Lithia Subsidiaries (other than by a regularly scheduled required prepayment) prior to the stated maturity thereof.
- (f) **INVOLUNTARY BANKRUPTCY; APPOINTMENT OF RECEIVER, ETC.**
- (i) An involuntary case shall be commenced against the Borrower or any of the Borrower's Subsidiaries and the petition shall not be dismissed, stayed, bonded or discharged within sixty (60) days after commencement of the case; or a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Borrower or any of the

Borrower's Subsidiaries in an involuntary case, under any applicable bankruptcy, insolvency or other similar law now or hereinafter in effect; or any other similar relief shall be granted under any applicable federal, state, local or foreign law.

(ii) A decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over the Borrower or any of the Borrower's Subsidiaries or over all or a substantial part of the property of the Borrower or any of the Borrower's Subsidiaries shall be entered; or an interim receiver, trustee or other custodian of the Borrower or any of the Borrower's Subsidiaries or of all or a substantial part of the property of the Borrower or any of the Borrower's Subsidiaries shall be appointed or a warrant of attachment, execution or similar process against any substantial part of the property of the Borrower or any of the Borrower's Subsidiaries shall be issued and any such event shall not be stayed, dismissed, bonded or discharged within sixty (60) days after entry, appointment or issuance.

(g) VOLUNTARY BANKRUPTCY; APPOINTMENT OF RECEIVER, ETC. The Borrower or any of the Borrower's Subsidiaries shall (i) commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, (ii) consent to the entry of an order for relief in an involuntary case, or to the conversion of an involuntary case to a voluntary case, under any such law, (iii) consent to the appointment of or taking possession by a receiver, trustee or other similar custodian for the benefit of creditors for all or a substantial part of its property, (iv) make any assignment for the benefit of creditors or (v) take any corporate action to authorize any of the foregoing.

(h) JUDGMENTS AND ATTACHMENTS. Any money judgment(s) (other than a money judgment covered by insurance as to which the insurance company has not disclaimed coverage or if it has reserved the right to disclaim coverage, such letter reserving the right to disclaim coverage is outstanding twelve months after such money judgment was rendered), writ or warrant of attachment, or similar process against the Borrower or any of its Subsidiaries or any of their respective assets involving in any single case or in the aggregate an amount in excess of \$250,000 is or are entered and shall remain undischarged, unvacated, unbonded or unstayed for a period of sixty (60) days or in any event later than fifteen (15) days prior to the date of any proposed sale thereunder.

(i) DISSOLUTION. Any order, judgment or decree shall be entered against the Borrower or any of its Subsidiaries decreeing its involuntary dissolution or split up and such order shall remain undischarged and unstayed for a period in excess of sixty (60) days; or the Borrower or any of its Subsidiaries shall otherwise dissolve or cease to exist except as specifically permitted by this Agreement.

(j) LOAN DOCUMENTS; FAILURE OF SECURITY. At any time, for any reason,

(i) any Loan Document as a whole that affects the ability of the Lender to enforce the Obligations or enforce its rights against the Collateral ceases to be in full force and effect or the Borrower or any of the Borrower's Subsidiaries party thereto seeks to repudiate its obligations thereunder and the liens intended to be created thereby are, or the Borrower or any such Subsidiary seeks to render such liens, invalid or unperfected, or (ii) any lien on Collateral in favor of the Lender contemplated by the Loan Documents shall, at any time, for any reason, be invalidated or otherwise cease to be in full force and effect or such lien shall not have the priority contemplated by this Agreement or the Loan Documents and such failure shall continue for three (3) days after the occurrence thereof.

(k) TERMINATION EVENT. Any Termination Event occurs which is reasonably likely to subject the Borrower or any of its Subsidiaries to liability individually or in the aggregate in excess of \$250,000, and such Termination Event shall continue for three (3) days after the occurrence thereof, PROVIDED HOWEVER, if such Termination Event is a Reportable Event, then prior to such Termination

Event causing an Event of Default under this SECTION 6.1(K), such Termination Event shall continue for ten (10) days after the occurrence thereof.

(l) **WAIVER OF MINIMUM FUNDING STANDARD.** If the plan administrator of any Plan applies under Section 412(d) of the Code for a waiver of the minimum funding standards of Section 412(a) of the Code and the Lender believes the substantial business hardship upon which the application for the waiver is based could reasonably be expected to subject either the Borrower or any Controlled Group member to liability individually or in the aggregate in excess of \$250,000.

(m) **CHANGE OF CONTROL.** A Change of Control shall occur.

(n) **HEDGING AGREEMENTS.** Nonpayment by the Borrower or any Subsidiary of any obligation under any contract with respect to Hedging Obligations entered into by the Borrower or such Subsidiary with the Lender (or Affiliate thereof) or the breach by the Borrower or Subsidiary of any other term, provision or condition contained in any agreement and such nonpayment or breach shall continue for ten (10) days after the occurrence thereof.

(o) **GUARANTOR DEFAULT OR REVOCATION.** Any Lithia Guaranty shall fail to remain in full force or effect or any action shall be taken by the Borrower or any Dealership Guarantor to discontinue or to assert the invalidity or unenforceability of any Lithia Guaranty or the Borrower or any Dealership Guarantor shall fail to comply with any of the terms or provisions of any Lithia Guaranty to which it is a party, or the Borrower or any Dealership Guarantor denies that it has any further liability under any Lithia Guaranty to which it is a party, or gives notice to such effect.

(p) **ENVIRONMENTAL MATTERS.** The Borrower or any of the Lithia Subsidiaries shall be the subject of any proceeding or investigation pertaining to (i) the Release by the Borrower or any of the Lithia Subsidiaries of any Contaminant into the environment, (ii) the liability of the Borrower or any of the Lithia Subsidiaries arising from the Release by any other person of any Contaminant into the environment, or (iii) any violation of any Environmental, Health or Safety Requirements of Law by the Borrower or any of its Subsidiaries, which, in any case, has subjected or is reasonably likely to subject the Borrower or any of the Lithia Subsidiaries to liability individually or in the aggregate in excess of \$500,000.

An Event of Default shall be deemed "continuing" until cured or until waived in writing in accordance with SECTION 7.3.

7. ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES

7.1 **TERMINATION OF COMMITMENTS; ACCELERATION.** If any Event of Default described in SECTION 6.1(F) or 6.1(G) occurs with respect to the Borrower, the obligation of the Lender to make Advances hereunder shall automatically terminate and the Obligations shall immediately become due and payable without any election or action on the part of the Lender. If any other Event of Default occurs, the Lender may terminate or suspend its obligations to make Advances hereunder, or declare the Obligations to be due and payable, or both, whereupon, after written notice to the Borrower, the Obligations shall become immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which the Borrower expressly waives.

7.2 **AMENDMENTS.** No amendment, waiver or modification of any provision of this Agreement shall be effective unless signed by each of the parties hereto and then only to the extent in such writing specifically set forth.

7.3 **PRESERVATION OF RIGHTS.** No delay or omission of the Lender to exercise any right under the Loan Documents shall impair such right or be construed to be a waiver of any Event of Default or

an acquiescence therein, and the making of an Advance notwithstanding the existence of an Event of Default or the inability of the Borrower to satisfy the conditions precedent to such Advance shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of the Loan Documents whatsoever shall be valid unless in writing signed by the Lender, and then only to the extent in such writing specifically set forth. All remedies contained in the Loan Documents or by law afforded shall be cumulative and all shall be available to the Lender until the Obligations have been paid in full.

8. GENERAL PROVISIONS

8.1 SURVIVAL OF REPRESENTATIONS. All representations and warranties of the Borrower contained in this Agreement shall survive delivery of the Note and the making of the Advances herein contemplated.

8.2 GOVERNMENTAL REGULATION. Anything contained in this Agreement to the contrary notwithstanding, the Lender shall not be obligated to extend credit to the Borrower in violation of any limitation or prohibition provided by any applicable statute or regulation.

8.3 PERFORMANCE OF OBLIGATIONS. The Borrower agrees that the Lender may, but shall have no obligation to (i) at any time, pay or discharge taxes, liens, security interests or other encumbrances levied or placed on or threatened against any Collateral, unless such claims are being contested in good faith by the Borrower and the Borrower has set aside adequate reserves covering such tax, lien, security interest or other encumbrance and no Event of Default has occurred and is outstanding and (ii) after the occurrence and during the continuance of an Event of Default to make any payment or perform any act required of the Borrower under any Loan Document or take any other action which the Lender in its discretion deems necessary or desirable to protect or preserve the Collateral, including, without limitation, any action to (y) effect any repairs or obtain any insurance called for by the terms of any of the Loan Documents and to pay all or any part of the premiums therefor and the costs thereof and (z) pay any rents payable by the Borrower which are more than 30 days past due, or as to which the landlord has given notice of termination, under any lease. The Lender shall use its efforts to give the Borrower notice of any action taken under this SECTION 8.3 prior to the taking of such action or promptly thereafter provided the failure to give such notice shall not affect the Borrower's obligations in respect thereof. The Borrower agrees to pay the Lender, upon demand, the principal amount of all funds advanced by the Lender under this SECTION 8.3, together with interest thereon at the rate from time to time applicable to Advances from the date of such advance until the outstanding principal balance thereof is paid in full. All outstanding principal of, and interest on, advances made under this SECTION 8.3 shall constitute Obligations for purposes hereof.

8.4 HEADINGS. Section headings in the Loan Documents are for convenience of reference only, and shall not govern the interpretation of any of the provisions of the Loan Documents.

8.5 ENTIRE AGREEMENT. The Loan Documents embody the entire agreement and understanding among the Borrower and the Lender and the Loan Documents delivered on the Effective Date supersede all prior agreements and understandings among the Borrower and the Lender relating to the subject matter thereof.

8.6 EXPENSES; INDEMNIFICATION.

(a) **EXPENSES.** The Borrower shall reimburse the Lender for any reasonable costs, internal charges and out-of-pocket expenses (including reasonable attorneys' and paralegals' fees and time charges of attorneys and paralegals for the Lender, which attorneys and paralegals may be employees of the Lender) paid or incurred by the Lender in connection with the preparation,

negotiation, execution, delivery, review, amendment, modification, and administration of the Loan Documents. The Borrower also agrees to reimburse the Lender for any costs, internal charges and out-of-pocket expenses (including attorneys' and paralegals' fees and time charges of attorneys and paralegals for the Lender, which attorneys and paralegals may be employees of the Lender) paid or incurred by the Lender in connection with the collection of the Obligations and enforcement of the Loan Documents. In addition to expenses set forth above, the Borrower agrees to reimburse the Lender, promptly after the Lender's request therefor, for each audit or other business analysis performed by it in connection with this Agreement or the other Loan Documents at a time when an Event of Default exists in an amount equal to the Lender's then reasonable and customary charges for each person employed to perform such audit or analysis, plus all costs and expenses (including without limitation, travel expenses) incurred by the Lender in the performance of such audit or analysis. Lender shall provide the Borrower with a detailed statement of all reimbursements requested under this SECTION 8.6(A).

(b) INDEMNITY. The Borrower further agrees to defend, protect, indemnify, and hold harmless the Lender and each of its Affiliates, and each of the Lender's, or Affiliate's respective officers, directors, employees, attorneys and agents (including, without limitation, those retained in connection with the satisfaction or attempted satisfaction of any of the conditions set forth in ARTICLE III) (collectively, the "INDEMNITEES") from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses of any kind or nature whatsoever (including, without limitation, the fees and disbursements of counsel for such Indemnitees in connection with any investigative, administrative or judicial proceeding, whether or not such Indemnitees shall be designated a party thereto), imposed on, incurred by, or asserted against such Indemnitees in any manner relating to or arising out of:

(i) this Agreement, the other Loan Documents or any of the Transaction Documents, or any act, event or transaction related or attendant thereto the making of the Advances, hereunder, the management of such Advances, the use or intended use of the proceeds of the Advances hereunder, or any of the other transactions contemplated by the Transaction Documents; or

(ii) any liabilities, obligations, responsibilities, losses, damages, personal injury, death, punitive damages, economic damages, consequential damages, treble damages, intentional, willful or wanton injury, damage or threat to the environment, natural resources or public health or welfare, costs and expenses (including, without limitation, attorney, expert and consulting fees and costs of investigation, feasibility or remedial action studies), fines, penalties and monetary sanctions, interest, direct or indirect, known or unknown, absolute or contingent, past, present or future relating to violation of any Environmental, Health or Safety requirements of law arising from or in connection with the past, present or future operations of the Borrower, its Subsidiaries or any of their respective predecessors in interest, or, the past, present or future environmental, health or safety condition of any respective property of the Borrower or its Subsidiaries, the presence of asbestos-containing materials at any respective property of the Borrower or its Subsidiaries or the Release or threatened Release of any Contaminant into the environment (collectively, the "INDEMNIFIED MATTERS");

PROVIDED, HOWEVER, the Borrower shall have no obligation to an Indemnitee hereunder with respect to Indemnified Matters caused by or resulting from the willful misconduct or gross negligence of such Indemnitee as determined by the final non-appealed judgment of a court of competent jurisdiction. If the undertaking to indemnify, pay and hold harmless set forth in the preceding sentence may be unenforceable because it is violative of any law or public policy, the Borrower shall contribute the maximum portion which it is permitted to pay and satisfy under applicable law, to the payment and satisfaction of all Indemnified Matters incurred by the Indemnitees.

(c) Notwithstanding anything else in this Agreement to the contrary, no party shall have any obligation to reimburse any person for attorneys' fees and expenses unless such fees and expenses are (i) reasonable in amount, (ii) determined without reference to any statutory presumption and (iii) calculated using the actual time expended and the standard hourly rate for the attorneys and paralegals performing the tasks in question and the actual out-of-pocket expenses incurred.

(d) **WAIVER OF CERTAIN CLAIMS; SETTLEMENT OF CLAIMS.** The Borrower further agrees to assert no claim against any of the Indemnitees on any theory of liability for consequential, special, indirect, exemplary or punitive damages. No settlement shall be entered into by the Borrower or any of its Subsidiaries with respect to any claim, litigation, arbitration or other proceeding relating to or arising out of the transactions evidenced by this Agreement or the other Loan Documents (whether or not the Lender or any Indemnitee is a party thereto) unless such settlement releases all Indemnitees from any and all liability with respect thereto.

(e) **SURVIVAL OF AGREEMENTS.** The obligations and agreements of the Borrower under this SECTION 8.6 shall survive the termination of this Agreement.

8.7 ACCOUNTING. Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with Agreement Accounting Principles.

8.8 SEVERABILITY OF PROVISIONS. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

8.9 NONLIABILITY OF LENDER. The relationship between the Borrower and the Lender shall be solely that of borrower and lender. The Lender shall have no fiduciary responsibilities to the Borrower and the Lender does not take any responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations.

8.10 GOVERNING LAW. ANY DISPUTE BETWEEN THE BORROWER AND THE LENDER, OR ANY INDEMNITEE ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN THEM IN CONNECTION WITH, THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS, AND WHETHER ARISING IN CONTRACT, TORT, EQUITY, OR OTHERWISE, SHALL BE RESOLVED IN ACCORDANCE WITH THE INTERNAL LAWS (WITHOUT REGARD TO THE CONFLICTS OF LAWS PROVISIONS) OF THE STATE OF OREGON.

8.11 CONSENT TO JURISDICTION; SERVICE OF PROCESS; JURY TRIAL.

(a) **EXCLUSIVE JURISDICTION.** EXCEPT AS PROVIDED IN SUBSECTION (B), EACH OF THE PARTIES HERETO AGREES THAT ALL DISPUTES AMONG THEM ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH, THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS WHETHER ARISING IN CONTRACT, TORT, EQUITY, OR OTHERWISE, SHALL BE RESOLVED EXCLUSIVELY BY STATE OR FEDERAL COURTS LOCATED IN OREGON, BUT THE PARTIES HERETO ACKNOWLEDGE THAT ANY APPEALS FROM THOSE COURTS MAY HAVE TO BE HEARD BY A COURT LOCATED OUTSIDE OF OREGON.

(b) **OTHER JURISDICTIONS.** THE BORROWER AGREES THAT THE LENDER OR ANY INDEMNITEE SHALL HAVE THE RIGHT TO PROCEED AGAINST THE BORROWER OR ITS PROPERTY IN A COURT IN ANY LOCATION TO ENABLE SUCH PERSON TO (1) OBTAIN

PERSONAL JURISDICTION OVER THE BORROWER OR (2) REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS OR ENFORCE A JUDGMENT OR OTHER COURT ORDER ENTERED IN FAVOR OF SUCH PERSON. THE BORROWER WAIVES ANY OBJECTION THAT IT MAY HAVE TO THE LOCATION OF THE COURT IN WHICH SUCH PERSON HAS COMMENCED A PROCEEDING DESCRIBED IN THIS SUBSECTION (B).

(c) SERVICE OF PROCESS. THE BORROWER WAIVES PERSONAL SERVICE OF ANY PROCESS UPON IT AND IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OF ANY WRITS, PROCESS OR SUMMONSES IN ANY SUIT, ACTION OR PROCEEDING BY THE MAILING THEREOF BY THE LENDER BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO THE BORROWER ADDRESSED AS PROVIDED HEREIN. NOTHING HEREIN SHALL IN ANY WAY BE DEEMED TO LIMIT THE ABILITY OF THE LENDER TO SERVE ANY SUCH WRITS, PROCESS OR SUMMONSES IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW THE BORROWER IRREVOCABLY WAIVES ANY OBJECTION (INCLUDING, WITHOUT LIMITATION, ANY OBJECTION OF THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS) WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY SUCH ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH IN ANY JURISDICTION SET FORTH ABOVE.

(d) WAIVER OF JURY TRIAL. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, ARISING OUT OF, CONNECTED WITH, RELATED TO OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH. EACH OF THE PARTIES HERETO AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

(e) WAIVER OF BOND. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, THE BORROWER WAIVES THE POSTING OF ANY BOND OTHERWISE REQUIRED OF ANY PARTY HERETO IN CONNECTION WITH ANY JUDICIAL PROCESS OR PROCEEDING TO REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS OR TO ENFORCE ANY JUDGMENT OR OTHER COURT ORDER ENTERED IN FAVOR OF SUCH PARTY, OR TO ENFORCE BY SPECIFIC PERFORMANCE, TEMPORARY RESTRAINING ORDER, PRELIMINARY OR PERMANENT INJUNCTION, THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT.

(f) ADVICE OF COUNSEL. EACH OF THE PARTIES REPRESENTS TO EACH OTHER PARTY HERETO THAT IT HAS DISCUSSED THIS AGREEMENT AND, SPECIFICALLY, THE PROVISIONS OF THIS SECTION 8.11, WITH ITS COUNSEL.

8.12 NO STRICT CONSTRUCTION. The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

8.13 SUBORDINATION OF INTERCOMPANY INDEBTEDNESS. The Borrower agrees that any and all claims of the Borrower against any Dealership Guarantor, any endorser or any other guarantor of all

or any part of the Obligations, or against any of its properties, including, without limitation, pursuant to the any intercompany Indebtedness permitted under SECTION 5.3(A)(VI), shall be subordinate and subject in right of payment to the prior payment, in full and in cash, of all Obligations. Notwithstanding any right of the Borrower to ask, demand, sue for, take or receive any payment from any Dealership Guarantor, all rights, liens and security interests of the Borrower, whether now or hereafter arising and howsoever existing, in any assets of any Dealership Guarantor shall be and are subordinated to the rights, if any, of the Lender in those assets. The Borrower shall have no right to possession of any such asset or to foreclose upon any such asset, whether by judicial action or otherwise, unless and until all of the Obligations shall have been paid in full in cash and satisfied and all financing arrangements under this Agreement and the other Loan Documents between the Borrower and the Lender have been terminated. If, during the continuance of an Event of Default, all or any part of the assets of any Dealership Guarantor, or the proceeds thereof, are subject to any distribution, division or application to the creditors of any Dealership Guarantor, whether partial or complete, voluntary or involuntary, and whether by reason of liquidation, bankruptcy, arrangement, receivership, assignment for the benefit of creditors or any other action or proceeding, then, and in any such event, any payment or distribution of any kind or character, either in cash, securities or other property, which shall be payable or deliverable upon or with respect to any indebtedness of any Dealership Guarantor to the Borrower, including, without limitation, pursuant to the any intercompany Indebtedness permitted under SECTION 5.3(A)(VI) ("INTERCOMPANY INDEBTEDNESS") shall be paid or delivered directly to the Lender for application on any of the Obligations, due or to become due, until such Obligations shall have first been paid in full in cash and satisfied; PROVIDED, HOWEVER, ordinary course payments or distributions made by any Dealership Guarantor to the Borrower shall be required to be paid or delivered to the Lender only upon the Lender's request. The Borrower irrevocably authorizes and empowers the Lender to demand, sue for, collect and receive every such payment or distribution and give acquittance therefor and to make and present for and on behalf of the Borrower such proofs of claim and take such other action, in the Lender's own name or in the name of the Borrower or otherwise, as the Lender may deem necessary or advisable for the enforcement of this SECTION

8.13. The Lender may vote such proofs of claim in any such proceeding, receive and collect any and all dividends or other payments or disbursements made thereon in whatever form the same may be paid or issued and apply the same on account of any of the Obligations. Should any payment, distribution, security or instrument or proceeds thereof be received by the Borrower upon or with respect to the Intercompany Indebtedness during the continuance of an Event of Default and prior to the satisfaction of all of the Obligations and the termination of all financing arrangements under this Agreement and the other Loan Documents between the Borrower and the Lender, the Borrower shall receive and hold the same in trust, as trustee, for the benefit of the Lender and shall forthwith deliver the same to the Lender, in precisely the form received (except for the endorsement or assignment of the Borrower where necessary), for application to any of the Obligations, due or not due, and, until so delivered, the same shall be held in trust by the Borrower as the property of the Lender; PROVIDED, HOWEVER, ordinary course payments or distributions made to or by any Dealership Guarantor to the Borrower shall be required to be paid or delivered to the Lender only upon the Lender's request after the occurrence and Continuance of an Event of Default. If the Borrower fails to make any such endorsement or assignment to the Lender, the Lender or any of its officers or employees are irrevocably authorized to make the same. The Borrower agrees that until the Obligations have been paid in full in cash and satisfied and all financing arrangements under this Agreement and the other Loan Documents between the Borrower and the Lender have been terminated, the Borrower will not assign or transfer to any Person (other than the Lender) any claim the Borrower has or may have against any Dealership Guarantor.

8.14 USURY NOT INTENDED. It is the intent of the Borrower and the Lender in the execution and performance of this Agreement and the other Loan Documents to contract in strict compliance with applicable usury laws, including conflicts of law concepts, governing the Advances of the Lender including such applicable laws of the State of Oregon and the United States of America from time-to-time in effect. In furtherance thereof, the Lender and the Borrower stipulate and agree that none of the terms and provisions contained in this Agreement or the other Loan Documents shall ever

be construed to create a contract to pay, as consideration for the use, forbearance or detention of money, interest at a rate in excess of the Maximum Rate and that for purposes hereof "interest" shall include the aggregate of all charges which constitute interest under such laws that are contracted for, charged or received under this Agreement; and in the event that, notwithstanding the foregoing, under any circumstances the aggregate amounts taken, reserved, charged, received or paid on the Advances, include amounts which by applicable law are deemed interest which would exceed the Maximum Rate, then such excess shall be deemed to be a mistake and the Lender receiving same shall credit the same on the principal of its Note (or if the Note shall have been paid in full, refund said excess to the Borrower). In the event that the maturity of the Note is accelerated by reason of any election of the holder thereof resulting from any Event of Default under this Agreement or otherwise, or in the event of any required or permitted prepayment, then such consideration that constitutes interest may never include more than the Maximum Rate and excess interest, if any, provided for in this Agreement or otherwise shall be canceled automatically as of the date of such acceleration or prepayment and, if theretofore paid, shall be credited on the applicable Note (or, if the Note shall have been paid in full, refunded to the Borrower of such interest). In determining whether or not the interest paid or payable under any specific contingencies exceeds the Maximum Rate, the Borrower and the Lender shall to the maximum extent permitted under applicable law amortize, prorate, allocate and spread in equal parts during the period of the full stated term of the Note all amounts considered to be interest under applicable law at any time contracted for, charged, received or reserved in connection with the Obligations. The provisions of this Section shall control over all other provisions of this Agreement or the other Loan Documents which may be in apparent conflict herewith.

9. BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

9.1 SUCCESSORS AND ASSIGNS. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Borrower and the Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights or obligations under the Loan Documents.

9.2 PARTICIPATIONS.

(a) PERMITTED PARTICIPANTS; EFFECT. Subject to the terms set forth in this SECTION 9.2, the Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other financial institutions ("PARTICIPANTS") participating interests in any Advance owing to the Lender, the Note, the Commitment or any other interest of the Lender under the Loan Documents on a pro rata or non-pro rata basis. Notice of such participation to the Borrower shall be required prior to any participation becoming effective. In the event of any such sale by the Lender of participating interests to a Participant, the Lender's obligations under the Loan Documents shall remain unchanged, the Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, the Lender shall remain the holder of the Note for all purposes under the Loan Documents, all amounts payable by the Borrower under this Agreement shall be determined as if the Lender had not sold such participating interests, and the Borrower shall continue to deal solely and directly with the Lender in connection with the Lender's rights and obligations under the Loan Documents.

(b) VOTING RIGHTS. The 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 other than any amendment, modification or waiver with respect to any Advance or Commitment in which such participant has an interest.

9.3 ASSIGNMENTS. The Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other financial institutions approved by the Borrower within 10 days of notice to the Borrower by the Lender of such assignment (which such

approval shall not be unreasonably withheld) all or a portion of its rights and obligations under this Agreement (including, without limitation, its Commitment and all Advances owing to it) pursuant to an assignment agreement in form and substance satisfactory to the Lender. Notwithstanding the foregoing, the Borrower shall not have any right to approve an assignee under this SECTION 9.3, after the occurrence and continuance of an Event of Default or to the extent such assignee is an Affiliate of the Lender, PROVIDED, HOWEVER, that to the extent the Lender assigns its obligations hereunder, such Affiliate shall be a United States Person and the Lender shall have provided such financial statements as the Borrower shall have reasonably requested.

9.4 CONFIDENTIALITY. Subject to SECTION 9.5, the Lender shall hold all nonpublic information obtained pursuant to the requirements of this Agreement and identified as such by the Borrower in accordance with the Lender's customary procedures for handling confidential information of this nature and in accordance with safe and sound banking practices and in any event may make disclosure reasonably required by a prospective Transferee in connection with the contemplated participation or as required or requested by any governmental authority or representative thereof or pursuant to legal process and shall require any such Transferee to agree (and require any of its Transferees to agree) to comply with this SECTION 9.4. In no event shall the Lender be obligated or required to return any materials furnished by the Borrower; PROVIDED, HOWEVER, each prospective Transferee shall be required to agree that if it does not become a participant it shall return all materials furnished to it by or on behalf of the Borrower in connection with this Agreement.

9.5 DISSEMINATION OF INFORMATION. The Borrower authorizes the Lender to disclose to any Participant or Purchaser or any other Person acquiring an interest in the Loan Documents by operation of law (each a "TRANSFEE") and any prospective Transferee any and all information in the Lender's possession concerning the Borrower and its Subsidiaries; PROVIDED that prior to any such disclosure, such prospective Transferee shall agree to preserve in accordance with SECTION 9.4 the confidentiality of any confidential information described therein.

10. NOTICES

10.1 GIVING NOTICE. All notices and other communications provided for hereunder shall be in writing (including telecopier, telegraphic, telex or cable communication) and mailed, telecopied, telegraphed, telexed, cabled or delivered, if to the Borrower, at its address at 360 East Jackson Street, Medford, Oregon 97501, if to the Lender, at its address specified in the Credit Agreement; or, as to each party, at such other address as shall be designated by such party in a written notice to the other party. All such notices and communications shall be effective, upon receipt, or in the case of (i) notice by mail, five days after being deposited in the United States mails, first class postage prepaid, (ii) notice by overnight courier, one business day after being deposited with a national overnight courier service, (iii) notice by telex, when telexed against receipt of answer back or (iv) notice by facsimile copy, when transmitted against mechanical confirmation of successful transmission.

10.2 CHANGE OF ADDRESS. The Borrower and the Lender may each change the address for service of notice upon it by a notice in writing to the other parties hereto.

11. COUNTERPARTS

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by the Borrower and the Lender.

12. CAPITAL STOCK PLEDGES

With respect to all Capital Stock in any Lithia Dealerships pledged to Lender, Lender agrees that upon written notice from Borrower that an automotive manufacturer objects to such pledge, Lender shall fully release any interest it may have in such Capital Stock and return pledged certificates, if any, to Borrower.

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

LITHIA MOTORS, INC., as the Borrower

By:
M. L. Dick, Heimann, President

Attest
Sidney B. DeBoer, Secretary

Address: 360 East Jackson Street
Medford, Oregon

Attention: -----

Telephone No.: -----

Facsimile No.: -----

FORD MOTOR CREDIT COMPANY, as Lender

By:

B. W. Evans, National Account Manager

Address:

Attention: B. W. Evans

Telephone No.:

Facsimile No.:

EXHIBIT 10.30
CREDIT AGREEMENT

This Credit Agreement (this "Agreement") dated November 23, 1998 is entered into between LITHIA MOTORS, INC., an Oregon corporation, ("Borrower") and FORD MOTOR CREDIT COMPANY, a Delaware corporation ("Lender"). The parties hereto agree as follows:

Borrower has requested Lender to extend a revolving line of credit to Borrower in the principal amount not to exceed \$60,000,000.00 (the "Loan") in order to fund the used floor plan financing for certain dealership Subsidiaries (as defined herein) of Borrower.

Lender is willing to make the Loan to Borrower provided that Borrower grants to Lender a security interest in the Collateral and provides such other security as required by this Agreement and that Borrower complies with the conditions precedent and other terms and conditions of this Agreement and the Security Documents (as defined herein).

Now therefore, in consideration of the promises, covenants and undertakings set forth herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the parties hereto, Lender and Borrower hereby agree as follows:

1. DEFINITIONS

1.1 The following terms used in this Agreement shall have the following meanings, applicable both to the singular and the plural forms of the terms defined.

(a) "ACQUISITION" means any transaction, or any series of related transactions, consummated on or after the date of this Agreement, by which the Borrower or a subsidiary holding company (i) acquires any going business or all or substantially all of the assets of any automobile dealership and/or related operations (e.g. body shop and service repair centers), whether through purchase of assets, merger or otherwise or (ii) directly or indirectly acquires (in one transaction or as the most recent transaction in a series of transactions) at least a majority (in number of votes) of the securities of such a corporation which have ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) or a majority (by percentage of voting power) of the outstanding equity interests of such an entity.

(b) "ACQUISITION DOCUMENTS" means all documents, instruments and agreements entered into in connection with any Acquisition.

(c) "ADVANCE" means any loan made by the Lender under SECTION 2.1 hereof.

(d) "AFFILIATE" of any Person means any other Person directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if the controlling Person is the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) of greater than five percent (5%) or more of any class of voting securities (or other voting interests) of the controlled Person or possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of Capital Stock, by contract or otherwise.

(e) "AGREEMENT" means this Agreement, as it may be amended, restated or otherwise modified and in effect from time to time.

(f) "AGREEMENT ACCOUNTING PRINCIPLES" means generally accepted accounting principles in effect from time to time, applied in a manner consistent with that used in preparing the financial statements referred to in SECTION 5.1(A) hereof, PROVIDED, HOWEVER, all PRO FORMA financial statements reflecting Acquisitions shall be prepared in accordance with the requirements established by the Commission for acquisition accounting for reporting acquisitions by public companies (whether or not such Acquisitions are required to be publicly reported).

(g) "APPLICABLE COMMERCIAL PAPER RATE" means the Commercial Paper Rate PLUS two and fifty hundredths percent (2.50%) per annum.

(h) "ASSET SALE" means, with respect to any Person, the sale, lease, conveyance, disposition or other transfer by such Person of any of its assets (including by way of a sale-leaseback transaction and including the sale or other transfer of any of the Equity Interests of any Subsidiary of such Person).

(i) "AUTHORIZED OFFICER" means any of the chief executive officer, president, chief financial officer or vice president of accounting of the Borrower, acting singly.

(j) "BENEFIT PLAN" means a defined benefit plan as defined in Section 3(35) of ERISA (other than a Multi-employer Plan) in respect of which the Borrower or any other member of the Controlled Group is, or within the immediately preceding six (6) years was, an "employer" as defined in Section 3(5) of ERISA.

(k) "BORROWER GUARANTY" means that certain Guaranty, dated as of even date herewith, pursuant to which the Borrower guaranties all Lithia Dealership obligations arising under any Wholesale Line, as it may be amended, restated or otherwise modified and in effect from time to time.

(l) "BORROWER PLEDGES" means each of (i) that certain Pledge Agreement, dated as of even date herewith, from the Borrower to the Lender pursuant to which the Borrower pledges the Capital Stock of certain corporate Subsidiaries, as it may be amended, restated or otherwise modified and in effect from time to time, (ii) that certain Pledge Agreement, dated as of even date herewith, from the Borrower to the Lender pursuant to which the Borrower pledges the Capital Stock of certain limited liability company Subsidiaries, as it may be amended, restated or otherwise modified and in effect from time to time and (iii) any other pledge of Capital Stock delivered by a member of the Lithia Group from time to time to the Lender.

(m) "BORROWER SECURITY AGREEMENT" means that certain Security Agreement, dated as of even date herewith, from the Borrower to the Lender pursuant to which the Borrower pledged all of its assets to secure the Obligations hereunder and the obligations of each Lithia Dealership under any Wholesale Line provided by the Lender to such Lithia Dealership, as it may be amended, restated or otherwise modified and in effect from time to time.

(n) "CAPITAL EXPENDITURES" means, for any period, the aggregate of all expenditures (other than in connection with Permitted Acquisitions), whether paid in cash or accrued as liabilities, including Capitalized Lease Obligations, by the Borrower and its Subsidiaries during that period that, in conformity with Agreement Accounting Principles, are required to be included in or reflected by the property, plant, equipment or similar fixed asset accounts reflected in the consolidated balance sheet of the Borrower and its Subsidiaries.

(o) "CAPITAL STOCK" means (i) in the case of a corporation, corporate stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, (iii) in the case of a partnership, partnership interests (whether general or limited), (iv) in the case of a limited liability company, any and all membership interests or other equivalents (however designated) and (v) any other interest or

participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

(p) "CAPITALIZED LEASE" of a Person means any lease of property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

(q) "CAPITALIZED LEASE OBLIGATIONS" of a Person means the amount of the obligations of such Person under Capitalized Leases which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

(r) "CASH EQUIVALENTS" means (i) marketable direct obligations issued or unconditionally guaranteed by the United States government and backed by the full faith and credit of the United States government; (ii) domestic and Eurodollar certificates of deposit and time deposits, bankers' acceptances and floating rate certificates of deposit issued by any commercial bank organized under the laws of the United States, any state thereof, the District of Columbia, or its branches or agencies; (iii) shares of money market, mutual or similar funds having assets in excess of \$100,000,000 and the investments of which are limited to investment grade securities (i.e., securities rated at least BAA by Moody's Investors Service, Inc. or at least BBB by Standard & Poor's Corporation); (iv) commercial paper of United States and foreign banks and bank holding companies and their subsidiaries and United States and foreign finance, commercial industrial or utility companies which, at the time of acquisition, are rated A-1 (or better) by Standard & Poor's Ratings Group or P-1 (or better) by Moody's Investors Services, Inc.; (v) corporate bonds, mortgage-backed securities and municipal bonds in each case of a domestic issuer rated at the date of acquisition not less than AAA by Moody's Investor Services, Inc. or AAA by Standard & Poor's Corporation with maturities of no more than two (2) years from the date of acquisition; and (vi) money market funds with respect to which not less than 90% of such funds are invested in the type of investments specified in clauses (i) through (v) above; PROVIDED, unless the context otherwise requires, that the maturities of such Cash Equivalents shall not exceed 365 days.

(s) "CHANGE OF CONTROL" means an event or series of events by which:

(i) Lithia Holding Company, L.L.C. ceases to own, directly or indirectly, more than 51.0% of the voting power of the Borrower's Capital Stock ordinarily having the right to vote at an election of directors or the Principal, , ceases to control Lithia Holding Company, L.L.C.;

(ii) during any period of 24 consecutive calendar months, individuals:

(a) who were directors of the Borrower on the first day of such period, or

(b) whose election or nomination for election to the board of directors of the Borrower was recommended or approved by at least a majority of the directors then still in office who were directors of the Borrower on the first day of such period, or whose election or nomination for election was so approved, shall cease to constitute a majority of the board of directors of the Borrower;

(iii) the Borrower consolidates with or merges into another corporation or conveys, transfers or leases all or substantially all of its property to any Person, or any corporation consolidates with or merges into the Borrower, in either event pursuant to a transaction in which the outstanding Capital Stock of the Borrower is reclassified or changed into or exchanged for (A) cash or Cash Equivalents or (B) securities, and the holders of the Capital Stock in the Borrower immediately prior to such transaction do not, as a result of such transaction, own, directly or indirectly, more than fifty percent (50%) of the combined voting

power of the Borrower's Capital Stock or the Capital Stock of its successor entity in such transaction;

(iv) Borrower ceases to own, directly or indirectly, 80% of any Subsidiary.

(u) "CHARTER DOCUMENTS" means (i) in the case of a corporation, such entity's articles of incorporation and by-laws, (ii) in the case of a limited liability company, such entity's articles of organization and operating agreement or equivalent (however designated), (iii) in the case of a partnership, such entity's partnership agreement or equivalent (however designated) and (iv) in the case of an association or other business entity not described above, such entity's founding documents (however designated).

(v) "CODE" means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time, or any successor statute.

(w) "COLLATERAL" means all property and interests in property now owned or hereafter acquired by the Borrower or any of its Subsidiaries in or upon which a security interest, lien or mortgage is granted to the Lender, whether under the Borrower Security Agreement, under any of the other Collateral Documents or under any of the other Loan Documents.

(x) "COLLATERAL DOCUMENTS" means all agreements, instruments and documents executed in connection with this Agreement that are intended to create or evidence Liens to secure the Obligations and all Floor Plan Indebtedness, including, without limitation, the Borrower Security Agreement, the Borrower Pledges, the subsidiary holding company pledges, each Dealership Security Agreement and all other security agreements, mortgages, deeds of trust, loan agreements, notes, guaranties, subordination agreements, pledges, powers of attorney, consents, assignments, contracts, fee letters, notices, leases, financing statements and all other written matter whether heretofore, now, or hereafter executed by or on behalf of the Borrower or any of its Subsidiaries and delivered to the Lender, together with all agreements and documents referred to therein or contemplated thereby.

(y) "COMMERCIAL PAPER RATE" means the interest rate for "1-Month Finance Paper Placed Directly" under the column entitled "Week Ending" for the Friday preceding the last Monday of a calendar month as reported in the Federal Reserve Statistical Release No. H.15 (519) issued by the Federal Reserve Board. In the event such Release is discontinued or modified to eliminate the reporting of a 30-day commercial paper rate, then Lender will substitute, in its sole discretion, a comparable report or release of the 30-day commercial paper rate published by a comparable source.

(z) "COMMISSION" means the Securities and Exchange Commission and any Person succeeding to the functions thereof.

(aa) "COMMITMENT" means the lesser of (i) \$60,000,000 MINUS the amount of any Decision Reserve, if any, in effect from time to time, or (ii) 100% of Used Vehicle Value MINUS the amount of any Decision Reserve, if any, in effect from time to time.

(bb) "CONSOLIDATED NET WORTH" means, at a particular date, the amount by which the total consolidated assets (other than amounts for Equipment and real estate) of the Borrower and its consolidated Subsidiaries exceeds the total consolidated liabilities (other than liabilities for Equipment and real estate) of the Borrower and its consolidated Subsidiaries.

(cc) "CONTAMINANT" means any waste, pollutant, hazardous substance, toxic substance, hazardous waste, special waste, petroleum or petroleum-derived substance or waste, asbestos, polychlorinated biphenyls ("PCBS"), or any constituent of any such substance or waste, and includes but is not limited to these terms as defined in Environmental, Health or Safety Requirements of Law.

(dd) "CONTINGENT OBLIGATION", as applied to any Person, means any Contractual Obligation, contingent or otherwise, of that Person with respect to any Indebtedness of another or other obligation or liability of another, including, without limitation, any such Indebtedness, obligation or liability of another directly or indirectly guaranteed, endorsed (otherwise than for collection or deposit in the ordinary course of business), co-made or discounted or sold with recourse by that Person, or in respect of which that Person is otherwise directly or indirectly liable, including Contractual Obligations (contingent or otherwise) arising through any agreement to purchase, repurchase, or otherwise acquire such Indebtedness, obligation or liability or any security therefor, or to provide funds for the payment or discharge thereof (whether in the form of loans, advances, stock purchases, capital contributions or otherwise), or to maintain solvency, assets, level of income, or other financial condition, or to make payment other than for value received.

(ee) "CONTRACTUAL OBLIGATION", as applied to any Person, means any material provision of any equity or debt securities issued by that Person or any material indenture, mortgage, deed of trust, security agreement, pledge agreement, guaranty, contract, undertaking, agreement or instrument, in each case in writing, to which that Person is a party or by which it or any of its properties is bound, or to which it or any of its properties is subject.

(ff) "CONTRIBUTION AGREEMENT" means that certain Contribution Agreement, dated as of even date herewith, as it may be amended, restated or otherwise modified and in effect from time to time.

(gg) "CONTROLLED GROUP" means the group consisting of (i) any corporation which is a member of the same controlled group of corporations (within the meaning of Section 414(b) of the Code) as the Borrower; (ii) a partnership or other trade or business (whether or not incorporated) which is under common control (within the meaning of Section 414(c) of the Code) with the Borrower; and (iii) a member of the same affiliated service group (within the meaning of Section 414(m) of the Code) as the Borrower, any corporation described in CLAUSE (I) above or any partnership or trade or business described in CLAUSE (II) above.

(hh) "CONTROLLED SUBSIDIARY" of any Person means a Subsidiary of such Person (i) 80% or more of the total Equity Interests or other ownership interests of which (other than directors' qualifying shares) shall at the time be owned by such Person or by one or more wholly-owned Subsidiaries of such Person and (ii) of which such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies, whether through the ownership of voting securities, by agreement or otherwise.

(ii) "CURRENT ASSETS" means, at a particular date, all amounts which would, in conformity with Agreement Accounting Principles, be included under current assets on a balance sheet as at such date.

(jj) "CURRENT LIABILITIES" means, at a particular date, all amounts which would, in conformity with Agreement Accounting Principles, be included under current liabilities on a balance sheet as at such date.

(kk) "CUSTOMARY PERMITTED LIENS" means:

(i) Liens (other than Environmental Liens, liens in favor of the IRS and liens in favor of the PBGC) with respect to the payment of taxes, assessments or governmental charges in all cases which are not yet due or (if foreclosure, distraint, sale or other similar proceedings shall not have been commenced) which are being contested in good faith by appropriate proceedings properly instituted and diligently conducted and with respect to which adequate

reserves or other appropriate provisions are being maintained in accordance with Agreement Accounting Principles;

(ii) statutory liens of landlords and liens of suppliers, mechanics, carriers, materialmen, warehousemen or workmen and other similar liens imposed by law created in the ordinary course of business for amounts not yet due or which are being contested in good faith by appropriate proceedings properly instituted and diligently conducted and with respect to which adequate reserves or other appropriate provisions are being maintained in accordance with Agreement Accounting Principles;

(iii) Liens (other than Environmental Liens, Liens in favor of the IRS and Liens in favor of the PBGC) incurred or deposits made, in each case, in the ordinary course of business in connection with worker's compensation, unemployment insurance or other types of social security benefits or to secure the performance of bids, tenders, sales, contracts (other than for the repayment of borrowed money), surety, appeal and performance bonds; PROVIDED that (A) all such Liens do not in the aggregate materially detract from the value of the Borrower's or such Subsidiary's assets or property taken as a whole or materially impair the use thereof in the operation of the businesses taken as a whole, and (B) with respect to Liens securing bonds to stay judgments or in connection with appeals do not secure at any time an aggregate amount exceeding \$250,000;

(iv) Liens arising with respect to zoning restrictions, easements, licenses, reservations, covenants, rights-of-way, utility easements, building restrictions and other similar charges or encumbrances on the use of real property which do not in any case materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of the Borrower or any of its Subsidiaries;

(v) Liens of attachment or judgment with respect to judgments, writs or warrants of attachment, or similar process against the Borrower or any of its Subsidiaries which do not constitute an Event of Default under SECTION 6.1(H) hereof; and

(vi) any interest or title of the lessor in the property subject to any operating lease entered into by the Borrower or any of its Subsidiaries in the ordinary course of business.

(ll) "DEALERSHIP GUARANTORS" means each Lithia Dealership, Lithia Financial Corporation and Lithia Real Estate, Inc. providing a Dealership Guaranty and/or a Dealership Security Agreement to the Lender, and their respective successors and assigns.

(mm) "DEALERSHIP GUARANTY" means that certain Dealership Guaranty in the form attached hereto as Exhibit C-1, provided by a Lithia Dealership to the Lender, as the same may be amended, modified, supplemented and/or restated, and as in effect from time to time.

(nn) "DEALERSHIP SECURITY AGREEMENT" means any Security Agreement in the form attached hereto as Exhibit D-1, pursuant to which a Lithia Dealership grants the Lender a security interest in all of its assets, as the same may be amended, modified, supplemented and/or restated, and as in effect from time to time.

(oo) "DISQUALIFIED STOCK" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or

redeemable at the option of the holder thereof, in whole or in part, on or prior to the date that is 91 days after the Termination Date.

(pp) "DOL" means the United States Department of Labor and any Person succeeding to the functions thereof.

(qq) "EBITDA" means, for any period, on a consolidated basis for the Borrower and its Subsidiaries, the sum of the amounts for such period, without duplication, of:

(i) Net Income,

PLUS (ii) Interest Expense,

PLUS (iii) charges against income for foreign, federal, state and local taxes, to the extent deducted in computing Net Income,

PLUS (iv) depreciation expense, to the extent deducted in computing Net Income,

PLUS (v) amortization expense, including, without limitation, amortization of goodwill, other intangible assets and Transaction Costs, to the extent deducted in computing Net Income,

PLUS (vi) other non-cash charges classified as long-term deferrals in accordance with Agreement Accounting Principles, to the extent deducted in computing Net Income,

MINUS (vii) all extraordinary gains (and any nonrecurring unusual gains arising in or outside of the ordinary course of business not included in extraordinary gains determined in accordance with Agreement Accounting Principles which have been included in the determination of Net Income).

EBITDA shall be calculated for any period by including the actual amount for the applicable period ending on such day, including the EBITDA attributable to Permitted Acquisitions occurring during such period on a PRO FORMA basis for the period from the first day of the applicable period through the date of the closing of each Permitted Acquisition, utilizing (a) where available or required pursuant to the terms of this Agreement, historical audited and/or reviewed unaudited financial statements obtained from the seller, broken down by fiscal quarter in the Borrower's reasonable judgment or (b) unaudited financial statements (where no audited or reviewed financial statements are required pursuant to the terms of this Agreement) reviewed internally by the Borrower, broken down in the Borrower's reasonable judgment.

(rr) "EBITDAR" means, for any period, on a consolidated basis for the Borrower and its Subsidiaries, the sum of the amounts for such period, without duplication, of (i) EBITDA and (ii) Rentals.

(ss) "ENVIRONMENTAL, HEALTH OR SAFETY REQUIREMENTS OF LAW" means all Requirements of Law derived from or relating to federal, state and local laws or regulations relating to or addressing pollution or protection of the environment, or protection of worker health or safety, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 ET SEQ., the Occupational Safety and Health Act of 1970, 29 U.S.C. Section 651 ET SEQ., and the Resource Conservation and Recovery Act of 1976, 42 U.S.C. Section 6901 ET SEQ., in each case including any amendments thereto, any successor statutes, and any regulations or guidance promulgated thereunder, and any state or local equivalent thereof.

(tt) "ENVIRONMENTAL PROPERTY TRANSFER ACT" means any applicable requirement of law that conditions, restricts, prohibits or requires any notification or disclosure triggered by the closure of any property or the transfer, sale or lease of any property or deed or title for any property for

environmental reasons, including, but not limited to, any so-called "Industrial Site Recovery Act" or "Responsible Property Transfer Act."

(uu) "EQUIPMENT" means all of the Borrower's and each Dealership Guarantor's present and future furniture, machinery, service vehicles, supplies and other equipment and any and all accessions, parts and appurtenances attached to any of the foregoing or used in connection therewith, and any substitutions therefor and replacements, products and proceeds thereof.

(vv) "EQUITY INTERESTS" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

(ww) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time including (unless the context otherwise requires) any rules or regulations promulgated thereunder.

(xx) "FAIR VALUE" means (a) with respect to the Capital Stock of the Borrower, the closing price for such Capital Stock on the trading date immediately preceding the date of the applicable acquisition agreement; and (b) with respect to other assets, the value of the relevant asset as of the date of acquisition or sale determined in an arm's-length transaction conducted in good faith between an informed and willing buyer and an informed and willing seller under no compulsion to buy.

(yy) "FLOOR PLAN INDEBTEDNESS" means any and all loans, advances, debts, liabilities and obligations owing by a Lithia Dealership to the Lender of any kind or nature, present or future, arising under a Wholesale Line, whether or not evidenced by any note, guaranty or other instrument, whether or not for the payment of money, whether arising by reason of an extension of credit, loan, guaranty, indemnification, or in any other manner, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising and however acquired. The term includes, without limitation, all interest, charges, expenses, fees, attorneys' fees and disbursements, paralegals' fees (in each case whether or not allowed), and any other sum chargeable to the Borrower or a Lithia Dealership under any Wholesale Line.

(zz) "HEDGING OBLIGATIONS" of a Person means any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (i) any and all agreements, devices or arrangements designed to protect at least one of the parties thereto from the fluctuations of interest rates, exchange rates or forward rates applicable to such party's assets, liabilities or exchange transactions, including, but not limited to, dollar-denominated or cross-currency interest rate exchange agreements, forward currency exchange agreements, interest rate cap or collar protection agreements, forward rate currency or interest rate options, puts and warrants, and (ii) any and all cancellations, buy backs, reversals, terminations or assignments of any of the foregoing.

(aaa) "INDEBTEDNESS" of any Person means, without duplication, such Person's (a) obligations for borrowed money, (b) obligations representing the deferred purchase price of property or services (other than accounts payable arising in the ordinary course of such Person's business payable on terms customary in the trade), (c) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from property or assets now or hereafter owned or acquired by such Person, (d) obligations which are evidenced by notes, acceptances or other instruments, (e) Capitalized Lease Obligations, (f) reimbursement obligations with respect to letters of credit (other than commercial letters of credit) issued for the account of such Person, (g) Hedging Obligations, (h) Off Balance Sheet Liabilities and (i) Contingent Obligations in respect of obligations of another Person of the type described in the foregoing clauses (a) through (h). The amount of Indebtedness of any Person at any date shall be without duplication (i) the outstanding balance at

such date of all unconditional obligations as described above and the maximum liability of any such Contingent Obligations at such date and (ii) in the case of Indebtedness of others secured by a lien to which the property or assets owned or held by such Person is subject, the lesser of the fair market value at such date of any asset subject to a lien securing the Indebtedness of others and the amount of the Indebtedness secured.

(bbb) "INTEREST EXPENSE" means, for any period, the total interest expense of the Borrower and its consolidated Subsidiaries, whether paid or accrued (including the interest component of Capitalized Leases, commitment and letter of credit fees), but excluding interest expense not payable in cash (including amortization of discount), all as determined in conformity with Agreement Accounting Principles.

(ccc) "INVENTORY" shall mean any and all motor vehicles, tractors, trailers, service parts and accessories and other inventory of the Borrower and each Dealership Guarantor.

(ddd) "INVESTMENT" means, with respect to any Person, (i) any purchase or other acquisition by that Person of any Indebtedness, Equity Interests or other securities, or of a beneficial interest in any Indebtedness, Equity Interests or other securities, issued by any other Person, (ii) any purchase by that Person of all or substantially all of the assets of a business conducted by another Person, and (iii) any loan, advance (other than deposits with financial institutions available for withdrawal on demand, prepaid expenses, accounts receivable, advances to employees and similar items made or incurred in the ordinary course of business) or capital contribution by that Person to any other Person, including all Indebtedness to such Person arising from a sale of property by such Person other than in the ordinary course of its business.

(eee) "IRS" means the Internal Revenue Service and any Person succeeding to the functions thereof.

(fff) "LITHIA DEALERSHIP" means any Subsidiary dealership and/or related body shop or service repair center owned, operated or acquired by the Borrower or any Subsidiary of the Borrower.

(ggg) "LITHIA GROUP" means each of the Borrower and each Subsidiary of the Borrower.

(hhh) "LITHIA GUARANTIES" means each of the Borrower Guaranty, each Dealership Guaranty and the Contribution Agreement.

(iii) "LOAN DOCUMENTS" means this Agreement, the Note, the Lithia Guaranties, the Collateral Documents and all other documents, instruments and agreements executed in connection therewith or contemplated thereby, as the same may be amended, restated or otherwise modified and in effect from time to time.

(jjj) "MAINTENANCE CAPITAL EXPENDITURES" shall have the meaning set forth in Section 5.4 (d) hereof.

(kkk) "MAJORITY ACQUISITION" shall mean any Acquisition of Equity Interests of an entity, in which Borrower is not permitted to hold 100% of such Equity Interest because of limitations imposed by the relevant automotive manufacturer's franchise agreement.

(lll) "MARGIN STOCK" shall have the meaning ascribed to such term in Regulation U.

(mmm) "MATERIAL SUBSIDIARY" means (a) any "Significant Subsidiary" as defined in Regulation S-X issued pursuant to the Securities Act and the Exchange Act and (b) any other Subsidiary of the Borrower which at any time comprises five percent (5%) or more of the Borrower's Tangible Base Capital.

(nnn) "MAXIMUM RATE" means the maximum nonusurious interest rate under applicable law.

(ooo) "MULTI-EMPLOYER PLAN" means a "Multi-employer Plan" as defined in Section 4001(a)(3) of ERISA which is, or within the immediately preceding six (6) years was, contributed to by either the Borrower or any member of the Controlled Group.

(ppp) "NET CASH" means the value of (A) the difference between (i) the inventory of Borrower and its Subsidiaries, including new vehicles and demonstration vehicles, less (ii) the outstanding Indebtedness owed by Borrower and its Subsidiaries for such new vehicles and demonstration vehicles plus (B) cash of Borrower and its Subsidiaries (C) receivables of Borrowers and its Subsidiaries for new finance contracts, plus (D) vehicle account receivable of Borrower and its Subsidiaries (E) holdbacks of Borrower and its Subsidiaries, less (F) customer deposits, less (G) the sum of one months principal payments on all outstanding Indebtedness of Borrower of its Subsidiaries, less (H) accommodations of Borrower and its Subsidiaries (I) average monthly expenses of Borrower and its Subsidiaries, less (J) net cash excess of Borrower and its Subsidiaries; as these terms are defined and reported on Borrower's and/or its Subsidiaries Ford Motor Company Dealer Financial Statement and determined in accordance with Agreement Accounting Principals.

(qqq) "NET INCOME" means, for any period, the net earnings (or loss) after taxes of the Borrower and its Subsidiaries on a consolidated basis for such period taken as a single accounting period determined in conformity with Agreement Accounting Principles.

(rrr) "NOTE" means that certain promissory note, in substantially the form of EXHIBIT A hereto, duly executed by the Borrower and payable to the order of the Lender in the amount of \$60,000,000.00 including any amendment, restatement, modification, renewal or replacement thereof.

(sss) "OBLIGATIONS" means all Advances, debts, liabilities, obligations, covenants and duties owing by the Borrower or a Lithia Dealership to the Lender or any Indemnitee, of any kind or nature, present or future, arising under this Agreement, the Note, the Collateral Documents or any other Loan Document, whether or not evidenced by any note, guaranty or other instrument, whether or not for the payment of money, whether arising by reason of an extension of credit, loan, guaranty, indemnification, or in any other manner, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising and however acquired. The term includes, without limitation, all interest, charges, expenses, fees, attorneys' fees and disbursements, paralegals' fees (in each case whether or not allowed), and any other sum chargeable to the Borrower or a Lithia Dealership under this Agreement or any other Loan Document.

(ttt) "OFF BALANCE SHEET LIABILITIES" of a Person means (a) any repurchase obligation or liability of such Person or any of its Subsidiaries with respect to accounts or notes receivable sold by such Person or any of its Subsidiaries, (b) any liability under any sale and leaseback transactions which do not create a liability on the consolidated balance sheet of such Person, (c) any liability under any financing lease or so-called "synthetic" lease transaction, or (d) any obligations arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the consolidated balance sheets of such Person and its Subsidiaries.

(uuu) "OTHER FLOOR PLAN INDEBTEDNESS" means loans advances, debts, liabilities and obligations owing by a Lithia Dealership to a floor plan lender for the financing of new vehicle inventory.

(vvv) "PAYMENT DATE" means the fifteenth day of each calendar month, PROVIDED, HOWEVER if such day is not a business day, then the Payment Date shall be the next succeeding business day following such fifteenth day.

(www) "PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

(xxx) "PERMITTED EXISTING INDEBTEDNESS" means the Indebtedness of the Borrower and its Subsidiaries identified as such on SCHEDULE 1 to this Agreement.

(yyy) "PERMITTED EXISTING INVESTMENTS" means the Investments of the Borrower and its Subsidiaries identified as such on SCHEDULE 2 to this Agreement.

(zzz) "PERMITTED EXISTING LIENS" means the Liens on assets of the Borrower and its Subsidiaries identified as such on SCHEDULE 3 to this Agreement.

(aaa) "PERMITTED REFINANCING INDEBTEDNESS" means any replacement, renewal, refinancing or extension of any Indebtedness permitted by this Agreement that (i) does not exceed the aggregate principal amount (plus associated fees and expenses) of the Indebtedness being replaced, renewed, refinanced or extended, (ii) does not rank at the time of such replacement, renewal, refinancing or extension senior to the Indebtedness being replaced, renewed, refinanced or extended, and (iii) does not contain terms (including, without limitation, terms relating to security, amortization, interest rate, premiums, fees, covenants, event of default and remedies) materially less favorable to the Borrower or to the Lender than those applicable to the Indebtedness being replaced, renewed, refinanced or extended.

(bbb) "PERSON" means any individual, corporation, firm, enterprise, partnership, trust, incorporated or unincorporated association, joint venture, joint stock company, limited liability company or other entity of any kind, or any government or political subdivision or any agency, department or instrumentality thereof.

(ccc) "PLAN" means an employee benefit plan defined in Section 3(3) of ERISA in respect of which the Borrower or any member of the Controlled Group is, or within the immediately preceding six (6) years was, an "employer" as defined in Section 3(5) of ERISA.

(ddd) "PRINCIPAL" means Sidney B. DeBoer, or a successor reasonably acceptable to Lender.

(eee) "RECEIVABLE(S)" means and includes all of the Borrower's and each Dealership Guarantor's presently existing and hereafter arising or acquired accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds and other obligations of third persons of any kind, now or hereafter existing, whether arising out of or in connection with the sale or lease of goods, the rendering of services or otherwise, and all rights now or hereafter existing in and to all security agreements, leases, and other contracts securing or otherwise relating to any such accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds or obligations of third persons.

(fff) "REGULATION T" means Regulation T of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by and to brokers and dealers of securities for the purpose of purchasing or carrying margin stock (as defined therein).

(ggg) "REGULATION U" means Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official

interpretation of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying Margin Stock applicable to member banks of the Federal Reserve System.

(hhhh) "REGULATION X" means Regulation X of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by foreign lenders for the purpose of purchasing or carrying margin stock (as defined therein).

(iiii) "RELATED PARTY" with respect to the Principal means (i) any spouse or immediate family member of such Principal or (ii) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding the outstanding Equity Interest of which consist of such Principal and/or such other Persons referred to in the immediately preceding clause (i).

(jjjj) "RELEASE" means any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration into the indoor or outdoor environment, including the movement of Contaminants through or in the air, soil, surface water or groundwater.

(kkkk) "RENTALS" of a Person means the aggregate fixed amounts payable by such Person under any lease of personal property but does not include any amounts payable under Capitalized Leases of such Person.

(llll) "REPORTABLE EVENT" means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days after such event occurs, PROVIDED, HOWEVER, that a failure to meet the minimum funding standards of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

(mmmm) "RESTRICTED DEALERSHIP" means any Lithia Dealership, the franchise agreement with respect to which contains restrictions on such Lithia Dealership's ability to pledge its assets as collateral for the Obligations.

(nnnn) "RESTRICTED PAYMENT" means (i) any dividend or other distribution, direct or indirect, on account of any Equity Interests of the Borrower now or hereafter outstanding, except a dividend payable solely in the Borrower's Capital Stock (other than Disqualified Stock) or in options, warrants or other rights to purchase such Capital Stock, (ii) any redemption, retirement, purchase or other acquisition for value, direct or indirect, of any Equity Interests of the Borrower or any of its Subsidiaries now or hereafter outstanding, other than in exchange for, or out of the proceeds of, the substantially concurrent sale (other than to a Subsidiary of the Borrower) of other Equity Interests of the Borrower (other than Disqualified Stock), and (iii) any payment of a claim for the rescission of the purchase or sale of, or for material damages arising from the purchase or sale of any Equity Interests of the Borrower or any of the Borrower's Subsidiaries, or of a claim for reimbursement, indemnification or contribution arising out of or related to any such claim for damages or rescission.

(oooo) "REVOLVING CREDIT AVAILABILITY" means, at any particular time, the amount by which the Commitment at such time exceeds the Revolving Credit Obligations at such time.

(pppp) "REVOLVING CREDIT OBLIGATIONS" means, at any particular time, the sum of the outstanding principal amount of all Advances at such time.

(qqqq) "SCALED ASSETS" means with respect to the Lithia Group, the sum of (A) an amount equal to 75% of the Lithia Group's Receivables which constitute factory receivables, (B) an amount

equal to 60% of the Lithia Group's Receivables which constitute current finance receivables, (C) an amount equal to 60% of the Lithia Group's Receivables which constitute receivables for parts and services (after netting any amounts payable in connection with such parts and services by any member of the Lithia Group), (D) an amount equal to 55% of the Lithia Group's Inventory which constitutes parts and accessories, (E) an amount equal to 80% of the difference between (i) that portion of the Lithia Group's Inventory which constitutes used vehicles and (ii) the amount of any Floor Plan Indebtedness of any member of the Lithia Group incurred or available in connection with such used vehicles, and (F) an amount equal to 45% of the difference between (i) the value of the Lithia Group's Equipment and (ii) the amount of Indebtedness of any member of the Lithia Group incurred in connection with such Equipment. The value of the Lithia Group's Scaled Assets shall be calculated by the Lender and shall be determined based on the financial statements and monthly factory statements delivered to the Lender pursuant to SECTION 5.1(A). Scaled Assets shall be measured as of the Effective Date and as of the end of each calendar quarter.

(rrrr) "SECRETARY'S CERTIFICATE" with respect to any entity in the Lithia Group, means any certificate, delivered by a secretary, assistant secretary, managing member, general partner or governor of such entity which certifies (i) the names and true signatures of the incumbent officers or managers of such entity authorized to sign each Transaction Document to which it is a party and the other documents to be executed thereunder, (ii) a true and correct copy of such entity's Certificate of Incorporation, or similar charter document and all amendments thereto, (iii) a true and correct copy of the by-laws or similar governing document of such entity and all amendments thereto, and (iv) a true and correct copy of the resolutions of such entity's board of directors or members approving and authorizing the execution, delivery and performance by such entity of each Transaction Document to which it is a party and the other documents to be executed thereunder;

(ssss) "SINGLE EMPLOYER PLAN" means a Plan maintained by the Borrower or any member of the Controlled Group for employees of the Borrower or any member of the Controlled Group.

(tttt) "SUBSIDIARY" of a Person means (i) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or controlled, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (ii) any partnership, association, joint venture or similar business organization more than 50% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled. Unless otherwise expressly provided, all references herein to a "Subsidiary" shall mean a Subsidiary of the Borrower, except that Lithia Financial Corporation and Lithia Real Estate, Inc. shall be excluded therefrom.

(uuuu) "TANGIBLE BASE CAPITAL" means, at a particular date of calculation, the amount determined by the Lender to be equal to :

(i) Consolidated Net Worth

PLUS

(ii) the sum of

(a) Indebtedness of the Borrower or its Subsidiaries to officers of the Borrower, which Indebtedness is subordinated in writing to the Obligations on terms and conditions acceptable to the Lender; and

(b) an amount equal to 64% of the LIFO reserve (as determined in accordance with Agreement Accounting Principles) reflected on the Borrower's balance sheet;

MINUS

(iii) the sum of

(a) Receivables with respect to which the account debtor is a director, officer, employee, Subsidiary or Affiliate of the Borrower or other amounts (whether or not classified as Receivables) from Affiliates of the Borrower or its Subsidiaries (other than those payable within 30 days and incurred in the ordinary course of business); and

(b) that part of the Borrower's and its Subsidiaries (on a consolidated basis) capitalization or reserves attributable to any writing up of book values on any fixed assets after the date of the most recently delivered financial statements of the Borrower and its Subsidiaries;

(c) the aggregate amount of the Borrower's and its Subsidiaries Investments in Affiliates (other than the Borrower's Subsidiaries);

(d) organizational expenses related to start-up of operations with respect to the Borrower and its Subsidiaries;

(e) goodwill and other intangible assets (as determined in accordance with Agreement Accounting Principles);

(f) any amount paid to a third-party as consideration for no-competition agreements;

(g) the value of daily rental franchise payments made by the Borrower or its Subsidiaries under any franchise agreements (net of any amounts owed by a franchisor to Borrower or its Subsidiaries); and

(h) other assets (including, without limitation, airplanes, cattle, etc.) not related to the operations of the Dealerships as automobile dealerships.

(vvvv) "TERMINATION DATE" means the earlier of (a) two (2) years after the date hereof and agreed to by the Lender and (b) the date of termination of the Commitment pursuant to either of SECTION 2.3 or SECTION 7.1 hereof.

(wwww) "TERMINATION EVENT" means (i) a Reportable Event with respect to any Benefit Plan; (ii) the withdrawal of the Borrower or any member of the Controlled Group from a Benefit Plan during a plan year in which the Borrower or such Controlled Group member was a "substantial employer" as defined in Section 4001(a)(2) of ERISA or the cessation of operations which results in the termination of employment of twenty percent (20%) of Benefit Plan participants who are employees of the Borrower or any member of the Controlled Group; (iii) the imposition of an obligation on the Borrower or any member of the Controlled Group under Section 4041 of ERISA to provide affected parties written notice of intent to terminate a Benefit Plan in a distress termination described in Section 4041(c) of ERISA; (iv) the institution by the PBGC of proceedings to terminate a Benefit Plan; (v) any event or condition which might constitute grounds under Section 4042 of ERISA for the Termination of, or the appointment of a trustee to administer, any Benefit Plan; or (vi) the partial or complete withdrawal of the Borrower or any member of the Controlled Group from a Multi-employer Plan.

(xxxx) "TOTAL ADJUSTED DEBT" means, for any period, on a consolidated basis for the Borrower and its Subsidiaries, the amount of Total Debt less any Floor Plan Indebtedness and less Indebtedness for Equipment and real estate.

(yyyy) "TOTAL DEBT" means, for any period, on a consolidated basis for the Borrower and its Subsidiaries, the sum of Indebtedness of the Borrower and its Subsidiaries, other than Hedging Obligations and other than Indebtedness for Equipment and real estate.

(zzzz) "TRANSACTION COSTS" means the fees, costs and expenses payable by the Borrower in connection with the execution, delivery and performance of the Transaction Documents.

(aaaaa) "TRANSACTION DOCUMENTS" means the Loan Documents and the Acquisition Documents.

(bbbbb) "UNFUNDED LIABILITIES" means (i) in the case of Single Employer Plans, the amount (if any) by which the present value of all vested nonforfeitable benefits under all Single Employer Plans exceeds the fair market value of all such Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plans, and (ii) in the case of Multi-employer Plans, the withdrawal liability that would be incurred by the Controlled Group if all members of the Controlled Group completely withdrew from all Multi-employer Plans.

(ccccc) "UNMATURED DEFAULT" means an event which, but for the lapse of time or the giving of notice, or both, would constitute an Event of Default.

(dddd) "UNRESTRICTED DEALERSHIP" means any Lithia Dealership other than a Restricted Dealership.

(eeee) "USED VEHICLE VALUE" means the value of Dealership Guarantors' used vehicle inventory, as such amounts are reported on the ledger kept in accordance with Section 5.2(o) hereof; such amount, however, not to exceed 100% of the used vehicle current trade in value, as reported in N.A.D.A. OFFICIAL USED CAR GUIDE.

(ffff) "WHOLESALE LINE" means any wholesale credit line made by the Lender to a Lithia Dealership.

Any accounting terms used in this Agreement which are not specifically defined herein shall have the meanings customarily given them in accordance with generally accepted accounting principles in existence as of the date hereof.

1.2 REFERENCES. The existence throughout the Agreement of references to the Borrower's Subsidiaries is for a matter of convenience only. Any references to Subsidiaries of the Borrower set forth herein shall (i) with respect to representations and warranties which deal with historical matters be deemed to include each of the Subsidiaries existing on the date hereof, and (ii) shall not in any way be construed as consent by the Lender to the establishment, maintenance or acquisition of any Subsidiary, except as may otherwise be permitted hereunder.

1.3 EFFECTIVENESS OF THIS AGREEMENT. Upon the satisfaction of all of the conditions precedent set forth in SECTION 3.1 of this Agreement (the date upon which such conditions precedent are satisfied being hereinafter referred to as the "EFFECTIVE DATE"), this Agreement shall become effective.

2. THE LOAN

2.1 ADVANCES. Upon the satisfaction of the conditions precedent set forth in SECTIONS 3.1 and 3.2, from and including the date of this Agreement and prior to the Termination Date, the Lender shall, on the terms and conditions set forth in this Agreement, make Advances to the Borrower from time to time, in an amount not to exceed the Revolving Credit Availability at such time; PROVIDED, HOWEVER, at no time shall the Revolving Credit Obligations exceed the Commitment at such time. Any Advance over \$5,000,000 shall be subject to Lender's prior written consent, which consent may be withheld for any reason. Subject to the terms of this Agreement, the Borrower may borrow, repay and reborrow Advances at any time prior to the Termination Date. Borrower shall repay in full the outstanding principal balance of the Loan on the Termination Date.

2.2 OPTIONAL PAYMENTS; MANDATORY PREPAYMENTS.

(a) OPTIONAL PAYMENTS. The Borrower may from time to time repay or prepay, without penalty or premium all or any part of outstanding Advances; PROVIDED, that the Borrower may not so prepay Advances unless it shall have provided at least one business day's written notice to the Lender of such prepayment.

(b) MANDATORY PREPAYMENTS. If at any time and for any reason the Revolving Credit Obligations are greater than the Commitment then the Borrower shall immediately make a mandatory prepayment of the Obligations in an amount equal to such excess. Amounts equal to a Decision Reserve or net cash proceeds of an Asset Sale in connection with or following restoration, rebuilding or replacement of insured property shall be mandatorily applied against the Revolving Credit Obligations in the amounts and in the manner set forth in SECTION 5.2(G) hereof. All of the mandatory prepayments made under this SECTION 2.2(B) shall be applied first to Advances maturing on such date and then to subsequently maturing Advances in order of maturity.

2.3 CHANGES IN THE COMMITMENT. REDUCTION OF COMMITMENT. The Borrower may permanently reduce the Commitment in whole, or in part, in an aggregate minimum amount of \$5,000,000 and integral multiples of \$1,000,000 in excess of that amount (unless the Commitment is reduced in whole), upon at least three (3) business days' written notice to the Lender, which notice shall specify the amount of any such reduction; PROVIDED, HOWEVER, that the amount of the Commitment may not be reduced below the aggregate principal amount of the outstanding Revolving Credit Obligations. All accrued commitment fees shall be payable on the effective date of any partial or complete termination of the obligations of the Lender to make Advances hereunder.

2.4 METHOD OF BORROWING. The Borrower shall give the Lender irrevocable notice in substantially the form of EXHIBIT B hereto (a "BORROWING NOTICE") not later than 10:00 a.m. (Eastern Standard Time) on the business day preceding the Borrowing Date of each Advance, specifying: (i) the Borrowing Date (which shall be a business day) of such Advance; (ii) the aggregate amount of such Advance; (iii) the use of proceeds of such Advance, and (iv) the account or accounts into which the Advances should be funded. Not later than 2:00 p.m. (Eastern Standard Time) on each Borrowing Date, the Lender shall make available its Advance, in funds immediately available to the Borrower at such account or accounts as shall have been notified to the Lender. Each Advance shall bear interest from and including the date of the making of such Advance to (but not including) the date of repayment thereof at the Applicable Commercial Paper Rate, changing when and as the underlying Commercial Paper Rate changes, which such interest shall be payable in accordance with SECTION 2.9(B).

2.5 MINIMUM AMOUNT OF EACH ADVANCE. Each Advance shall be in the minimum amount of \$250,000 (and in multiples of \$50,000 if in excess thereof), PROVIDED, HOWEVER, that any Advance may be in the amount of the unused Commitment.

2.6 DEFAULT RATE; LATE PAYMENT FEE. After the occurrence and during the continuance of an Event of Default, at the option of the Lender, the interest rate(s) applicable to the Advances shall be equal to the Applicable Commercial Paper Rate PLUS three percent (3.0%) per annum. If any of the Principal Balance or interest on this Note or other sum due hereunder is not paid within ten (10) days of when due, Borrower shall pay to Lender a late charge payment equal to five percent (5%) of the amount of such installment or the maximum rate permitted by law, whichever is less.

2.7 METHOD OF PAYMENT. All payments of principal, interest, and fees hereunder shall be made, without setoff, deduction or counterclaim, in immediately available funds to the Lender at the Lender's address specified pursuant to ARTICLE X, or at any other address specified in writing by the Lender to the Borrower, by 2:00 p.m. (Eastern Standard Time) on the date when due.

2.8 ADVANCES, TELEPHONIC NOTICES. The Lender is authorized to record the principal amount of each Advance and each repayment with respect to its Advances on the schedule attached to the Note; PROVIDED, HOWEVER, that the failure to so record shall not affect the Borrower's obligations under the Note. The Borrower authorizes the Lender to extend Advances and to transfer funds based on telephonic notices made by any person or persons the Lender in good faith believes to be authorized to act on behalf of the Borrower. The Borrower agrees to deliver promptly to the Lender a written confirmation, signed by an Authorized Officer, if such confirmation is requested by the Lender, of each telephonic notice. If the written confirmation differs in any material respect from the action taken by the Lender, (i) the telephonic notice shall govern absent manifest error and (ii) the Lender shall promptly notify the Authorized Officer who provided such confirmation of such difference.

2.9 PROMISE TO PAY; INTEREST AND COMMITMENT FEES; INTEREST PAYMENT DATES; INTEREST AND FEE BASIS; TAXES.

(a) PROMISE TO PAY. The Borrower unconditionally promises to pay when due the principal amount of each Advance and all other Obligations incurred by it, and to pay all unpaid interest accrued thereon, in accordance with the terms of this Agreement and the Note.

(b) INTEREST PAYMENT DATE.

(i) INTEREST PAYABLE ON ADVANCES. Interest accrued on each Advance shall be payable on each Payment Date, commencing with the first such date to occur after the date hereof and at maturity (whether by acceleration or otherwise). On each Payment Date, the Borrower shall pay interest at the Applicable Commercial Paper Rate on each Advance outstanding on such date.

(ii) INTEREST ON OTHER OBLIGATIONS. Interest accrued on the principal balance of all other Obligations shall be payable in arrears (i) on the last day of each calendar month, commencing on the first such day following the incurrence of such Obligation, (ii) upon repayment thereof in full or in part, and (iii) if not theretofore paid in full, at the time such other Obligation becomes due and payable (whether by acceleration or otherwise).

(c) COMMITMENT FEES. The Borrower shall pay to the Lender, from and after the date hereof until the date on which the Commitment shall be terminated in whole, a commitment fee equal to one-eighth of one percent (0.125%) per annum, on the amount by which (A) the Commitment in effect from time to time exceeds (B) the Revolving Credit Obligations in effect from time to time. All such commitment fees payable under this CLAUSE (C) shall be payable annually in arrears on each

anniversary occurring after the Effective Date and, in addition, on the date on which the Commitment shall be terminated in whole.

(d) **INTEREST AND FEE BASIS.** Interest and fees shall be calculated for actual days elapsed on the basis of a 365 or when appropriate 366, day year. Interest shall be payable for the day an Obligation is incurred but not for the day of any payment on the amount paid if payment is received prior to 2:00 p.m. (Eastern Standard Time) at the place of payment. If any payment of principal of or interest on an Advance or any payment of any other Obligations shall become due on a day which is not a business day, such payment shall be made on the next succeeding business day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

2.10 TERMINATION DATE. This Agreement shall be effective until the Termination Date. Notwithstanding the termination of this Agreement on the Termination Date, until all of the Obligations (other than contingent indemnity obligations, but including all Floor Plan Indebtedness) shall have been fully and indefeasibly paid and satisfied and all financing arrangements between the Borrower and the Lender in connection with this Agreement shall have been terminated (other than with respect to Hedging Obligations), all of the rights and remedies under this Agreement and the other Loan Documents shall survive and the Lender shall be entitled to retain its security interest in and to all existing and future Collateral.

2.11 TAXES. (a) Any and all payments by the Borrower hereunder shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings or any liabilities with respect thereto including those arising after the date hereof as a result of the adoption of or any change in any law, treaty, rule, regulation, guideline or determination of a governmental authority or any change in the interpretation or application thereof by a governmental authority but excluding such taxes (including income taxes, franchise taxes and branch profit taxes) as are imposed on or measured by the Lender's income by the United States of America or any governmental authority of the jurisdiction under the laws of which the Lender is organized or having jurisdiction over the Lender by virtue of the Lender's location(s) (other than solely as a result of the transaction evidenced by this Agreement) (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings, and liabilities which the Lender determines to be applicable to this Agreement, the other Loan Documents, the Commitment or the Advances being hereinafter referred to as "TAXES"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under the other Loan Documents to the Lender, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this SECTION 2.11(A)) the Lender receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges, or similar levies which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement, the other Loan Documents, the Commitment or the Advances (hereinafter referred to as "OTHER TAXES").

(c) The Borrower indemnifies the Lender for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any governmental authority on amounts payable under this SECTION 2.11 paid by the Lender and any liability (including penalties, interest, and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within thirty (30) days after the date the Lender makes written demand therefor. A certificate as to any additional amount payable to the Lender under this SECTION 2.11 submitted to the Borrower by the Lender shall show in reasonable detail the amount payable and the calculations used to determine such amount and shall, absent manifest error, be final, conclusive and binding upon each of the parties hereto. With respect to such deduction or withholding for or on account of any Taxes and to confirm that all such Taxes have been paid to the appropriate governmental authorities, the Borrower shall promptly (and in any event not later than thirty (30) days after receipt) furnish to the Lender such certificates, receipts and other documents as may be required (in the judgment of the Lender) to establish any tax credit to which the Lender may be entitled.

(d) Within thirty (30) days after the date of any payment of Taxes or Other Taxes by the Borrower, the Borrower shall furnish to the Lender the original or a certified copy of a receipt evidencing payment thereof.

(e) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in this SECTION 2.11 shall survive the payment in full of principal and interest hereunder and the termination of this Agreement.

2.12 LOAN ACCOUNT. The Lender shall maintain in accordance with its usual practice an account or accounts (a "LOAN ACCOUNT") evidencing the Obligations of the Borrower to the Lender owing to the Lender from time to time, including the amount of principal and interest payable and paid to the Lender from time to time hereunder and under the Note. The entries made in the Loan Account shall be conclusive and binding for all purposes, absent manifest error, unless the Borrower objects to information contained in the Loan Account within thirty (30) days of the Borrower's receipt of such information.

3. CONDITIONS PRECEDENT

3.1 CONDITIONS OF EFFECTIVENESS. The Effective Date of this Agreement shall be on the date on which all of the following conditions shall have been satisfied:

(a) no law, regulation, order, judgment or decree of any governmental authority shall, and the Lender shall not have received any notice that litigation is pending or threatened which is likely to, (A) enjoin, prohibit or restrain the making of an Advance hereunder or (B) impose or result in the imposition of a material adverse effect;

(b) all due diligence materials requested by the Lender from the Borrower shall have been delivered to the Lender and such due diligence materials shall be in form and substance reasonably satisfactory to the Lender;

(c) the Borrower has furnished to the Lender each of the following, all in form and substance satisfactory to the Lender:

(i) this Agreement, duly executed by the Borrower;

(ii) the Note, duly executed by the Borrower in favor of the Lender;

(iii) a Dealership Guaranty executed by each Lithia Dealership which has not heretofore provided a Dealership Guaranty to the Lender, it being understood that if such Lithia Dealership is an Unrestricted Dealership, such Dealership Guaranty will be substantially in the form of the Dealership Guaranty attached hereto as EXHIBIT C-1, and if such Lithia Dealership is a Restricted Dealership, such Dealership Guaranty will be substantially in the form of the Dealership Guaranty attached hereto as EXHIBIT C-2;

(iv) a Dealership Security Agreement executed by each Lithia Dealership which has not heretofore provided a Dealership Security Agreement to the Lender, it being understood that if such Lithia Dealership is an Unrestricted Dealership, such Dealership Security Agreement will be substantially in the form of the Dealership Security Agreement attached hereto as EXHIBIT D-1, and if such Lithia Dealership is a Restricted Dealership, such Dealership Security Agreement will be substantially in the form of the Dealership Security Agreement attached hereto as EXHIBIT D-2;

(v) to the extent any Lithia Dealership has any Indebtedness other than Permitted Existing Indebtedness, pay-out letters, releases and UCC-3 Termination Statements, where applicable, from all third-party creditors releasing all Liens securing any such Indebtedness;

(vi) certificates of good standing for the Borrower and each of the Dealership Guarantors from its jurisdiction of incorporation and each other jurisdiction where the nature of its business requires it to be qualified as a foreign corporation;

(vii) a Secretary's Certificate from the Borrower and each Lithia Dealership acquired by the Borrower on or prior to the date hereof.

(viii) a certificate, in form and substance satisfactory to the Lender, signed by the chief financial officer of the Borrower stating that as of the Effective Date, no Event of Default or Unmatured Default has occurred and is continuing and setting forth the calculation of the Lithia Group's Scaled Assets as of the Effective Date, and the representations and warranties of the Borrower are true and correct with full force and effect as if made on the Effective Date;

(ix) a written opinion of the Borrower's and Dealership Guarantors' counsel, addressed to the Lender, in form and substance satisfactory to the Lender;

(x) to the extent not included in the foregoing, the documents, instruments and agreements set forth on the closing list attached as EXHIBIT E hereto; and

(xi) such other documents as the Lender or its counsel may have reasonably requested.

3.2 CONDITIONS PRECEDENT TO EACH ADVANCE. The Lender shall not be required to make any Advance, unless on the applicable Borrowing Date:

(i) There exists no Event of Default or Unmatured Default; and

(ii) The representations and warranties contained in ARTICLE IV are true and correct as of such Borrowing Date (unless such representation and warranty expressly relates to an earlier date or is no longer true solely as a result of transactions permitted by this Agreement).

Each Borrowing Notice with respect to each such Advance shall constitute a representation and warranty by the Borrower that the conditions contained in SECTIONS 3.2(I) and (II) have been satisfied. If the Lender has a reasonable basis for believing an Event of Default or Unmatured Default may have occurred and is continuing or that the Borrower is not able to make one or more of the representations and warranties set forth in ARTICLE IV, the Lender may require a duly completed officer's certificate in substantially the form of EXHIBIT F hereto as a condition to making an Advance.

3.3 CONDITION PRECEDENT TO ADDITIONAL ADVANCE. Notwithstanding anything to the contrary in this Agreement, the Lender shall be under no obligation to make an Advance to the Borrower hereunder until and unless the following requirements shall have been satisfied:

- (i) There shall exist no liens on the Collateral other than Permitted Existing Liens and those Permitted Existing Liens appearing on SCHEDULE 1.1.3 marked with an asterisk shall have been released and or terminated, and the Borrower shall have confirmed delivery of such releases, UCC-3 termination statements or other documentation reasonably requested by the Lender evidencing such release or termination;
- (ii) The loss payable endorsements referenced in SECTION 5.2(G) shall have been delivered to the Lender.

4. REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants as follows to the Lender as of the date hereof and as of the Effective Date and thereafter on each date as required by SECTION 4.2:

4.1 ORGANIZATION; CORPORATE POWERS. The Borrower and each of its Subsidiaries (i) is a corporation, limited liability company or limited partnership duly organized, validly existing under the laws of the jurisdiction of its organization, (ii) is duly qualified to do business and is in good standing under the laws of each jurisdiction in which failure to be so qualified and in good standing could reasonably be expected to have a material adverse effect and (iii) has all requisite corporate, company or partnership power and authority to own, operate and encumber its property and to conduct its business as presently conducted and as proposed to be conducted.

4.2 AUTHORITY.

(a) The execution, delivery, performance and filing, as the case may be, of each of the Transaction Documents which must be executed or filed by the Borrower as required by this Agreement on or prior to the Effective Date and to which the Borrower or any of its Subsidiaries is party, and the consummation of the transactions contemplated thereby, have been duly approved by the respective boards of directors or managers, or by the partners, as applicable, and, if necessary, the shareholders, members or partners, as applicable, of the Borrower and its Subsidiaries, and such approvals have not been rescinded. No other corporate, company or partnership action or proceedings on the part of the Borrower or its Subsidiaries are necessary to consummate such transactions.

(b) Each of the Transaction Documents to which the Borrower or any of its Subsidiaries is a party has been duly executed, delivered or filed, as the case may be, by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, is in full force and effect and no material term or condition thereof has been amended, modified or waived without the prior written consent of the Lender, and the Borrower and its Subsidiaries have, and, to the best of the Borrower's and its Subsidiaries' knowledge, all other parties thereto have, performed and complied with all the material terms, provisions, agreements and conditions set forth therein and required to be

performed or complied with by such parties on or before the date hereof, and no unmatured default, default or breach of any material covenant by any such party exists thereunder.

4.3 NO CONFLICT; GOVERNMENTAL CONSENTS. The execution, delivery and performance of each of the Loan Documents and other Transaction Documents to which the Borrower or any of its Subsidiaries is a party do not and will not (i) conflict with the Charter Documents of the Borrower or any such Subsidiary, (ii) constitute a tortious interference with any Contractual Obligation of any Person or conflict with, result in a breach of or constitute (with or without notice or lapse of time or both) a default under any requirement of law (including, without limitation, any Environmental Property Transfer Act) or Contractual Obligation of the Borrower or any such Subsidiary, or require termination of any Contractual Obligation, (iii) result in or require the creation or imposition of any lien whatsoever upon any of the property or assets of the Borrower or any such Subsidiary, other than liens permitted by the Loan Documents, or (iv) require any approval of the Borrower's or any such Subsidiary's shareholders except such as have been obtained. The execution, delivery and performance of each of the Transaction Documents to which the Borrower or any of its Subsidiaries is a party do not and will not require any registration with, consent or approval of, or notice to, or other action to, with or by any governmental authority, including under any Environmental Property Transfer Act, except (i) filings, consents or notices which have been made, obtained or given, or which, if not made, obtained or given, individually or in the aggregate could not reasonably be expected to have a material adverse effect and (ii) filings necessary to create or perfect security interests in the Collateral.

4.4 FINANCIAL STATEMENTS.

(a) **FINANCIAL INFORMATION.** All balance sheets, statements of profit and loss and other financial data that have been given to Lender by or on behalf of Borrower (the "Financial Information") are complete and correct in all material respects, accurately present the financial condition of Borrower as of the dates, and the results of its operations for the periods specified in the Financial Information, and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods covered thereby. Except as specifically disclosed, as to amount, (and if over \$500,000, as to creditor or debtor, amount and security) by the Financial Information, Borrower does not have outstanding any loan or indebtedness, direct or contingent, to any party, other than the indebtedness due and owing to Lender, and none of its assets is subject to any security interest, lien or other encumbrance in favor of anyone other than Lender (except for the Permitted Existing Liens and liens permitted under Section 5.3 (c) arising subsequent to the date of this Agreement). There has been no change in the assets, liabilities or financial condition of Borrower from that set forth in the Financial Information other than changes in the ordinary course of affairs, none of which changes has been materially adverse to Borrower.

4.5 TAXES.

(a) **TAX EXAMINATIONS.** All deficiencies which have been asserted against the Borrower or any of the Borrower's Subsidiaries as a result of any federal, state, local or foreign tax examination for each taxable year in respect of which an examination has been conducted have been fully paid or finally settled or are being contested in good faith, and as of the date hereof no issue has been raised by any taxing authority in any such examination which, by application of similar principles, can be expected to result in assertion by such taxing authority of a material deficiency for any other year not so examined which has not been reserved for in the Borrower's consolidated financial statements to the extent, if any, required by Agreement Accounting Principles.

(b) **PAYMENT OF TAXES.** All tax returns and reports of the Borrower and its Subsidiaries required to be filed have been timely filed, and all taxes, assessments, fees and other governmental charges thereupon and upon their respective property, assets, income and franchises which are shown in such returns or reports to be due and payable have been paid except those items which are being contested in good faith and have been reserved for in accordance with Agreement Accounting Principles or for which the failure to file could not be reasonably expected to result in the payment of amounts by the Borrower and its Subsidiaries in the aggregate in excess of \$250,000. The Borrower has no knowledge of any proposed tax assessment against the Borrower or any of its Subsidiaries that will have or could reasonably be expected to have a material adverse effect.

4.6 LITIGATION; LOSS CONTINGENCIES AND VIOLATIONS. There is no action, suit, proceeding, arbitration or investigation before or by any governmental authority or private arbitrator pending or threatened against the Borrower or any of its Subsidiaries or any property of any of them (i) challenging the validity or the enforceability of any material provision of the Transaction Documents or (ii) which will have or could be expected to have a material adverse effect. There is no material loss contingency within the meaning of Agreement Accounting Principles which has not been reflected in the consolidated financial statements of the Borrower and its Subsidiaries prepared and delivered pursuant to SECTION 5.1(A) for the fiscal period during which such material loss contingency was incurred. Neither the Borrower nor any of its Subsidiaries is (A) in violation of any applicable requirements of law which violation will have or could be expected to have a material adverse effect, or (B) subject to or in default with respect to any final judgment, writ, injunction, restraining order or order of any nature, decree, rule or regulation of any court or governmental authority which will have or could be expected to have a material adverse effect.

4.7 SUBSIDIARIES. SCHEDULE 4.8 to this Agreement (i) contains a description as of the Effective Date (or as of the date of any supplement thereto) of the corporate structure of, the Borrower and its Subsidiaries and any other Person in which the Borrower or any of its Subsidiaries holds an Equity Interest; and (ii) accurately sets forth as of the Effective Date (or as of the date of any supplement thereto) (A) the correct legal name, the jurisdiction of incorporation or formation and the jurisdictions in which each of the Borrower and the Subsidiaries of the Borrower is qualified to transact business as a foreign corporation or other foreign entity and (B) a summary of the direct and indirect partnership, joint venture, or other Equity Interests, if any, of the Borrower and each Subsidiary of the Borrower in any Person that is not a corporation. After the formation or acquisition of any New Subsidiary permitted under SECTION 5.3(F)(II), if requested by the Lender, the Borrower shall provide a supplement to SCHEDULE 4.8 to this Agreement. None of the issued and outstanding Capital Stock of the Borrower or any of its Subsidiaries is subject to any redemption or repurchase agreement. The outstanding Capital Stock of the Borrower and each of the Borrower's Subsidiaries is duly authorized, validly issued, fully paid and nonassessable and, is not (other than Capital Stock in Borrower) Margin Stock. The Borrower has no Subsidiaries other

(i) the Subsidiaries set forth on SCHEDULE 4.8 and (ii) any Subsidiaries acquired in connection with a Permitted Acquisition, in connection with which the Borrower shall have provided all of the documents, instruments and agreements as required by this Agreement.

4.8 ERISA. No Benefit Plan has incurred any accumulated funding deficiency (as defined in Sections 302(a)(2) of ERISA and 412(a) of the Code) whether or not waived. Neither the Borrower nor any member of the Controlled Group has incurred any liability to the PBGC which remains outstanding other than the payment of premiums, and there are no premium payments which have become due which are unpaid. Schedule B to the most recent annual report filed with the IRS with respect to each Benefit Plan and, if so requested, furnished to the Lender, is complete and accurate. Since the date of each such Schedule B, there has been no material adverse change in the funding status or financial condition of the Benefit Plan relating to such Schedule B. Neither the Borrower nor any member of the Controlled Group has (i) failed to make a required contribution or payment to a Multiemployer Plan or (ii) made a complete or partial withdrawal under Sections 4203 or 4205 of ERISA from a Multiemployer Plan, in either event which could result in any liability. Neither the Borrower nor any member of the Controlled Group has failed to make a required installment or any other required payment under Section 412 of the Code, in either case involving any material amount, on or before the due date for such installment or other payment. Neither the Borrower nor any member of the Controlled Group is required to provide security to a Benefit Plan under Section 401(a)(29) of the Code due to a Plan amendment that results in an increase in current liability for the plan year. Neither the Borrower nor any of its Subsidiaries maintains or contributes to any employee welfare benefit plan within the meaning of

Section 3(1) of ERISA which provides benefits to employees after termination of employment other than as required by Section 601 of ERISA. To the best of Borrower's knowledge, each Plan which is intended to be qualified under Section 401(a) of the Code as currently in effect is so qualified, and each trust related to any such Plan is exempt from federal income tax under Section 501(a) of the Code as currently in effect. To the best of Borrower's knowledge, the Borrower and all Subsidiaries are in compliance in all respects with the responsibilities, obligations and duties imposed on them by ERISA and the Code with respect to all Plans. To the best of Borrower's knowledge, neither the Borrower nor any of its Subsidiaries nor any fiduciary of any Plan has engaged in a nonexempt prohibited transaction described in Sections 406 of ERISA or 4975 of the Code which could be expected to subject the Borrower or any Dealership Guarantor to material liability. Neither the Borrower nor any member of the Controlled Group has taken or failed to take any action which would constitute or result in a Termination Event, which action or inaction could be expected to subject the Borrower to liability. Neither the Borrower nor any Subsidiary is subject to any liability under Sections 4063, 4064, 4069, 4204 or 4212(c) of ERISA and no other member of the Controlled Group is subject to any liability under Sections 4063, 4064, 4069, 4204 or 4212(c) of ERISA which could be expected to subject the Borrower or any Dealership Guarantor to liability. Neither the Borrower nor any of its Subsidiaries has, by reason of the transactions contemplated hereby, any obligation to make any payment to any employee pursuant to any Plan or existing contract or arrangement. (For purposes of this SECTION 4.9 "material" means any noncompliance or basis for liability which could reasonably be likely to subject the Borrower or any of its Subsidiaries to liability individually or in the aggregate for all such matters in excess of \$250,000.)

4.9 ACCURACY OF INFORMATION. The information, exhibits and reports furnished by or on behalf of the Borrower and any of its Subsidiaries to the Lender in connection with the negotiation of, or compliance with, the Loan Documents, the representations and warranties of the Borrower and its Subsidiaries contained in the Transaction Documents, and all certificates and documents delivered to the Lender pursuant to the terms thereof, taken as a whole, do not contain as of the date furnished any untrue statement of fact or omit to state a fact necessary in order to make the statements contained herein or therein, taken as a whole, in light of the circumstances under which they were made, not misleading.

4.10 SECURITIES ACTIVITIES. Neither the Borrower nor any of its Subsidiaries is engaged in the business of extending credit for the purpose of purchasing or carrying Margin Stock.

4.11 MATERIAL AGREEMENTS. Neither the Borrower nor any of its Subsidiaries is a party to any Contractual Obligation or subject to any charter or other corporate restriction which individually or in the aggregate will have or could be expected to have a material adverse effect. Neither the Borrower

nor any of its Subsidiaries has received notice or has knowledge that (i) it is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any Contractual Obligation applicable to it, or (ii) any condition exists which, with the giving of notice or the lapse of time or both, would constitute a default with respect to any such Contractual Obligation, in each case, except where such default or defaults, if any, individually or in the aggregate will not have or could not reasonably be expected to have a material adverse effect.

4.12 COMPLIANCE WITH LAWS; COMPLIANCE WITH FRANCHISE AGREEMENTS. The Borrower and its Subsidiaries are in compliance with all requirements of law applicable to them and their respective businesses, in each case where the failure to so comply individually or in the aggregate could be expected to have a material adverse effect. The execution, delivery and performance by each Lithia Dealership of any Loan Document to which it is a party does not and will not conflict with the franchise agreement to which it is a party. Each Lithia Dealership is operating under a valid and enforceable franchise agreement, which such franchise agreements prohibit certain transfers of ownership or control without the consent of the relevant manufacturer.

4.13 ASSETS AND PROPERTIES. The Borrower and each of its Subsidiaries has good and marketable title to all of its assets and properties (tangible and intangible, real or personal) owned by it or a valid leasehold interest in all of its leased assets (except insofar as marketability may be limited by any laws or regulations of any governmental authority affecting such assets), except where the failure to have any such title will not have or could not be expected to have a material adverse effect, and all such assets and property are free and clear of all liens, except liens permitted under SECTION 5.3(C). Substantially all of the assets and properties owned by, leased to or used by the Borrower and/or each such Subsidiary of the Borrower are in adequate operating condition and repair, ordinary wear and tear excepted. Neither this Agreement nor any other Transaction Document, nor any transaction contemplated under any such agreement, will affect any right, title or interest of the Borrower or such Subsidiary in and to any of its assets in a manner that will have or could reasonably be expected to have a material adverse effect.

4.14 STATUTORY INDEBTEDNESS RESTRICTIONS. Neither the Borrower nor any of its Subsidiaries is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act, or the Investment Company Act of 1940, or any other federal, state or local statute, ordinance or regulation which limits its ability to incur indebtedness or its ability to consummate the transactions contemplated hereby.

4.15 INSURANCE. The Borrower's and its Subsidiaries' insurance policies and programs reflect coverage that is reasonably consistent with prudent industry practice.

4.16 LABOR MATTERS. As of the date hereof, to the Borrower's and its Subsidiaries' knowledge, there are no labor disputes to which the Borrower or any of its Subsidiaries may become a party, including, without limitation, any strikes, lockouts or other disputes relating to such Persons' plants and other facilities.

4.17 ENVIRONMENTAL MATTERS. (a)(i) The operations of the Borrower's Subsidiaries, Lithia Financial Corporation, Lithia Real Estate, Inc. (collectively, the "Lithia Subsidiaries") and Borrower comply in all respects with Environmental, Health or Safety Requirements of Law;

(ii) the Borrower and the Lithia Subsidiaries have all permits, licenses or other authorizations required under Environmental, Health or Safety Requirements of Law and are in compliance with such permits;

(iii) neither the Borrower, any of the Lithia Subsidiaries nor any of their respective present property or operations, or any of their respective past property or operations, are subject to or the subject of, any investigation known to the Borrower or any of the Lithia Subsidiaries, any judicial or administrative proceeding, order, judgment, decree, settlement or other agreement respecting: (A) any violation of Environmental, Health or Safety Requirements of Law; (B) any remedial action under any Environmental, Health or Safety Requirements of Law; or (C) any claims or liabilities arising from the Release or threatened Release of a Contaminant into the environment;

(iv) there is not now, nor has there ever been on or in the property of the Borrower or any of the Lithia Subsidiaries any landfill, waste pile, underground storage tanks, aboveground storage tanks, surface impoundment or hazardous waste storage facility of any kind, any polychlorinated biphenyls (PCBs) used in hydraulic oils, electric transformers or other equipment, or any asbestos containing material that in the case of any of the foregoing could be expected to result in any claims or liabilities in excess of \$500,000.00; and

(v) neither the Borrower nor any of the Lithia Subsidiaries has any Contingent Obligation in connection with any Release or threatened Release of a Contaminant into the environment.

4.18 BENEFITS. Each of the Borrower and its Subsidiaries will benefit from the financing arrangement established by this Agreement. The Lender has stated and the Borrower acknowledges that, but for the agreement by each of the Dealership Guarantors to execute and deliver its respective Dealership Guaranty and Dealership Security Agreements, the Lender would not have made available the credit facilities established hereby on the terms set forth herein.

5. COVENANTS

The Borrower covenants and agrees that so long as any Commitment is outstanding and thereafter until payment in full of all of the Obligations (other than contingent indemnity obligations, but including Floor Plan Indebtedness), unless the Lender shall otherwise give its prior written consent:

5.1 REPORTING. The Borrower shall:

(a) FINANCIAL REPORTING. Furnish to the Lender:

(i) QUARTERLY REPORTS. As soon as practicable, and in any event within forty-five (45) days after the end of each fiscal quarter in each fiscal quarter, the consolidated and consolidating balance sheet of the Borrower and the Lithia Subsidiaries as at the end of such period and the related consolidated and consolidating statements of income and cash flows of the Borrower and the Lithia Subsidiaries for such fiscal quarter and for the period from the beginning of the then current fiscal year to the end of such fiscal quarter, certified by the chief financial officer of the Borrower on behalf of the Borrower as fairly presenting the consolidated and consolidating financial position of the Borrower and the Lithia Subsidiaries as at the dates indicated and the results of their operations and cash flows for the periods indicated in accordance with Agreement Accounting Principles, subject to normal year end adjustments.

(ii) ANNUAL REPORTS. As soon as practicable, and in any event within ninety (90) days after the end of each fiscal year, (a) the consolidated and consolidating balance sheet of the Borrower and the Lithia Subsidiaries as at the end of such fiscal year and the related consolidated and consolidating statements of income, stockholders' equity and cash flows of the Borrower and the Lithia Subsidiaries for such fiscal year, and in comparative form the corresponding figures for the previous fiscal year and (b) an audit report on the items listed in CLAUSE (A) hereof (other than the consolidating statements) of independent certified public accountants of recognized national standing, which audit report shall be unqualified and shall state that such financial statements fairly present the consolidated financial position of the Borrower and the Lithia Subsidiaries as at the dates indicated and the results of their operations and cash flows for the periods indicated in conformity with Agreement Accounting Principles and that the examination by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards. The deliveries made pursuant to this CLAUSE (II) shall be accompanied by any management letter prepared by the above-referenced accountants.

(iii) MONTHLY STATEMENTS. As soon as practicable, and in any event by the 25th day of each following month, certified copies of direct (factory) statements provided to a manufacturer by any Lithia Dealership.

(iv) OFFICER'S CERTIFICATE. Together with each delivery of any financial statement pursuant to CLAUSES (I) and (II) of this SECTION 5.1(A), an Officer's Certificate of the Borrower, substantially in the form of EXHIBIT F attached hereto and made a part hereof, stating that no Event of Default or Unmatured Default exists, or if any Event of Default or Unmatured Default exists, stating the nature and status thereof and setting forth (X) such financial statements and information as shall be reasonably acceptable to the Lender and (Y) a valuation of the Collateral.

(b) NOTICE OF EVENT OF DEFAULT. Promptly upon any of the chief executive officer, president, chief financial officer, treasurer of the Borrower or any of its Subsidiaries obtaining knowledge (i) of any condition or event which constitutes an Event of Default or Unmatured Default, or (ii) that any Person has given any written notice to the Borrower or any Lithia Subsidiary of the Borrower or taken any other action with respect to a claimed default or event or condition of the type referred to in SECTION 6.1(E), deliver to the Lender a notice specifying (a) the nature and period of existence of any such claimed default, Event of Default, Unmatured Default, condition or event, (b) the notice given or action taken by such Person in connection therewith, and (c) what action the Borrower has taken, is taking and proposes to take with respect thereto.

(c) LAWSUITS. (i) Promptly upon the Borrower obtaining knowledge of the institution of, or written threat of, any action, suit, proceeding, governmental investigation or arbitration against or affecting the Borrower or any of the Lithia Subsidiaries or any property of the Borrower or any of the Lithia Subsidiaries, which action, suit, proceeding, governmental investigation or arbitration exposes, or in the case of multiple actions, suits, proceedings, governmental investigations or arbitrations arising out of the same general allegations or circumstances which expose, in the Borrower's reasonable judgment, the Borrower or any of the Lithia Subsidiaries to liability in an amount aggregating \$500,000 or more, give written notice thereof to the Lender and provide such other information as may be reasonably available to enable the Lender and its counsel to evaluate such matters; and (ii) in addition to the requirements set forth in CLAUSE (I) of this SECTION 5.1(C), upon request of the Lender, promptly give written notice of the status of any action, suit, proceeding, governmental investigation or arbitration covered by a report delivered pursuant to CLAUSE (I) above or disclosed in any filing with the Commission and provide such other information as may be available to it that would not violate any attorney-client privilege by disclosure to the Lender to enable the Lender and its counsel to evaluate such matters.

(d) ERISA NOTICES. Deliver or cause to be delivered to the Lender, at the Borrower's expense, the following information and notices as soon as possible, and in any event:

(i) (a) within ten (10) business days after the Borrower obtains knowledge that a Termination Event has occurred, a written statement of the chief financial officer of the Borrower describing such Termination Event and the action, if any, which the Borrower has taken, is taking or proposes to take with respect thereto, and when known, any action taken or threatened by the IRS, DOL or PBGC with respect thereto and (b) within ten (10) business days after any member of the Controlled Group obtains knowledge that a Termination Event has occurred which could reasonably be expected to subject the Borrower or any member of the Controlled Group to liability individually or in the

aggregate in excess of \$250,000, a written statement of the chief financial officer of the Borrower describing such Termination Event and the action, if any, which the member of the Controlled Group has taken, is taking or proposes to take with respect thereto, and when known, any action taken or threatened by the IRS, DOL or PBGC with respect thereto;

(ii) within ten (10) business days after the Borrower or any of the Lithia Subsidiaries obtains knowledge that a prohibited transaction (defined in Sections 406 of ERISA and Section 4975 of the Code) has occurred, a statement of the chief financial officer of the Borrower describing such transaction and the action which the Borrower or such Lithia Subsidiary has taken, is taking or proposes to take with respect thereto;

(iii) within ten (10) business days after the Borrower or any of the Lithia Subsidiaries receives notice of any unfavorable determination letter from the IRS regarding the qualification of a Plan under Section 401(a) of the Code, copies of each such letter;

(iv) within ten (10) business days after the filing thereof with the IRS, a copy of each funding waiver request filed with respect to any Benefit Plan and all communications received by the Borrower or a member of the Controlled Group with respect to such request;

(v) within ten (10) business days after receipt by the Borrower or any member of the Controlled Group of the PBGC's intention to terminate a Benefit Plan or to have a trustee appointed to administer a Benefit Plan, copies of each such notice;

(vi) within ten (10) business days after receipt by the Borrower or any member of the Controlled Group of a notice from a Multi-employer Plan regarding the imposition of withdrawal liability, copies of each such notice;

(vii) within ten (10) business days after the Borrower or any member of the Controlled Group fails to make a required installment or any other required payment under Section 412 of the Code on or before the due date for such installment or payment, a notification of such failure; and

(viii) within ten (10) business days after the Borrower or any member of the Controlled Group knows or has reason to know that (a) a Multi-employer Plan has been terminated, (b) the administrator or plan sponsor of a Multi-employer Plan intends to terminate a Multi-employer Plan, or (c) the PBGC has instituted or will institute proceedings under Section 4042 of ERISA to terminate a Multi-employer Plan.

For purposes of this SECTION 5.1(D), the Borrower, any of its Subsidiaries and any member of the Controlled Group shall be deemed to know all facts known by the Administrator of any Plan of which the Borrower or any member of the Controlled Group or such Subsidiary is the plan sponsor.

(e) **LABOR MATTERS.** Notify the Lender in writing, promptly upon the Borrower's learning thereof, of (i) any labor dispute to which the Borrower or any of its Subsidiaries may become a party, including, without limitation, any strikes, lockouts or other disputes relating to such Persons' plants and other facilities and (ii) any liability incurred under the Worker Adjustment and Retraining Notification Act with respect to the closing of any plant or other facility of the Borrower or any of its Subsidiaries.

(f) **OTHER INDEBTEDNESS.** Deliver to the Lender (i) a copy of each notice or communication regarding potential or actual defaults (including any accompanying officer's certificate) delivered by or on behalf of the Borrower or any of its Subsidiaries to the holders of funded Indebtedness pursuant to the terms of the agreements governing such Indebtedness, such delivery to be made at the same time and by the same means as such notice or other communication is delivered to such holders, and (ii) a copy of each notice or other communication regarding potential or actual defaults received by the Borrower or any of its Subsidiaries from the holders of funded Indebtedness pursuant to the terms of such Indebtedness, such delivery to be made promptly after such notice or other communication is received by the Borrower or any such Subsidiary.

(g) **OTHER REPORTS.** Deliver or cause to be delivered to the Lender copies of all financial statements, reports and notices, if any, sent or made available generally by the Borrower to its securities holders or filed with the Commission by the Borrower, all press releases made available generally by the Borrower or any of the Borrower's Subsidiaries to the public concerning developments in the business of the Borrower or any such Subsidiary and all notifications received from the Commission by the Borrower or its Subsidiaries pursuant to the Securities Exchange Act of 1934 and the rules promulgated thereunder (other than customary comment letters received in connection with registration statements or other routine communications between the Commission and the Borrower).

(h) **ENVIRONMENTAL NOTICES.** As soon as possible and in any event within ten (10) days after receipt by the Borrower or any of its Subsidiaries, a copy of (i) any notice or claim to the effect that the Borrower or any of its Subsidiaries is or may be liable to any Person as a result of the Release by the Borrower, any of its Subsidiaries, or any other Person of any Contaminant into the environment, and (ii) any notice alleging any violation of any Environmental, Health or Safety Requirements of Law by the Borrower or any of its Subsidiaries if, in either case, such notice or claim relates to an event which could reasonably be expected to subject the Borrower or any Subsidiary to liability individually or in the aggregate in excess of \$500,000.

(i) **OTHER INFORMATION.** Promptly upon receiving a request therefor from the Lender, prepare and deliver to the Lender such other information with respect to the Borrower, any of its Subsidiaries, or the Collateral, including, without limitation, schedules identifying and describing the Collateral and any dispositions thereof, as from time to time may be reasonably requested by the Lender.

(j) **USED VEHICLE INVENTORY.** On each Payment Date, an itemized list of used vehicle inventory, showing the vehicle identification number of each vehicle, the make and model of each vehicle, and the value of each vehicle and the aggregate value of all used vehicle inventory.

5.2 AFFIRMATIVE COVENANTS.

(a) **EXISTENCE, ETC.** Except for mergers permitted pursuant to SECTION 5.3(H), the Borrower shall, and shall cause each of its Subsidiaries to, at all times maintain its corporate, company or partnership existence, as applicable, and preserve and keep, or cause to be preserved and kept, in full force and effect its rights and franchises material to its businesses.

(b) **POWERS; CONDUCT OF BUSINESS.** The Borrower shall, and shall cause each of its Subsidiaries to, qualify and remain qualified to do business in each jurisdiction in which the nature of its business requires it to be so qualified and where the failure to be so qualified will have or could reasonably be expected to have a material adverse effect. The Borrower will, and will cause each Subsidiary to, carry on and conduct its business in substantially the same manner and in substantially the same fields of enterprise as it is presently conducted.

(c) **COMPLIANCE WITH LAWS, ETC.** The Borrower shall, and shall cause its Subsidiaries to, (a) comply with all requirements of law and all restrictive covenants affecting such Person or the business, properties, assets or operations of such Person, and (b) obtain as needed all permits necessary for its operations and maintain such permits in good standing, unless failure to comply or obtain could not be expected to have a material adverse effect.

(d) **PAYMENT OF TAXES AND CLAIMS; TAX.** The Borrower shall pay, and cause each of the Lithia Subsidiaries to pay, (i) all taxes, assessments and other governmental charges imposed upon it or on any of its properties or assets or in respect of any of its franchises, business, income or property before any penalty or interest accrues thereon, and (ii) all claims (including, without limitation, claims for labor, services, materials and supplies) for sums which have become due and payable and which by law have or may become a lien (other than a lien permitted by SECTION 5.3(C)) upon any of the Borrower's or such LithiaSubsidiary's property or assets, prior to the time when any penalty or fine shall be incurred with respect thereto; PROVIDED, HOWEVER, that no such taxes, assessments and governmental charges referred to in CLAUSE (i) above or claims referred to in CLAUSE (ii) above (and interest, penalties or fines relating thereto) need be paid if being contested in good faith by appropriate proceedings diligently instituted and conducted and if such reserve or other appropriate provision, if any, as shall be required in conformity with Agreement Accounting Principles shall have been made therefor. The Borrower will not, nor will it permit any of the Lithia Subsidiaries to, file or consent to the filing of any consolidated income tax return with any other Person other than the consolidated return of the Borrower.

(e) **INSURANCE.** The Borrower shall maintain for itself and its Subsidiaries, or shall cause each of its Subsidiaries to maintain in full force and effect, insurance policies and programs reflecting coverage that is reasonably consistent with prudent industry practice.

(f) **INSPECTION OF PROPERTY; BOOKS AND RECORDS.** The Borrower shall permit and cause each of the Borrower's Lithia Subsidiaries to permit, any authorized representative(s) designated by the Lender to visit and inspect any of the properties of the Borrower or any of its Lithia Subsidiaries, to examine, audit, check and make copies of their respective financial and accounting records, books, journals, orders, receipts and any correspondence and other data relating to their respective businesses or the transactions contemplated hereby or by the Acquisitions (including, without limitation, in connection with environmental compliance, hazard or liability), and to discuss their affairs, finances and accounts with their officers and independent certified public accountants, at such times during normal business hours, as often as may be requested; PROVIDED, that while no Event of Default exists, all of the foregoing shall be at the expense of the Lender. The Borrower shall keep and maintain, and cause each of the Borrower's Lithia Subsidiaries to keep and maintain, in all respects, proper books of record and account in which entries in conformity with Agreement Accounting Principles shall be made of all dealings and transactions in relation to their respective businesses and activities, including, without limitation, transactions and other dealings with respect to the Collateral.

If an Event of Default has occurred and is continuing, the Borrower, upon the Lender's request, shall turn over any such records to the Lender or its representatives. Neither Borrower nor any Lithia Subsidiary shall be required to violate any attorney-client privilege by disclosure to Lender

(g) **INSURANCE AND CONDEMNATION PROCEEDS.** The Borrower directs (and, if applicable, shall cause its Subsidiaries to direct) all insurers under policies of property damage, boiler and machinery and business interruption insurance and payors of any condemnation claim or award relating to the property to pay all proceeds payable under such policies or with respect to such claim or award for any loss with respect to the Collateral directly to the Lender; **PROVIDED, HOWEVER,** in the event that such proceeds or award are less than \$250,000 ("**EXCLUDED PROCEEDS**"), unless an Event of Default shall have occurred and be continuing, the Lender shall remit such Excluded Proceeds to the Borrower or Subsidiary, as applicable. Each such policy shall contain a long-form loss-payable endorsement naming the Lender as loss payee, which endorsement shall be in form and substance reasonably acceptable to the Lender. The Lender shall, upon receipt of such proceeds (other than Excluded Proceeds) and at the Borrower's direction, either apply the same to the principal amount of the Advances outstanding at the time of such receipt and create a corresponding reserve against the Commitment in an amount equal to such application (the "**DECISION RESERVE**") or hold them as cash collateral for the Obligations in an interest bearing account. For up to 150 days from the date of any loss (the "**DECISION PERIOD**"), the Borrower may notify the Lender that it intends to restore, rebuild or replace the property subject to any insurance payment or condemnation award and shall, as soon as practicable thereafter, provide the Lender detailed information, including a construction schedule and cost estimates. Should an Event of Default occur at any time during the Decision Period, should the Borrower notify the Lender that it has decided not to rebuild or replace such property during the Decision Period, or should the Borrower fail to notify the Lender of the Borrower's decision during the Decision Period, then the amounts held as cash collateral pursuant to this SECTION 5.2(G) or as the Decision Reserve shall be applied as a mandatory prepayment of the Advances pursuant to SECTION 2.2(B). Proceeds held as cash collateral pursuant to this SECTION 5.2(G) or constituting the Decision Reserve shall be disbursed as payments for restoration, rebuilding or replacement of such property become due; **PROVIDED, HOWEVER,** should an Event of Default occur after the Borrower has notified the Lender that it intends to rebuild or replace the property, the Decision Reserve or amounts held as cash collateral shall be applied as a mandatory prepayment of the Advances pursuant to SECTION 2.2(B). In the event the Decision Reserve is to be applied as a mandatory prepayment to the Advances, the Borrower shall be deemed to have requested Advances in an amount equal to the Decision Reserve, and such Advances shall be made regardless of any failure of the Borrower to meet the conditions precedent set forth in ARTICLE III. Upon completion of the restoration, rebuilding or replacement of such property, the unused proceeds shall constitute net cash proceeds of an Asset Sale and shall be applied as a mandatory prepayment of the Advances pursuant to SECTION 2.2(B).

(h) ERISA COMPLIANCE. The Borrower shall, and shall cause each of the Borrower's Subsidiaries to, establish, maintain and operate all Plans, if any, to comply in all material respects with the provisions of ERISA, the Code, all other applicable laws, and the regulations and interpretations thereunder and the respective requirements of the governing documents for such Plans, except where the failure to comply will not or could not reasonably be expected to subject the Borrower and its Subsidiaries to liability individually or in the aggregate in excess of \$250,000.

(i) MAINTENANCE OF PROPERTY. The Borrower shall cause all property used or useful in the conduct of its business or the business of any Lithia Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Borrower may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; PROVIDED, HOWEVER, that nothing in this SECTION 5.2(H) shall prevent the Borrower from discontinuing the operation or maintenance of any of such property if such discontinuance is, in the judgment of the Borrower, desirable in the conduct of its business or the business of any Lithia Subsidiary and not disadvantageous in any material respect to the Lender.

(j) ENVIRONMENTAL COMPLIANCE. The Borrower and the Lithia Subsidiaries shall comply with all Environmental, Health or Safety requirements of law, except where noncompliance could not be expected to subject the Borrower and the Lithia Subsidiaries to liability individually or in the aggregate in excess of \$500,000. Neither the Borrower nor any of the Lithia Subsidiaries shall be the subject of any proceeding or investigation pertaining to (i) the Release by the Borrower or any of the Lithia Subsidiaries of any Contaminant into the environment or (ii) the liability of the Borrower or any of the Lithia Subsidiaries arising from the Release by any other Person of any Contaminant into the environment, which, in either case, subjects or is likely to subject the Borrower and the Lithia Subsidiaries individually or in the aggregate to liability in excess of the amount set forth above.

(k) USE OF PROCEEDS. The Borrower shall use the proceeds of the Advances to fund the Dealership Guarantors' used automotive inventory. The proceeds of Advances hereunder may not be used to make any mandatory prepayment under SECTION 2.2(B). The Borrower will not nor will it permit any Subsidiary to, use any of the proceeds of the Loans to purchase or carry any Margin Stock.

(l) ADDITION OF DEALERSHIP GUARANTORS. The Borrower shall cause each Lithia Dealership which has not heretofore provided a Dealership Guaranty to the Lender, to deliver to the Lender a Dealership Guaranty, in the form of Exhibit C-1, a Dealership Security Agreement in the form of Exhibit D-1, UCC-1 Financing Statements and an acknowledgment to be bound by the Contribution Agreement, together with appropriate corporate resolutions, opinions and other documentation in form and substance reasonably satisfactory to the Lender. Each Lithia Dealership shall provide such Dealership Guaranty and Collateral Documents prior to or simultaneously with its Acquisition.

(m) FUTURE LIENS ON REAL PROPERTY. The Borrower shall, and shall cause each of its Subsidiaries that is required to guarantee the Obligations and Lithia Financial Corporation and Lithia Real Estate, Inc., to deliver to Lender, immediately upon its acquisition or leasing of any real property after the date hereof, copies of any mortgage, deed of trust, collateral assignment or other appropriate instrument evidencing a lien upon any such acquired property that would be other than a Customary Permitted Lien if the real property were included in the Collateral (in the case of any acquisition of real property), or copies of a lease (in the case of a real property lease) and the Borrower or the applicable Subsidiary, as the case may be, shall use their best efforts provide the Lender with such opinions, landlord and mortgagee waivers as the Lender shall have reasonably requested in connection with such acquisition or leasing of real property, only if the term of such lease (without regard to any extension thereof at then current market rent) is more than five years or (ii) such lease has a material value by reason of a purchase option, below-market rent or otherwise.

(n) **FRANCHISE AGREEMENTS.** The Borrower shall use its best efforts to obtain waivers under existing and future franchise agreements on terms and conditions acceptable to the Lender sufficient to permit the security interests and liens contemplated hereunder. To the extent any franchise agreement materially limits the security interests and liens contemplated hereunder or under any Collateral Document, the Borrower shall notify the Lender of such restriction or limitation and to the extent such franchise agreement relates to an Acquisition to be effected by the Borrower, prior to such Acquisition becoming a Permitted Acquisition, the Lender shall have provided its written approval of such franchise agreement.

(o) **MINORITY HOLDERS.** Borrower shall cause any minority holder holding an Equity Interest in a Subsidiary pursuant to a Majority Acquisition to pledge its Equity Interest to Lender in connection with said Permitted Acquisition (provided, however, that Phillip Camp shall not be required to pledge his 20% equity interest in Lithia VS, L.L.C.).

(p) **USED VEHICLE LEDGER.** Borrower and/or each Dealership Guarantor shall maintain a current ledger of used vehicle inventory, noting the make, mode, vehicle identification number and value of each used vehicle.

5.3 NEGATIVE COVENANTS.

(a) **INDEBTEDNESS.** Neither the Borrower nor any of its Subsidiaries shall directly or indirectly create, incur, assume or otherwise become or remain directly or indirectly liable with respect to any Indebtedness, except:

(i) the Obligations;

(ii) Permitted Existing Indebtedness and Permitted Refinancing Indebtedness;

(iii) Indebtedness in respect of obligations secured by Customary Permitted Liens;

(iv) Indebtedness constituting Contingent Obligations in respect of Indebtedness otherwise permitted hereunder;

(v) Indebtedness arising from intercompany loans from the Borrower to any Dealership Guarantor or from any Subsidiary to the Borrower or any Dealership Guarantor; PROVIDED that in each case such Indebtedness is subordinated upon terms satisfactory to the Lender to the obligations of the Borrower and its Subsidiaries with respect to the Obligations;

(vi) Guaranties by the Borrower of Indebtedness permitted to be incurred by any Subsidiary;

(vii) Indebtedness with respect to surety, appeal and performance bonds obtained by the Borrower or any of its Subsidiaries in the ordinary course of business;

(viii) Indebtedness arising under the Borrower Guaranty or any Dealership Guaranty;

(ix) Indebtedness (evidenced by a promissory note or notes) constituting that portion of the deferred purchase price payable by the Borrower in connection with a Permitted Acquisition, and Indebtedness (evidenced by a promissory note or notes) to shareholders, members or partners of a Subsidiary or a predecessor of such a subsidiary acquired in a Permitted Acquisition that are credited against the purchase price (the "Seller's Notes");

(x) Other Floor Plan Indebtedness;

- (xi) Indebtedness incurred in connection with Capital Expenditures; and renewals and refinancings thereof;
 - (xii) Guaranties by Borrower of operating leases of Subsidiaries, including but not limited to leases of real property;
 - (xiii) Guaranties by Borrower of Indebtedness incurred by Lithia Financial Corporation and Lithia Real Estate, Inc.;
 - (xiv) Indebtedness of a dealership Subsidiary acquired in a Permitted Acquisition, including but not limited to:
 - (a) recourse liability to purchasers of automobile chattel paper and retail leases; and
 - (b) Indebtedness to lenders providing wholesale lease financing.
 - (xv) Indebtedness not in excess of \$250,000 in connection with the liens set forth in Section 5.3(C)(v).
- (b) SALES OF ASSETS. Neither the Borrower nor any of its Subsidiaries shall sell, assign, transfer, lease, convey or otherwise dispose of any property (including the Capital Stock of any Subsidiary), whether now owned or hereafter acquired, or any income or profits therefrom, or enter into any agreement to do so, except:
- (i) sales of inventory in the ordinary course of business (and sales of automotive chattel paper and leases generated thereby);
 - (ii) the disposition in the ordinary course of business of equipment that is obsolete, excess or no longer useful in the Borrower's or its Subsidiaries' business;
 - (iii) transfers by a Dealership Guarantor to Lithia Financial Corporation of equipment, fixtures and vehicles to be leased by Lithia Financial Corporation to a Dealership Guarantor;
 - (iv) transfers by a Dealership Guarantor to Lithia Real Estate, Inc. of real property to be leased by Lithia Real Estate, Inc. to a Dealership Guarantor; and
 - (v) sales, assignments, transfers, leases, conveyances or other dispositions of other assets (including sales of Capital Stock of a Subsidiary) if such transaction (a) is for all cash consideration, (b) is for not less than Fair Value,
- (c) when combined with all such other transactions (each such transaction being valued at book value) (i) during the immediately preceding twelve-month period, represents the disposition of not greater than \$250,000, and (ii) during the period from the date hereof to the date of such proposed transaction, represents the disposition of not greater than \$500,000 and (d) if a, a sale by the Borrower of Capital Stock in any Subsidiary, except as provided in subclause (c) above, the Borrower shall continue to own, of record and beneficially, with sole voting and dispositive power, 100% (unless required by the Subsidiary's franchise agreement to be less, in which event at least 80%) of the outstanding shares of Capital Stock of any such Subsidiary.
- (c) LIENS. Neither the Borrower nor any of its Subsidiaries shall directly or indirectly create, incur, assume or permit to exist any Lien on or with respect to any of their respective property or assets, except:
- (i) Permitted Existing Liens;

(ii) Customary Permitted Liens;

(iii) Liens securing the Obligations;

(iv) Liens securing the Indebtedness described in Section (a)(ix), provided the amount of such liens shall not at any time exceed \$10,000,000;

(v) liens, for the purpose of securing Indebtedness described in Section 5.3 (a)(xiv) above, in chattel paper, vehicle leases to retail customers, the vehicles sold or leased thereunder, returns or repossessions of such vehicles, and proceeds of such collateral;

(vi) liens of General Motors Acceptance Corporation ("GMAC") in present and future contracts held by GMAC (in the case of a Lithia Dealership that sells chattel paper to GMAC);

(vii) liens of wholesalers or refiners of oil or other petroleum products in equipment supplied to Borrower or a Subsidiary in connection with contracts to supply such products;

(viii) liens securing the Other Floor Plan Indebtedness; and

(ix) Liens (other than on the stock of any Subsidiaries) securing other obligations not exceeding \$250,000 in the aggregate at any time outstanding.

In addition, neither the Borrower nor any of its Subsidiaries shall become a party to any agreement, note, indenture or other instrument (other than any franchise agreement with Ford Motor Company), or take any other action, which would prohibit the creation of a lien on any of its properties or other assets in favor of the Lender as collateral for the Obligations; PROVIDED that any agreement, note, indenture or other instrument in connection with liens permitted pursuant to CLAUSE (I) above may prohibit the creation of a lien in favor of the Lender on the items of property subject to such lien.

(d) INVESTMENTS. Except to the extent permitted pursuant to PARAGRAPH (G) below, neither the Borrower nor any of its Subsidiaries shall directly or indirectly make or own any Investment except:

(i) Investments in Cash Equivalents;

(ii) Permitted Existing Investments in an amount not greater than the amount thereof on the date hereof;

(iii) Investments in trade receivables or received in connection with the bankruptcy or reorganization of suppliers and customers and in settlement of delinquent obligations of, and other disputes with, customers and suppliers arising in the ordinary course of business;

(iv) Investments consisting of intercompany loans from any Subsidiary to the Borrower or any other Subsidiary permitted by SECTION 5.3(A) (V);

(v) Investments in any Dealership Guarantor;

(vi) Investments constituting Permitted Acquisitions; and

(vii) Investments in addition to those referred to elsewhere in this SECTION 5.3(D) in an amount not to exceed \$500,000 in the aggregate at any time outstanding;

PROVIDED, HOWEVER, that the Investments described in CLAUSE (VII) above shall not be permitted if either an Event of Default or Unmatured Default shall have occurred and be continuing on the date thereof or would result therefrom.

(e) RESTRICTED PAYMENTS. Neither the Borrower nor any of its Subsidiaries shall declare or make any Restricted Payment, except:

(i) where the consideration therefor consists solely of Equity Interests (but excluding Disqualified Stock) of the Borrower or its Subsidiaries provided no Change of Control would occur as a result thereof; and

(ii) in connection with the payment of dividends by a Subsidiary to the Borrower.

(f) CONDUCT OF BUSINESS; SUBSIDIARIES. (i) Neither the Borrower nor any of its Subsidiaries shall engage in any business other than the businesses engaged in by the Borrower and its Subsidiaries, collectively, on the date hereof and any business or activities which are substantially similar, related or incidental thereto.

(ii) The Borrower may create, acquire and/or capitalize any Subsidiary (a "NEW SUBSIDIARY") after the date hereof pursuant to any transaction that is permitted by or not otherwise prohibited by this Agreement; PROVIDED that upon the creation or acquisition of each New Subsidiary, the requirements set forth in SECTION 5.2(L) hereof shall have been satisfied and all New Subsidiaries that are Material Subsidiaries shall be Controlled Subsidiaries.

(iii) The Borrower shall not make any Acquisitions, other than Acquisitions meeting the requirements set forth in Section 5.3(f)(iii) of the Credit Agreement between Borrower and Lender dated as of even date herewith, pursuant to which Lender extended an acquisition line of credit to Borrower (each such Acquisition constituting a "PERMITTED ACQUISITION").

(g) TRANSACTIONS WITH SHAREHOLDERS AND. Neither the Borrower nor any of its Subsidiaries shall directly or indirectly enter into or permit to exist any transaction (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with any holder or holders of any of the Equity Interests of the Borrower, or with any Affiliate of the Borrower which is not a Dealership Guarantor, on terms that are less favorable to the Borrower or any of its Subsidiaries, as applicable, than those that might be obtained in an arm's length transaction at the time from Persons who are not such a holder or Affiliate.

(h) RESTRICTION ON FUNDAMENTAL CHANGE. Neither the Borrower nor any of its Subsidiaries shall enter into any merger or consolidation, or liquidate, wind-up or dissolve (or suffer any liquidation or dissolution), or convey, lease, sell, transfer or otherwise dispose of, in one transaction or series of transactions, all or substantially all of the Borrower's or any such Subsidiary's business or property, whether now or hereafter acquired, except (i) transactions permitted under SECTIONS 5.3(B) or 5.3(G) (ii) the merger of a Subsidiary of the Borrower into or with a Person acquired or being acquired in connection with a Permitted Acquisition; (iii) the merger of a wholly-owned Subsidiary of the Borrower with and into the Borrower; and (iv) the merger of a Subsidiary of the Borrower with another Subsidiary of the Borrower; PROVIDED, HOWEVER, (i) with respect to any such permitted mergers involving any Dealership Guarantor, the surviving corporation in the merger shall also be or become a Dealership Guarantor; and (ii) after the consummation of any such transaction, the Borrower shall be in compliance with the provisions of SECTIONS 5.2(K) and 5.3(E).

(i) SALES AND LEASEBACKS. Neither the Borrower nor any of the Lithia Subsidiaries shall become liable, directly, by assumption or by Contingent Obligation, with respect to any lease, whether an operating lease or a Capitalized Lease, of any property (whether real or personal or mixed) (i) which it or one of the Lithia Subsidiaries sold or transferred or is to sell or transfer to any other Person,

or (ii) which it or one of the Lithia Subsidiaries intends to use for substantially the same purposes as any other property which has been or is to be sold or transferred by it or one of the Lithia Subsidiaries to any other Person in connection with such lease, other than a (A) Dealership Guarantor's sale to, and lease of Equipment from, Lithia Financial Corporation and (B) a Dealership Guarantor's sale to, and lease of real estate from, Lithia Real Estate, Inc.

(j) MARGIN REGULATIONS. Neither the Borrower nor any of its Subsidiaries, shall use all or any portion of the proceeds of any credit extended under this Agreement to purchase or carry Margin Stock.

(k) ERISA. The Borrower shall not

(i) engage, or permit any of its Subsidiaries to engage, in any prohibited transaction described in Sections 406 of ERISA or 4975 of the Code for which a statutory or class exemption is not available or a private exemption has not been previously obtained from the DOL;

(ii) permit to exist any accumulated funding deficiency (as defined in Sections 302 of ERISA and 412 of the Code), with respect to any Benefit Plan, whether or not waived;

(iii) fail, or permit any Controlled Group member to fail, to pay timely required contributions or annual installments due with respect to any waived funding deficiency to any Benefit Plan;

(iv) terminate, or permit any Controlled Group member to terminate, any Benefit Plan which would result in any liability of the Borrower or any Controlled Group member under Title IV of ERISA;

(v) fail to make any contribution or payment to any Multiemployer Plan which the Borrower or any Controlled Group member may be required to make under any agreement relating to such Multiemployer Plan, or any law pertaining thereto;

(vi) fail, or permit any Controlled Group member to fail, to pay any required installment or any other payment required under Section 412 of the Code on or before the due date for such installment or other payment; or

(vii) amend, or permit any Controlled Group member to amend, a Plan resulting in an increase in current liability for the plan year such that the Borrower or any Controlled Group member is required to provide security to such Plan under Section 401(a)(29) of the Code,

except where such transactions, events, circumstances, or failures will not have or is not likely to subject the Borrower and its Subsidiaries to liability individually or in the aggregate in excess of \$250,000.

(l) ISSUANCE OF EQUITY INTERESTS. The Borrower shall not issue any Equity Interests if as a result of such issuance a Change of Control shall occur. None of the Borrower's Subsidiaries shall issue any Equity Interests other than to the Borrower except as permitted in connection with a Majority Acquisition or as required to comply with the terms of the relevant franchise agreement with a particular automotive manufacturer.

(m) CORPORATE DOCUMENTS; FRANCHISE AGREEMENTS. Neither the Borrower nor any of its Subsidiaries shall amend, modify or otherwise change any of the terms or provisions in any of their respective constituent documents as in effect on the date hereof in any manner adverse in any respect to the interests of the Lender without the prior written consent of the Lender. The Borrower

shall not permit any Lithia Dealership to amend, modify or otherwise change any of the terms or provisions of such Lithia Dealership's franchise agreement in any manner adverse in any respect to the interests of the Lender without the prior written consent of the Lender.

(n) FISCAL YEAR. Neither the Borrower nor any of its consolidated Subsidiaries shall change its fiscal year for accounting or tax purposes from a period consisting of the 12-month period ending on December 31 of each calendar year.

(o) SUBSIDIARY COVENANTS. The Borrower will not, and will not permit any Lithia Subsidiary to, create or otherwise cause to become effective any consensual encumbrance or restriction of any kind on the ability of any Lithia Subsidiary to (i) pay dividends or make any other distribution on its stock,

(ii) make any other Restricted Payment, (iii) pay any Indebtedness or other Obligation owed to the Borrower or any other Lithia Subsidiary, (iv) make loans or advances or other Investments in the Borrower or any other Lithia Subsidiary, or (v) sell, transfer or otherwise convey any of its property to the Borrower or any other Lithia Subsidiary, except as may be required to comply with any applicable financial covenants under the terms of the franchise or dealer agreement that Borrower or each of its Dealership Subsidiaries has with vehicle manufacturerers.

(p) HEDGING OBLIGATIONS. The Borrower shall not and shall not permit any of its Subsidiaries to enter into any interest rate, commodity or foreign currency exchange, swap, collar, cap or similar agreements evidencing Hedging Obligations, other than interest rate, foreign currency or commodity exchange, swap, collar, cap or similar agreements entered into by the Borrower or a Subsidiary pursuant to which the Borrower or such Subsidiary has hedged its actual interest rate, foreign currency or commodity exposure.

(r) NEGATIVE PLEDGE. With respect to any Dealership Guarantor operating under a franchise agreement with Toyota Motor Sales in USA, Inc, American Honda Motor Corporation, or Nissan in USA, Inc., Borrower hereby agrees that it shall not pledge or otherwise transfer its Capital Stock in such Dealership to any Person.

5.4 FINANCIAL COVENANTS. The Borrower shall comply with the following:

(a) TOTAL DEBT TO TANGIBLE BASE CAPITAL. The Borrower shall not at any time permit the ratio ("TBC RATIO") of Total Debt of the Lithia Group on a consolidated basis to Tangible Base Capital of the Lithia Group on a consolidated basis to be greater than 30:1.

(b) TOTAL ADJUSTED DEBT TO TANGIBLE BASE CAPITAL. The Borrower shall not at any time permit the ratio ("ADJUSTED TBC RATIO") of Total Adjusted Debt of the Lithia Group on a consolidated basis to Tangible Base Capital of the Lithia Group on a consolidated basis to be greater than 15:1.

(c) CURRENT RATIO. The Borrower shall not at any time permit the ratio (the "CURRENT RATIO") of Current Assets of the Lithia Group on a consolidated basis to Current Liabilities of the Lithia Group on a consolidated basis to be less than 1.2:1.

(d) FIXED CHARGE COVERAGE RATIO. The Borrower shall maintain a ratio ("FIXED CHARGE COVERAGE RATIO") of (i) EBITDAR LESS Capital Expenditures for tangible and intangible personal property paid in cash, to (ii) (a) Interest Expense PLUS (b) scheduled amortization of the principal portion of all Indebtedness for money borrowed (except for Seller's Notes) PLUS (c) Rentals PLUS (d) taxes paid in cash during such period of the Borrower and its consolidated Subsidiaries of at least 1.2:1 for each fiscal quarter ending from and after the Effective Date. In each case the Fixed Charge Coverage Ratio shall be determined as of the last day of each fiscal quarter for the four-quarter period ending on such day.

(e) NET CASH. Borrower shall maintain positive Net Cash.

All financial covenants set forth in this SECTION 5.4 shall be calculated by the Lender based on the calculations set forth in and the financial statements attached to Officer's Certificates delivered hereunder and shall be binding on the Borrower for all purposes of this Agreement absent manifest error.

6. EVENT OF DEFAULTS

6.1 EVENT OF DEFAULTS. Each of the following occurrences shall constitute an Event of Default under this Agreement:

- (a) **FAILURE TO MAKE PAYMENTS WHEN DUE.** The Borrower shall (i) fail to pay when due any of the Obligations consisting of principal with respect to the Advances or (ii) shall fail to pay within ten (10) days of the date when due any of the other Obligations under this Agreement or the other Loan Documents.
- (b) **BREACH OF CERTAIN COVENANTS.** The Borrower shall fail duly and punctually to perform or observe any agreement, covenant or obligation binding on the Borrower under SECTIONS 5.2(F), 5.2(K), 5.3 or 5.4.
- (c) **BREACH OF REPRESENTATION OR WARRANTY.** Any representation or warranty made or deemed made by the Borrower to the Lender herein or by the Borrower or any of its Subsidiaries in any of the other Loan Documents or in any written certificate of any Authorized Officer at any time given by any such Person pursuant to any of the Loan Documents shall be false or misleading in any respect on the date as of which made (or deemed made).
- (d) **OTHER DEFAULTS.** The Borrower shall default in the performance of or compliance with any term contained in this Agreement (other than as covered by PARAGRAPHS (A), (B) or (C) of this SECTION 6.1), or the Borrower or any of its Subsidiaries shall default in the performance of or compliance with any term contained in any of the other Loan Documents, and such default shall continue for thirty (30) days after the occurrence thereof.
- (e) **DEFAULT AS TO OTHER INDEBTEDNESS.** The Borrower or any of the LithiaSubsidiaries shall fail to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) with respect to any Indebtedness (other than Indebtedness constituting the deferred portion of the purchase price of an asset which is subject to a good faith dispute, which, together with all such other outstanding disputed Indebtedness, is not in excess of \$500,000 and which is being contested by the Borrower, and provided that the Borrower has set aside adequate reserves covering such disputed Indebtedness) the outstanding principal amount of which Indebtedness is in excess of \$100,000; or any breach, default or event of default shall occur, or any other condition shall exist under any instrument, agreement or indenture pertaining to any such Indebtedness, if the effect thereof is to cause an acceleration, mandatory redemption, a requirement that the Borrower offer to purchase such Indebtedness or other required repurchase of such Indebtedness, or permit the holder(s) of such Indebtedness to accelerate the maturity of any such Indebtedness or require a redemption or other repurchase of such Indebtedness; or any such Indebtedness shall be otherwise declared to be due and payable (by acceleration or otherwise) or required to be prepaid, redeemed or otherwise repurchased by the Borrower or any of the Lithia Subsidiaries (other than by a regularly scheduled required prepayment) prior to the stated maturity thereof.
- (f) **INVOLUNTARY BANKRUPTCY; APPOINTMENT OF RECEIVER, ETC.**

(i) An involuntary case shall be commenced against the Borrower or any of the Borrower's Subsidiaries and the petition shall not be dismissed, stayed, bonded or discharged within sixty (60) days after commencement of the case; or a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Borrower or any of the Borrower's Subsidiaries in an involuntary case, under any applicable bankruptcy, insolvency or other similar law now or hereinafter in effect; or any other similar relief shall be granted under any applicable federal, state, local or foreign law.

(ii) A decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over the Borrower or any of the Borrower's Subsidiaries or over all or a substantial part of the property of the Borrower or any of the Borrower's Subsidiaries shall be entered; or an interim receiver, trustee or other custodian of the Borrower or any of the Borrower's Subsidiaries or of all or a substantial part of the property of the Borrower or any of the Borrower's Subsidiaries shall be appointed or a warrant of attachment, execution or similar process against any substantial part of the property of the Borrower or any of the Borrower's Subsidiaries shall be issued and any such event shall not be stayed, dismissed, bonded or discharged within sixty (60) days after entry, appointment or issuance.

(g) **VOLUNTARY BANKRUPTCY; APPOINTMENT OF RECEIVER, ETC.** The Borrower or any of the Borrower's Subsidiaries shall (i) commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, (ii) consent to the entry of an order for relief in an involuntary case, or to the conversion of an involuntary case to a voluntary case, under any such law, (iii) consent to the appointment of or taking possession by a receiver, trustee or other similar custodian for the benefit of creditors for all or a substantial part of its property, (iv) make any assignment for the benefit of creditors or (v) take any corporate action to authorize any of the foregoing.

(h) **JUDGMENTS AND ATTACHMENTS.** Any money judgment(s) (other than a money judgment covered by insurance as to which the insurance company has not disclaimed coverage or if it has reserved the right to disclaim coverage, such letter reserving the right to disclaim coverage is outstanding twelve months after such money judgment was rendered), writ or warrant of attachment, or similar process against the Borrower or any of its Subsidiaries or any of their respective assets involving in any single case or in the aggregate an amount in excess of \$250,000 is or are entered and shall remain undischarged, unvacated, unbonded or unstayed for a period of sixty (60) days or in any event later than fifteen (15) days prior to the date of any proposed sale thereunder.

(i) DISSOLUTION. Any order, judgment or decree shall be entered against the Borrower or any of its Subsidiaries decreeing its involuntary dissolution or split up and such order shall remain undischarged and unstayed for a period in excess of sixty (60) days; or the Borrower or any of its Subsidiaries shall otherwise dissolve or cease to exist except as specifically permitted by this Agreement.

(j) LOAN DOCUMENTS; FAILURE OF SECURITY. At any time, for any reason,

(i) any Loan Document as a whole that affects the ability of the Lender to enforce the Obligations or enforce its rights against the Collateral ceases to be in full force and effect or the Borrower or any of the Borrower's Subsidiaries party thereto seeks to repudiate its obligations thereunder and the liens intended to be created thereby are, or the Borrower or any such Subsidiary seeks to render such liens, invalid or unperfected, or (ii) any lien on Collateral in favor of the Lender contemplated by the Loan Documents shall, at any time, for any reason, be invalidated or otherwise cease to be in full force and effect or such lien shall not have the priority contemplated by this Agreement or the Loan Documents and such failure shall continue for three (3) days after the occurrence thereof.

(k) TERMINATION EVENT. Any Termination Event occurs which is reasonably likely to subject the Borrower or any of its Subsidiaries to liability individually or in the aggregate in excess of \$250,000, and such Termination Event shall continue for three (3) days after the occurrence thereof, PROVIDED HOWEVER, if such Termination Event is a Reportable Event, then prior to such Termination Event causing an Event of Default under this SECTION 6.1(K), such Termination Event shall continue for ten (10) days after the occurrence thereof.

(l) WAIVER OF MINIMUM FUNDING STANDARD. If the plan administrator of any Plan applies under Section 412(d) of the Code for a waiver of the minimum funding standards of Section 412(a) of the Code and the Lender believes the substantial business hardship upon which the application for the waiver is based could reasonably be expected to subject either the Borrower or any Controlled Group member to liability individually or in the aggregate in excess of \$250,000.

(m) CHANGE OF CONTROL. A Change of Control shall occur.

(n) HEDGING AGREEMENTS. Nonpayment by the Borrower or any Subsidiary of any obligation under any contract with respect to Hedging Obligations entered into by the Borrower or such Subsidiary with the Lender (or Affiliate thereof) or the breach by the Borrower or Subsidiary of any other term, provision or condition contained in any agreement and such nonpayment or breach shall continue for ten (10) days after the occurrence thereof.

(o) GUARANTOR DEFAULT OR REVOCATION. Any Lithia Guaranty shall fail to remain in full force or effect or any action shall be taken by the Borrower or any Dealership Guarantor to discontinue or to assert the invalidity or unenforceability of any Lithia Guaranty or the Borrower or any Dealership Guarantor shall fail to comply with any of the terms or provisions of any Lithia Guaranty to which it is a party, or the Borrower or any Dealership Guarantor denies that it has any further liability under any Lithia Guaranty to which it is a party, or gives notice to such effect.

(p) ENVIRONMENTAL MATTERS. The Borrower or any of the Lithia Subsidiaries shall be the subject of any proceeding or investigation pertaining to (i) the Release by the Borrower or any of the Lithia Subsidiaries of any Contaminant into the environment, (ii) the liability of the Borrower or any of the Lithia Subsidiaries arising from the Release by any other person of any Contaminant into the environment, or (iii) any violation of any Environmental, Health or Safety Requirements of Law by the Borrower or any of the Lithia Subsidiaries, which, in any case, has subjected or is reasonably likely to subject the Borrower or any of the Lithia Subsidiaries to liability individually or in the aggregate in excess of \$500,000.

An Event of Default shall be deemed "continuing" until cured or until waived in writing in accordance with SECTION 7.3.

7. ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES

7.1 TERMINATION OF COMMITMENTS; ACCELERATION. If any Event of Default described in SECTION 6.1(F) or 6.1(G) occurs with respect to the Borrower, the obligation of the Lender to make Advances hereunder shall automatically terminate and the Obligations shall immediately become due and payable without any election or action on the part of the Lender. If any other Event of Default occurs, the Lender may terminate or suspend its obligations to make Advances hereunder, or declare the Obligations to be due and payable, or both, whereupon, after written notice to the Borrower, the Obligations shall become immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which the Borrower expressly waives.

7.2 AMENDMENTS. No amendment, waiver or modification of any provision of this Agreement shall be effective unless signed by each of the parties hereto and then only to the extent in such writing specifically set forth.

7.3 PRESERVATION OF RIGHTS. No delay or omission of the Lender to exercise any right under the Loan Documents shall impair such right or be construed to be a waiver of any Event of Default or an acquiescence therein, and the making of an Advance notwithstanding the existence of an Event of Default or the inability of the Borrower to satisfy the conditions precedent to such Advance shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of the Loan Documents whatsoever shall be valid unless in writing signed by the Lender, and then only to the extent in such writing specifically set forth. All remedies contained in the Loan Documents or by law afforded shall be cumulative and all shall be available to the Lender until the Obligations have been paid in full.

8. GENERAL PROVISIONS

8.1 SURVIVAL OF REPRESENTATIONS. All representations and warranties of the Borrower contained in this Agreement shall survive delivery of the Note and the making of the Advances herein contemplated.

8.2 GOVERNMENTAL REGULATION. Anything contained in this Agreement to the contrary notwithstanding, the Lender shall not be obligated to extend credit to the Borrower in violation of any limitation or prohibition provided by any applicable statute or regulation.

8.3 PERFORMANCE OF OBLIGATIONS. The Borrower agrees that the Lender may, but shall have no obligation to (i) at any time, pay or discharge taxes, liens, security interests or other encumbrances levied or placed on or threatened against any Collateral, unless such claims are being contested in

good faith by the Borrower and the Borrower has set aside adequate reserves covering such tax, lien, security interest or other encumbrance and no Event of Default has occurred and is outstanding and (ii) after the occurrence and during the continuance of an Event of Default to make any payment or perform any act required of the Borrower under any Loan Document or take any other action which the Lender in its discretion deems necessary or desirable to protect or preserve the Collateral, including, without limitation, any action to (y) effect any repairs or obtain any insurance called for by the terms of any of the Loan Documents and to pay all or any part of the premiums therefor and the costs thereof and (z) pay any rents payable by the Borrower which are more than 30 days past due, or as to which the landlord has given notice of termination, under any lease. The Lender shall use its efforts to give the Borrower notice of any action taken under this SECTION 8.3 prior to the taking of such action or promptly thereafter provided the failure to give such notice shall not affect the Borrower's obligations in respect thereof. The Borrower agrees to pay the Lender, upon demand, the principal amount of all funds advanced by the Lender under this SECTION 8.3, together with interest thereon at the rate from time to time applicable to from the date of such advance until the outstanding principal balance thereof is paid in full. All outstanding principal of, and interest on, advances made under this SECTION 8.3 shall constitute Obligations for purposes hereof.

8.4 HEADINGS. Section headings in the Loan Documents are for convenience of reference only, and shall not govern the interpretation of any of the provisions of the Loan Documents.

8.5 ENTIRE AGREEMENT. The Loan Documents embody the entire agreement and understanding among the Borrower and the Lender and the Loan Documents delivered on the Effective Date supersede all prior agreements and understandings among the Borrower and the Lender relating to the subject matter thereof.

8.6 EXPENSES; INDEMNIFICATION.

(a) EXPENSES. The Borrower shall reimburse the Lender for any reasonable costs, internal charges and out-of-pocket expenses (including reasonable attorneys' and paralegals' fees and time charges of attorneys and paralegals for the Lender, which attorneys and paralegals may be employees of the Lender) paid or incurred by the Lender in connection with the preparation, negotiation, execution, delivery, review, amendment, modification, and administration of the Loan Documents. The Borrower also agrees to reimburse the Lender for any costs, internal charges and out-of-pocket expenses (including attorneys' and paralegals' fees and time charges of attorneys and paralegals for the Lender, which attorneys and paralegals may be employees of the Lender) paid or incurred by the Lender in connection with the collection of the Obligations and enforcement of the Loan Documents. In addition to expenses set forth above, the Borrower agrees to reimburse the Lender, promptly after the Lender's request therefor, for each audit or other business analysis performed by it in connection with this Agreement or the other Loan Documents at a time when an Event of Default exists in an amount equal to the Lender's then reasonable and customary charges for each person employed to perform such audit or analysis, plus all costs and expenses (including without limitation, travel expenses) incurred by the Lender in the performance of such audit or analysis. Lender shall provide the Borrower with a detailed statement of all reimbursements requested under this SECTION 8.6(A).

(b) INDEMNITY. The Borrower further agrees to defend, protect, indemnify, and hold harmless the Lender and each of its Affiliates, and each of the Lender's, or Affiliate's respective officers, directors, employees, attorneys and agents (including, without limitation, those retained in connection with the satisfaction or attempted satisfaction of any of the conditions set forth in ARTICLE III) (collectively, the "INDEMNITEES") from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses of any kind or nature whatsoever (including, without limitation, the fees and disbursements of counsel for such Indemnitees in connection with any investigative, administrative or judicial proceeding, whether or not such

Indemnitees shall be designated a party thereto), imposed on, incurred by, or asserted against such Indemnitees in any manner relating to or arising out of:

(i) this Agreement, the other Loan Documents or any of the Transaction Documents, or any act, event or transaction related or attendant thereto the making of the Advances, hereunder, the management of such Advances, the use or intended use of the proceeds of the Advances hereunder, or any of the other transactions contemplated by the Transaction Documents; or

(ii) any liabilities, obligations, responsibilities, losses, damages, personal injury, death, punitive damages, economic damages, consequential damages, treble damages, intentional, willful or wanton injury, damage or threat to the environment, natural resources or public health or welfare, costs and expenses (including, without limitation, attorney, expert and consulting fees and costs of investigation, feasibility or remedial action studies), fines, penalties and monetary sanctions, interest, direct or indirect, known or unknown, absolute or contingent, past, present or future relating to violation of any Environmental, Health or Safety requirements of law arising from or in connection with the past, present or future operations of the Borrower, its Subsidiaries or any of their respective predecessors in interest, or, the past, present or future environmental, health or safety condition of any respective property of the Borrower or its Subsidiaries, the presence of asbestos-containing materials at any respective property of the Borrower or its Subsidiaries or the Release or threatened Release of any Contaminant into the environment (collectively, the "INDEMNIFIED MATTERS");

PROVIDED, HOWEVER, the Borrower shall have no obligation to an Indemnitee hereunder with respect to Indemnified Matters caused by or resulting from the willful misconduct or gross negligence of such Indemnitee as determined by the final non-appealed judgment of a court of competent jurisdiction. If the undertaking to indemnify, pay and hold harmless set forth in the preceding sentence may be unenforceable because it is violative of any law or public policy, the Borrower shall contribute the maximum portion which it is permitted to pay and satisfy under applicable law, to the payment and satisfaction of all Indemnified Matters incurred by the Indemnitees.

(c) Notwithstanding anything else in this Agreement to the contrary, no party shall have any obligation to reimburse any person for attorneys' fees and expenses unless such fees and expenses are (i) reasonable in amount, (ii) determined without reference to any statutory presumption and (iii) calculated using the actual time expended and the standard hourly rate for the attorneys and paralegals performing the tasks in question and the actual out-of-pocket expenses incurred.

(d) **WAIVER OF CERTAIN CLAIMS; SETTLEMENT OF CLAIMS.** The Borrower further agrees to assert no claim against any of the Indemnitees on any theory of liability for consequential, special, indirect, exemplary or punitive damages. No settlement shall be entered into by the Borrower or any of its Subsidiaries with respect to any claim, litigation, arbitration or other proceeding relating to or arising out of the transactions evidenced by this Agreement or the other Loan Documents (whether or not the Lender or any Indemnitee is a party thereto) unless such settlement releases all Indemnitees from any and all liability with respect thereto.

(e) **SURVIVAL OF AGREEMENTS.** The obligations and agreements of the Borrower under this SECTION 8.6 shall survive the termination of this Agreement.

8.7 ACCOUNTING. Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with Agreement Accounting Principles.

8.8 SEVERABILITY OF PROVISIONS. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

8.9 NONLIABILITY OF LENDER. The relationship between the Borrower and the Lender shall be solely that of borrower and lender. The Lender shall have no fiduciary responsibilities to the Borrower and the Lender does not take any responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations.

8.10 GOVERNING LAW. ANY DISPUTE BETWEEN THE BORROWER AND THE LENDER, OR ANY INDEMNITEE ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN THEM IN CONNECTION WITH, THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS, AND WHETHER ARISING IN CONTRACT, TORT, EQUITY, OR OTHERWISE, SHALL BE RESOLVED IN ACCORDANCE WITH THE INTERNAL LAWS (WITHOUT REGARD TO THE CONFLICTS OF LAWS PROVISIONS) OF THE STATE OF OREGON.

8.11 CONSENT TO JURISDICTION; SERVICE OF PROCESS; JURY TRIAL

(a) EXCLUSIVE JURISDICTION. EXCEPT AS PROVIDED IN SUBSECTION (B), EACH OF THE PARTIES HERETO AGREES THAT ALL DISPUTES AMONG THEM ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH, THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS WHETHER ARISING IN CONTRACT, TORT, EQUITY, OR OTHERWISE, SHALL BE RESOLVED EXCLUSIVELY BY STATE OR FEDERAL COURTS LOCATED IN OREGON, BUT THE PARTIES HERETO ACKNOWLEDGE THAT ANY APPEALS FROM THOSE COURTS MAY HAVE TO BE HEARD BY A COURT LOCATED OUTSIDE OF OREGON. (b) OTHER JURISDICTIONS. THE BORROWER AGREES THAT THE LENDER OR ANY INDEMNITEE SHALL HAVE THE RIGHT TO PROCEED AGAINST THE BORROWER OR ITS PROPERTY IN A COURT IN ANY LOCATION TO ENABLE SUCH PERSON TO (1) OBTAIN PERSONAL JURISDICTION OVER THE BORROWER OR (2) REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS OR ENFORCE A JUDGMENT OR OTHER COURT ORDER ENTERED IN FAVOR OF SUCH PERSON. THE BORROWER WAIVES ANY OBJECTION THAT IT MAY HAVE TO THE LOCATION OF THE COURT IN WHICH SUCH PERSON HAS COMMENCED A PROCEEDING DESCRIBED IN THIS SUBSECTION (B).

(c) SERVICE OF PROCESS. THE BORROWER WAIVES PERSONAL SERVICE OF ANY PROCESS UPON IT AND IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OF ANY WRITS, PROCESS OR SUMMONSES IN ANY SUIT, ACTION OR PROCEEDING BY THE MAILING THEREOF BY THE LENDER BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO THE BORROWER ADDRESSED AS PROVIDED HEREIN. NOTHING HEREIN SHALL IN ANY WAY BE DEEMED TO LIMIT THE ABILITY OF THE LENDER TO SERVE ANY SUCH WRITS, PROCESS OR SUMMONSES IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW THE BORROWER IRREVOCABLY WAIVES ANY OBJECTION (INCLUDING, WITHOUT LIMITATION, ANY OBJECTION OF THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS) WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY SUCH ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH IN ANY JURISDICTION SET FORTH ABOVE.

(d) WAIVER OF JURY TRIAL. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, ARISING OUT OF, CONNECTED WITH, RELATED TO OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH. EACH OF THE PARTIES HERETO AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

(e) WAIVER OF BOND. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, THE BORROWER WAIVES THE POSTING OF ANY BOND OTHERWISE REQUIRED OF ANY PARTY HERETO IN CONNECTION WITH ANY JUDICIAL PROCESS OR PROCEEDING TO REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS OR TO ENFORCE ANY JUDGMENT OR OTHER COURT ORDER ENTERED IN FAVOR OF SUCH PARTY, OR TO ENFORCE BY SPECIFIC PERFORMANCE, TEMPORARY RESTRAINING ORDER, PRELIMINARY OR PERMANENT INJUNCTION, THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT.

(f) ADVICE OF COUNSEL. EACH OF THE PARTIES REPRESENTS TO EACH OTHER PARTY HERETO THAT IT HAS DISCUSSED THIS AGREEMENT AND, SPECIFICALLY, THE PROVISIONS OF THIS SECTION 8.11, WITH ITS COUNSEL.

8.12 NO STRICT CONSTRUCTION. The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

8.13 SUBORDINATION OF INTERCOMPANY INDEBTEDNESS. The Borrower agrees that any and all claims of the Borrower against any Dealership Guarantor, any endorser or any other guarantor of all or any part of the Obligations, or against any of its properties, including, without limitation, pursuant to the any intercompany Indebtedness permitted under SECTION 5.3(A)(VI), shall be subordinate and subject in right of payment to the prior payment, in full and in cash, of all Obligations. Notwithstanding any right of the Borrower to ask, demand, sue for, take or receive any payment from any Dealership Guarantor, all rights, liens and security interests of the Borrower, whether now or hereafter arising and howsoever existing, in any assets of any Dealership Guarantor shall be and are subordinated to the rights, if any, of the Lender in those assets. The Borrower shall have no right to possession of any such asset or to foreclose upon any such asset, whether by judicial action or otherwise, unless and until all of the Obligations shall have been paid in full in cash and satisfied and all financing arrangements under this Agreement and the other Loan Documents between the Borrower and the Lender have been terminated. If, during the continuance of an Event of Default, all or any part of the assets of any Dealership Guarantor, or the proceeds thereof, are subject to any distribution, division or application to the creditors of any Dealership Guarantor, whether partial or complete, voluntary or involuntary, and whether by reason of liquidation, bankruptcy, arrangement, receivership, assignment for the benefit of creditors or any other action or proceeding, then, and in any such event, any payment or distribution of any kind or character, either in cash, securities or other property, which shall be payable or deliverable upon or with respect to any indebtedness of any Dealership Guarantor to the Borrower, including, without limitation, pursuant to the any intercompany Indebtedness permitted under SECTION 5.3(A)(VI) ("INTERCOMPANY INDEBTEDNESS") shall be paid or delivered directly to the Lender for application on any of the Obligations, due or to become due, until such Obligations shall have first been paid in full in cash and satisfied; PROVIDED, HOWEVER, ordinary course payments or distributions made by any Dealership Guarantor to the Borrower shall be required to be paid or delivered to the Lender only upon the Lender's request. The Borrower irrevocably authorizes and empowers the Lender to demand, sue for, collect and receive every such payment or distribution and give acquittance therefor and to make and present for and on behalf of the Borrower such proofs of claim and take such other action, in the Lender's own name or in the name of the Borrower or otherwise, as the Lender may deem necessary or advisable for the enforcement of this SECTION 8.13. The Lender may vote such proofs of claim in any such proceeding, receive and collect any and all dividends or other payments or disbursements made thereon in whatever form the same may be paid or issued and apply the same on account of any of the Obligations. Should any payment, distribution, security or instrument or proceeds thereof be received by the Borrower upon or with respect to the Intercompany Indebtedness during the continuance of an Event of Default and prior to the satisfaction of all of the Obligations and the termination of all financing arrangements under this Agreement and the other Loan Documents between the Borrower and the Lender, the Borrower shall receive and hold the same in trust, as trustee, for the benefit of the Lender and shall forthwith deliver the same to the Lender, in precisely the form received (except for the endorsement or assignment of the Borrower where necessary), for application to any of the Obligations, due or not due, and, until so delivered, the same shall be held in trust by the Borrower as the property of the Lender; PROVIDED, HOWEVER, ordinary course payments or distributions made to or by any Dealership Guarantor to the Borrower shall be required to be paid or delivered to the Lender only upon the Lender's request after the occurrence and Continuance of an Event of Default. If the Borrower fails to make any such endorsement or

assignment to the Lender, the Lender or any of its officers or employees are irrevocably authorized to make the same. The Borrower agrees that until the Obligations have been paid in full in cash and satisfied and all financing arrangements under this Agreement and the other Loan Documents between the Borrower and the Lender have been terminated, the Borrower will not assign or transfer to any Person (other than the Lender) any claim the Borrower has or may have against any Dealership Guarantor.

8.14 USURY NOT INTENDED. It is the intent of the Borrower and the Lender in the execution and performance of this Agreement and the other Loan Documents to contract in strict compliance with applicable usury laws, including conflicts of law concepts, governing the Advances of the Lender including such applicable laws of the State of Oregon and the United States of America from time-to-time in effect. In furtherance thereof, the Lender and the Borrower stipulate and agree that none of the terms and provisions contained in this Agreement or the other Loan Documents shall ever be construed to create a contract to pay, as consideration for the use, forbearance or detention of money, interest at a rate in excess of the Maximum Rate and that for purposes hereof "interest" shall include the aggregate of all charges which constitute interest under such laws that are contracted for, charged or received under this Agreement; and in the event that, notwithstanding the foregoing, under any circumstances the aggregate amounts taken, reserved, charged, received or paid on the Advances, include amounts which by applicable law are deemed interest which would exceed the Maximum Rate, then such excess shall be deemed to be a mistake and the Lender receiving same shall credit the same on the principal of its Note (or if the Note shall have been paid in full, refund said excess to the Borrower). In the event that the maturity of the Note is accelerated by reason of any election of the holder thereof resulting from any Event of Default under this Agreement or otherwise, or in the event of any required or permitted prepayment, then such consideration that constitutes interest may never include more than the Maximum Rate and excess interest, if any, provided for in this Agreement or otherwise shall be canceled automatically as of the date of such acceleration or prepayment and, if theretofore paid, shall be credited on the applicable Note (or, if the Note shall have been paid in full, refunded to the Borrower of such interest). In determining whether or of the interest paid or payable under any specific contingencies exceeds the Maximum Rate, the Borrower and the Lender shall to the maximum extent permitted under applicable law amortize, prorate, allocate and spread in equal parts during the period of the full stated term of the Note all amounts considered to be interest under applicable law at any time contracted for, charged, received or reserved in connection with the Obligations. The provisions of this Section shall control over all other provisions of this Agreement or the other Loan Documents which may be in apparent conflict herewith.

9. BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

9.1 SUCCESSORS AND ASSIGNS. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Borrower and the Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights or obligations under the Loan Documents.

9.2 PARTICIPATIONS.

(a) PERMITTED PARTICIPANTS; EFFEC. SUBJECT TO THE TERMS SET FORTH IN THIS SECTION 9.2, the Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other financial institutions ("PARTICIPANTS") participating interests in any Advance owing to the Lender, the Note, the Commitment or any other interest of the Lender under the Loan Documents on a pro rata or non-pro rata basis. Notice of such participation to the Borrower shall be required prior to any participation becoming effective. In the event of any such sale by the Lender of participating interests to a Participant, the Lender's obligations under the Loan Documents shall remain unchanged, the Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, the Lender shall remain the holder of the Note for all purposes under

the Loan Documents, all amounts payable by the Borrower under this Agreement shall be determined as if the Lender had not sold such participating interests, and the Borrower shall continue to deal solely and directly with the Lender in connection with the Lender's rights and obligations under the Loan Documents.

(b) VOTING RIGHTS. The 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 other than any amendment, modification or waiver with respect to any Advance or Commitment in which such participant has an interest.

9.3 ASSIGNMENTS. The Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other financial institutions approved by the Borrower within 10 days of notice to the Borrower by the Lender of such assignment (which such approval shall not be unreasonably withheld) all or a portion of its rights and obligations under this Agreement (including, without limitation, its Commitment and all Advances owing to it) pursuant to an assignment agreement in form and substance satisfactory to the Lender. Notwithstanding the foregoing, the Borrower shall not have any right to approve an assignee under this SECTION 9.3, after the occurrence and continuance of an Event of Default or to the extent such assignee is an Affiliate of the Lender, PROVIDED, HOWEVER, that to the extent the Lender assigns its obligations hereunder, such Affiliate shall be a United States Person and the Lender shall have provided such financial statements as the Borrower shall have reasonably requested.

9.4 CONFIDENTIALITY. Subject to SECTION 9.5, the Lender shall hold all nonpublic information obtained pursuant to the requirements of this Agreement and identified as such by the Borrower in accordance with the Lender's customary procedures for handling confidential information of this nature and in accordance with safe and sound banking practices and in any event may make disclosure reasonably required by a prospective Transferee in connection with the contemplated participation or as required or requested by any governmental authority or representative thereof or pursuant to legal process and shall require any such Transferee to agree (and require any of its Transferees to agree) to comply with this SECTION 9.4. In no event shall the Lender be obligated or required to return any materials furnished by the Borrower; PROVIDED, HOWEVER, each prospective Transferee shall be required to agree that if it does not become a participant it shall return all materials furnished to it by or on behalf of the Borrower in connection with this Agreement.

9.5 DISSEMINATION OF INFORMATION. The Borrower authorizes the Lender to disclose to any Participant or Purchaser or any other Person acquiring an interest in the Loan Documents by operation of law (each a "TRANSFEREE") and any prospective Transferee any and all information in the Lender's possession concerning the Borrower and its Subsidiaries; PROVIDED that prior to any such disclosure, such prospective Transferee shall agree to preserve in accordance with SECTION 9.4 the confidentiality of any confidential information described therein.

10. NOTICES

10.1 GIVING NOTICE. Except as otherwise permitted by SECTION 2.8 with respect to borrowing notices, all notices and other communications provided for hereunder shall be in writing (including telecopier, telegraphic, telex or cable communication) and mailed, telecopied, telegraphed, telexed, cabled or delivered, if to the Borrower, at its address at 360 East Jackson Street, Medford, Oregon 97501, if to the Lender, at its address specified in the Credit Agreement; or, as to each party, at such other address as shall be designated by such party in a written notice to the other party. All such notices and communications shall be effective, upon receipt, or in the case of (i) notice by mail, five days after being deposited in the United States mails, first class postage prepaid, (ii) notice by overnight courier, one business day after being deposited with a national overnight courier service, (iii)

notice by telex, when telexed against receipt of answer back or (iv) notice by facsimile copy, when transmitted against mechanical confirmation of successful transmission.

10.2 CHANGE OF ADDRESS. The Borrower and the Lender may each change the address for service of notice upon it by a notice in writing to the other parties hereto.

11. COUNTERPARTS

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by the Borrower and the Lender.

12. CAPITAL STOCK PLEDGES

With respect to all Capital Stock in any Lithia Dealerships pledged to Lender, Lender agrees that upon written notice from Borrower that an automotive manufacturer objects to such pledge, Lender shall fully release any interest it may have in such Capital Stock and return pledged certificates, if any, to Borrower.

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

LITHIA MOTORS, INC., as the Borrower

By:
M. L. Dick, Heimann, President

Attest
Sidney B. DeBoer, Secretary

Address: 360 East Jackson Street
Medford, Oregon

Attention: -----

Telephone No.: -----

Facsimile No.: -----

FORD MOTOR CREDIT COMPANY, as Lender

By:
B. W. Evans, National Account Manager

Address:

Attention: B. W. Evans Telephone No.:

Facsimile No.:

DEALER SALES AND SERVICE AGREEMENT

In reliance upon the Agreement by the parties to fulfill their respective commitments, this Agreement, effective OCTOBER 13, 1998, is entered into by General Motors Corporation, Chevrolet Motor Division ("Chevrolet"), a

Delaware Corporation and

CAMP AUTOMOTIVE, INC. _____, a

Dealer Firm Name

DELAWARE corporation, incorporated on APRIL 13, 1961;

proprietorship;

partnership;

other - specify -----

doing business at 101 E MONTGOMERY AVE

SPOKANE, WASHINGTON 99207-2220 ("Dealer").

**OVERVIEW AND PURPOSE OF THE
CHEVROLET DEALER SALES AND SERVICE AGREEMENT**

The principle purposes of this Agreement are to:

- A. Authorize the Dealer to sell and service Chevrolet products and to represent itself as a Chevrolet Dealer.
- B. Provide a framework within which Dealer and Chevrolet may accomplish their mutual objectives.
- C. Provide a means whereby Chevrolet and Dealer may identify specific sales, CSI, facility and other requirements by which Dealer's performance under this Agreement may be evaluated.
- D. Identify other commitments, rights and responsibilities of Chevrolet and Dealer.

Achieving Chevrolet's vision of market leadership while exceeding customer expectations in selling and serving Chevrolet products is dependent in a large part upon the maintenance of a quality network of authorized Dealers. Since Dealer represents Chevrolet to the public, it is fundamental to the success of Chevrolet that Dealer maintain its operations facilities and business methods in a manner which will support the Chevrolet Dealer Agreement. Chevrolet will conduct its operations and provide assistance, as practicable within the scope and terms of this Agreement, to assist Dealer to accomplish the requirements of this Agreement and the Chevrolet vision. Chevrolet will from time to time provide instructions, programs, requirements and suggestions developed in accordance with this Agreement to both supplement the Agreement and assist Dealer and Dealer network.

Chevrolet's vision is to be America's automotive leader providing Total Customer Enthusiasm through:

- Empowered people,
- Exceptional products,
- Excellent purchase and ownership experience,

providing outstanding value and a superior return on investment for all stakeholders.

FOURTH

Chevrolet and dealers recognize that the decisions made by Chevrolet Motor Division directly impact the business and livelihood of its Dealer Body as well as the ultimate satisfaction of its customers. Chevrolet, in accord with members representing the Chevrolet dealer body, seek to enhance its decision making process by establishing certain methods for the inclusion of the collective Dealer Body input in all are as directly affecting our mutual business concerns. The forum for this is generally provided through three principle processes: The National Dealer Council, The National Dealer Council Work Teams, and The Partnership Council.

A. NATIONAL DEALER COUNCIL

The purpose of the National Dealer Council is to establish a forum for Chevrolet and its dealers to partner in determining Chevrolet's future direction and strategies. Council members will participate in work teams and other joint policy-making groups affecting our business. Much progress has been made as a result of the National Dealer Council involvement, and Chevrolet is committed to ensuring that this avenue continues.

- The National Dealer Council will consist of elected Chevrolet dealer representatives from each Zone and serve a three year term. A dealer operator must have at least three years experience as a Chevrolet dealer and be involved in the day to day operations of the dealership business in order to qualify for election.
- Council representatives will communicate with the dealer body in the Zone they are representing by providing feedback on dealer council activities and informing the Dealer Council and Chevrolet of dealer body concerns.
- Dealer Council formally convenes up to three times a year. Individual Council members may be asked to attend additional meeting throughout the year in connection with their team assignments. Dealer Council members will serve on work teams and participate in the decision making process with Chevrolet Motor Division.
- Any training deemed necessary by the National Dealer Council to assist in fulfilling their responsibilities will be provided by Chevrolet.

B. NATIONAL DEALER COUNCIL WORK TEAMS

National Dealer Council representatives, Chevrolet/GM management, and Chevrolet Dealers will serve jointly on work teams which are created to focus on issues of mutual concern to dealers and Chevrolet. The work teams will utilize the consensus decision making process to achieve a best value decision depending on the defined role of each group and the requirements of each issue under consideration.

- Work teams will cover areas such as: Dealer Organization, Education and Training, Product, Service/Parts, Distribution, Sales/Financial, Marketing, and Total Customer Enthusiasm. The National Dealer Council and Chevrolet may establish, change or discontinue teams as deemed necessary.
- Dealers may serve on a work team for up to a three year term. Meetings will take place on an as needed basis through phone conversations, fax system, or in person.

C. PARTNERSHIP COUNCIL

The responsibility of the Partnership Council is to coordinate work team structures and activities of the National Dealer Council. The Partnership Council is comprised of an equal number of Chevrolet Dealer Council members and Chevrolet representatives which operate as a policy making body. The Partnership Council will also address issues from the National Dealer Council and inform the necessary work teams as needed.

SEVENTH

d) Software:

From time to time during the term of this Agreement, GM will make available to Dealer certain information, data, software or firmware ("software") electronically, incorporated into tools or other products or by other means. This Software may be owned outright by GM, or jointly with, or wholly by, a GM affiliated company or authorized supplier. Dealer agrees to limit its use of the Software to Dealership Operations and comply with any other restrictions on its use.

TRAINING

EIGHTH

Chevrolet will from time to time provide training which Chevrolet believes will enhance Dealers ability to meet the requirements of the Dealer Agreement. Dealer will, to the extent practicable, participate in that training. Further, Chevrolet will on occasion designate certain training that will be required in accordance with Article 8 of the additional provisions. Dealer agrees that it will participate in any training so designated. Decisions on training requirements will be determined in accordance with Paragraph Fourth of this agreement.

DEALER IDENTIFICATION, IMAGE AND FACILITIES

NINTH

Dealer and Chevrolet recognize that the appearance, signs, environment and quality of Dealer's facility have significant impact on Chevrolet products and Dealer. Dealer, therefore, agrees that its dealership premises will be properly equipped and maintained, and that the interior and exterior retail environment and signs will comply with reasonable requirements Chevrolet will establish to promote and preserve the image of Chevrolet and its Dealers. Decisions on any material changes to the image, sign and/or dealership facility requirements will be determined in accordance with Paragraph Fourth of this agreement.

DISPUTE RESOLUTION

TENTH

Chevrolet recognizes that the mutual respect, trust and confidence which has been the cornerstones of Chevrolet-Dealer relations are essential to accomplishing the objectives of this Agreement. While the relationship between Chevrolet and Dealer is a very positive one, Chevrolet recognizes that from time to time there may be disagreements between Chevrolet and Dealer concerning rights and obligations arising under this Dealer Agreement. It is contemplated that most disagreements that may arise between Dealer and Chevrolet will be resolved through discussion between Dealer and Chevrolet field management. In fact, Dealer is strongly encouraged to discuss and to resolve any differences through the local field office, the Chevrolet entity most familiar with Dealer and its operations. However, in those instances where a disagreement between Dealer and Chevrolet cannot be resolved, Dealer may choose to seek review through the Dispute Resolution Process, which provides for senior sales management review and Binding Arbitration. This process is always voluntary on the part of Dealer and is voluntary on the part of Chevrolet except as provided in the details of the Dispute Resolution Process as set forth in a separate booklet (GMMS-1019).

BUSINESS MANAGEMENT RESPONSIBILITY

ELEVENTH

If Dealer is an authorized Dealer for more than one division of General Motors, Chevrolet will be primarily responsible for administering the provisions of the Dealer Agreements relating to the Dealer Statement of Ownership, dealership location and premises addendum and capital standard addendum. Chevrolet will execute or extend those documents for all divisions.

MULTIPLE DEALER OPERATOR ADDENDUM
TO
GENERAL MOTORS CORPORATION
DEALER SALES AND SERVICE AGREEMENT

This Multiple Dealer Operator ("MDO") Addendum executed by General Motors Corporation is effective as of OCTOBER 13, 1998

General Motors Corporation, acting in reliance upon the information provided by Dealer, agrees with Dealer as follows:

1. General Motors, at the request of Dealer, approves SIDNEY B. DEBOER as the Multiple Dealer Operator of Dealer based upon representations by Dealer that SIDNEY B. DEBOER has majority ownership and voting control of Dealer and will continue to do so for the term of this Dealer Agreement.
2. Dealer has executed a "Successor Addendum" identifying a replacement Dealer Operator acceptable to General Motors in the event of the death or incapacity of SIDNEY B. DEBOER. Dealer will continue the existing Successor Addendum, or some other Successor Addendum acceptable to General Motors, in effect during the full term of this Dealer Agreement.
3. General Motors, at the request of Dealer, approves PHILIP S. CAMP as the Executive Manager ("EM") of Dealer based upon the representations made in the Executive Manager Application and related documents. General Motors also relies on representations by Dealer that the EM has the managerial authority and responsibility to conduct all day-to-day dealership operation.
4. The personal qualifications of PHILIP S. CAMP as Executive Manager are a valuable consideration upon which General Motors enters this Dealer Agreement. Dealer will not replace its Executive Manager without a prior written request to and written approval from General Motors.
5. Failure of Dealer to retain an Executive Manager approved by General Motors will constitute a failure of performance and material breach of this MDO Addendum and the Dealer Agreement. Such failure will constitute good cause for termination of the Dealer Agreement.
6. The terms of this Addendum constitute the only agreement between the parties, either oral or written, regarding either the Multiple Dealer Operator or Executive Manager of Dealer.

This MDO Addendum may be terminated at any time by written agreement between General Motors and Dealer. It will automatically expire upon termination or non-renewal of the Dealer Agreement. This Addendum cancels, replaces, and supersedes any previous MDO Addendum executed by Dealer and General Motors for this dealership location. The terms of this Addendum are in addition to the terms contained in the Dealer Agreement.

CAMP AUTOMOTIVE, INC.

Dealer Firm Name

SPOKANE, WASHINGTON

City, State

By /s/

Signature

Date

CHEVROLET MOTOR DIVISION
GENERAL MOTORS CORPORATION

By By /s/

Signature Date ZONE MANAGER

GLOSSARY: THE TERMS BELOW, AS USED BY THE PARTIES TO THIS MDO ADDENDUM, ARE DEFINED AS INDICATED:

1. "Multiple Dealer Operator" - the person so designated is the majority owner of Dealer recognized as a Dealer Operator in more than one General Motors Dealer company, whether or not that person is also the Executive Manager of Dealer. The "MDO" is responsible for the overall management of Dealer and compliance with the Dealer Agreement.
2. "Executive Manager" - the person so designated is personally responsible for the day-to-day management of Dealer operations and compliance with the Dealer Agreement. The "EM" has no management responsibilities at any other Dealer company.

**MOTOR VEHICLE ADDENDUM
TO
GENERAL MOTORS CORPORATION
DEALER SALES AND SERVICE AGREEMENT**

CAMP AUTOMOTIVE, INC.

Dealer Firm Name

SPOKANE, WASHINGTON

City, State

Effective OCTOBER 13, 1998, Dealer, as an authorized Chevrolet dealer, has a non-exclusive right to buy the following new Motor Vehicles marketed by Chevrolet Motor Division of General Motors Corporation, subject to the terms listed on the reverse side of this addendum. As long as dealer continues to comply, Chevrolet will process dealer's orders in accordance with established procedures.

PASSENGER CARS

**CAMARO, CAVALIER, CORVETTE, IMPALA, LUMINA, MALIBU, METRO,
MONTE CARLO, PRIZM**

LIGHT DUTY TRUCKS

**ASTRO, BLAZER, C 3500 HD, C/K 1500-3500,
CHEVY EXPRESS CARGO VAN, CHEVY EXPRESS PASSENGER VAN,
P MODELS (P12, P32, P42), S-10, SILVERADO, SUBURBAN,
TAHOE, TRACKER, VENTURE**

This Motor Vehicle Addendum shall remain in effect unless and until superseded by a new Motor Vehicle Addendum furnished Dealer by Chevrolet. This Motor Vehicle Addendum cancels and supersedes any previous Motor Vehicle Addendum furnished Dealer by Chevrolet.

CHEVROLET MOTOR DIVISION

ACKNOWLEDGED

General Motors Corporation

By /s/

By

Dealer

Date

Signature

Date

/s/

ZONE MANAGER

General Sales & Service Manager

(Dealer should file this Motor Vehicle Addendum with Dealer's current Dealer Agreement.)

**CHEVROLET MOTOR DIVISION
MOTOR VEHICLE ADDENDUM
TO
GENERAL MOTORS CORPORATION
DEALER SALES AND SERVICE AGREEMENT**

CAMP AUTOMOTIVE, INC.

Dealer Firm Name

SPOKANE, WASHINGTON
City, State

Effective OCTOBER 13, 1998, Dealer, as an authorized Chevrolet dealer, has a non-exclusive right to buy the following new Medium Duty Truck Motor Vehicles marketed by Chevrolet Motor Division of General Motors Corporation:

**C6H SERIES CONVENTIONAL CAB/CHASSIS,
C7H SERIES CONVENTIONAL CAB/CHASSIS,
P6 SERIES FORWARD CONTROL CHASSIS**

This Motor Vehicle Addendum shall remain in effect unless cancelled or until superseded by a new Motor Vehicle Addendum furnished Dealer by Chevrolet.

**CHEVROLET MOTOR DIVISION
General Motors Corporation**

By /s/

Signature

Date

ZONE MANAGER

(Dealer should file this Motor Vehicle Addendum with Dealer's current Dealer Agreement.)

**CHEVROLET MOTOR DIVISION
MOTOR VEHICLE ADDENDUM
TO
GENERAL MOTORS CORPORATION
DEALER SALES AND SERVICE AGREEMENT**

CAMP AUTOMOTIVE, INC.

Dealer Firm Name

SPOKANE, WASHINGTON

City, State

Effective OCTOBER 13, 1998, Dealer, as an authorized Chevrolet dealer, has a non-exclusive right to buy the following new Medium Duty Track Motor Vehicles marketed by Chevrolet Motor Division of General Motors Corporation:

TILT CAB - T5500, T6500, T7500 AND T8500 SERIES

This Motor Vehicle Addendum shall remain in effect unless cancelled or until superseded by a new Motor Vehicle Addendum furnished Dealer by Chevrolet. This Motor Vehicle Addendum cancels and supersedes any previous Motor Vehicle Addendum furnished Dealer by Chevrolet relating to T-Series Vehicles.

**CHEVROLET MOTOR DIVISION
General Motors Corporation**

By /s/

Signature

Date

ZONE MANAGER

(Dealer should file this Motor Vehicle Addendum with Dealer's current Dealer Agreement.)

**SUCCESSOR ADDENDUM
TO
GENERAL MOTORS CORPORATION
DEALER SALES AND SERVICE AGREEMENT**

This Successor Addendum is effective OCTOBER 13, 1998 and is executed pursuant to the provisions of Article 12.1 of the current Dealer Agreement in effect between the undersigned Dealer and Division of General Motors.

On the basis of the information provided by Dealer, in connection with the Request for Execution of Successor Addendum, Division and Dealer Agree that:

1. Subject to paragraphs 2 and 3 below, the proposed dealer operator(s) for purposes of designating and establishing a proposed successor dealer as provided in Article 12.1 of the Dealer Agreement shall be

BRYAN DEBOER

2. If more than one current Dealer Operator is named in 1 above,

a. the remaining Dealer Operator alone shall have the right to designate a proposed successor dealer, or [] Yes

b. all of the proposed dealer operators who remain or survive, including the remaining Dealer Operator, shall acting together have such rights, [] Yes

3. The following person(s), if any, shall be proposed owner(s) (indicate "none", if applicable):

NONE

4. Dealer may cancel an executed Successor Addendum at any time prior to the death of any party named as Dealer Operator in Paragraph THIRD of this Agreement. General Motors may cancel an executed Successor Addendum only if the proposed dealer operator no longer complies with the requirements of Article 12.1.1. The parties may execute a new and superseding Successor Addendum by mutual agreement. If Division has previously notified Dealer that it does not plan to continue Dealership Operations at the Dealership Location, Division shall have no obligation to execute a Successor Addendum, except for a renewal of an existing Successor Addendum with the same proposed dealer operator provided Dealer and the Proposed Dealer Operator comply with the requirements of Article 12.1.1.

5. This Addendum shall become null and void upon the execution of a new Dealer Agreement by Dealer and Division.

6. This Successor Addendum cancels and supersedes any previous Successor Addendum between the parties.

CAMP AUTOMOTIVE, INC.

Dealer Firm Name

SPOKANE, WASHINGTON

City, State

CHEVROLET MOTOR DIVISION

General Motors Corporation

By /s/

By

Signature and Title

Date

ZONE MANAGER

Date

The undersigned, as all Dealer Operator(s) and Owner(s) of Dealer, hereby individually signify their concurrence with the above agreements

and waive any rights in conflict with the above agreements they may have or acquire under either the Dealer Agreement or applicable law.

/s/

Date

Date

Date Date

SUBARU [LOGO]

[LOGO]

DEALERSHIP

AGREEMENT

CAMP AUTOMOTIVE, INC.

1. PARTIES TO AGREEMENT THIS AGREEMENT is made the 16th day of OCTOBER, 1998, by and between SUBARU OF AMERICA, INC./WESTERN REGION, a NJ corporation ("Distributor"), having a place of business at 2235 ROUTE 70 WEST, CHERRY HILL, NJ 08002, and CAMP AUTOMOTIVE, INC. ("Dealer"),

a Oregon corporation a partnership an individual

Doing or intending to do business as CAMP SUBARU, having its principal place of business at E. 215 MONTGOMERY AVENUE, SPOKANE, WA 99207

2. STANDARD PROVISIONS The Subaru Dealership Agreement Standard Provisions booklet, marked MSA No. 732-C 4/88 (hereinafter the "Standard Provisions") is incorporated by reference as part of this Agreement with the same force and effect as if all of the definitions and provisions contained in the Standard Provisions were fully set forth in this Agreement. The definition of the term "Fuji" appearing in Paragraph 2.1 of the Standard Provisions is amended by adding the following sentence at the end of that definition: "For purposes of this Agreement, the term "Fuji" shall also include Subaru-Isuzu Automotive, Inc., an Indiana Corporation." The conduct of business by Dealer under this Agreement is expressly subject to the Standard Provisions and all the documents referred to, or incorporated by reference in, the Standard Provisions. Dealer hereby acknowledges receipt of a copy of this Agreement and of the Standard Provisions without any addition to, or modification of, the printed text of either, except as may be set forth in any other written documents agreed upon between Distributor and Dealer, which documents are attached hereto and identified as follows (or if none, so state below):

(a) RIGHT TO FIRST ADDENDUM TO SUBARU DEALERSHIP AGREEMENT

(b) HOLDING COMPANY ADDENDUM

(c) NONE

3. APPOINTMENT AND ACCEPTANCE Distributor hereby appoints Dealer as an authorized dealer of Subaru Products and Dealer accepts the appointment under the terms and conditions of this Agreement.

4. AREA OF Dealer assumes responsibility for the promotion, sale and

RESPONSIBILITY service of Subaru Products within the area (hereinafter referred to as the "Area of Responsibility") consisting of the following post office communities:

SPOKANE/WEST, WA PRIMARY MARKET AREA OF RESPONSIBILITY #14-303B. REFER TO THE ATTACHED SUBARU ZIP STRUCTURE LIST DATED 10/98.

The Area of Responsibility described above is not necessarily exclusive to Dealer and one or more other authorized Subaru dealers may share the same Area of Responsibility because of its size and market potential, the appointment of any additional dealers being subject in all events to the requirements of applicable law. If other Subaru dealers do share the same Area of Responsibility, Dealer's responsibility for the Area of Responsibility shall be determined from time to time on a proportionate basis by Distributor after reviewing in consultation with Dealer relevant statistics and available information concerning population size, demographics, consumer shopping habits, traffic patterns, and other geographical factors applicable to the Area of Responsibility.

5. OWNERSHIP Dealer represents and Distributor enters into this Agreement in reliance upon the representation that the following individuals are the sole record and beneficial owners of

Dealer and own Dealer in the following percentages:

Names Of Beneficial Owners	Percentage Of Beneficial Interest	Name of Each Respective Record Owner, If Different From Beneficial Owner
LITHIA MOTORS, INC.	100.00%	LITHIA HOLDING COMPANY, LLC

(SEE ATTACHED OWNERSHIP CHART)

6. CHANGE IN
OWNERSHIP
OR TRANSFER
OF AGREEMENT

This is a personal service agreement. There shall be no change in the beneficial ownership of Dealer, or transfer of any rights or obligations under this Agreement, without the prior written consent of Distributor, which consent (except as provided in Section 18.4 of the Standard Provisions) shall not be unreasonably withheld. Any Significant Change of Ownership Interest (as defined in Section 2.11 of the Standard Provisions) will also require the consent of SOA under Paragraph 14 of this Agreement.

LITHIA MOTORS, INC.
POST-IPO Structure

SIDNEY B. DEBOER
53.639% Beneficial Interest

M.L. DICK HEIMANN
34.875% Beneficial Interest

DEBOER INSURANCE, LLC
3.761% Beneficial Interest

R. BRADFORD GRAY
7% Beneficial Interest

SID & KAREN DEBOER FOUNDATION
.725% Beneficial Interest

SIDNEY B. DEBOER
100% Voting
Managing Member

LITHIA HOLDING COMPANY, LLC
35.5% of shares (or more)
Class "B" Common
10 Votes per share
84.7% Control
Tax ID 93-1171867

THE PUBLIC
64.4% of shares (or less) Class "A"
Common
1 vote per share
15.3% Control

LITHIA MOTORS, INC.

100% Control 100 Shares Each Tax ID 93-0572810

CAMP AUTOMOTIVE, INC.
DBA CAMP SUBARU

	LITHIA STOCK HOLDING		VOTES	
	-----	-----	-----	-----
Class A Shares	2,925,550	25.362%	2,925,550	6.029%
Class A Employee Authorized Stock Options*	1,049,450	9.098%	1,049,450	2.163%
Class A Secondary Issue	3,000,00	26.008%	3,000,000	6.182%
Class A Secondary Issue Over-Allotment	450,00	3.901%	450,000	0.927%
Total Class A Shares	7,425,00	64.369%	7,425,000	15.301%
Class B Restricted Shares**	4,110,000	35.361%	41,100,000	84.699%
Total Shares Outstanding	11,535,000	100.000%	48,525,000	100.000%

*All employee stock options may not currently be issued

rev: 08/04/98

7. EXECUTIVE MANAGEMENT Dealer represents and Distributor enters into this Agreement in reliance upon the representation that the following persons, and no other persons, shall constitute the executive

management of Dealer:

TITLE OR OFFICE -----	NAME
PRESIDENT	SIDNEY B. DEBOER
VICE PRESIDENT (IF ANY)	M.L. DICK HEIMANN
VICE PRESIDENT (IF ANY)	
TREASURER	SIDNEY B. DEBOER
SECRETARY	SIDNEY B. DEBOER
GENERAL MANAGER	PHILIP S. CAMP
OTHER OFFICERS (IF ANY)	
OTHER OFFICERS (IF ANY)	

Dealer further represents that, unless otherwise indicated at the end of this sentence, any member of executive management, as well as Dealer's Sales, Service and Parts Managers, may transact business with Distributor on behalf of Dealer and that in so doing each such person shall legally bind Dealer:

Dealer recognizes and agrees that retention of a qualified and experienced General Manager is required if other full-time member of executive management do not possess, in the sole discretion of Distributor, the qualifications and experience necessary to adequately supervise the general management of the dealership.

8. CHANGE IN MANAGEMENT There shall be no charge in Dealer executive management without the prior written consent of distributor which consent shall not be unreasonably withheld. With respect to all other changes in management personnel, Dealer agrees to give notice to Distributor upon the occurrence of any such change.
9. FACILITIES Distributor approved the following facilities, containing the areas specified below, which Dealer will Provide and use exclusively for Dealer's Subaru operations:
- New Car Showroom
Address: E. 215 MONTGOMERY AVENUE, SPOKANE, WA 99207
Exclusive Subaru Area: 1,280 sq. ft.
- Sales and General Office Area
Address: E. 215 MONTGOMERY AVENUE, SPOKANE, WA 99207
Exclusive Subaru Area: 880 sq. ft.
- Parts Facility
Address: E. 215 MONTGOMERY AVENUE, SPOKANE, WA 99207
Exclusive Subaru Area: 1,600 sq. ft.
- Service Facility
Address: E. 215 MONTGOMERY AVENUE, SPOKANE, WA 99207
Exclusive Subaru Area: 4,000 sq. ft.
- New Car Outside Display and Storage
Address: E. 215 MONTGOMERY AVENUE, SPOKANE, WA 99207
Exclusive Subaru Area: 22,280 sq. ft.
- Used Vehicle Display and Storage
Address: E. 215 MONTGOMERY AVENUE, SPOKANE, WA 99207
Exclusive Subaru Area: 12,680 sq. ft.
10. TERM AND RENEWAL The term of this Agreement begins on the 16TH day of OCTOBER, 1998, and ends on the 15TH day of OCTOBER, 1999. (THE TERM OF THIS AGREEMENT SHALL NOT BE FOR A PERIOD LONGER THAN THIRTY-SIX (36) MONTHS.) The expiration or prior termination of this Agreement shall not affect or extinguish any unsatisfied account balances between Distributor and Dealer, any claims for indemnification under Sections 10.5, 13.2, 13.4, 17.1 or 17.2 of the Standard Provisions, any claims

asserted in legal actions or proceedings then pending and involving the parties hereto, or the respective rights and obligations of Dealer and Distributor under Article 16 of the Standard Provisions. Any renewal of this Agreement must be formally entered into by means of a fully executed Subaru Dealership Agreement in the form then current, incorporating the Subaru Dealership Agreement Standard Provisions in the form then current.

11. PRIOR
TERMINATION

Dealer may terminate this Agreement prior to the expiration date by giving at least sixty (60) days prior written notice to Distributor by certified or registered mail. Distributor may, prior to the expiration date, terminate this Agreement for cause as set forth in Article 15 of the Standard Provisions. This Agreement shall automatically terminate upon notice to Dealer of the termination, expiration or relinquishment of Distributor's authority to act as a distributor of Subaru Products for the Area of Responsibility.

12. CAPITALIZATION Dealer agrees to establish and maintain adequate Net Cash, Net Working Capital, Total Net Worth and Operating Investment, in accordance with all applicable Minimum Standards, so as to effectively perform its obligations under this Agreement. If this Agreement is for the appointment of a New Dealer Candidate, then Dealer hereby represents that it now possesses the initial required amounts of capitalization indicated below, available exclusively for Subaru operations. In all other cases, Dealer hereby represents that it now possesses in its total

operations the amounts of capitalization indicated below:

Net Cash:	\$10,684,787	Total Net Worth:	\$9,935,330
Net Working Capital:	\$13,721,272	Operating Investment:	\$16,424,996

13. CREDIT ARRANGEMENTS Dealer agrees to make arrangements for and to maintain, throughout the term of this Agreement, a committed floor plan line of credit in an amount adequate to fulfill the requirements set forth in the applicable Minimum Standards and adequate to finance Dealer's anticipated inventory of Cars. Whenever required by Distributor, Dealer shall furnish Distributor with documentation that such committed floor plan line of credit is available from a financial institution approved by and in a form acceptable to Distributor for use in connection with Dealer's purchases of, and carrying of inventory in, Cars. Dealer hereby represents that it now possesses a committed floor plan line of credit, from a financial institution approved by Distributor, available exclusively for Subaru operations, in the initial required amount of \$2,000,000.

14. SOA CONSENT The consent of SOA is required for the appointment of a New Dealer Candidate, for a Significant Change of Ownership Interest, or for a relocation of facilities in addition to those identified in Paragraph 9 of this Agreement SOA's decision to grant or withhold consent shall be communicated to the Distributor in writing and the Distributor will in turn promptly notify the New Dealer Candidate, the proposed transferee of the Interest to be transferred, or the dealer as the case may be. If a New Dealer Candidate engages in any Subaru operation prior to SOA's consent, or if a Significant Change of Ownership Interest or a change in facilities location is effectuated prior to SOA's consent, such consent may be denied notwithstanding the qualifications of the New Dealer Candidate or proposed transferee, notwithstanding the condition of the new facility and notwithstanding any contrary representations which may have been made by Distributor, SOA consent also may be defined in the event that SOA determines, in its sole discretion, that either: (a) the agreement and related documents when presented to SOA for review are not fully and properly completed or do not conform to the requirement set forth in the then current Subaru Dealer Appointment Procedures Manual; (b) the New Dealer Candidate, proposed transferee or proposed new facility does not meet or fulfill the standards set forth in the then current Subaru Dealer National Operating Standards Manual, including the Subaru Dealership National Minimum Standards; or (c) the New Dealer Candidate or proposed transferee does not evidence the honesty, integrity, sales and service energy or proven sales, market penetration and service performance, and skills, experience or cooperative attitude which are likely to promote the long term success and reputation of Subaru Products. If applicable law requires that a New Dealer Candidate or proposed transferee be approved or disapproved within a prescribed time period, such time period shall be calculated from and after the date upon which the agreement and all related documents are first presented for review by Distributor to SOA.

15. DEALER'S MINIMUM STANDARDS LEVEL Effective for the term of this Agreement only, Dealer's Planning Volume shall be 359 Cars per year and the number of Units in Operation ("UIO") assigned to Dealer is 1,822, so that UIO plus one (1) year's Planning Volume equals 2,181 and UIO plus three (3) years' Planning Volume equals 2,899 If this Agreement is renewed or if Dealer

relocates its facilities or if there is a change in the percentage share of responsibility for Dealer's Area of Responsibility, both Planning Volume and UIO will be re-evaluated by Distributor at the time of such renewal, relocation or percentage change, and Dealer will be required to comply with the Minimum Standards in effect at that time for the re-evaluated Planning Volume and UIO levels.

The parties hereto, intending to be legally bound, have executed this Agreement, or have caused this Agreement to be executed by their proper and duly authorized officers, on the date and year first above written.

SUBARU OF AMERICA, INC/WESTERN REGION

CAMP AUTOMOTIVE INC.

BY: /s/ Tim Parzybok

BY: /s/ Sidney B. DeBoer

Tim Parzybok
Regional Vice President

Sidney B. DeBoer

BY: /s/ Steve Allen

TITLE President

Steve Allen
Regional Market Development Manager

WITNESS OR
ATTEST: /s/

[LETTERHEAD]

RIGHT OF FIRST REFUSAL ADDENDUM TO SUBARU DEALERSHIP AGREEMENT

This addendum is made this 16th day of October, 1998, by and between Camp Automotive, Inc. ("Dealer") and Subaru of America, Inc./Western Region ("Distributor").

WHEREAS, Dealer's Subaru Dealership Agreement and Standard Provisions ("Agreement") commenced on October 16, 1998, which Agreement is incorporated herein by reference as though set forth at length; and

WHEREAS, Dealer and Distributor desire to amend the Agreement to provide Distributor a right of first refusal should a proposal be submitted by Dealer under article six (6) of the Dealership Agreement.

NOW THEREFORE, in consideration of these premises, Dealer and Distributor agree as follows:

1. Distributor may elect to exercise its purchase right by written notice to Dealer within thirty (30) calendar days after Dealer has furnished to Distributor all applications and information reasonably requested by Distributor to evaluate Dealer's proposal. If Dealer's proposed sale or transfer was to a successor approved in advance by Distributor, then Dealer may reject Distributor's exercise to purchase.
2. If Dealer's proposed sale or transfer was to Dealer's nominee, to any of Dealer's owners, to Dealer's employees as a group, or to Dealer's spouse, children or heirs, other than a successor approved in advance by Distributor, then Dealer may withdraw its proposal within thirty (30) calendar days following receipt of Distributor's notice of election of its purchase right.
3. Distributor's right under this Addendum shall be a right of first refusal, permitting Distributor to (a) assume the proposed transferee's rights and obligations under its Agreement with Dealer and (b) 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 Distributor's purchase shall be as set forth in any bonafide written purchase and sale agreement between Dealer and its proposed transferee and in any related documents.
4. Dealer shall furnish to Distributor an itemized fair market valuation for all of the Subaru assets to be purchased, 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 Distributor and permit or license as necessary for the continued conduct of Dealer's operation.
5. Distributor may assign each right of first refusal to any party it chooses, but in that event Distributor will remain primarily liable for payment of the purchase price to Dealer.
6. If Distributor exercises its purchase right, Distributor 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.

[LETTERHEAD]

RIGHT OF FIRST REFUSAL ADDENDUM TO SUBARU DEALERSHIP AGREEMENT

PAGE 2

- 7. Nothing contained in this Addendum shall require Distributor to exercise its right of first refusal in any case, nor restrict any right Distributor may have to refuse to approve Dealer's proposed transfer.
- 8. This Addendum is not intended to confer any right, benefit or claim upon any person or entity other than Dealer or Distributor.
- 9. Except as modified by this Addendum, all terms, conditions and provisions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF the parties have hereunto set their signatures on the date first hereinabove written.

SUBARU OF AMERICA, INC./
WESTERN REGION

CAMP AUTOMOTIVE, INC.
SPOKANE, WA

By:

By:

/s/ Tim Parzybok

/s/ Sidney B. DeBoer

Tim Parzybok
Regional Vice President

Sidney B. DeBoer
President

Witness:

Witness:

/s/ Steve Allen

/s/

Steve Allen
Regional Market Development Manager

Name/Title

[LETTERHEAD]

HOLDING COMPANY ADDENDUM TO SUBARU DEALERSHIP AGREEMENT

This Addendum is made this 16th day of October, 1998, by and between Camp Automotive, Inc. ("Dealer") and Subaru of America, Inc./Western Region ("Distributor").

WHEREAS, Dealer has submitted to Distributor an application for the Subaru Dealership Agreement and Standard Provisions ("Agreement") in order to operate as an authorized Subaru dealer;

WHEREAS, Dealer is a wholly-owned subsidiary of Lithia Motors, Inc. ("Parent Company"), an Oregon corporation, which is a wholly-owned subsidiary of Lithia Holding Company, LLC ("Holding Company"), an Oregon limited liability company;

WHEREAS, Dealer desires to operate as an authorized Subaru dealer and has designated Sidney B. DeBoer as Dealer Principal and Philip S. Camp as General Manager.

NOW THEREFORE in consideration of these premises, Dealer, Parent Company, and Holding Company acknowledge that Dealer must notify Distributor in writing prior to any change in the ownership of Dealer and/or Parent Company and prior to any change in Dealer Principal and/or General Manager.

Definition: Dealer Principal - The individual designated by Dealer, as approved by Distributor, to have sole authority and responsibility in the conduct of all Subaru business dealings between Dealer and Distributor.

Definition: General Manager - The individual designated by Dealer, as approved by Distributor, to conduct the day-to-day operations of Dealer.

1. Following notification to Distributor of proposed changes, Distributor will require certain documentation for its review and approval of any change. Distributor will reasonably provide approval of changes following satisfactory receipt and review of the required documentation. Changes in Dealer Principal or General Manager must satisfy Distributor's then current requirements for a new dealer applicant.

2. Furthermore, Parent Company and/or Holding Company agree never to seek or obtain:

More than two (2) Agreements within the same Nielsen Station Index Designated Market Area as defined by the A.C. Nielsen Company; or

More than four (4) Agreements within the same Distributor; or

More than twelve (12) Agreements within SOA's entire area of distribution.

3. Dealer, Parent Company, and Holding Company agree that their failure to abide by one or more of the requirements set forth in paragraphs 1 and 2 of this Addendum shall constitute a material breach of the Agreement.

[LETTERHEAD]

HOLDING COMPANY ADDENDUM TO SUBARU DEALERSHIP AGREEMENT

PAGE 2

- 4. Dealer agrees to voluntarily terminate the Agreement, in writing, immediately upon Distributor's determination of Dealer's material breach of the Agreement. If Distributor does not find sufficient cause to permit Dealer to immediately correct a material breach of the Agreement, Dealer will surrender all Subaru assets to Distributor at acquisition cost within a period of no more than thirty (30) days following Distributor's acceptance of Dealer's resignation.
- 5. This Addendum is not intended to confer any right, benefit or claim upon any person or entity other than Dealer or Distributor.
- 6. Except as modified by this Addendum, all terms, conditions and provisions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF the parties have hereunto set their signatures on the date first herein above written.

SUBARU OF AMERICA, INC./
WESTERN REGION

CAMP AUTOMOTIVE, INC.
SPOKANE, WA

By:

By:

/s/ Tim Parzybok

/s/ Sidney B. DeBoer

Tim Parzybok
Regional Vice President

Sidney B. DeBoer
President

Witness:

Witness:

/s/ Steve Allen

/s/

Steve Allen
Regional Market Development Manager

Name/Title

EXHIBIT 21

List of Subsidiaries

1. Lithia Financial Corporation
2. Lithia Rentals, Inc.
3. Lithia Auto Services, Inc.
4. Lithia Real Estate, Inc.
5. Lithia Aircraft, Inc.
6. Lithia MTLM, Inc.
7. LGPAC, Inc.
8. Lithia DM, Inc.
9. Saturn of Southwest Oregon, Inc.
10. Lithia HPI, Inc.
11. Lithia DE, Inc.
12. Lithia Chrysler Plymouth Jeep Eagle, Inc.
13. Lithia BNM, Inc.
14. Lithia TLM, L.L.C.
15. Lithia Dodge, L.L.C.
16. Lithia's Grants Pass Auto Center, L.L.C.
17. Hutchins Imported Motors, Inc.
18. Hutchins Eugene Nissan, Inc.
19. Lithia BB, Inc.
20. Lithia CIMR, Inc.
21. Lithia DC, Inc.
22. Lithia FMF, Inc.
23. Lithia FN, Inc.
24. Lithia FVHC, Inc.
25. Lithia JEB, Inc.
26. Lithia JEF, Inc.
27. Lithia MMF, Inc.
28. Lithia NB, Inc.
29. Lithia NF, Inc.
30. Lithia TKV, Inc.
31. Lithia TR, Inc.
32. Lithia VWC, Inc.
33. Lithia Auto Services of California, Inc.
34. Camp Automotive, Inc.
35. Lithia SALMIR, Inc.
36. Lithia VS, LLC
37. Lithia Properties, LLC
38. Medford Reinsurance Company, Ltd.
39. Lithia Reinsurance Company, Ltd.

EXHIBIT 23

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, 333-69167, 333-69169 and 333-69225) on Form S-8 of Lithia Motors, Inc. of our report dated February 19, 1999, relating to the consolidated balance sheets of Lithia Motors, Inc. and Subsidiaries as of December 31, 1998 and 1997, 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, 1998, which report appears in the December 31, 1998 annual report on Form 10-K of Lithia Motors, Inc.

KPMG PEAT MARWICK LLP

Portland, Oregon,
March 30, 1999

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	DEC 31 1998
CASH	20,879
SECURITIES	0
RECEIVABLES	25,174
ALLOWANCES	714
INVENTORY	157,455
CURRENT ASSETS	204,196
PP&E	36,840
DEPRECIATION	3,907
TOTAL ASSETS	294,398
CURRENT LIABILITIES	150,643
BONDS	49,563
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	71,382
OTHER SE	19,979
TOTAL LIABILITY AND EQUITY	294,398
SALES	608,975
TOTAL REVENUES	714,740
CGS	557,302
TOTAL COSTS	599,379
OTHER EXPENSES	88,657
LOSS PROVISION	208
INTEREST EXPENSE	9,843
INCOME PRETAX	17,782
INCOME TAX	6,993
INCOME CONTINUING	10,789
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	10,789
EPS PRIMARY	1.18
EPS DILUTED	1.14

RISK FACTORS

The following summarizes certain risks which Lithia's management believes are specific to its business. These should not be viewed as including all risks to Lithia.

LITHIA OPERATING RESULTS ARE AFFECTED BY SEASONALITY AND THE TIMING OF ITS ACQUISITIONS.

Lithia's business is seasonal with a disproportionate amount of sales occurring in the second and third quarters. Further, Lithia incurs a significant amount of training and integration costs upon the acquisition of each new dealership. Accordingly, due to such seasonality and the timing and frequency of acquisitions, Lithia will likely experience quarter-to-quarter fluctuations in its operating results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Selected Consolidated Quarterly Financial Data."

FUTURE FUNDING WILL BE NEEDED TO FINANCE FUTURE ACQUISITIONS. Acquisitions of additional dealerships will require substantial capital investment and could have a significant impact on Lithia's financial position and operating results. Any such acquisitions may involve the use of cash generated through operations, from borrowings or from the issuance of debt or equity securities, either in the public market or to sellers. The use of any financing source could have the effect of reducing the per share earnings of Lithia. Future acquisitions will likely result in the accumulation of additional goodwill and intangible assets, which would result in higher amortization charges to Lithia, and could also reduce earnings.

NEW ACQUISITIONS REQUIRE THE CONSENT OF MANUFACTURERS.

Lithia is required to obtain consent from each relevant manufacturer prior to the acquisition of a dealership franchise. In determining whether to approve an acquisition, a manufacturer considers many factors including the financial condition and ownership structure of the applicant, the number of dealerships owned by the company and the company's performance with those dealerships. Most major manufacturers have now established limitations on the acquisition of new franchisee locations. These include limitations on:

- the total number of such manufacturers' dealerships that may be acquired by a company;
- the number of dealerships that may be acquired in any market or region;
- the percentage of total sales that may be controlled by one dealer group;
- the ownership of contiguous dealerships;
- the dualing of a franchise with any other brand without consent; and
- the frequency of acquisitions

Lithia's ability to meet manufacturer's requirements for acquisitions in the future will have a direct bearing on its ability to complete acquisitions and continue its growth strategy. Because of the public ownership structure of Lithia, management does not believe it could secure approval to acquire any new Saturn, Honda or Acura dealerships without a change in the current policies of the manufacturer or the granting of ownership interests in the subsidiary operating the individual dealerships to the designated dealer principal.

In determining whether to approve an acquisition by Lithia, a manufacturer also considers factors such as the company's past performance as measured by the manufacturer's customer satisfaction index ("CSI") scores and sales performance at the company's existing franchises. At any point in time, a small percentage of Lithia's franchises will have CSI scores below the manufacturers' sales zone averages or achieved sales performances below the target set by the manufacturer. Failure to maintain satisfactory CSI scores and sales performance goals may adversely affect Lithia's ability to complete additional acquisitions.

LITHIA IS DEPENDENT ON ITS CURRENT KEY PERSONNEL AND ITS SUCCESS IN ATTRACTING ADDITIONAL MANAGEMENT PERSONNEL.

Lithia's success will depend largely on the efforts and abilities of its senior management, particularly Sidney B. DeBoer, Lithia's Chairman and Chief Executive Officer, M. L. Dick Heimann, Lithia's President and Chief Operating Officer, and R. Bradford Gray, Lithia's Executive Vice-President. Lithia does not have employment or non-compete agreements with any of its key management personnel. Further, Mr. DeBoer and Mr. Heimann are identified in Lithia's dealership franchise agreements as the individuals who control the franchises and upon whose financial resources and management expertise the manufacturers have relied upon when awarding such franchises. The loss of either of those individuals could materially adversely affect Lithia's on-going relationship with its vehicle manufacturers. See "Business--Relationships with Automobile Manufacturers."

In addition, Lithia places substantial responsibility on the general managers of its dealerships for the profitability of such dealerships. Lithia has increased its number of dealerships from 7 in December 1996 to 28 as of March 1999. This rapid expansion has resulted in the need to hire additional managers and, as Lithia continues to expand, the need for additional experienced managers will become even more critical. Many dealerships are offered for sale to enable the owner/manager to retire. These potential acquisitions are viable to Lithia only if replacement management can be retained. The market for qualified general managers is highly competitive. The loss of the services of key management personnel or the inability to attract additional qualified managers could have a material adverse effect on Lithia's business and the execution of its growth strategy.

LITHIA NEEDS TO IMPROVE OPERATIONS IN SOME DEALERSHIPS IT ACQUIRES. Lithia sometimes acquires dealerships with net profit margins which are materially below the its historical average net profit margin. In order to maintain its current net profit margin and to make the acquisitions profitable, Lithia needs to successfully install new management and sales technicians in the dealership. No assurance can be given that Lithia will be able to improve the profitability of those dealerships.

LITHIA IS DEPENDENT ON FUTURE ACQUISITIONS FOR ITS GROWTH.

The U.S. automobile industry is considered a mature industry in which minimal growth is expected in unit sales of new vehicles. Accordingly, a principal component of Lithia's growth in sales is to make additional acquisitions in its existing and new geographic markets.

Lithia's future growth and financial success will be dependent upon a number of factors including its ability to identify acceptable acquisition candidates, negotiate favorable terms, obtain the consent of automobile manufacturers, hire and train professional management and sales personnel at each new dealership, and promptly and profitably integrate the acquired operation into the company. See "Business Growth Strategy."