LITHIA MOTORS INC

FORM 10-K
(Annual Report)

Filed 03/30/00 for the Period Ending 12/31/99

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 Cyclicals
Fiscal Year	12/31

LITHIA MOTORS INC

FORM 10-K
(Annual Report)

Filed 3/30/2000 For Period Ending 12/31/1999

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

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

FORM 10-K

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

For the Fiscal Year Ended: December 31, 1999

OR

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

Commission File Number: 000-21789

LITHIA MOTORS, INC.
(Exact name of registrant as specified in its charter)

Oregon	**93-0572810**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
360 E. Jackson Street, Medford, Oregon	**97501**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:
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 /x/ No / /

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant is $55,307,991 as of February 29, 2000 based upon the last sales price ($14.94) as reported by the New York Stock Exchange.

The number of shares outstanding of the Registrant's Common Stock as of February 29, 2000 was: Class A: 8,027,890 shares and Class B: 4,087,000 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 2000 Annual Meeting of Shareholders.

LITHIA MOTORS, INC.

1999 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;
- Lithia's ability to negotiate profitable, accretive acquisitions;
- Lithia's ability to secure manufacturer approvals for acquisitions; and
- Lithia's ability to retain existing management and successfully manage the stores.

See Exhibit 99 to this Form 10-K for a more complete discussion of risk factors.

General

Lithia is a leading operator and retailer of new and used vehicles and services through a well developed franchise system with its auto manufacture partners. As of March 6, 2000, we offer 25 brands of new vehicles, through 101 franchises in 45 locations in the western United States and over the internet. We currently operate 15 dealerships in California, 13 in Oregon, 3 in Washington, 6 in Colorado, 4 in Nevada and 4 in Idaho. 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 nearly 30 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. Lithia has achieved compounded annual growth rates over the last three years of 105% per year for annual revenues, 94% per year for net income and 45% per year for earnings per share. Since December 1996 when we completed our initial public offering, we have acquired or opened 40 dealerships and are actively pursuing additional acquisitions.

According to industry data, the number of franchised automobile dealerships has declined from more than 36,000 dealerships in 1960 to under 22,000 in 1999. As of the end of 1998, the largest 100 dealer groups generated less than 12% of total industry sales and controlled approximately 5% of all franchised automobile dealerships. Based on our current annual revenue run rate of over $1.5 billion, we believe that we are one of the 15 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, Eastern Washington, Denver,

Colorado and Boise, Idaho. 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 improve profitability by implementing the Lithia operating model into acquired stores, has effectively allowed Lithia to build its own dealership groups in each area.

Since our initial public offering in December 1996, we have completed the purchase of 37 dealerships with the following revenues at the time of acquisition:

Year	Number of dealerships acquired	Revenues (in millions of dollars)
1996	2	$ 60
1997	10	300
1998	11	310
1999	13	585
2000	1	73
Total	37	$ 1,328

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.

Lithia seeks to increase customer traffic and meet specific customer needs by offering new and used vehicles and an array of complementary services at each of its locations. 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 1999, Lithia arranged financing for 73% of its new vehicle sales and 74% of its used vehicle sales, compared to 46% and 51%, respectively, for the average automobile dealership in the United States (1998 NADA 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 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 regular basis.

Focus on Customer Satisfaction and Loyalty. Lithia emphasizes customer satisfaction and works to develop 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 centered plan attempts to provide:

- 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 this year and in the past. These include; Chrysler's highest recognition for dealer excellence, the Five-Star Certification, as well as Toyota's President's Cup, Dodge's National Charger Club membership, Volkswagen of America's Wolfsburg Crest Club Award, and Isuzu's Sendai Cup & President's Cup, each recognizing high sales volume and customer satisfaction.

Dealership Operations

Lithia owns and operates 45 dealership locations, 15 dealerships in California, 13 in Oregon, 3 in Washington, 6 in Colorado, 4 in Nevada and 4 in Idaho. 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 are as follows:

Oregon Stores (13)	**Franchises (40)**	**24%**
Lithia Honda Suzuki	Honda, Suzuki	
Lithia Volkswagen Isuzu	Volkswagen, Isuzu	
Lithia Toyota Lincoln Mercury	Toyota, Lincoln/Mercury	
Lithia Dodge Chrysler Plymouth Mazda Jeep	Dodge, Dodge Truck, Chrysler/Plymouth, Mazda, Jeep	
Saturn of Southwest Oregon	Saturn	
Lithia Nissan BMW	Nissan, BMW	
Lithia's Grants Pass Auto Center	Dodge, Dodge Truck, Chrysler/Plymouth, Jeep	
Lithia Dodge of Eugene	Dodge, Dodge Truck	
Lithia Toyota of Springfield	Toyota	
Lithia Nissan of Eugene	Nissan	
Lithia ford Lincoln Mercury Nissan of Roseburg	Ford, Lincoln/Mercury, Nissan	
Lithia Dodge Chrysler/Plymouth Jeep of Roseburg	Dodge, Dodge Truck, Chrysler/Plymouth, Jeep	
Lithia Klamath Falls Auto Center	Toyota, Dodge, Dodge Truck, Chrysler/Plymouth, Jeep	

California Stores (15)	Franchises (21)	25%
Lithia Toyota of Vacaville	Toyota	
Lithia Dodge of Concord	Dodge, Dodge Truck	
Lithia Volkswagen of Concord	Volkswagen, Isuzu	
Lithia Ford of Concord	Ford	
Lithia Ford Lincoln Mercury of Napa	Ford, Lincoln/Mercury	
Lithia Chevrolet of Redding	Chevrolet	
Lithia Toyota of Redding	Toyota	
Lithia Nissan of Bakersfield	Nissan	
Lithia BMW of Bakersfield	BMW	
Acura of Bakersfield	Acura	
Lithia Jeep of Bakersfield	Jeep	
Lithia Ford of Fresno	Ford	
Lithia Mazda Suzuki of Fresno	Mazda, Suzuki	
Lithia Nissan of Fresno	Nissan	
Lithia Jeep Hyundai of Fresno	Jeep, Hyundai	
Nevada Stores (4)	**Franchises (8)**	**9%**
Lithia Reno	Suzuki, Audi, Lincoln/Mercury, Isuzu	
Lithia Volkswagen of Reno	Volkswagen	
Lithia Sparks (satellite of Lithia Reno)	Suzuki, Lincoln/Mercury, Isuzu	
Lithia Reno Subaru Hyundai	Subaru, Hyundai	
Washington Stores (3)	**Franchises (6)**	**8%**
Lithia Camp Chevrolet	Chevrolet	
Lithia Camp Imports	Subaru, BMW, Volvo	
Lithia Dodge of Tri-Cities	Dodge, Dodge Truck	
Colorado Stores (6)	**Franchises (19)**	**23%**
Lithia Centennial Chrysler Plymouth Jeep	Chrysler/Plymouth, Jeep	
Lithia Cherry Creek Dodge	Dodge, Dodge Truck	
Lithia Colorado Chrysler Plymouth Kia	Chrysler/Plymouth, Kia	
Lithia Foothills Chrysler Suzuki Hyundai	Dodge, Dodge Truck, Chrysler/Plymouth, Suzuki, Hyundai, Jeep	
Lithia Colorado Jeep	Jeep	
Lithia Colorado Springs Jeep Chrysler Plymouth	Jeep, Chrysler/Plymouth	
Idaho Stores (4)	**Franchises (7)**	**11%**
Roundtree Chevrolet	Chevrolet	
Roundtree Lincoln-Mercury Isuzu	Lincoln/Mercury, Isuzu	
Lithia Ford Chrysler of Boise	Ford, Chrysler	
Roundtree Daewoo of Boise	Daewoo	
45 Stores	**101 Franchises—25 Brands**	**100%**

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In addition, we separated the Bakersfield, California BMW/Acura dealership into two stores and the Medford, Oregon, Lithia Honda Volkswagen Isuzu and Suzuki dealership into two stores. Finally, in Boise, Idaho, we added a new Daewoo store. Combined with the five original stores, the 37 acquisitions and 3 additions bring our total number of stores to 45.

New Vehicle Sales. In 1999, Lithia sold 24 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 1999.

Manufacturer	1999 Percentage of New Vehicle Sales
Chrysler (Chrysler, Plymouth, Dodge, Jeep, Dodge Trucks)	40.7
Ford (Ford, Lincoln, Mercury)	14.9
Toyota	11.3
General Motors (Chevrolet, Saturn)	8.5
Volkswagen, Audi	6.1
Nissan	5.1
Isuzu	2.7
Subaru	2.7
Honda (Acura, Honda)	2.2
BMW	2.1
Suzuki	1.1
Mazda	1.1
Hyundai	0.9
Volvo	0.4
Kia	0.2
	100.0%

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

	1995	1996	1997	1998	1999
	(dollars in thousands)				
Units	2,715	3,274	7,493	17,708	28,645
Sales	$ 53,277	$ 65,092	$ 161,294	$ 388,431	$ 673,339

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 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 with franchises for the brands offered. These auctions offer off-lease, rental and fleet vehicles. Lithia also acquires vehicles 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 that 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:

	1995	1996	1997	1998	1999
	(dollars in thousands)				
Retail units	3,302	4,156	7,148	13,645	23,840
Retail sales	$ 36,997	$ 48,697	$ 88,571	$ 174,223	$ 313,449
Wholesale units	1,842	2,348	4,990	9,532	13,424
Wholesale sales	$ 7,064	$ 9,914	$ 24,528	$ 46,321	$ 62,113
Total units	5,144	6,504	12,138	23,177	37,264
Total sales	$ 44,061	$ 58,611	$ 113,099	$ 220,544	$ 375,562

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.

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 that 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 1999, Lithia financed or arranged financing for over 73% of its new vehicle sales and 74% of its used vehicle sales, compared to an industry average of 46% and 51%, respectively (latest 1998 NADA 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 auto service, body, paint 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 1999, Lithia's service, body and parts operations generated $120.7 million in revenues, or 9.7% 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 counter-cyclical 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 six collision repair centers, two in Oregon and one each in California, Washington, Colorado and Idaho.

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 many 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, lifetime oil change packages 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. Lithia also defines itself as "America's Car and Truck Store."

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, an internet web site, newspaper, radio and direct mail, which includes 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 and information source for our customers. 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;
- configure a new vehicle and view inventory;
- view 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. Lithia has entered into master framework agreements with most of its manufacturers that impose additional requirements on its stores. See Exhibit 99 "Risk Factors" for further details.

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. 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 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, 1999, we employed approximately 2,851 persons on a full-time equivalent basis. The service department employees at Lithia Dodge and Lithia Ford of Concord, Lithia Sun Valley Isuzu and Lithia Sun Valley Volkswagen 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 leases many 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, 1999.

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, 1998 through December 31, 1999 were as follows:

	High	Low
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
1999		
Quarter 1	$ 20.50	$ 15.00
Quarter 2	20.50	15.13
Quarter 3	23.56	17.75
Quarter 4	22.94	15.75

The number of shareholders of record and approximate number of beneficial holders of Class A Common Stock at February 29, 2000 was 1,695 and 1,900, 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 in the last two fiscal years and Lithia does not intend to declare or pay cash dividends in the future. 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 Motor Credit Company preclude the payment of cash dividends without the prior consent of Ford Credit.

Item 6. Selected Financial Data

	Year Ended December 31,				
	1995(1)	1996(1)	1997	1998	1999
	(In thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Revenues:					
New vehicles	$ 53,277	$ 65,092	$ 161,294	$ 388,431	$ 673,339
Used vehicles	44,061	58,611	113,099	220,544	375,562
Service, body and parts	10,961	13,197	29,828	72,216	120,722
Other revenues	5,897	5,944	15,574	33,549	73,036
Total revenues	114,196	142,844	319,795	714,740	1,242,659
Cost of sales	92,054	117,025	265,049	599,379	1,043,373
Gross profit	22,142	25,819	54,746	115,361	199,286
Selling, general and administrative	16,333	19,830	40,625	85,188	146,381
Depreciation and amortization	1,907	1,756	2,483	3,469	5,573
Income from operations	3,902	4,233	11,638	26,704	47,332
Floorplan interest expense	(957)	(697)	(2,179)	(7,108)	(11,105)
Other interest expense	(433)	(656)	(824)	(2,735)	(4,250)
Other income, net	1,215	1,349	862	921	74
Income before minority interest and income taxes	3,727	4,229	9,497	17,782	32,051
Minority interest	(778)	(687)	—	—	—
Income before income taxes(1)	$ 2,949	3,542	9,497	17,782	32,051
Income tax (expense) benefit		813	(3,538)	(6,993)	(12,877)
Net income		$ 4,355	$ 5,959	$ 10,789	$ 19,174

Pro Forma Consolidated Statement of Operations Data:					
Income before taxes and minority interest, as reported	$ 3,727	$ 4,229			
Pro forma provision for taxes(2)	(1,430)	(1,623)			
Pro forma net income	2,297	$ 2,606			
Basic net income per share(3)	$ 0.50	$ 0.56	$ 0.85	$ 1.18	$ 1.72
Diluted net income per share(3)	$ 0.47	$ 0.52	$ 0.82	$ 1.14	$ 1.60

	As of December 31,				
	1995(1)	1996(1)	1997	1998	1999
			(In thousands)		
Consolidated Balance Sheet Data:					
Working capital	$ 10,626	$ 25,431	$ 23,870	$ 53,553	$ 74,999
Total assets	44,117	68,964	166,526	294,398	506,433
Short-term debt	22,300	22,000	85,385	132,310	215,535
Long-term debt, less current maturities	10,743	6,160	26,558	41,420	73,911
Total shareholders' equity	3,716	27,914	37,877	91,511	155,638

(1) Effective January 1, 1997, the Company converted from the LIFO method of accounting for inventories to the FIFO method. Accordingly, the 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 1995 and 1996 and actual for 1997, 1998 and 1999.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

In 1999, Lithia generated record revenues, EBITDA (earnings before interest, taxes, depreciation and amortization), net income and unit sales of new and used vehicles as follows (dollars in thousands):

	1998	1999	% Increase
Revenues	$ 714,740	$ 1,242,659	73.9%
EBITDA	$ 31,094	$ 52,979	70.4%
Cash flow from operations	$ 9,346	$ 22,381	139.5%
Net income	$ 10,789	$ 19,174	77.7%
Unit sales:			
New	17,708	28,645	61.8%
Retail used	13,645	23,840	74.7%

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.

	Year Ended December 31,

	1998	1999
Average U.S. Dealership Statement of Operations Data:		
Revenues:		
New vehicles	59.0%	59.9%
Used vehicles	29.4	28.9
Parts and service, other	11.6	11.2
	100.0%	100.0%
Gross profit	12.9	12.6
Total dealership expense	11.2	10.8
Income before taxes	1.7%	1.8%

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,		
	1997	1998	1999
Revenues:			
New vehicles	50.4%	54.3%	54.2%
Used vehicles	35.4%	30.9%	30.2%
Service, body and parts	9.3%	10.1%	9.7%
Other revenues	4.9%	4.7%	5.9%
Total revenues	100.0%	100.0%	100.0%
Gross profit	17.1%	16.1%	16.0%
Selling, general and administrative expenses	12.7%	11.9%	11.8%
Income from operations	3.6%	3.7%	3.8%

1999 Compared to 1998

Revenues. Revenues increased $527.9 million, or 73.9% to $1.24 billion for the year ended December 31, 1999 from $714.7 million in 1998. Total vehicles sold during 1999 increased by 25,024, or 61.2%, to 65,909 from 40,885 during 1998. Same store sales growth was 6.9% in 1999, with a 17.8% increase in same store finance and insurance revenue. Same store sales growth was 14.7% in 1998. The increases in units sold and revenue from all sources are a result of acquisitions and internal growth.

New Vehicles. In 1999, new vehicle sales of $673.3 million constituted 54.2% of total revenues compared to $388.4 million, or 54.3% of total revenues in 1998. The number of units sold and the average selling prices for 1999 and 1998 were as follows:

	1999	1998	% change
Units sold	28,645	17,708	61.8%
Average selling price	$ 23,506	$ 21,935	7.2%

Retail Used Vehicles. In 1999, retail used vehicle sales of $313.5 million constituted 25.2% of total revenues compared to $174.2 million, or 24.4% of total revenues in 1998. The number of units sold and the average selling prices for 1999 and 1998 were as follows:

	1999	1998	% change
Units sold	23,840	13,645	74.7%
Average selling price	$ 13,148	$ 12,768	3.0%

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 67.2% in 1999 to $120.7 million from $72.2 million in 1998.

Other Revenues. Other revenues consist primarily of financing and insurance ("F&I") transactions. Other revenues increased 117.7% to $73.0 million during 1999, from $33.5 million during 1998. Lithia increased its resources dedicated to developing and increasing other revenues during 1999.

Gross Profit. Gross profit increased 72.7% during 1999 to $199.3 million, from $115.4 million in 1998, primarily due to increased revenues as indicated above. Gross profit margins achieved in 1999 and 1998 were as follows:

	1999 industry average	Lithia 1999	Lithia 1998	Lithia % change
Overall	12.6%	16.0%	16.1%	(0.6%)
New vehicles	6.4%	9.5%	10.1%	(5.9%)
Retail used vehicles	10.7%	11.6%	11.0%	5.5%

The decrease in the new vehicle gross profit percentage is primarily due to the mix of stores added due to acquisitions. These stores have lower selling, general and administrative costs as a percentage of revenues than Lithia's preexisting stores, lending themselves to a high volume, low cost strategy of retailing vehicles. The increase in the retail used vehicle gross profit margin is primarily due to improved inventory management company wide and operational improvements at its newly acquired stores, as the Lithia model was implemented. 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 $61.2 million, or 71.8%, to $146.4 million (11.8% of total revenues) in 1999 from $85.2 million (11.9% of total revenues) in 1998. The increase in SG&A was due primarily to increased selling, or

variable, expense related to the increase in revenues 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 $2.1 million or 60.7% to $5.6 million (0.4% of total revenues) in 1999 from $3.5 million (0.5% of total revenues) in 1998, primarily as a result of increased property and equipment and goodwill related to acquisitions in 1998 and 1999.

Income from Operations. Income from operations increased to $47.3 million (3.8% of total revenues) for the year ended December 31, 1999 compared to $26.7 million (3.7% of total revenues) in 1998. 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.

Floorplan Interest Expense. Floorplan interest expense increased 56.2% to $11.1 million (0.9% of total revenues) in 1999 from $7.1 million (1.0% of total revenues) in 1998. The increase in floorplan interest is a result of increased flooring notes payable related to increased inventories as a result of the increase in stores owned and vehicles sold. Lithia has been able to reduce its floorplan interest expense as a percentage of total revenues by successfully managing inventory levels.

Income Tax Expense. Lithia's effective tax rate for 1999 was 40.2% compared to 39.3% for 1998. 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 77.7% to $19.2 million (1.5% of total revenues) for the year ended December 31, 1999 from $10.8 million (1.5% of total revenues) for 1998, as a result of the individual line item changes discussed above.

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. Increases in units sold and all sources of revenue were primarily a result of acquisitions and strong internal growth.

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 total revenues, in 1997. The number of units sold and the average selling prices for 1998 and 1997 were as follows:

	1998	1997	% change
Units sold	17,708	7,493	136.3%
Average selling price	$ 21,935	$ 21,526	1.9%

Retail Used Vehicles. In 1998 retail used vehicle sales $174.2 million constituted 24.4% of total revenues compared to $88.6 million, or 27.7% of total revenues in 1997. The number of units sold and the average selling prices for 1998 and 1997 were as follows:

	1998	1997	% change
Units sold	13,645	7,148	90.9%
Average selling price	$ 12,768	$ 12,391	3.0%

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.

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.

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. These stores generally have lower selling, general and administrative costs as well. 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 was a result of economies of scale gained as the fixed expenses were spread over a larger revenue base and from economies of scale as Lithia consolidated 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. Total 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.

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.

Ford Motor Credit Company, 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 Credit 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 $85 million revolving line of credit for used vehicles and a $115 million acquisition line of credit to purchase dealerships of any brand. These commitments have an expiration date of December 1, 2002, with interest due monthly. Lithia also has the option to convert the acquisition line into a five-year term loan. In addition, U.S. Bank N.A. has extended a $10 million revolving line of credit for leased vehicles and a $15 million line of credit for equipment purchases.

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. Lithia was in compliance with all such covenants at December 31, 1999.

Interest rates on all of the above facilities ranged from 7.33% to 8.08% at December 31, 1999. Amounts outstanding on the lines at December 31, 1999 were as follows (in thousands):

New and Program Vehicle Lines	$ 208,403
Used Vehicle Line	35,500
Acquisition Line	0
Leased Vehicle Line	4,880
Equipment Line	6,605
	$ 255,388

The $9.0 million related party payable at December 31, 1999 relates to additional purchase price for the Moreland acquisition as a result of contingent payouts that were earned during 1999. In addition to the $9.0 million of cash, the Company had accrued for the issuance of $4.5 million of its Class A Common

Stock and $4.5 million of its Series M Preferred Stock to satisfy the contingent payout requirements. The cash was paid and the stock was issued in the first quarter of 2000.

Lithia anticipates that it will be able to satisfy its cash requirements at least through December 31, 2000, 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

Lithia has not experienced any significant year 2000 problems with its products, internal systems and processes or suppliers. Lithia spent

approximately $1.1 million to help ensure year 2000 compliance. Lithia does not expect to incur any additional cost related to year 2000 issues.

Recent Accounting Pronouncement

In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 137"). SFAS 137 is an amendment to Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS 137 establishes accounting and reporting standards for all derivative instruments. SFAS 137 is effective for fiscal years beginning after June 15, 2000. Lithia does not currently have any derivative instruments and, accordingly, does not expect the adoption of SFAS 137 to have an impact on its financial position or results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Lithia's only financial instruments with market risk exposure are variable rate floor plan notes payable and other credit line borrowings. At December 31, 1999 Lithia had $255.4 million outstanding under such facilities at interest rates ranging from 7.33% to 8.08%. An increase or decrease in the interest rates would affect interest expense for the period accordingly.

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, 1999 is as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	In thousands, except per share data			
1998				
Total revenues	$ 146,198	$ 173,541	$ 195,914	$ 199,087
Gross profit	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
1999				
Total revenues	$ 224,145	$ 307,753	$ 357,369	$ 353,392
Gross profit	35,200	48,786	57,245	58,055
Income before income taxes	5,005	7,779	9,924	9,343
Income taxes	1,976	3,202	4,071	3,628
Net income	3,029	4,577	5,853	5,715
Basic net income per share	0.30	0.42	0.50	0.49
Diluted net income per share	0.29	0.40	0.47	0.43

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 2000 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 2000 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 2000 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 2000 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 LLP, are included on the pages indicated below:

There are no schedules required to be filed herewith.

(b) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the quarter ended December 31, 1999.

(c) Exhibits

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

Exhibit		Description
3.1		Restated Articles of Incorporation of Lithia Motors, Inc., as amended May 13, 1999.
3.2	(a)	Bylaws of Lithia Motors, Inc.
4	(a)	Specimen Common Stock certificate
10.1	(b)	Agreement for Purchase and Sale of Business Assets between Rodway Chevrolet Co. and Lithia Motors, Inc., dated March 19, 1998.
10.2	(b)	Stock Purchase Agreement between William N. Hutchins, Hutchins Eugene Nissan, Inc. and

		Hutchins Imported Motors and Lithia Motors, Inc., dated June 18, 1998.
10.2.1	(c)	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.
10.3	(d)	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.
10.4	(e)	Agreement and Plan of Reorganization dated January 1, 1999 by and between Lithia Motors, Inc. and Moreland Auto Limited Partnership, RLLLP and G. Michael Downey and Moreland Auto Corp.(1)
10.5	(e)	Agreement and Plan of Reorganization dated January 1, 1999 by and between Lithia Motors, Inc. and L.A.H. Automotive Limited Partnership, RLLLP and L.A.H. Automotive Enterprises, Inc.
10.6	(e)	Agreement and Plan of Reorganization dated January 1, 1999 by and between Lithia Motors, Inc. and William D. Limited Partnership, RLLLP and James Jannicelli and William D.Corp.
10.7	(e)	Agreement and Plan of Reorganization dated January 1, 1999 by and between Lithia Motors, Inc. and Cherry Creek Dodge Limited Partnership, RLLLP and Cherry Creek Dodge, Incorporated.
10.8	(e)	Agreement and Plan of Reorganization dated January 1, 1999 by and between Lithia Motors, Inc. and Colorado Springs Jeep Eagle Limited Partnership, RLLLP and Alex Jannicelli and Colorado Springs Jeep/Eagle, Inc.,
10.9	(e)	Agreement and Plan of Reorganization dated January 1, 1999 by and between Lithia Motors, Inc. and Foothills Automotive Plaza Limited Partnership, RLLLP and Jerry Cash and Foothills Automotive Plaza, Inc.
10.10	(e)	Agreement and Plan of Reorganization dated January 1, 1999 by and between Lithia Motors, Inc. and Reno Auto Sales Limited Partnership, RLLLP and Reno Auto Sales, Inc.,
10.11	(a)	1996 Stock Incentive Plan
10.11.1	(b)	Amendment No. 1 to the Lithia Motors, Inc. 1996 Stock Incentive Plan
10.12.	(a)	Form of Incentive Stock Option Agreement
10.12.1	(a)	Form of Non-Qualified Stock Option Agreement
10.12.2	(a)	Form of Incentive Stock Option Agreement
10.13	(f)	1997 Non-Discretionary Stock Option Plan for Non-Employee Directors
10.14	(g)	Employee Stock Purchase Plan

10.15	(a)	Chrysler Corporation Sales and Service Agreement Additional Terms and Provisions
10.15.1		Chrysler Corporation Chrysler Sales and Service Agreement, dated September 28, 1999, between Chrysler Corporation and Lithia Chrysler Plymouth Jeep Eagle, Inc. (Additional Terms and Provisions to the Sales and Service Agreements are in Exhibit 10.15)(1)
10.16	(a)	Mercury Sales and Service Agreement General Provisions(2)
10.16.1	(g)	Supplemental Terms and Conditions agreement between Ford Motor Company and Lithia Motors, Inc. dated June 12, 1997.
10.16.2	(g)	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 10.16)(3)
10.17	(g)	Volkswagen Dealer Agreement Standard Provisions *
10.17.1		Volkswagen Dealer Agreement dated September 17, 1998, between Volkswagen of America, Inc. and Lithia HPI, Inc. dba Lithia Volkswagen. (standard provisions are in Exhibit 10.17)(4)
10.18	(a)	General Motors Dealer Sales and Service Agreement Standard Provisions
10.18.1		Supplemental Agreement to General Motors Corporation Dealer Sales and Service Agreement, dated January 16, 1998.
10.18.2	(h)	Chevrolet Dealer Sales and Service Agreement dated October 13, 1998 between General Motors Corporation, Chevrolet Motor Division and Camp Automotive, Inc.(5)
10.19		Omitted
10.19.1		Omitted
10.19.2		Omitted
10.20	(a)	Toyota Dealer Agreement Standard Provisions
10.20.1		Toyota Dealer Agreement, between Toyota Motor Sales, USA, Inc. and Lithia Motors, Inc., dba Lithia Toyota, dated February 15, 1996.(7)
10.21		Omitted
10.21.1		Omitted
10.22	(g)	Nissan Standard Provisions
10.22.1		Nissan Public Ownership Addendum, dated August 30, 1999 (identical documents executed by

each Nissan dealership).

10.22.2 (g) 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 10.22)(9)

10.23 Omitted

10.24 Omitted

10.24.1 Omitted

10.25 Omitted

10.26 (g) Saturn Distribution Corporation Retailer Agreement, dated June 16, 1997, between Saturn Distribution Corporation and Saturn of Southwest Oregon, Inc.

10.26.1 (g) 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.

10.27 Hyundai Standard Provisions

10.27.1 (g) Hyundai Motor America Dealer Sales and Service Agreement, dated January 26, 1998, between Hyundai Motor America and Lithia JEF, Inc.(13)

10.28 Omitted

10.28.1 Omitted

10.29 Omitted

10.30 Omitted

10.31 (h) $75,000,000 Credit Agreement dated November 23, 1998 between Ford Motor Credit Company and Lithia Motors, Inc.

10.31.1 Amendment No. 1 dated December 1, 1999 to $75,000,000 Credit Agreement dated November 23, 1998 between Ford Motor Credit Company and Lithia Motors, Inc.

10.32 (h) $60,000,000 Credit Agreement dated November 23, 1998 between Ford Motor Credit Company and Lithia Motors, Inc.

10.32.1 Amendment No. 1 dated December 1, 1999 to $60,000,000 Credit Agreement dated November 23, 1998 between Ford Motor Credit Company and Lithia Motors, Inc.

10.33 (j) $10.0 million vehicle lease line and $15.0 million equipment line of credit Loan Agreement between Lithia Financial Corporation, Lithia Motors, Inc. and Lithia SALMIR, Inc. and U.S. Bank National Association

10.34 Lease Agreement between Moreland Properties, LLC and Lithia Real Estate, Inc., dated May 14, 1999, relating to properties located at 350 S. Havana, Aurora, CO.(15)

10.35 Sublease between Moreland Properties, LLC and Lithia Real Estate, Inc. dated May 14, 1999, relating to properties located at 4940 S. Broadway and 50 E. Chenango, Englewood, CO.(16)

10.36 Lease Agreement between CAR LIT, L.L.C. and Lithia Real Estate, Inc. relating to properties in Medford, OR.(17)

10.37 (a) Form of Commercial Lease, effective January 1, 1997, between Lithia Real Estate and various dealership affiliates.(18)

10.38 Lease and Sublease Agreement between Camp Investments, LLC and Lithia Real Estate, Inc. dated October 15, 1998.

10.39 Commercial Lease between William and Suzanne Hutchins and Lithia Real Estate, Inc., dated November 2, 1998.

10.40 Lease Agreement between Bruce Properties, LLC and Lithia Real Estate, Inc,. dated August 30, 1999.

10.41 Lease Agreement with Capital Automotive, L.P. and Roundtree of Idaho, Inc., dated related to properties located at 9411 W. Fairview, Boise, ID.

10.41.1 Assignment of Lease between Roundtree of Idaho, Inc. and Lithia Real Estate, Inc.

10.42 (k) 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.

10.43 (g) Lease Agreement among Paul H. Snider and Dick Donnelly Automotive Enterprises, Inc. dated October 17, 1989

10.44 (g) Lease Agreement among Richard M. Donnelly and Susan K. Donnelly and Lithia Real Estate, Inc. dated October 1, 1997

10.45 (g) Lease Agreement among BR Enterprises and Lithia Motors, Inc. dated September 3, 1997

10.46	(g)	Real Property Lease Agreement among James D. Plummer and Lithia Real Estate, Inc. dated October 14, 1997
10.47	(g)	Lease Agreement among Teddy Bear Havas Motors, Inc. and United American Funding, Inc. dated July 28, 1992
21		Subsidiaries of Lithia Motors, Inc.
23		Consent of KPMG 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 Form 10-Q for the quarter ended June 30, 1998 as filed with the Securities and Exchange Commission on August 13, 1998.

(c)

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.

(d)

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.

(e)

Incorporated by reference from the Company's Form 10-Q for the quarter ended March 31, 1999 as filed with the Securities and Exchange Commission on May 12, 1999.

(f)

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.

(g)

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.

(h)

Incorporated by reference from the Company's Form 10-K for the year ended December 31, 1998 as filed with the Securities and Exchange Commission on March 31, 1999

(i)

Omitted

(j)

Incorporated by reference from the Company's Form 10-Q for the quarter ended September 30, 1999 as filed with the Securities and Exchange Commission on November 12, 1999.

(k)

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

(1)

Substantially identical agreements exist between Chrysler Corporation and Lithia Chrysler Plymouth Jeep Eagle, Inc., dba Lithia Chrysler Plymouth Jeep, relating Plymouth and Jeep, dated September 28, 1999; Lithia Centennial Chrysler Plymouth Jeep, Inc., relating to Chrysler, Plymouth and Jeep dated May 26, 1999; Lithia Cherry Creek Dodge, Inc., relating to Dodge sales and service (dated May 26, 1999; Lithia Colorado Chrysler Plymouth, Inc., dba Lithia Chrysler Plymouth Kia relating to Chrysler and Plymouth sales and service, dated May 26, 1999; Lithia Colorado Jeep, Inc., relating to Jeep sales and service, dated May 26, 1999; Lithia Colorado Springs Jeep Chrysler Plymouth, Inc., relating to Chrysler, Plymouth and Jeep sales and service, dated May 26, 1999; Lithia DE, Inc., dba Lithia Dodge of Eugene, relating to Dodge sales and service dated March 4, 1999; Lithia Dodge, L.L.C., dba Lithia Dodge, relating to Dodge sales and service, dated October 14, 1999;

Lithia Foothills Chrysler, Inc., relating to Chrysler, Plymouth, Dodge, and Jeep sales and service, dated May 26, 1999; Lithia's Grants Pass Auto Center, L.L.C., relating to Chrysler, Plymouth, Dodge and Jeep sales and service, dated April 21, 1999; Lithia JEB, Inc., dba Lithia Jeep of Bakersfield, relating to Jeep sales and service, dated March 11, 1998; Lithia JEF, Inc., dba Lithia Jeep of Fresno, relating to Jeep sales and service, dated January 21, 1998; Lithia Klamath, Inc., dba Lithia Dodge Chrysler Plymouth Jeep of Klamath Falls, relating to Chrysler, Plymouth, Dodge, and Jeep sales and service, dated May 27, 1999; Lithia of Roseburg, Inc., dba Lithia Dodge Chrysler Plymouth Jeep of Roseburg, relating to Chrysler, Plymouth, Jeep, and Dodge sales and service, dated December 14, 1999; Lithia DC, Inc., dba Lithia Dodge of Concord, relating to Dodge sales and service, dated April 2, 1998; Lithia Dodge of Tri-Cities, Inc., relating to Dodge sales and service, dated October 5, 1999

(2)

Substantially identical agreements exist with Ford Motor Company for its Ford and Lincoln lines.

(3)

Substantially identical agreements exist between Ford Motor Company and Lithia TLM, LLC., relating to Lincoln sales and service, dated June 1, 1997; Lithia FMF, Inc., dba Lithia Ford of Fresno, relating to Ford sales and service, dated December 17, 1997; Lithia FN, Inc., dba Lithia Ford Lincoln Mercury of Napa, relating to Ford, Lincoln and Mercury sales and service, dated June 30, 1997; Lithia FVHC, Inc., dba Lithia Ford of Concord, relating to Ford sales and service, dated August 11, 1997; Lithia Rose-FT, Inc., dba Lithia Ford Lincoln Mercury of Roseburg, relating to Ford, Lincoln and Mercury sales and service, dated August 30, 1999 (except that these agreements are for 2 year terms); Roundtree Lincoln-Mercury, Inc., Lincoln and Mercury sales and service, dated December 9, 1999 (except that these agreements are for 2 year terms); Lithia SALMIR, Inc., dba Lithia Lincoln Mercury of Reno, relating to Lincoln and Mercury sales and service, dated 1/14/2000 (terminating on November 30, 2000).

(4)

Substantially identical agreements exist between Volkswagen of America, Inc. and Lithia SALMIR, Inc., dba Lithia Volkswagen of Reno, dated June 9, 1999; and Lithia VWC, Inc., dba Lithia Volkswagen of Concord, dated October 30, 1998; and Audi of America, Inc., a division of Volkswagen of America, Inc., and Lithia SALMIR, Inc., relating to Audi sales and service, dated January 1, 1998.

(5)

A substantially identical agreement exists between Chevrolet Motor Division, GM Corporation, and Lithia CIMR, dba Lithia Chevrolet of Redding relating to Chevrolet sales and service, dated June 15, 1998.

(6)

Omitted

(7)

Substantially identical agreements exist (except the terms are all 2 years) between Toyota Motor Sales, USA, Inc. and Lithia TKV, Inc. dba Lithia Toyota of Vacaville, dated August 26, 1998; Lithia TR, Inc., dba Lithia Toyota of Redding, dated June 26, 1998; Lithia Klamath, Inc., dba Lithia Toyota of Klamath Falls, dated May 27, 1999; Hutchins Imported Motors, Inc., dba Lithia Toyota of Springfield, dated November 3, 1998.

(8)

Omitted

(9)

Substantially identical agreements exist between Nissan Motor Corporation and Lithia NB, Inc., dba Lithia Nissan of Bakersfield, dated October 2, 1997; Hutchins Eugene Nissan, Inc., dba Lithia Nissan of Eugene, dated April 2, 1998; Lithia BNM, Inc., dba Lithia Nissan, dated February 13, 1998; Lithia Nissan of Roseburg, Inc, dated August 30, 1999.

(10)

Omitted

(11)

Omitted

(12)

Omitted

(13)

Substantially identical agreements exist between Hyundai Motor America and Lithia Foothills Chrysler, Inc., dba Lithia Foothills Hyundai, dated May 26, 1999; Lithia Reno Sub-Hyun, Inc., dba Lithia Reno Hyundai, dated April 16, 1999.

(14)

Omitted

(15)

Substantially identical leases of the same date exist between: Moreland Properties L.L.C and Lithia Real Estate, Inc. relating to property in Aurora, CO located at 505 S. Havana (except that monthly

rent is $23,000) and at 625 S. Havana (except that monthly rent is $7,500); relating to property in Englewood, CO, located at 6780 S. Emporia St. (except that monthly rent is $5,000) and at 9980 E. Arapahoe Rd, (except that monthly rent is $32,000); and relating to property located in Reno, NV at the "Lot on Grove St." (except that the monthly rent is $3,500); between DOCAR, LLC and Lithia Real Estate, Inc. relating to property in Aurora, CO, located at 658 S Havana, (except that the monthly rent is $7,000) an at 2727 S. Havana (except that monthly rent is $30,000); and in Fort Collins, CO, located at 3835 S. College (except that monthly rent is $28,800).

(16)

Substantially identical subleases of the same date exist between Moreland Properties L.L.C and Lithia Real Estate, Inc.; relating to property in Aurora, CO, located at 501 S. Havana (monthly rent is $20,800 and lease terminates May 30, 2002); relating to property in Colorado Springs, CO, located at 1250 S. Nevada (term is month-to-month and rent is $14,180); between Cherry Creek Investment Associates, LLC and Lithia Real Estate, Inc. relating to property in Colorado Springs, CO, located at 15 E Arvada (terminates October 30, 2005 and monthly rent is $12,594), at 25 W Arvada (terminates October 30, 2005 and monthly rent is $11,000) and at 35 W Arvada (terminates October 30, 2005 and monthly rent is $11,000); and between Cash Moreland, LLC and Lithia Real Estate, Inc. relating to property in Fort Collins, CO, located at 3701 S College (terminates January 30, 2003 and monthly rent is $20,800).

(17)

Tract (1): 700 & 822 N. Central Ave, 217 & 220 N. Beatty St., 710 & 815 Niantic St., 713 & tax lot 13900 on Maple St., tax lot 13700

on Putnam, 527, 531, 533 & 613 N. Bartlett, collectively at a annual lease rate of $284,741; Tract (2): 400 N. Riverside at an annual lease rate of $117,900; Tract (3): 325 & 360 E. Jackson St., 400 N. Central Ave., 315, 321, 334, 341, 343 & 345 Apple St., 440 Front St., 401 & 405 E. 4th St., 326 & 344 N. Bartlett, 309, 315 & 333 N. Riverside collectively at an annual lease rate of $521,463; Tract (4): 322 E. 4th, 315 & 324 E. 5th St., 225, 319 & 323 E. 6th, tax lot 8000 at 6th & Riverside, 129 & 201 N. Riverside, 220, 224 & 235 N. Bartlett, tax lot 4700 at 4th and N. Bartlett, tax lots 4400 & 4500 on Maple, collectively at an annual lease rate of $472,716; Tract (5): 400, 705, 712 & 717 N Riverside, 712 Pine St., collectively at an annual lease rate of $172,291; Tract (6); relating to properties located in Grants Pass, Oregon at 1421 NE 6th St and 1470 NE 7th St, collectively at an annual lease rate of $260,292.

(18) 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.

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, 2000

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, 2000:

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/ W. DOUGLAS MORELAND	
W. Douglas Moreland	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, 1999 and 1998, 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, 1999. 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, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

Portland, Oregon
February 14, 2000

LITHIA MOTORS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands)

	December 31, 1999	December 31, 1998
Assets		
Current Assets:		
Cash and cash equivalents	$ 30,364	$ 20,879
Trade receivables	25,683	17,287
Notes receivable, current portion, net of allowance for doubtful accounts of $677 and $714	2,777	3,074

Inventories, net	268,281	157,455
Vehicles leased to others, current portion	3,000	861
Prepaid expenses and other	3,815	1,933
Deferred income taxes	724	2,707
Total Current Assets	334,644	204,196
Property and Equipment, net of accumulated depreciation of $5,683 and $3,907	52,368	32,933
Notes Receivable, less current portion	4,095	7,173
Vehicles Leased to Others, less current portion	2,808	5,647
Goodwill, net of accumulated amortization of $3,073 and $1,180	110,677	42,951
Other Non-Current Assets, net of accumulated amortization of $143 and $103	1,841	1,498
Total Assets	$ 506,433	$ 294,398
Liabilities and Shareholders' Equity		
Current Liabilities:		
Notes payable	$ —	$ 515
Flooring notes payable	208,403	124,167
Current maturities of long-term debt	7,039	7,601
Current portion of capital leases	93	27
Trade payables	11,873	6,313
Payable to related party	9,000	—
Accrued liabilities	23,237	12,020
Total Current Liabilities	259,645	150,643
Long-Term Debt, less current maturities	73,715	38,994
Long-Term Capital Lease Obligation, less current portion	196	2,426
Deferred Revenue	2,262	2,076
Other Long-Term Liabilities	5,456	1,606
Deferred Income Taxes	9,521	7,142
Total Liabilities	350,795	202,887
Shareholders' Equity:		
Preferred stock—no par value; authorized 15,000 shares; issued and outstanding; none	—	—
Convertible, redeemable Series M preferred stock; authorized 15 shares; issued and outstanding 10.4 and 0	6,216	—
Class A common stock—no par value; authorized 100,000 shares; issued and outstanding 7,824 and 6,105	102,333	70,871
Class B common stock authorized 25,000 shares; issued and outstanding 4,087 and 4,110	508	511
Additional paid-in capital	7,428	150
Retained earnings	39,153	19,979
Total Shareholders' Equity	155,638	91,511
Total Liabilities and Shareholders' Equity	$ 506,433	$ 294,398

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,		
	1999	1998	1997
Revenues:			
New vehicle sales	$ 673,339	$ 388,431	$ 161,294
Used vehicle sales	375,562	220,544	113,099
Service, body and parts	120,722	72,216	29,828
Other revenues	73,036	33,549	15,574
Total revenues	1,242,659	714,740	319,795
Cost of sales	1,043,373	599,379	265,049
Gross profit	199,286	115,361	54,746
Selling, general and administrative	146,381	85,188	40,625

Depreciation and amortization	5,573	3,469	2,483
Income from operations	47,332	26,704	11,638
Other income (expense)			
Floorplan interest expense	(11,105)	(7,108)	(2,179)
Other interest expense	(4,250)	(2,735)	(824)
Other income, net	74	921	862
	(15,281)	(8,922)	(2,141)
Income before income taxes	32,051	17,782	9,497
Income tax expense	(12,877)	(6,993)	(3,538)
Net income	$ 19,174	$ 10,789	$ 5,959
Basic net income per share	$ 1.72	$ 1.18	$ 0.85
Diluted net income per share	$ 1.60	$ 1.14	$ 0.82

See accompanying notes to consolidated financial statements.

LITHIA MOTORS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity

(In thousands)

	Series M Preferred Stock		Common Stock Class A		Common Stock Class B				
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid In Capital	Retained Earnings	Total Shareholders' Equity
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
Issuance of stock in connection with employee stock plans	—	—	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
Issuance of stock in connection with employee stock plans	—	—	15	131	—	—	—	—	131
Balance at December 31, 1998	—	—	6,105	70,871	4,110	511	150	19,979	91,511
Net income	—	—	—	—	—	—	—	19,174	19,174
Issuance of Class A Common Stock in connection with acquisitions	—	—	1,611	30,638	—	—	4,500	—	35,138
Issuance of stock in connection with employee stock plans	—	—	85	821					821
Compensation for stock option issuances	—	—	—	—	—	—	78	—	78
Conversion of Class B Common Stock into Class A Common Stock	—	—	23	3	(23)	(3)			—
Issuance of Series M Preferred Stock in connection with acquisition	10,360	6,216	—	—	—	—	2,700	—	8,916

Balance at December 31, 1999	10,360	$ 6,216	7,824	$ 102,333	4,087	$ 508	$ 7,428	$ 39,153	$ 155,638

See accompanying notes to consolidated financial statements.

LITHIA MOTORS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

	Years Ended December 31,		
	1999	1998	1997
Cash flows from operating activities:			
Net income	$ 19,174	$ 10,789	$ 5,959
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation and amortization	5,573	3,469	2,483
Compensation related to stock option issuances	78	78	59
(Gain) loss on sale of assets	(4)	30	(1)
(Gain) loss on sale of vehicles leased to others	253	33	(286)
Deferred income taxes	(1,673)	565	336
Equity in income of affiliate	(61)	(7)	(102)
(Increase) decrease, net of effect of acquisitions, in:			
Trade and installment contract receivables, net	2,940	(6,714)	(5,087)
Inventories	(20,094)	(17,614)	(9,009)
Prepaid expenses and other	845	(1,614)	(678)
Other noncurrent assets	(378)	204	(486)
Increase (decrease), net of effect of acquisitions, in:			
Floorplan notes payable	16,012	21,425	9,122
Trade payables	(13,570)	(2,759)	1,440
Accrued liabilities	4,492	2,500	4,252
Other liabilities	8,794	(1,039)	(2,274)
Net cash provided by operating activities	22,381	9,346	5,728
Cash flows from investing activities:			
Notes receivable issued	(806)	(639)	(249)
Principal payments received on notes receivable	6,977	3,456	304
Capital expenditures	(14,586)	(3,934)	(8,801)
Proceeds from sale of assets	1,779	223	16
Expenditures for vehicles leased to others	(8,102)	(9,322)	(6,750)
Proceeds from sale of vehicles leased to others	7,805	8,481	5,330
Cash paid for acquisitions, net of cash acquired	(35,020)	(36,531)	(25,220)
Distribution from affiliate	1,268	—	204
Net cash used in investing activities	(40,685)	(38,266)	(35,166)
Cash flows from financing activities:			
Net borrowings (repayments) on lines of credit	31,380	(15,500)	15,500
Principal payments on long-term debt	(13,175)	(39,083)	(15,917)
Proceeds from issuance of long-term debt	9,781	43,287	28,951
Payments on capital lease obligations	(1,018)	—	—
Proceeds from issuance of common stock and minority interest	821	42,641	3,945
Net cash provided by financing activities	27,789	31,345	32,479
Increase in cash and cash equivalents	9,485	2,425	3,041
Cash and cash equivalents:			
Beginning of period	20,879	18,454	15,413
End of period	$ 30,364	$ 20,879	$ 18,454
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	$ 15,330	$ 9,728	$ 3,206
Cash paid during the period for income taxes	11,469	6,482	3,011
Supplemental schedule of noncash investing and financing activities:			
Stock issued in connection with acquisitions	$ 36,854	$ 125	$ —
Assumption of mortgages related to acquisitions	2,808	1,345	—
Termination of capital lease	2,431	—	—

See accompanying notes to consolidated financial statements.

LITHIA MOTORS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1999, 1998 and 1997

(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 25 domestic and imported makes of new automobiles and light trucks at 45 locations and over the internet. Lithia currently operates 15 dealerships in California, 13 in Oregon, 6 in Colorado, 4 in Nevada, 3 in Washington and 4 in Idaho. 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 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 45 locations, the Company offers, collectively, 25 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, Volvo, Kia and Daewoo.

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.

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

The Company accounts for inventories using the specific identification method for vehicles and the first-in first-out (FIFO) method for parts (collectively, the FIFO method).

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 and is included in depreciation expense.

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 $481 and $476 at December 31, 1999 and 1998, respectively.

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

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). Following is a reconciliation of basic EPS and diluted EPS:

	Year Ended December 31,								
	1999			1998			1997		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic EPS									
Income available to Common Shareholders	$ 19,174	11,137	$ 1.72	$ 10,789	9,147	$ 1.18	$ 5,959	6,988	$ 0.85
Effect of Dilutive Securities									
Stock Options	—	364		—	323		—	315	
Contingent issuances	—	128		—	—		—	—	
Series M Preferred Stock	—	369		—	—		—	—	
Diluted EPS									
Income available to Common Shareholders	$ 19,174	11,998	$ 1.60	$ 10,789	9,470	$ 1.14	$ 5,959	7,303	$ 0.82

34, 108 and zero shares issuable pursuant to stock options have not been included in the above calculations for 1999, 1998 and 1997, 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 $11,189, $5,749 and $2,678 for the

years ended December 31, 1999, 1998 and 1997, 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, down payment has been received and funding has been approved from the lending agent. 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). 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, auto retailing.

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

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

	December 31,			
	1999		1998	
	Inventory Cost	Notes Payable	Inventory Cost	Notes Payable
New and program vehicles	$ 198,812	$ 208,403	$ 112,990	$ 124,167
Used vehicles	56,292	35,500	34,599	5,000
Parts and accessories	13,177	—	9,866	—
Total inventories	$ 268,281	$ 243,903	$ 157,455	$ 129,167

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 an $85,000 line of credit.

(3) Property, Plant and Equipment

	December 31,	
	1999	1998
Buildings and improvements	$ 26,165	$ 17,107
Service equipment	6,953	5,566
Furniture, signs and fixtures	8,413	5,077
	41,531	27,750
Less accumulated depreciation	(5,683)	(3,907)
	35,848	23,843
Land	12,872	8,648
Construction in progress	3,648	442

	$ 52,368	$ 32,933

(4) Vehicles Leased to Others and Related Lease Receivables

	December 31,	
	1999	1998
Vehicles leased to others	$ 6,696	$ 7,267
Less accumulated depreciation	(888)	(759)
	5,808	6,508
Less current portion	(3,000)	(861)
	$ 2,808	$ 5,647

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 that 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,	
	1999	1998
Total minimum lease payments to be received	$ 7,376	$ 11,796
Allowance for uncollectible notes and repossession losses	(209)	(599)
	7,167	11,197
Unearned interest income	(1,039)	(1,960)
	$ 6,128	$ 9,237

Future minimum lease payments to be received on the notes receivable after December 31, 1999 are as follows:

Year ending December 31,	
2000	$ 2,836
2001	2,570
2002	1,516
2003	377
2004	77
Total	$ 7,376

(6) Lines of Credit and Long-Term Debt

Ford Motor Credit Company, 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 an $85,000 revolving line of credit for used vehicles and a $115,000 acquisition line of credit to purchase dealerships of any brand. These commitments have an expiration date of December 1, 2002 with interest due monthly. Lithia also has the option to convert the acquisition line into a five-year term loan. In addition, U.S. Bank N.A. has extended a $10,000 revolving line of credit for leased vehicles and a $15,000 line of credit for equipment purchases.

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. Lithia was in compliance with all such covenants at December 31, 1999.

Interest rates on all of the above facilities ranged from 7.33% to 8.08% at December 31, 1999. Amounts outstanding on the lines at December 31, 1999 were as follows (in thousands):

New and Program Vehicle Lines	$ 208,403
Used Vehicle Line	35,500
Acquisition Line	0
Leased Vehicle Line	4,880
Equipment Line	6,605
	$ 255,388

Long-term debt consists of the following:

	December 31,	
	1999	1998
Lease vehicle line of credit	$ 4,880	$ 4,000
Acquisition line of credit	0	0
Used vehicle flooring line of credit	35,500	5,000
Mortgages payable in monthly installments of $173, including interest between 8.18% and 9.375%, maturing fully December 2019; secured by land and buildings	19,893	9,499
Notes payable in monthly installments of $144 plus interest calculated daily at LIBOR plus 2.20%, maturing fully November 2003; secured by equipment	6,605	8,328
Notes payable in monthly installments of $197 plus interest between 7.21% and 8.50%, maturing at various dates through 2004; secured by vehicles leased to others	4,514	7,584
Notes payable related to acquisitions, with interest rates between 7.00% and 9.00%, maturing at various dates between December 2000 and November 2008	9,342	12,679
Note payable in monthly installments of $3, including interest at 10.25%, maturing fully August 2000	20	20
	80,754	47,110
Less current maturities	(7,039)	(8,116)
	$ 73,715	$ 38,994

(6) Lines of Credit and Long-Term Debt (Continued)

The schedule of future principal payments on long-term debt after December 31, 1999 is as follows:

Year ending December 31,	
2000	$ 7,039
2001	10,426
2002	40,441
2003	3,047
2004	1,019
Thereafter	18,782
Total principal payments	$ 80,754

(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.

In May 1998, the Company closed an offering of 3,151 newly issued shares of its Class A Common Stock for net proceeds of $42,498.

In 1999, the Company authorized 15 shares of Series M, Redeemable, Convertible Preferred Stock ("Series M Preferred Stock"). In May 1999, in connection with the acquisition of Moreland Automotive Group, the Company issued 10.4 shares of Series M Preferred Stock. The Series M Preferred Stock votes with Class A Common Stock on an as if converted basis. The Series M Preferred Stock is convertible at the option of the Company at any time and at the option of the holder under limited circumstances. The Series M Preferred Stock converts into Class A Common Stock based on a formula that divides the average Class A Common Stock price for a certain 15-day period into one thousand and then multiplies by the number of Series M Preferred Shares being converted. The Series M Preferred Stock does not have a dividend preference, but participates in any dividends on an as if converted basis. The Series M Preferred Stock has a $1 per share liquidation preference.

In the fourth quarter of 1999 the Company accrued for the issuance of $4,500 of its Class A Common Stock and $4,500 of its Series M Preferred Stock with a fair value of $2,700 to satisfy contingent payout

requirements related to the Moreland acquisition. The stock was issued in the first quarter of 2000 and totaled 304 Class A shares and 0.3 Series M Preferred shares.

(8) Income Taxes

The Company is taxed as a C Corporation in accordance with SFAS 109, *Accounting for Income Taxes* . Income taxes for 1999, 1998 and 1997 are as follows:

	December 31,		
	1999	1998	1997

Current:			
Federal	$ 10,382	$ 5,387	$ 2,967
State	1,979	1,041	444
	12,361	6,428	3,411
Deferred:			
Federal	411	436	114
State	105	129	13
	516	565	127
Total	$ 12,877	$ 6,993	$ 3,538

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

	December 31,	
	1999	1998
Deferred tax assets:		
Allowance and accruals	$ 2,457	$ 1,425
Deferred revenue	2,931	1,282
Total deferred tax assets	5,388	2,707
Deferred tax liabilities:		
LIFO recapture and acquired LIFO inventories differences	(8,657)	(4,398)
Employee benefit plans	(625)	—
Goodwill	(2,797)	(735)
Property and equipment, principally due to differences in depreciation	(2,106)	(2,009)
Total deferred tax liabilities	(14,185)	(7,142)
Total	$ (8,797)	$ (4,435)

The reconciliation between the statutory federal income tax expense at 35% in 1999 and 1998 and 34% in 1997 and the Company's income tax expense for 1999, 1998 and 1997 is shown in the following tabulation.

	For the Year Ended December 31,		
	1999	1998	1997
Statutory federal taxes	$ 11,218	$ 6,224	$ 3,229
State taxes, net of federal income tax benefit	1,311	751	278
Nondeductible goodwill	261	—	—
Other	87	18	31
Income tax expense	$ 12,877	$ 6,993	$ 3,538

(9) Commitments and Contingencies

Recourse Paper

The Company is contingently liable to banks for recourse paper assumed at the time of acquisition when the Company does a corporate purchase. Following the acquisition, the Company does not enter into further recourse transactions. The contingent liability at December 31,

1999, 1998 and 1997 was approximately $3,421, $3,824 and $64, 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 $668, $255 and $0 is reflected in the Company's consolidated balance sheets as of December 31, 1999, 1998 and 1997, respectively. The reserves were established as a purchase price adjustment as the result of several acquisitions.

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, 1999 are as follows:

Year ending December 31,	Operating	Capital
2000	$ 12,670	$ 108
2001	12,574	86
2002	12,496	77
2003	12,111	56
2004	11,697	0
Thereafter	76,338	0
Total minimum lease payments	$ 137,886	327
Less amounts representing interest		(38)
Present value of future minimum lease payments		$ 289

Rental expense for all operating leases was $9,639, $5,659 and $2,764 for the years ended December 31, 1999, 1998 and 1997, 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 $591, $285 and $138 were recognized for the years ended December 31, 1999, 1998 and 1997, respectively. Employees may contribute to the plan under certain circumstances.

(11) Stock Incentive Plans

The Company's 1996 Stock Incentive Plan, as amended, allows for the granting of up to 1,700 incentive and nonqualified stock options to officers, key employees and consultants of the Company and its subsidiaries. The Company's Non-Discretionary Stock Option Plan for Non-Employee Directors allows for the granting of 15 shares (collectively, the "Plan"). The Plan is administered by the Board or by a Compensation Committee of the Board and permits accelerated vesting of outstanding options upon the occurrence of certain changes in control of the Company. Options become exercisable over a period of up to ten years from the date of grant as determined by the Board, at prices generally not less than the fair market value at the date of grant. At December 31, 1999, 1,623 shares of Class A common stock were reserved for issuance under the Plan and 856 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, 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
Additional shares reserved	615	—	—
Options granted	(257)	257	17.84
Options canceled	3	(3)	14.75
Options exercised	—	(35)	3.98
Balances, December 31, 1999	856	767	$ 9.89

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 50 and 9 shares of the Company's Class A common stock were issued under the Purchase Plan during 1999 and 1998, respectively, and 191 remained available for issuance at December 31, 1999.

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,		
	1999	1998	1997
Risk-free interest rate	5.50%	5.50%	6.25%
Expected dividend yield	0.00%	0.00%	0.00%
Expected lives	7.0 years	6.7 years	6.8 years
Expected volatility	49.91%	53.41%	45.50%

Using the Black-Scholes methodology, the total value of options granted during 1999, 1998 and 1997 was $2,910, $1,119 and $320, 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 1999, 1998 and 1997 was $9.17, $8.61 and $7.20 per share, respectively. If the Company had accounted for its stock-based compensation plan in accordance with SFAS 123, the Company's net income and net income per share would

approximate the pro forma disclosures below:

	For the Year Ended December 31,					
	1999		1998		1997	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Net income	$ 19,174	$ 17,965	$ 10,789	$ 10,227	$ 5,959	$ 5,723
Basic net income per share	$ 1.72	$ 1.61	$ 1.18	$ 1.12	$ 0.85	$ 0.82
Diluted net income per share	$ 1.60	$ 1.52	$ 1.14	$ 1.09	$ 0.82	$ 0.79

The following table summarizes stock options outstanding at December 31, 1999:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/99	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Shares Exercisable at 12/31/99	Weighted Average Exercise Price
$ 1.00	28	6.7	$ 1.00	15	$ 1.00
3.02 - 3.33	350	3.6	3.09	241	3.12
10.75 - 11.00	25	6.0	10.81	10	10.81
14.31 - 16.50	241	7.4	15.87	25	15.41
18.15	24	4.0	18.15	—	—
18.94 - 20.83	99	8.2	19.59	5	20.83
$ 1.00 - 20.83	767	5.6	$ 9.89	296	$ 4.60

At December 31, 1998 and 1997, 239 and 151 shares were exercisable at weighted average exercise prices of $3.44 and $3.28, respectively.

(12) Related Party Transactions

Lithia Properties, LLC, owned certain of the real property on which the Company's business is located. The Company owns a 20% interest in Lithia Properties, LLC. The Company leased such facilities under various lease agreements from Lithia Properties, LLC. Selling, general and administrative expense includes rental expense of $706, $1,464 and $1,442 for the years ended December 31, 1999, 1998 and 1997, respectively relating to these properties.

In June 1999, Lithia Properties, LLC completed its sale of certain real estate holdings in the Southern Oregon region to Capital Automotive Real Estate Investment Trust ("Capital"), an unrelated party, for $18,300. As a result of this sale, the Company received a distribution for its portion of the realized gain, totaling approximately $1,246, which will be realized ratably over the 12-year life of the new lease. The Company now leases such properties from Capital for amounts that are not materially different from the lease amounts under the previous lease agreements.

The Company provides management services to Lithia Properties, LLC. Other income includes management fees of $7, $12 and $12 for the years ended December 31, 1999, 1998 and 1997, respectively.

Lithia Properties, LLC 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 purchase price for these properties was $2,700. Lithia Properties, LLC 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, LLC. The general contractor fee was $128, an arrangement the Company believes is fair in comparison with fees negotiated with independent third parties.

During 1999 and 1998, Lithia Real Estate, Inc. paid Mark DeBoer Construction, Inc. $2,649 and $314, respectively, for remodeling certain of the Company's facilities. These amounts included $2,252 and $281, respectively, paid for subcontractors and materials, $171 and $7, respectively for permits, licenses, travel and various miscellaneous fees, and $226 and $26, respectively, for contractor fee. The Company believes the amount paid is fair in comparison with fees negotiated with independent third parties.

In May 1999, the Company purchased certain dealerships owned by W. Douglas Moreland for total consideration of approximately $66,000, at which time, Mr. Moreland became a member of the Company's Board of Directors. During the normal course of business, these dealerships paid $672 to other companies owned by Mr. Moreland for vehicles purchases and recourse paid to a financial lender. The Company also paid rental expense of $1,589 to other companies owned by Mr. Moreland in 1999.

The terms of the acquisition agreement with Mr. Moreland provided for additional consideration to be paid if the acquired entity results of operations exceeded certain targeted levels in 1999. Targeted levels were set substantially above the historical experience of the acquired entity at the time of acquisition. Such additional consideration was paid in cash and with shares of the Company's stock and was recorded when

earned in the fourth quarter of 1999 as additional purchase price. Additional consideration totaled $18,000, including $9,000 in cash, $4,500 in Class A Common Stock and $4,500 in Class M Restricted Preferred Stock with a fair value of $2,700.

(13) Acquisitions

Significant acquisitions in 1999, 1998 and 1997 were as follows:

In May 1999, the Company acquired all of the stock of seven commonly controlled automotive dealerships constituting the Moreland Automotive Group ("Moreland") for approximately $19,689 in cash (which is net of $16,007 of cash acquired), 1,273 shares of the Company's Class A Common Stock with a value of approximately $24,100 at the time of issuance, and 10 shares of Lithia's newly created Series M Preferred Stock with a value of approximately $6,200 at the time of issuance. At closing, Moreland had approximately $18,200 of used vehicles available for flooring under the Company's used vehicle line of credit, reducing the net investment in the acquired dealerships by that amount to a total of $47,800. See also Note 14 Subsequent Events.

In October 1998, the Company acquired the net assets of Camp Automotive for total consideration of $11,535, including $8,000 in cash and $3,535 of assumed debt.

In October 1997, the Company acquired the net assets of Dick Donnelly Lincoln/Mercury, Isuzu, Suzuki and Audi for total consideration of $12,916, including $6,139 in cash and $6,777 of assumed debt. At closing, the Company was able to finance a total of $6,200 of inventory using its lines of credit, reducing the net investment in the acquired dealerships by that amount to $6,700.

In August 1997, the Company acquired the net assets of Sun Valley Ford, Volkswagen for total consideration of $17,962, including $5,356 in cash and $12,606 of assumed debt. At closing, the Company was able to finance a total of $10,400 of inventory using its lines of credit, reducing the net investment in the acquired dealerships by that amount to $7,600.

The unaudited pro forma results of operations including Camp Automotive, Inc., Sun Valley Ford, Inc., Dick Donnelly Automotive Enterprises, Inc. and Moreland Automotive are as follows. The results of operations for other 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,	
	1999	1998
Total revenues	$ 1,409,404	$ 1,157,345
Net income	21,009	12,176
Basic earnings per share	1.81	1.17
Diluted earnings per share	1.65	1.07

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. The 1998 pro forma

results of operations include bonuses paid by Moreland to its owners. Excluding such bonuses, which would not have been paid under Lithia's ownership, the acquisition would have been accretive to Lithia's 1998 earnings.

Some purchase price allocations are based on studies and valuations that are currently being finalized. Management does not believe that the

final purchase price allocations will produce materially different results than those referenced herein.

(14) Subsequent Event (unaudited)

In March 2000, the Company acquired the Bob Rice Ford/Chrysler dealership in Boise, Idaho. The dealership had estimated 1999 revenues of approximately $73,000. The Company's net investment in the acquired dealerships totaled approximately $10,900.

QuickLinks

Exhibit 3.1

RESTATED ARTICLES OF INCORPORATION

OF

LITHIA MOTORS, INC.

The following Restated Articles of Incorporation of Lithia Motors, Inc. (the "Corporation") amend and supersede the heretofore existing Articles of Incorporation, including all amendments made thereto.

ARTICLE I: Name of Corporation

The name of the corporation is Lithia Motors, Inc.

ARTICLE II: Number of Authorized Shares

The total number of shares of stock of all classes which the corporation shall have the authority to issue is one hundred forty million (140,000,000) shares, consisting of fifteen million (15,000,000) shares of a single class of preferred stock with no par value, one hundred million (100,000,000) shares of Class A Common Stock with no par value, and twenty-five million (25,000,000) shares of Class B Common Stock with no par value. After any shares of Class A Common Stock are issued and outstanding, the Board of Directors of the corporation shall not, without the vote or consent of the holders of the corporation's Class A Common Stock, issue any shares of Class B Common Stock except as provided by Article III, Section 2.

ARTICLE III: Rights and Limitations of Capital Stock

The relative rights and limitations of each class of capital stock shall be as set forth in this Article III.

Section 1. Voting of Class A and Class B Stock

(a) In all elections of directors, and in all other matters as to which the vote or consent of shareholders of the corporation shall be required or shall be taken, each holder of one or more shares of Class A Common Stock shall be entitled to one (1) vote for each share of the Class A Common Stock then held.

(b) In all elections of directors, and in all other matters as to which the vote or consent of shareholders of the corporation shall be required or shall be taken, each holder

of one or more shares of Class B Common Stock shall be entitled to ten (10) votes for each share of the Class B Common Stock then held.

(c) Except as otherwise required by law, the holders of shares of Class A Common Stock and the holders of shares of Class B Common Stock shall vote together as one class on all matters submitted to a vote of the corporation's shareholders.

Section 2. Dividends and Distributions With Respect to Class A and Class B Stock. The holders of shares of Class A Common Stock and the holders of shares of Class B Common Stock shall be entitled to receive whatever dividends, payable in cash or otherwise, are lawfully declared by the Board of Directors from time to time with respect to those shares. Shares of Class A Common Stock and Class B Common Stock shall have equal rights to share in and receive any dividends, liquidation proceeds and other distributions made by the corporation with respect to the corporation"s common stock. In furtherance of and not limiting the foregoing, in the event that the holders of shares of Class A Common Stock are entitled to receive a dividend or distribution payable in whole or in part in additional shares of Class A Common Stock, the holders of shares of Class B Common Stock shall be entitled to receive a proportionately equal dividend or distribution payable in shares of Class B Common Stock.

Section 3. Restrictions on Transfer of Class B Stock

(a) Except as provided in subsection 3(b) of this Article III, no person holding shares of Class B Common Stock or any beneficial interest therein (a "Class B Holder") may transfer any interest in such Class B shares to any person other than a "Permitted Transferee". Neither the corporation nor the transfer agent, if any, for the Class B Common Stock (the "Transfer Agent"), shall register the transfer of any interest in shares of Class B Common Stock, except to a "Permitted Transferee" of the transferor.

(b) For purposes of this Section 3, the term "Permitted Transferee" shall mean and include the corporation and also shall have the following meanings in the indicated circumstances:

(1) In the case of a Class B Holder who is a natural person holding record and beneficial ownership of one or more shares of Class B Common Stock, "Permitted Transferee" means:

(i) The spouse of that Class B Holder (the "Spouse").

(ii) A lineal descendant of a great grandparent of that Class B Holder or of the Spouse (a "Descendant").

(iii) The trustee of a trust (including a voting trust)

maintained for the benefit of any one or more of the following persons, and for no other person: (A) that Class B Holder, (B) the Spouse, (C) one or more Descendants, or (D) an organization to which contributions are deductible for federal income, estate or gift tax purposes (a "Charitable Organization"). A trust described in the preceding sentence may grant a general or special power of appointment to the Spouse or to one or more of the Descendants. A trust described in the first sentence of this subsection 3(b)(1)(iii) may permit trust assets to be used to pay taxes, legacies and other obligations of the trust or of the estate of the Class B Holder which are payable by reason of the death of the Class B Holder, the Spouse or a Descendant. In order to be a "Permitted Transferee", a trust which is otherwise described in this subsection 3(b)(1)(iii) must prohibit any transfer (other than the granting of a power of appointment as provided in the second sentence of this subsection 3(b)(1)(iii)) of any beneficial interest in shares of Class B Common Stock to any person other than "Permitted Transferees" as defined in clauses (A) through (D) of this subsection 3(b)(1)(iii). A trust which satisfies all of the conditions of this subsection 3(b)(1)(iii) shall be referred to herein as a "Trust".

(iv) Any Charitable Organization, including but not limited to a Charitable Organization established by that Class B Holder or a Descendant.

(v) An Individual Retirement Account, as defined in
Section 408(a) of the Internal Revenue Code, with respect to which that Class B Holder is a participant or beneficiary, but only if that Class B Holder is vested with the power to direct the investment of funds deposited into that Individual Retirement Account and to control the voting of securities held by that Individual Retirement Account (an "IRA").

(vi) A pension, profit sharing, stock bonus or other type of plan or trust with respect to which that Class B Holder is a participant or beneficiary and which satisfies the requirements for qualification under Section 401 of the Internal Revenue Code, but only if that Class B Holder is vested with the power to direct the investment of funds deposited into that plan or trust and to control the voting of securities held by that plan or trust (a "Plan").

(vii) A corporation all of the outstanding capital stock of which is owned by persons who are included in one or more of the following classes of permitted owners: (A) that Class B Holder, (B) the Spouse, (C) one or more Descendants, (D) any Permitted Transferee of that Class B Holder (determined pursuant to this subsection 3(b)), (E) any other Class B Holder, and/or (F) a Permitted Transferee of any other Class B Holder (determined pursuant to this subsection 3(b)). If 50% or more of the voting shares of a corporation described in the preceding sentence (or of any survivor of a merger

or consolidation of such a corporation), are acquired in the aggregate by one or more persons who are not included in one or more of the classes of permitted owners described in the preceding sentence, then all shares of Class B Common Stock then held by that corporation shall be deemed without further act on any person's part to be converted into shares of Class A Common Stock in accordance with the provisions of subsection 4(b) of this Article III, and any and all stock certificates representing those shares of Class B Common Stock shall thereupon cease to represent shares of Class B Common Stock and shall thereafter be deemed for all purposes to represent an identical number of shares of Class A Common Stock.

(viii) A partnership in which more than fifty percent (50%) of the capital interests and more than fifty percent (50%) of the voting interests are owned by persons who are included in one or more of the following classes of permitted owners: (A) that Class B Holder, (B) the Spouse, (C) one or more Descendants, (D) any Permitted Transferee of that Class B Holder (determined pursuant to this subsection 3(b)), (E) any other Class B Holder, and/or (F) a Permitted Transferee of any other Class B Holder (determined pursuant to this subsection 3(b)). If 50% or more of the capital interests or 50% or more of the voting interests in a partnership described in the preceding sentence are acquired in the aggregate by one or more persons who are not included in one or more of the classes of permitted owners described in the preceding sentence, then all shares of Class B Common Stock then held by that partnership shall be deemed without further act on any person's part to be converted into shares of Class A Common Stock in accordance with the provisions of subsection 4(b) of this Article III, and any and all stock certificates representing those shares of Class B Common Stock shall thereupon cease to represent shares of Class B Common Stock and shall thereafter be deemed for all purposes to represent an identical number of shares of Class A Common Stock.

(ix) A limited liability company in which more than fifty percent (50%) of the capital interests and more than fifty percent (50%) of the voting interests are owned by persons who are included in one or more of the following classes of permitted owners: (A) that Class B Holder, (B) the Spouse, (C) one or more Descendants, (D) any Permitted Transferee of that Class B Holder (determined pursuant to this subsection 3(b)), (E) any other Class B Holder, and/or (F) a Permitted Transferee of any other Class B Holder (determined pursuant to this subsection 3(b)). If 50% or more of the capital interests or 50% or more of the voting interests in a limited liability company described in the preceding sentence are acquired in the aggregate by one or more persons who are not included in one or more of the classes of permitted owners described in the preceding sentence, then all shares of Class B Common Stock then held by that limited liability company shall be deemed

without further act on any person's part to be converted into shares of Class A Common Stock in accordance with the provisions of subsection 4(b) of this Article III, and any and all stock certificates representing those shares of Class B Common Stock shall thereupon cease to represent shares of Class B Common Stock and shall thereafter be deemed for all purposes to represent an identical number of shares of Class A Common Stock.

(x) Another Class B Holder or another Class B Holder's Permitted Transferee (determined pursuant to this subsection 3(b)).

(xi) In the event of the death of a Class B Holder, that Class B Holder's estate and heirs.

(2) In the case of a Class B Holder which is holding shares of Class B Common Stock as trustee of an IRA, a Plan or a Trust other than a Trust described in subsection 3(b)(3) of this Article III, each of the following shall be a "Permitted Transferee": (a) any participant in or beneficiary of such IRA, such Plan or such Trust,
(b) the person who transferred those shares of Class B Common Stock to such IRA, such Plan or such Trust, and (c) a Permitted Transferee of any person described in clause (a) or (b) of this subsection 3(b)(2).

(3) In the case of a Class B Holder which is holding shares of Class B Common Stock as trustee pursuant to a Trust which is irrevocable on the "Issue Date" (as defined in subsection 3(d)(6)), "Permitted Transferee" means any person in existence on the Issue Date to whom or for whose benefit principal may be distributed either during the term of that Trust or at the end of the term of that Trust, whether by power of appointment or otherwise.

(4) In the case of a Class B Holder which is holding record (but not beneficial) ownership of shares of Class B Common Stock as nominee for the person who is the beneficial owner thereof on the "Issue Date", "Permitted Transferee" means that beneficial owner and a Permitted Transferee of that beneficial owner (determined pursuant to this subsection 3(b)).

(5) In the case of a Class B Holder which is a partnership holding record and beneficial ownership of shares of Class B Common Stock, "Permitted Transferee" means any person who is a partner of that partnership at the time that partnership first becomes a Class B Holder, and also means any Permitted Transferee of that partner (determined pursuant to this subsection 3(b)).

(6) In the case of a Class B Holder which is a limited liability company holding record and beneficial ownership of shares of Class B Common Stock, "Permitted Transferee" means any person who is a member of that limited liability company at the time that limited liability company first becomes a Class B

Holder, and also means any Permitted Transferee of that member (determined pursuant to this subsection 3(b)).

(7) In the case of a Class B Holder which is a corporation (other than a Charitable Organization described in subsection 3(b)(1)(iv)) holding record and beneficial ownership of shares of Class B Common Stock (a "Corporate Holder"), "Permitted Transferee" means: (a) any person who is a shareholder of that Corporate Holder at the time the Corporate Holder first becomes a Class B Holder, or any Permitted Transferee of any such shareholder (determined pursuant to this subsection 3(b)); and (b) the survivor (the "Survivor") of a merger or consolidation of that Corporate Holder, but only for so long as that Survivor is controlled, directly or indirectly, by: (i) those shareholders of the Corporate Holder who are shareholders of the Corporate Holder at the time the Corporate Holder first becomes a Class B Holder, and/or (ii) any Permitted Transferees of such shareholders (determined pursuant to this subsection 3(b)).

(8) In the case of a Class B Holder which is the estate of a deceased Class B Holder which held record and beneficial ownership of shares of Class B Common Stock at the time of death, and in the case of a Class B Holder which is the estate of a bankrupt or insolvent Class B Holder which held record and beneficial ownership of shares of Class B Common Stock at the time of bankruptcy or insolvency, "Permitted Transferee" means a Permitted Transferee of that deceased, bankrupt or insolvent Class B Holder (determined pursuant to this subsection 3(b)).

(9) In the case of any Class B Holder who desires to gift one or more shares of Class B Common Stock to any other Class B Holder or to any Permitted Transferee of any other Class B Holder (determined pursuant to this subsection 3(b)), "Permitted Transferee" means any such other donee Class B Holder or Permitted Transferee.

(10) In the case of any Class B Holder, "Permitted Transferee" means any person which will hold record (but not beneficial) ownership of shares of Class B Common Stock as nominee for that Class B Holder or a Permitted Transferee of that Class B Holder (determined pursuant to this subsection 3(b)).

(11) Only those persons specifically identified as "Permitted Transferees" in the preceding provisions of this subsection 3(b) shall be "Permitted Transferees" for purposes of this Section 3.

(c) Notwithstanding any contrary provision set forth in this Section 3, any Class B Holder may pledge that Holder's shares of Class B Common Stock to a pledgee pursuant to a bona fide pledge of those shares as collateral security for indebtedness due to the pledgee, provided that such shares shall not be transferred to, registered in the name of, or voted by, the pledgee and shall remain subject to the provisions of this Section 3. In the

event foreclosure or other similar action by a pledgee shall cause record or beneficial ownership of pledged Class B Common Stock to be transferred to a person who is not a Permitted Transferee of the pledgor, such pledged shares of Class B Common Stock shall be converted into shares of Class A Common Stock at the moment of transfer of ownership, in accordance with the provisions of subsection 4(b).

(d) For purposes of this Article III:

(1) The relationship between any two persons which is derived by or through legal adoption shall be considered a natural relationship.

(2) Each joint owner of shares of Class B Common Stock and each owner of a community property interest in shares of Class B Common Stock shall be considered a "Class B Holder" of such shares.

(3) A minor for whom shares of Class B Common Stock are held pursuant to a Uniform Transfer to Minors Act or similar law shall be considered to be the Class B Holder of such shares (and the custodian of those shares shall not be considered to be a Class B Holder of those shares).

(4) Unless otherwise specified, the term "person" means and includes natural persons, corporations, partnerships, unincorporated associations, firms, joint ventures, limited liability companies, trusts and all other entities.

(5) The term "transfer" shall mean and include any form of voluntary or involuntary sale, exchange, gift, bequest, devise, assignment, disposition, pledge, hypothecation, encumbrance, appointment, grant of voting power or proxy, or other conveyance of any and every kind, including but not limited to conveyances by operation of law.

(6) With respect to particular shares of Class B Common Stock, the "Issue Date" shall be the date on which those shares of Class B Common Stock are first issued by the corporation.

(e) Any purported transfer of shares of Class B Common Stock to any person who is not a Permitted Transferee shall be void and of no effect, and the purported transferee shall have no rights as a shareholder of the corporation and no other rights against or with respect to the corporation. The corporation may, as a condition to the transfer or the registration of transfer of shares of Class B Common Stock to a purported Permitted Transferee, require the furnishing of such affidavits or other proof as the corporation deems necessary to establish that such transferee is a Permitted Transferee. Each certificate representing shares of Class B Common Stock shall be endorsed with a legend which states that shares of Class B Common Stock are not transferable to any person other than certain restricted transferees and are subject to certain restrictions as set forth in the Restated

Articles of Incorporation filed by the corporation with the Secretary of State of the State of Oregon.

Section 4. Conversion of Class B Common Stock

(a) Each holder of one or more shares of Class B Common Stock shall have the right and option at any time to convert one or more shares of Class B Common Stock into an equivalent number of fully paid and nonassessable shares of Class A Common Stock (i.e. one share of Class B Common Stock for one share of Class A Common Stock). Such right shall be exercised by the surrender to the corporation (at any time during normal business hours at the principal executive offices of the corporation or at the office of the Transfer Agent) of the certificate representing the share(s) of Class B Common Stock to be converted, accompanied by: (1) a written notice stating the election by the holder thereof to convert, and (2) instruments of transfer (if so required by the corporation or the Transfer Agent), in form satisfactory to the corporation and to the Transfer Agent, duly executed by such holder or such holder's duly authorized attorney, and (3) transfer tax stamps or funds therefor (if required pursuant to subsection 4(f)).

(b) Subject to, and without limiting the effect of, subsection 3(e), if there is any transfer or other change in the beneficial ownership (as determined under Rule 13d-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of any share of Class B Common Stock or of any interest in any share of Class B Common Stock, and if the new beneficial owner of that share of Class B Common Stock is not a "Permitted Transferee" (as defined in subsection 3(b) of this Article III) of the person who shall have been the beneficial owner of that share of Class B Common Stock immediately prior to that change in beneficial ownership, then each such share of Class B Common Stock shall thereupon be converted automatically into one (1) fully paid and nonassessable share of Class A Common Stock, and any and all stock certificates representing each such share of Class B Common Stock shall thereupon cease to represent shares of Class B Common Stock and shall thereafter be deemed for all purposes to represent an identical number of shares of Class A Common Stock.

(1) A determination by the Secretary of the corporation that a change in beneficial ownership of one or more shares of Class B Common Stock requires conversion under this subsection 4(b) shall be conclusive. If the Secretary of the corporation determines that a change in beneficial ownership of one or more shares of Class B Common Stock requires conversion under this subsection 4(b), then the Secretary of the corporation shall promptly request that each holder of record of each such share of Class B Common Stock deliver to the corporation for conversion hereunder, and each such holder shall thereupon be required, within ten (10) days following that request, to deliver to the corporation for conversion hereunder, the certificate representing each such share of Class B Common Stock, together with instruments of transfer, in form satisfactory to the corporation and Transfer Agent, duly executed by such holder or such holder's duly authorized attorney, and together

with transfer tax stamps or funds therefor (if required pursuant to subsection 4(f)).

(2) Notwithstanding any other provision of this Article III, the transfer to any person of capital interests, voting interests or other membership interests in a limited liability company which holds record and beneficial ownership of shares of Class B Common Stock shall not cause or be deemed to have caused any change in the beneficial ownership of any share(s) of Class B Common Stock or of any interest(s) in share(s) of Class B Common Stock which are owned by that limited liability company, unless and until such time as 50% or more of the capital interests or 50% or more of the voting interests in that limited liability company are held by one or more persons who would not be "Permitted Transferees" (as determined under subsection 3(b)(6)) of that limited liability company. If at any time the Secretary of the corporation determines that 50% or more of the capital interests or 50% or more of the voting interests in a limited liability company (which holds record and beneficial ownership of shares of Class B Common Stock) are acquired or held by one or more persons who would not be "Permitted Transferees" (as determined under subsection 3(b)(6)) of that limited liability company, then all shares of Class B Common Stock then held by that limited liability company shall be converted automatically into an equivalent number of shares of Class A Common Stock in accordance with the provisions of this subsection 4(b), and any and all stock certificates representing those shares of Class B Common Stock shall thereupon cease to represent shares of Class B Common Stock and shall thereafter be deemed for all purposes to represent an identical number of shares of Class A Common Stock.

(c) If, on the record date for any annual meeting of shareholders, the number of shares of Class B Common Stock then outstanding is less than one percent (1%) of the aggregate number of shares of Class B Common Stock and Class A Common Stock then outstanding, as determined by the Secretary of the corporation, then each share of Class B Common Stock then outstanding shall thereupon automatically be converted into one (1) fully paid and nonassessable share of Class A Common Stock, and each share of Class B Common Stock then authorized but unissued shall thereupon automatically be deemed an authorized but unissued share of Class A Common Stock. Upon making such determination, the Secretary of the corporation shall promptly request that each holder of record of one or more shares of Class B Common Stock deliver to the corporation for conversion hereunder, and each such holder shall thereupon be required, within ten (10) days following that request, to deliver to the corporation for conversion hereunder, the certificates representing all shares of Class B Common Stock held by such holder, together with instruments of transfer in form satisfactory to the corporation and Transfer Agent, duly executed by such holder or such holder's duly authorized attorney, and together with transfer tax stamps or funds therefor (if required pursuant to subsection 4(f)).

(d) As promptly as practicable following the surrender for conversion of a certificate representing shares of Class B Common Stock in the manner provided in subsections (a), (b) or (c) of this Section 4 and the payment in cash of any amount required

by the provisions of subsection 4(f), the corporation will deliver or cause to be delivered at the office of the Transfer Agent, to or upon the written order of the holder of such certificate, a certificate or certificates representing the number of full shares of Class A Common Stock issuable upon such conversion, issued in such name or names as such holder may direct. In the case of a conversion under subsection 4(a), the conversion shall be deemed to have been made immediately prior to the close of business on the date of the surrender of the certificate representing the converted shares of Class B Common Stock. In the case of a conversion under subsection 4(b), the conversion shall be deemed to have been made on the date that the beneficial ownership of such share(s) has changed as set forth in subsection 4(b). In the case of a conversion under subsection 4(c), the conversion shall be deemed to have occurred on the annual meeting record date on which the condition set forth in subsection 4(c) is determined by the Secretary of the corporation to have occurred. Upon the date of any conversion under subsection 4(b), all rights of the holder of the converted share(s) of Class B Common Stock shall cease, and the new beneficial owner(s) of such shares shall be treated for all purposes as having become the record holder(s) of the shares of Class A Common Stock issued in the conversion. Upon the date of any conversion under subsection 4(c), all rights of the holders of shares of Class B Common Stock shall cease, and such holders shall be treated for all purposes as having become the record holders of the shares of Class A Common Stock issued in the conversion.

(e) The corporation covenants that it will at all times reserve and keep available, solely for the purpose of enabling the issuance upon conversion of all outstanding shares of Class B Common Stock, a number of shares of Class A Common Stock which is equal to the number of then-outstanding shares of Class B Common Stock. The preceding sentence shall not preclude the corporation from satisfying its obligations in respect of the conversion of outstanding shares of Class B Common Stock by delivery of purchased shares of Class A Common Stock which are held in the treasury of the corporation. The corporation covenants that if any shares of Class A Common Stock required to be reserved for purposes of conversion hereunder shall require registration with or the approval of any governmental authority under any federal or state law before such shares of Class A Common Stock may be issued upon conversion, then the corporation will cause such shares to be duly registered or approved. Prior to delivery of shares of Class A Common Stock which are required to be delivered in connection with the conversion of shares of Class B Common Stock, the corporation will endeavor to list those shares of Class A Common Stock upon each national securities exchange upon which the outstanding Class A Common Stock is listed at the time of such delivery. The corporation covenants that all shares of Class A Common Stock which are issued upon conversion of shares of fully paid and nonassessable Class B Common Stock shall, upon issue, be fully paid and nonassessable.

(f) The issuance of certificates for shares of Class A Common Stock upon conversion of shares of Class B Common Stock shall be made without charge for any stamp or other similar tax in respect of such issuance. However, if any such certificate is to be issued in a name other than the person in whose name the converted shares of Class B Common Stock are registered immediately prior to conversion, then the person or persons

requesting the issuance thereof shall pay to the corporation the amount of any tax which may be payable in connection with any transfer involved in such issuance, or shall establish to the satisfaction of the corporation that such tax has been paid.

Section 5. Preferred Stock. The Board of Directors of the corporation shall have the authority at any time, without action of the shareholders, to adopt and file articles of amendment which provide for the issuance of shares of preferred stock in one or more series. The Board of Directors may establish, fix and/or alter the designations, powers, preferences, qualifications, limitations, restrictions and/or relative rights applicable to any series of preferred stock, including, without limitation, dividend rights (and whether dividends are cumulative), conversion rights(if any), voting rights (including the number of votes, if any, per share, as well as the number of members, if any, of the Board of Directors or the percentage of members, if any, of the Board of Directors each series of preferred stock may be entitled to elect), rights and terms of redemption (including sinking fund provisions, if any), redemption price and liquidation preferences of any wholly unissued series of preferred stock, and the number of shares constituting any such series and the designation thereof. The Board of Directors also is authorized to increase or decrease the number of shares of any series of preferred stock subsequent to the issuance of shares of such series, but not below the number of shares of such series then outstanding. Notwithstanding the preceding sentences of this Section 5, the Board of Directors shall have no power to alter the rights of any shares of preferred stock then outstanding without the consent of the holders of a majority of the outstanding shares the rights of which are to be altered. Shares of preferred stock which are redeemed, purchased or otherwise acquired by the corporation may be reissued except as otherwise provided by law.

Section 6. Distributions Upon Liquidation. In the event of any dissolution, liquidation or winding up of the affairs of the corporation in accordance with applicable law, whether voluntary or involuntary, and after payment or provision for payment of the debts and other liabilities of the corporation, the holders of each series of preferred stock, if any, shall be entitled to receive, out of the net assets of the corporation, an amount for each share of preferred stock which is equal to the required amount which shall have been fixed and determined by the Board of Directors in the resolution or resolutions creating such shares and series, plus an amount equal to all dividends accrued and unpaid on shares of such series to the date fixed for distribution, and no more, before any of the assets of the corporation shall be distributed or paid over to the holders of Class A or Class B Common Stock. After payment in full of such amounts to the holders of preferred stock of all series, the remaining assets and funds of the corporation shall be divided among and paid to the holders of shares of Class A Common Stock and Class B Common Stock, with each share of Class A and Class B Common Stock being treated equally for such purposes. If, upon such dissolution, liquidation or winding up, the assets of the corporation distributable as aforesaid among the holders of preferred stock of all series shall be insufficient to permit full payment of the required preferential amounts to those holders, then the corporation"s assets shall be distributed ratably among the holders of shares of preferred stock in proportion to the respective total amounts which the holders are entitled to receive as provided in this

Section 6.

ARTICLE IV: Management of Corporation

The following provisions are inserted for the management of the business and for the conduct of the affairs of the corporation, and for further definition, limitation and regulation of the powers of the corporation and of its directors and shareholders:

Section 1. Election of Directors. Except to the extent that these Restated Articles of Incorporation grant to the holders of any series of preferred stock the right (voting separately by class or series) to elect additional directors under specified circumstances, the number of directors of the corporation shall be as fixed from time to time by or pursuant to the Bylaws of the corporation. Each director shall serve until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal. The election of directors need not be by written ballot unless required by the Bylaws of the corporation.

Section 2. Removal of Directors. Except to the extent that these Restated Articles of Incorporation grant to the holders of any series of preferred stock the right (voting separately by class or series) to elect directors under specified circumstances, any director or directors may be removed from office at any time, with or without cause, by the affirmative vote of not less than a majority of the total number of votes represented by the then outstanding shares of capital stock of the corporation entitled to vote generally in the election of directors, voting together as a single class. Unless previously filled by the vote of at least a majority of the total number of votes represented by the then outstanding shares of capital stock of the corporation entitled to vote generally in the election of directors (voting together as a single class), any vacancy in the Board of Directors resulting from any such removal may be filled by vote of a majority of the directors then in office, even if less than a quorum, and any directors so chosen shall hold office until the next annual shareholders meeting and until their successors shall have been elected and qualified or until their earlier death, resignation or removal.

Section 3. Right of Preferred Stock to Vote for Directors. Notwithstanding the foregoing paragraphs of this Article IV, if at any time the Board of Directors of the corporation shall have adopted and filed articles of amendment which give to the holders of any series of preferred stock issued by the corporation the right (voting separately by class or series) to elect directors at an annual or special meeting of shareholders, then the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of those articles of amendment applicable thereto (as those articles may be amended from time to time).

Section 4. Calling of Meetings. Special meetings of shareholders of the corporation for any purpose may be called at any time by: (i) a majority of the Board of Directors, or (ii) the President of the corporation, or (iii) one or more shareholders who, in the

aggregate, own shares representing ten percent (10%) or more of the total votes of all shares then outstanding. No other person or persons shall have authority to call a special meeting of the shareholders of the corporation.

ARTICLE V: No Preemptive Rights

No holder of shares of any class shall have any preemptive or preferential right to subscribe to or otherwise acquire any shares of stock of the corporation, or any obligations or securities convertible into or carrying options or warrants to purchase shares of stock of the corporation, whether now or hereafter authorized and whether unissued or held by the corporation as treasury stock (whether or not the issuance or sale of any such shares, obligations or securities would adversely affect such shareholder's proportionate voting power), other than any rights which the Board of Directors in its discretion may from time to time grant.

ARTICLE VI: Elections or Actions by Written Consent

Any election of directors or other action by the shareholders of the corporation may be effected at an annual or special meeting of shareholders or by written consent of the shareholders given in lieu of such a meeting. The record date with respect to the determination of shareholders entitled to consent in writing to any action shall be the first date on which a signed written consent setting forth the action to be taken or proposed to be taken is delivered to the corporation by delivery to its registered office in Oregon, to its principal place of business, or to an officer or agent of the corporation having custody of the book in which proceedings of meetings of shareholders are recorded. Any action by written consent shall be deemed effective as of the day on which written consents, signed by all shareholders, are delivered to the corporation by delivery to its registered office in Oregon, to its principal place of business, or to an officer or agent of the corporation having custody of the book in which proceedings of meetings of shareholders are recorded. Any delivery which is made to the corporation's registered office under this Article VI shall be by hand or by certified or registered mail, return receipt requested.

ARTICLE VII: Limitation on Liability of Directors

No director of the Corporation is personally liable to the Corporation or its shareholders for monetary damages for conduct as a director, except for the following:

(a) Any breach of the director's duty of loyalty to the Corporation or its shareholders;

(b) Acts or omissions not in good faith or which involve intentional misconduct or

a knowing violation of law;

(c) Any distribution to shareholders that is unlawful under the Oregon Business Corporation Act or successor statute; or

(d) Any transaction from which the director derived an improper personal benefit.

This Article VII does not limit or eliminate the liability of a director for any act or omission occurring before the effective date of this Article VII. No amendment to or repeal of this Article VII may make any director of the Corporation personally liable to the Corporation or its shareholders for monetary damages for any act or omission as a director occurring before the effective date of that amendment or repeal. This Article VII is intended to limit the liability of any director of the Corporation to the greatest extent authorized under the Oregon Business Corporation Act. Any further limitation on the liability of directors authorized under any amendment to the Oregon Business Corporation Act is incorporated into this Article VII on the effective date of that amendment.

ARTICLE VIII: Indemnification

Section 1. Non-Derivative Actions. Subject to the provisions of Sections 3, 5 and 6 of this Article VIII, the Corporation shall indemnify any person who was or is a party to or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative, (including all appeals) (other than an action by or in the right of the Corporation) by reason of or arising from the fact that the person is or was a director or officer of the Corporation or one of its subsidiaries, or is or was serving at the request of the Corporation as a director, officer, partner, or trustee of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against reasonable expenses (including attorney's fees), judgments, fines, penalties, excise taxes assessed with respect to any employee benefit plan and amounts paid in settlement actually and reasonably incurred by the person to be indemnified in connection with such action, suit or proceeding if the person acted in good faith, did not engage in intentional misconduct, and, with respect to any criminal action or proceeding, did not know the conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith or, with respect to any criminal action or proceeding, that the person knew that the conduct was unlawful.

Section 2. Derivative Actions. Subject to the provisions of Sections 3, 5 and 6 of this Article VIII, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit (including all appeals) by or in the right of the Corporation to procure a judgment in its favor by reason of or arising from the fact that the person is or was a director or officer of the

Corporation or one of its subsidiaries, or is or was serving at the request of the Corporation as a director, officer, partner, or trustee of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against reasonable expenses (including attorneys' fees) actually incurred by the person to be indemnified in connection with the defense or settlement of such action or suit if the person acted in good faith, provided, however, that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for deliberate misconduct in the performance of that person's duty to the Corporation, for any transaction in which the person received an improper personal benefit, for any breach of the duty of loyalty to the Corporation, or for any distribution to shareholders which is unlawful under the Oregon Business Corporation Act, or successor statute, unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

Section 3. Determination of Right to Indemnification in Certain Cases. Subject to the provisions of Sections 5 and 6 of this Article VIII, indemnification under Sections 1 and 2 of this Article VIII shall not be made by the Corporation unless it is expressly determined that indemnification of the person who is or was an officer or director, or is or was serving at the request of the Corporation as a director, officer, partner, or trustee of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, is proper in the circumstances because the person has met the applicable standard of conduct set forth in Sections 1 or 2 of this Article VIII. That determination may be made by any of the following:

(a) By the Board of Directors by majority vote of a quorum consisting of directors who are not or were not parties to the action, suit or proceeding;

(b) If a quorum cannot be obtained under paragraph (a) of this subsection, by majority vote of a committee duly designated by the Board of Directors consisting solely of two or more directors not at the time parties to the action, suit or proceeding (directors who are parties to the action, suit or proceeding may participate in designation of the committee);

(c) By special legal counsel selected by the Board of Directors or its committee in the manner prescribed in (a) or (b) or, if a quorum of the Board of Directors cannot be obtained under (a) and a committee cannot be designated under (b) the special legal counsel shall be selected by majority vote of the full Board of Directors, including directors who are parties to the action, suit or proceeding;

(d) If referred to them by Board of Directors of the Corporation by majority vote of a quorum (whether or not such quorum consists in whole or in part of directors who are parties to the action, suit or proceeding), by the shareholders; or

(e) By a court of competent jurisdiction.

Section 4. Indemnification of Persons Other than Officers or Directors. Subject to the provisions of Section 6 of this Article VIII, in the event any person not entitled to indemnification under Sections 1 and 2 of this Article VIII was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding of a type referred to in Sections 1 or 2 of this Article VIII by reason of or arising from the fact that such person is or was an employee or agent (including an attorney) of the Corporation or one of its subsidiaries, or is or was serving at the request of the Corporation as an employee or agent (including an attorney) of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, the Board of Directors of the Corporation by a majority vote of a quorum (whether or not such quorum consists in whole or in part of directors who were parties to such action, suit or proceeding) or the stockholders of the Corporation by a majority vote of the outstanding shares upon referral to them by the Board of Directors of the Corporation by a majority vote of a quorum (whether or not such quorum consists in whole or in part of directors who were parties to such action, suit or proceeding) may, but shall not be required to, grant to such person a right of indemnification to the extent described in Sections 1 or 2 of this Article VIII as if the person were acting in a capacity referred to therein, provided that such person meets the applicable standard of conduct set forth in such Sections. Furthermore, the Board of Directors may designate by resolution in advance of any action, suit or proceeding, those employees or agents (including attorneys) who shall have all rights of indemnification granted under Sections 1 and 2 of this Article VIII.

Section 5. Successful Defense. Notwithstanding any other provision of Sections 1, 2, 3 or 4 of this Article VIII, but subject to the provisions of Section 6 of this Article VIII, to the extent a director, officer, or employee is successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 1, 2 or 4 of this Article VIII, or in defense of any claim, issue or matter therein, that person shall be indemnified against expenses (including attorneys fees) actually and reasonably incurred by him in connection therewith.

Section 6. Condition Precedent to Indemnification Under Sections 1, 2, 4 or 5. Any person who desires to receive the benefits otherwise conferred by Sections 1, 2, 4 or 5 of this Article VIII shall promptly notify the Corporation that the person has been named a defendant to an action, suit or proceeding of a type referred to in Sections 1, 2, 4, or 5 of this Article VIII and intends to rely upon the right of indemnification described in Sections 1, 2, 4 or 5 of this Article VIII. The notice shall be in writing and mailed, via registered or certified mail, return receipt requested, to the President of the Corporation at the executive offices of the Corporation or, in the event the notice is from the President, to the registered agent of the Corporation. Failure to give the notice required hereby shall entitle the Board of Directors of the Corporation by a majority vote of a quorum (consisting of directors who, insofar as indemnity of officers or directors is concerned, were not parties to such action, suit or proceeding, but who, insofar as indemnity of employees or agents is concerned, may or may not have been parties) or, if referred to them by the Board of Directors of the Corporation by a majority vote of a quorum (consisting of directors who, insofar as indemnity of officers or directors is concerned, were not parties to such action, suit

or proceeding, but who, insofar as indemnity of employees or agents is concerned, may or may not have been parties), the shareholders of the Corporation by a majority of the votes entitled to be cast by holders of shares of the Corporation's stock which have unlimited voting rights to make a determination that such a failure was prejudicial to the Corporation in the circumstances and that, therefore, the right to indemnification referred to in Sections 1, 2 or 4 of this Article VIII shall be denied in its entirety or reduced in amount.

Section 7. Advances for Expenses. Expenses incurred by a person indemnified hereunder in defending a civil, criminal, administrative or investigative action, suit or proceeding (including all appeals) or threat thereof, may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such person to repay such expenses if it shall ultimately be determined that the person is not entitled to be indemnified by the Corporation and a written affirmation of the person's good faith belief that he or she has met the applicable standard of conduct. The undertaking must be a general personal obligation of the party receiving the advances but need not be secured and may be accepted without reference to financial ability to make repayment.

Section 8. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation or one of its subsidiaries or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against and incurred by that person in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify that person against such liability under the provisions of this Article or under the Oregon Business Corporation Act.

Section 9. Purpose and Exclusivity. The indemnification referred to in the various Sections of this Article VIII shall be deemed to be in addition to and not in lieu of any other rights to which those indemnified may be entitled under any statute, rule of law or equity, agreement, vote of the stockholders or Board of Directors or otherwise. The Corporation is authorized to enter into agreements of indemnification. The purpose of this Article VIII is to augment the provisions of the Oregon Business Corporation Act dealing with indemnification.

Section 10. Severability. If any of the provisions of this Article VIII are found, in any action, suit or proceeding, to be invalid or ineffective, the validity and the effect of the remaining provisions shall not be affected.

ARTICLE IX: Articles and Bylaws

Section 1. Restated Articles of Incorporation. The corporation reserves the right to alter, amend, repeal or rescind any provision contained in these Restated Articles of Incorporation in any manner now or hereafter permitted by law, and all rights conferred on shareholders herein are granted subject to this reservation. The affirmative vote of the holders of not less than a majority of the total number of votes represented by the then outstanding shares of capital stock of the corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend or repeal these Restated Articles of Incorporation, or to adopt any provision inconsistent with the purpose or intent of Articles IV through IX or Section 1 of Article III of these Restated Articles of Incorporation.

Section 2. Bylaws. In furtherance and not in limitation of the powers conferred by the Oregon Business Corporation Act, the Board of Directors shall have the power to make, alter, amend, repeal or rescind the Bylaws of the corporation, subject to the power of the shareholders to alter, amend, repeal or rescind any Bylaw made by the Board of Directors.

DATED effective the _____ day of October, 1996.

ARTICLE IX
Series M Preferred Stock

Ten Thousand Five Hundred (10,500) shares of Preferred Stock are hereby designated Series M-2002 Preferred Stock (the "Series M-2002 Preferred Stock"). An additional Four Thousand Five Hundred (4,500) shares of Preferred Stock are hereby designated Series M-2003 Preferred Stock (the "Series M-2003 Preferred Stock"). Collectively, the Series M-2002 Preferred Stock and the Series M-2003 Preferred Stock may be referred to as the Series M Preferred Stock. The Series M Preferred Stock will have the preferences, limitations, and relative rights as set forth in this Article IX. Except as otherwise provided in subsection 5(b) of this Article IX, the preferences, limitations and relative rights of the shares of Series M-2002 Preferred Stock and the shares of Series M-2003 Preferred Stock shall be the same.

Section 1. Voting. Shares of Series M Preferred Stock will vote on an as-if converted basis together with shares of Common Stock as a single voting group on all matters submitted to a vote of the shareholders of the corporation. For purposes of this Section 1, "as-if converted" means that each holder of Series M Preferred Stock shall be entitled to cast a number of votes equal to the number of shares of Class A Common Stock that would have been issuable upon conversion of such holder"s Series M Preferred Stock if the Company had given notice of conversion thereof on the date of the filing with the Colorado Secretary of State of Articles of Merger relating to the merger of Cherry Creek Dodge, Incorporated, a Colorado corporation, with and into Lithia Acquisition Corp. #99-1, a Colorado corporation (the "Filing Date"). Series M Preferred Stock will also entitle the holders thereof to vote as a separate voting group to the extent set forth in Section 6, below.

Section 2. Dividends. Shares of Series M Preferred Stock shall not have a dividend preference. Shares of Series M Preferred Stock shall, however, participate in any dividend that may, from time to time, be declared by the Board of Directors of the corporation with respect to the corporation"s Common Stock on an as-if converted basis. For purposes of this Section 2, "as-if converted" means that each holder of Series M Preferred Stock shall be entitled to receive the dividend that would be payable on, the number of shares of Class A Common Stock that would have been issuable upon conversion of such holder"s Series M Preferred Stock if the Company had given notice of conversion thereof on the record date for the dividend being paid.

Section 3. Distributions Upon Liquidation

(a) Liquidation Preference. Upon any dissolution, liquidation, or winding up of the corporation, whether voluntary or involuntary (a "Liquidation"), the holders of Series M Preferred Stock will be entitled to receive out of the assets of the corporation available for distribution to shareholders, before any payment or distribution may be made with respect to shares of Common Stock, an amount per share equal to $1,000.00 (such amount to be adjusted proportionately in the event the shares of Series M Preferred Stock are subdivided into a greater number or combined into lesser number). The relative priority of the Series M Preferred Stock"s liquidation rights in comparison to the liquidation rights of any other series of Preferred Stock which may be issued by the corporation will be as determined in the designation of rights and preferences of such other series.

(b) Allocation of Liquidation Preference. If upon any Liquidation, the assets available to be distributed to the holders of Series M Preferred Stock are insufficient to permit the payment to such holders of the full liquidation preference (including any accrued and unpaid dividends) to which they are entitled pursuant to subsection 3(a), then all of the assets of the corporation available for distribution will be distributed ratably to the holders of shares of Series M Preferred Stock in accordance with the amount payable with respect to each share.

Section 4. Redemption

(a) Redemption at Option of the Corporation. The corporation may redeem all or any part of the shares of Series M Preferred Stock. Any such redemption at the option of the corporation may occur at any time after that date which is two years from the date of the original issuance of the shares to be redeemed and from time to time thereafter and must occur in the manner prescribed in subsection 4(b) below. In the event of a partial redemption of the outstanding Series M Preferred Stock, the corporation shall call for redemption an equal portion of the shares of Series M Preferred Stock owned by each holder, subject to rounding.

(b) Notice of Call for Redemption by the Corporation. Before making any redemption pursuant to subsection 4(a), the corporation will deliver a written notice (a "Redemption Notice") to each record holder of any shares of Series M Preferred Stock. Any Redemption Notice will be sent by certified or registered mail, return receipt requested, or by overnight delivery service, to the address shown for such holder on the corporation's records. Any Redemption Notice will include: (i) the number of shares of Series M Preferred Stock held of record by such holder which the corporation proposes to redeem; (ii) the redemption price as determined in accordance with subsection 4(c) (the "Redemption Price") to be paid for each share repurchased; (iii) the date (the "Redemption Date") on which the corporation proposes to pay the Redemption Price for the shares to be redeemed; and (iv) the person and place to which the holder is to send the certificates representing the shares of Series M Preferred Stock being redeemed. Any Redemption Notice will be sent at least twenty (20) calendar days before the Redemption Date.

(c) Redemption Price. The Redemption Price of shares of Series M Preferred Stock will be $1,000.00 per share (such amount to be adjusted proportionately in the event the shares of Series M Preferred Stock are subdivided into a greater number or combined into a lesser number). The redemption price shall be payable by wire transfer to such bank account as the holder may designate in writing at the time the certificate is surrendered; provided, however, that if the holder fails to provide wire instructions or the amount payable to the holder is less than $10,000, the corporation may pay the Redemption Price by check delivered to the holder in person or by mail at the most recent address reflected on the corporation"s records. The Redemption Price for each share of Series M Preferred Stock shall be paid on the Redemption Date or the date that the certificate representing such share is received by the Company at the place designated in the Redemption Notice, which ever is later. If less than all of the shares represented by a certificate are redeemed, the corporation shall promptly send to the holders a new certificate representing the unredeemed shares.

Section 5. Conversion. The shares of Series M Preferred Stock will have the following conversion rights:

(a) Conversion at the Option of the Corporation. Each share of Series M Preferred Stock is convertible, at the option of the corporation, into fully paid and nonassessable shares of the corporation"s Class A Common Stock, at the Conversion Ratio (as defined below) in effect at the time of conversion determined as provided in subsection 5(e).

(b) Procedures for Conversion at the Option of the Corporation. In order to effect any conversion pursuant to subsection 5(a), the corporation will deliver a written notice (a "Conversion Notice") to each record holder of any shares of Series M Preferred Stock. Any Conversion Notice will be sent by certified or registered mail, return receipt requested, or by overnight delivery service, to the address shown for such holder on the corporation's records. Any Conversion Notice will include: (i) the number of shares of Series M Preferred Stock held of record by such holder which the corporation proposes to convert;
(ii) an explanation of the calculation of the Conversion Ratio; (iii) the number of shares of Class A Common Stock that such holder will receive as a result of the conversion; (iv) the proposed effective date (the "Conversion Date") on which the conversion shall be effective (which shall not be more than five business days after the date of the Conversion Notice); and (v) the person and place to which the holder is to send the certificates representing the shares of Series M Preferred Stock being converted.

(c) Conversion at the Option of the Holder. Any holder of shares of Series M-2002 Preferred Stock may, on or after the earlier of (a) the occurrence of a Change of Control of the corporation (as such phrase is hereinafter defined) or (b) the third anniversary of the Filing Date, tender for conversion all or any part of the shares of Series M-2002 Preferred Stock held by such holder. Any holder of shares of Series M-2003 Preferred Stock may, on or after the earlier of (a) the occurrence of a Change of Control of the corporation (as such phrase is hereinafter defined) or (b) the fourth anniversary of the Filing Date, tender for conversion all or any part of the shares of Series M-2003 Preferred Stock held by such holder. For purposes of this subsection 5(c) a "Change of Control" of the corporation shall be deemed to have occurred only if Lithia Holding Company, L.L.C. ceases to be the beneficial owner of shares of the corporation"s common stock which, in aggregate, represent at least 51% of the total votes of all outstanding shares of the corporation"s common stock.

(d) Procedures for Conversion at the Option of the Holder. Any conversion of Series M Preferred Stock at the option of the holder of those shares shall be subject to the following terms and conditions:

1. Any holder of shares of Series M Preferred Stock who wishes to tender some or all of such shares for conversion must give written notice to the corporation at its principal office that the holder elects to convert such shares, including a statement of the number of shares of Series M Preferred Stock to be converted (the "Tendered Shares"), which shall be accompanied by the certificate or certificates representing the Tendered Shares (the "Conversion Election").

2. Within two business days of the receipt of a Conversion Election, the corporation will determine whether or not the approval of the corporation"s shareholders is required under any applicable law or the listing requirements of any exchange on which any of the corporation"s securities are then trading prior to the corporation issuing shares of Class A Common Stock upon the conversion of the Tendered Shares. This determination by the corporation shall be final as between the corporation and the holders of the Tendered Shares.

3. If the corporation determines that shareholder approval is not necessary prior to the

issuance of shares of Class A Common Stock upon the conversion of the Tendered Shares or such shareholder approval has already been obtained, the corporation shall send the holders of the Tendered Shares a Conversion Notice containing the information required in a Conversion Notice given by the corporation pursuant to subsection 5(a) except that the Conversion Date specified in such Conversion Notice shall be a date no later than seven business days after the date on which the corporation received the Conversion Election and the corporation shall be responsible for forwarding on the certificate or certificates representing the Tendered Shares to the appropriate person and place. On such Conversion Date, the Tendered Shares shall be converted into fully paid and nonassessable shares of the corporation"s Class A Common Stock, at the Conversion Ratio (as defined below) determined as provided in subsection 5(e).

4. If the corporation determines that shareholder approval is necessary prior to the issuance of shares of Class A Common Stock upon the conversion of the Tendered Shares and such shareholder approval has not already been obtained at the time of receipt of Conversion Election or is not obtained within such time after receipt of the Conversion Election as the holders of the Tendered Shares may, in their sole discretion, allow the corporation, the corporation shall redeem the Tendered Shares in accordance with Section 4 except that the Redemption Notice shall only state the corporation"s intent to redeem the Tendered Shares and specify the Redemption Date and the Redemption Date specified in such Redemption Notice shall be a date no later than seven business days after the date on which the corporation received the Conversion Election.

(e) Conversion Ratio. Each share of Series M Preferred Stock shall be convertible into the number of shares of Class A Common Stock that results from dividing (1) $1,000.00 (such amount to be adjusted proportionately in the event the shares of Series M Preferred Stock are subdivided into a greater number or combined into lesser number) by (2) the "fair market value" of the corporation"s Class A Common Stock on the date the Conversion Notice or the Conversion Election, as the case may be, is given (the "Conversion Ratio"). For purposes of the foregoing, the "fair market value" of the corporation"s Class A Common Stock on any date means the average Daily Sales Price over the 15 consecutive trading days ending with the second trading day preceding such date. Daily Sales Price means, for any trading day, (1) the last sales price of the Class A Common Stock reported by the New York Stock Exchange or other principal securities exchange on which shares of Class A Common Stock are then listed or admitted to trading or (2) if not on an exchange, the last sales price quoted by the National Association of Securities Dealers Automated Quotation System ("Nasdaq"), (3) if not traded on an exchange or quoted on Nasdaq, the average of the closing bid and asked prices for the Class A Common Stock as quoted by the National Quotation Bureau"s "Pink Sheets" or the National Association of Securities Dealers" OTC Bulletin Board System or (4) if none of the above are available, the value of the Class A Common Stock as established in good faith by the corporation"s board of directors. No fractional shares shall be issued upon any conversion of shares of Series M Preferred Stock. Instead, the number of shares of Class A Common Stock to be issued shall be rounded down to the nearest whole number and the holder shall receive a cash payment equal to the fair market value (as determined above) of the fractional share which the holder would otherwise have been entitled to receive.

(f) Conversion Procedures. As of the Conversion Date each holder of shares of Series M Preferred Stock whose shares are being converted will for all purposes be considered to be a holder of the shares of Class A Common Stock into which such shares are being converted and not as a holder of shares of Series M Preferred Stock specified in either the Conversion Notice or in such holder"s Conversion Election. However, before any holder of Series M Preferred Stock will be entitled to receive a certificate representing the shares of Class A Common Stock into which the holder"s shares of Series M Preferred Stock were converted or to receive any distribution with respect to such shares of Class A Common Stock, such holder must surrender the certificate or certificates representing the shares of Series M Preferred

Stock which were converted at the office of the corporation or at the office of any transfer agent appointed to serve as such for the corporation"s Class A Common Stock. Upon either the Conversion Date or, if later, the delivery by the holder of the certificates representing the shares of Series M Preferred Stock which were converted, the corporation will cause to be delivered a certificate issued in the name of such holder representing the shares of Class A Common Stock into which such shares of Series M Preferred Stock were converted and, if less than all of the shares of Series M Preferred Stock represented by the certificates so delivered were converted, a new certificate representing the unconverted shares of Series M Preferred Stock. If there exists any legend restricting transfer of the surrendered Series M Preferred Stock shares, such legend will be placed on the Class A Common Stock shares issued upon the conversion of such shares of Series M Preferred Stock.

Section 6. Protective Provisions. Without either the approval of a majority of the outstanding shares of Series M Preferred Stock at a meeting of the shareholders with such holders being entitled to vote as a separate voting group or a written consent signed by the holders of all of the outstanding shares of Series M Preferred Stock, the corporation will not amend its Articles of Incorporation in a manner that would either (a) increase the number of shares of Preferred Stock designated as Series M-2002 Preferred Stock or the number of shares of Preferred Stock designated as Series M-2003 Preferred Stock; or (b) change or alter in any manner the preferences, limitations, or relative rights of the Series M Preferred Stock.

Section 7. Status of Acquired or Unissued Shares. All shares of Series M Preferred Stock that are acquired at any time by the corporation by reason of redemption, conversion, or otherwise will automatically become undesignated shares of Preferred Stock. All shares designated as Series M Preferred Stock that remain unissued on December 31, 2000 will automatically become undesignated shares of Preferred Stock on such date.

Exhibit 10.15.1

Chrysler Corporation

CHRYSLER
SALES AND SERVICE AGREEMENT

Lithia Chrysler Plymouth Jeep Eagle, Inc. dba Lithia Chrysler Plymouth Jeep, located at 315 East 5th Street, Medford, OR, a Corporation, hereinafter called DEALER, and Chrysler Corporation, a Delaware corporation, hereinafter sometimes referred to as "CC", have entered into this Chrysler Corporation Chrysler Sales and Service Agreement, hereinafter referred to as "Agreement", the terms of which are as follows:

INTRODUCTION

The purpose of the relationship established by this Agreement to provide a means for the sale and service of specified Chrysler vehicles and the sale of CC vehicle parts and accessories in a manner that will maximize customer satisfaction and be of benefit to DEALER and CC.

While the following provisions, each of which is material, set forth the undertakings of this relationship, the success of those undertakings rests on a recognition of the mutuality of interests of DEALER and CC, and a spirit or understanding and cooperation by both parties in the day to day performance of their respective functions. As a result of such considerations, CC has entered into this Agreement in reliance upon and has placed its trust in the personal abilities, expertise, knowledge and integrity of DEALER's principal owners and management personnel, which CC anticipates will enable DEALER to perform the personal services contemplated by this Agreement.

It is the mutual goal of this relationship to promote The sale and service of specified CC products by maintaining and advancing their excellence and reputation by earning, holding and furthering the public regard for CC and all CC dealers.

1 PRODUCTS COVERED

DEALER has the right to order and purchase from CC and to sell at retail only those specific models of CC vehicles, sometimes referred to as "specified CC vehicles," listed on the Motor Vehicle Addendum, attached hereto and incorporated herein by reference. CC may change the models of CC vehicles listed on the Motor Vehicle Addendum by furnishing DEALER a superseding Motor Vehicle Addendum. Such a superseding Motor Vehicle Addendum will not be deemed or construed to be an amendment to this Agreement.

2 DEALER'S MANAGEMENT

CC has entered into this Agreement relying on the active, substantial and continuing personal participation in the management of DEALER's organization by:

NAME POSITION

Sidney B. DeBoer President Scott A. Hillier General Manager

DEALER represents and warrants that at least one of the above named individuals will be physically present at the DEALER's facility (sometimes referred to as "Dealership Facilities") during most of its operating hours and will manage all of DEALER's business relating to the sale and service of CC products. DEALER shall not change the personnel holding the above described position(s) or the nature and extent of his/her/their management participation without the prior written approval of CC

3 DEALER'S CAPITAL STOCK OR PARTNERSHIP INTEREST

If DEALER is a corporation or partnership, DEALER represents and agrees that the persons named below own beneficially the capital stock or partnership interest of DEALER in the percentages indicated below. DEALER warrants there will be no change affecting more than 50% of the ownership interest of DEALER nor will there be any other change in the ownership interest of DEALER which may affect the managerial control of DEALER without CC's prior written approval.

Name	Voting Stock	Non-Voting Stock	Partnership Interest	Active Yes/No
Lithia DM, Inc.	100.00%			No
Total	100.00%			

4 SALES LOCALITY

DEALER shall have the non-exclusive right, subject to the provisions of this Agreement, to purchase from CC those new specified CC vehicles, vehicle parts, accessories and other CC products for resale at the DEALER's facilities and location described in the Dealership Facilities and Location Addendum, attached hereto and incorporated herein by reference. DEALER will actively and effectively sell and promote the retail sale of CC vehicles, vehicle parts and accessories in DEALER'S Sales Locality. As used herein, "Sales Locality" shall mean the area designated in writing to DEALER by CC from time to time as the territory of DEALER's responsibility for the sale of CC vehicles, vehicle parts and accessories, although DEALER is free to sell said products to customers wherever they may be located. Said Sales Locality may be shared with other CC dealers of the same line-make as CC determines to be appropriate.

5 ADDITIONAL TERMS AND PROVISIONS

The additional terms and provisions set forth in the document entitled "Chrysler Corporation Sales and Service Agreement Additional Terms and Provisions" marked "Form 91 (C-P-D)," as may hereafter be amended from time to time, constitute a part of this Agreement with the same force and effect as if set forth at length herein, and the term "this Agreement" includes said additional terms and provisions.

6 FORMER AGREEMENTS, REPRESENTATIONS OR STATEMENTS

This Chrysler Corporation Chrysler Sales and Service Agreement and other documents. (or their

successors as specifically provided for herein) which are specifically incorporated herein b reference constitute the entire agreement between the parties relating to the purchase by DEALER of those new specified CC vehicles, parts and accessories from CC for resale; and it cancels and supersedes all earlier agreements, written or oral, between CC and DEALER relating to the purchase by DEALER of Chrysler vehicles, parts and accessories except for (a) amounts owing by CC to DEALER, such as payments for warranty service performed and incentive programs or (b) amounts owing or which may be determined to be owed, as a result of an audit or investigation. by DEALER to CC due to DEALER's purchase from CC of, vehicles, parts, accessories and other goods or services, or (c) amounts DEALER owes to CC as a result of other extensions of credit by CC to DEALER. No representations or statements, other than those expressly set forth herein or those set forth in the applications for this Agreement submitted to CC by DEALER or DEALER's representatives, are made or relied upon by any party hereto in entering into this Agreement.

7 WAIVER AND MODIFICATION

No waiver, modification or change of any of the terms of this Agreement or change or erasure of any printed part of this Agreement or addition to it (except the Filling in of blank spaces and lines) will be valid or binding on CC unless approved in writing by the President or a Vice President or the National Dealer Placement Manager of Chrysler Corporation.

8 AMENDMENT

DEALER and CC recognize thaT this Agreement does not have an expiration date and will continue in effect unless terminated under the limited circumstances set forth in Paragraph 28. DEALER and CC further recognize that the passage of time, changes in the industry, ways of doing business and other unforeseen circumstances may cause CC to determine that it should amend all Chrysler Corporation Chrysler Sales and Service Agreements. Therefore, CC will have the right to amend this Agreement to the extent that CC deems advisable, provided that CC makes the same amendment in Chrysler Corporation Chrysler Sales and Service Agreements generally. Each such amendment will be issued in a notice sent by certified mail or delivered in person to DEALER and signed by the President or a Vice President or the National Dealer Placement Manager of Chrysler Corporation Thirty-Five (35) days after mailing or delivery. of such notice to DEALER, this Agreement will be deemed amended in the manner and to the extent set forth in the notice.

9 ARBITRATION

Any and all disputes arising out of or in connection with the interpretation, performance or non-performance of this Agreement or any all disputes arising out of or in connection with transactions in any way related to this Agreement, including, but not limited to the validity, scope and enforceability of this arbitration provision, or disputes under rights granted pursuant to the statutes of the state in which DEALER is licensed) shall be finally and completely resolved by arbitration pursuant to the arbitration laws of the United States of America as codified in Title 9 of the United States Code, ss.ss. l-14, under the Rules of Commercial Arbitration of the American Arbitration Association (hereinafter referred to as the "Rules") by a majority vote of a panel of three arbitrators. One arbitrator will be selected by DEALER (DEALER's arbitrator). One arbitrator will be selected by CC (CC's arbitrator). These arbitrators must be selected by the respective parties within ten (10) business days after receipt by either DEALER or

CC of a written notification from the other parry of a decision to arbitrate a dispute pursuant to this Agreement. Should either CC or DEALER fail to select an arbitrator within said ten-day period, the party who so fails to select an arbitrator will have its arbitrator selected by the American Arbitration Association upon the application of the other party. The third arbitrator must be an individual who is familiar with business transactions and be a licensed attorney admitted to the practice of law within the United States of America, or a judge. The third arbitrator will be selected by DEALER's and CC's arbitrators. If said arbitrators cannot agree on a third arbitrator within thirty (30) days from the date of the appointment of the last selected arbitrator, then either DEALER's or CC's arbitrator may apply to the American Arbitration Association to appoint said third arbitrator pursuant to the criteria set forth above. The arbitration panel shall conduct the proceedings pursuant to the then existing Rules.

Notwithstanding the foregoing, to the extent any provision of the Rules conflict with any provision of this Paragraph 9, the provisions of this Paragraph 9 will be controlling.

CC and DEALER agree to facilitate the arbitration by: (a) each party paying to the American Arbitration Association one-half (1/2) of the required deposit before the proceedings commence; (b) making available to one another and to the arbitration panel, for inspection and photocopying all documents, books and records, if determined by the arbitrator to be relevant to the dispute; making available to one another and to the arbitration panel personnel directly or indirectly under their control, for testimony during hearings and prehearing proceedings if determined by the arbitration panel to be relevant to the dispute; (d) conducting arbitration hearings to the greatest extent possible on consecutive business days; and (e) strictly observing the time periods established by the Rules or by the arbitration panel for the submission of evidence and of briefs.

Unless otherwise agreed to by CC and DEALER. a stenographic record of the arbitration shall be made and a transcript thereof shall be ordered for each party. with each party paying one-half (1/2) of the total cost of such recording and transcription. The stenographer shall be state-certified, if certification is made by the state, and the party to whom it is most convenient shall be responsible for securing and notifying such stenographer of the time and place of the arbitration hearing(s).

If the arbitration provision is invoked when the dispute between the parties is either the legality of terminating this Agreement or of adding a new CC dealer of the same line-make or relocating an existing CC dealer of the same line-make, CC will star' the implementation of the decision to terminate this Agreement or add such new CC dealer or approve the relocation of an existing CC dealer of the same line-make until the decision of the arbitrator has been announced, providing DEALER does not in any way attempt no avoid the obligations of this Paragraph 9, in which case the decision at issue will be immediately implemented.

Except as limited hereby, the arbitration panel shall have all powers of law and equity, which it can lawfully assume, necessary to resolve the issues in dispute including, without limiting the generality of the foregoing, making awards of compensatory damages, issuing both prohibitory and mandatory orders in the nature of injunctions and compelling the production of documents and witnesses for pre-arbitration discovery and/or presentation at the arbitration hearing on the merits of the case. The arbitration panel shall not have legal or equitable authority to issue a mandatory or prohibitory order which: (a) extends or has effect beyond the subject manner of this Agreement, or (b) will govern the activities of either party for a period of more than two years; nor shall the arbitration panel have

authority to award punitive, consequential or any' damages whatsoever beyond or in addition to the compensatory damages allowed to be awarded under this Agreement.

The decision of the arbitration panel shall be in written form and shall include Findings of fact and conclusions of law.

It is the intent and desire of DEALER and CC to hereby and forever renounce and reject any and all recourse to litigation before any judicial or administrative forum and to accept the award of the arbitration panel as final and binding, subject to no judicial or administrative review, except on those grounds set forth in 9 USC ss.10 and ss.11. Judgment on the award and/or orders may be entered in any court having jurisdiction over the parties or their assets. In the final award and/or order, the arbitration panel shall divide all costs (other than attorney fees, which shall be borne by the party incurring such fees and other costs specifically provided for herein) incurred in conducting the arbitration in accordance with what the arbitration panel deems just and equitable under the circumstances. The fees of DEALER's arbitrator shall be paid by DEALER. The fees of CC's arbitrator shall be paid by CC.

10 SIGNATURE

This Agreement becomes valid only when signed by the President or a Vice President or the National Dealer Placement Manager of Chrysler Corporation and by a duly authorized officer or executive of DEALER if a corporation; or by one of the general partners of DEALER if a partnership. or by DEALER if an individual.

IN WITNESS WHEREOF, the parties hereto have signed this Agreement which is finally executed at Auburn Hills, Michigan, in triplicate, on September 28, 1999.

Lithia Chrysler Plymouth Jeep Eagle, Inc. dba Lithia Chrysler Plymouth Jeep

By /s/
NAME
President

CHRYSLER CORPORATION

By: /s/
V. W. Gray
National Dealer Placement Manager

DEALER AGREEMENT

1. APPOINTMENT. Volkswagen of America, Inc. ("VWoA"), having a place of business at 3800 Hamlin Road, Auburn Hills, MI 48326, appoints Lithia HPI, Inc. ("Dealer"), doing business under the fictitious name Lithia Volkswagen, having its place of business at 700 North Central, Medford, OR 97501, as an authorized dealer in Volkswagen brand motor vehicles and genuine parts and accessories therefor. Accordingly, the parties agree as follows:

2. STANDARD PROVISIONS. The Dealer Agreement Standard Provisions (the "Standard Provisions") (Form No. 97vwstdp), the Dealer Operating Plan (the "Operating Plan") and the Volkswagen Dealer Operating Standards (the "Operating Standards") are part of this Agreement. Any term not defined in this Agreement has the meaning given such term in the Standard Provisions.

3. OWNERSHIP AND MANAGEMENT. To induce VWoA to enter into this Agreement, Dealer represents that the persons identified in the Statement of Ownership and Management, which is attached as Exhibit A, are Dealer"s Owners and Executives. VWoA is entering into this Agreement in reliance upon these representations, and upon the continued provision by such persons of their personal services in fulfillment of Dealer"s obligations under this Agreement. Accordingly, Dealer agrees there will be no change in Dealer"s Owners without VWoA"s prior written consent, and no change in Dealer"s Executives without prior notice to VWoA.

4. MINIMUM FINANCIAL REQUIREMENTS. Dealer agrees to comply and maintain compliance with the minimum financial requirements established for Dealer annually in accordance with the Operating Plan and the Operating Standards. Throughout the term of this Agreement those minimum financial requirements are subject to revision by VWoA, after review with Dealer, in light of operating conditions and the development of Dealer"s business and business potential.

5. DEALER"S PREMISES. VWoA has approved the location of Dealer"s Premises as specified in the Dealer Premises Addendum, attached as Exhibit B. Dealer agrees that, without VWoA"s prior written consent, it will not (a) make any major structural change in any of Dealer"s Premises, (b) change the location of any of Dealer"s Premises or (c) establish any additional premises for Dealer"s Operations.

6. EXCLUSION OF WARRANTIES. EXCEPT FOR DISTRIBUTOR"S WARRANTIES, AND EXCEPT AS PROVIDED IN ARTICLE 9(1) OF THE STANDARD PROVISIONS, THERE ARE NO EXPRESS OR IMPLIED WARRANTIES OR OBLIGATIONS OF THE MANUFACTURER OR DISTRIBUTOR AS TO THE QUALITY OR CONDITION OF AUTHORIZED PRODUCTS, OR AS TO THEIR MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE, AND, TO THE EXTENT PERMITTED BY LAW, DEALER WILL EXCLUDE ANY AND ALL SUCH WARRANTIES AND OBLIGATIONS IN ITS SALES OF AUTHORIZED PRODUCTS.

7. TERM. The term of this Agreement begins on the date of its delivery to Dealer or on January 1, 1997, whichever is later. This Agreement shall continue in effect until terminated by either party or superseded by a new Dealer Agreement with VWoA, whichever is earlier.

8. GOVERNING LAW. This Agreement will be construed in accordance with the laws of the State of Oregon . Should the performance of any obligation under this Agreement violate any valid law of such jurisdiction, then this Agreement shall be deemed modified to the minimum extent necessary to comply with such law.

9. ADDITIONAL TERMS AND CONDITIONS. The Addenda attached hereto as Exhibits A through C are part of this Agreement, and are incorporated into this Agreement by this reference. Each may be canceled or superseded at any time by mutual agreement of Dealer and VWoA, through the later execution by both parties of a replacement, which then shall be deemed part of this Agreement.

DATED: _____, 19_____.

VOLKSWAGEN OF AMERICA, INC.

BY: _____
Colin Gour
Regional Team Leader

BY: _____
Andrew Stuart
Area Executive

DEALER

BY: _____
Sidney B. DeBoer
President

EXHIBIT A
TO DEALER AGREEMENT DATED
_____, 19____.

STATEMENT OF OWNERSHIP AND MANAGEMENT

1. Dealer firm name:

Lithia HPI, Inc. d/b/a Lithia Volkswagen.

2. Principal place of business:

700 North Central, Medford, OR 97501.

3. Dealer is a
- [ ] proprietorship
- [ ] partnership
- [ ] limited liability company
- [X] corporation, incorporated on 12/23/95 under the laws of the State of Oregon.

4. The following persons are the beneficial and record owners of Dealer:

Name and Address of Each Record and Beneficial Owner of Dealer	If a Corporation, Number and Class of Shares Number	Class	Percentage of Ownership of Record in Dealer
Lithia Motors, Inc. 360 East Jackson Street Medford, OR 97501			100%

[ ] See Exhibit A1 for additional information.

5. The following persons are Dealer"s Officers:

Name and Address	Title
Sidney B. DeBoer 234 Vista Ashland, OR 97520	President/Secr./Treas.
Manfred L. (Dick) Heimann 426 Roundelay Circle Medford, OR 97504	Vice President

6. The following person is the Authorized Representative of Dealer. As such, this person is an agent of Dealer, and VWoA is entitled to rely on this person"s authority to make all decisions on behalf of Dealer with respect to Dealer"s Operations.

Name and Address Title

Jay Blanchard General Manager

Dealer hereby certifies that the foregoing information is true and complete as of the date below. VWoA has entered into this Agreement in reliance upon the qualifications, and the continued provision of personal services in the ownership and management of Dealer by, the persons identified above.

This Exhibit cancels any prior Statement of Ownership and Management.

Dated: _____, 19_____.

VOLKSWAGEN OF AMERICA, INC.

By: _____.
Colin Gour
Regional Team Leader

By: _____
Andrew Stuart
Area Executive

DEALER

By: _____.
Sidney B. DeBoer
President

EXHIBIT B
TO DEALER AGREEMENT DATED
_____, 19____.

DEALER PREMISES ADDENDUM

1. Dealer firm name:

Lithia HPI, Inc. d/b/a Lithia Volkswagen.

2. VWoA has approved the location of the following premises, and no others, for Dealer"s Operations:

a. Sales Facilities:

700 North Central, Medford, OR 97501

b. Authorized Automobile Storage Facilities:

700 North Central, Medford, OR 97501

c. Service Facilities:

700 North Central, Medford, OR 97501

d. Genuine Parts Storage Facilities:

700 North Central, Medford, OR 97501

e. Used Car Lot:

700 North Central, Medford, OR 97501

Dealer hereby certifies that the foregoing information is true and complete as of the date below.

This Exhibit cancels any prior Dealer Premises Addendum.

Dated: _____, 19_____.

VOLKSWAGEN OF AMERICA, INC.

By: _____
Colin Gour
Regional Team Leader

By: _____
Andrew Stuart
Area Executive

DEALER

By: _____
Sidney B. DeBoer
President

EXHIBIT A1

TO DEALER AGREEMENT DATED

_____, 19____.

Name and Address of Each Record and Beneficial Owner of Dealer	If a Corporation, Number and Class of Shares in Dealer	Percentage of Ownership of Record

5. The following persons are Dealer"s Officers:

Name and Address Title

Exhibit 10.18.1

SUPPLEMENTAL AGREEMENT TO
GENERAL MOTORS CORPORATION
DEALER SALES AND SERVICE AGREEMENT

This Supplemental Agreement to General Motors Corporation Dealer Sales and Service Agreement is entered into between Lithia Motors, Inc. and General Motors Corporation.

WHEREAS, Lithia Motors, Inc. is interested in acquiring ownership of one or more GM Dealerships in selected areas of the United States;

WHEREAS, the parties desire to enter into a positive and productive business relationship which will accomplish our mutual goals and promote sales of GM products consistent with GM's brand strategy for its products and focus on total customer enthusiasm;

\VHEREAS, the organization and ownership structure of Lithia Motors, Inc. and its retail operating systems are such that the terms of the Dealer Agreement are not wholly adequate to address the legitimate business needs and concerns of Lithia Motors, Inc. and GM;

NOW, THEREFORE. the parties agree as follows:

1. Purpose of Agreement

1.1 Purpose of Agreement

The parties acknowledge that Lithia Motors, Inc. desires to purchase the stock or assets of one or more current GM Dealerships and to be appointed as the replacement Dealer by the appropriate Divisions. The parties further acknowledge that the ownership arrangements of Lithia Motors, Inc. and the operating processes arid procedures of Lithia Motors, Inc. require that the parties supplement the standard terms and provisions of the Dealer .Agreement to assure that the legitimate business needs of GM in regard to the representation of its products are satisfied The parties have agreed to enter into this Agreement for that purpose. This agreement shall not apply in any respect to Saturn Dealers or dealerships.

1.2 Definitions

For purposes of this Agreement, the following terms shall have the meaning indicated:

1.2.1 "Agreement" means this Supplemental Agreement to General Motors Corporation Dealer Sales and Service Agreement.

1.2.2 "Lithia Motors, Inc." or "Lithia" means Lithia Motors, Inc. and its subsidiary Dealer Companies.

1.2.3 "Dealer Agreement" means a General Motors Corporation Dealer Sales and Service Agreement, a copy of which is attached hereto as Exhibit A and is incorporated herein by reference. It also includes any superseding Dealer Agreements.

1.2.4 "Dealer Company" or "Dealer" means the business entity owned or controlled by Lithia Motors, Inc. that is a parry to a Dealer Agreement and is defined as the "Dealer" for purposes of the Dealer Agreement.

1.2.5 "Division" or "Divisions" means one or more of the marketing divisions of GM; Chevrolet, Pontiac-GMC, Oldsmobile, Buick, Cadillac.

1.2.6 "GM" means General Motors Corporation.

1.2.7 "GM Dealerships" means a specific, physical location from which Dealership Operations are conducted by a Dealer pursuant to the terms of one or more Dealer Agreements. It does not include Saturn Dealerships.

1.2.8 "Voting stock" means any stock of Lithia Motors, Inc. that has voting rights as well as any debt or equity security of Lithia Motors, Inc. that is convertible into stock of Lithia Motors, Inc. that has voting rights.

2. Lithia Motors, Inc. Ownership

2.1 Ownership Structure

Each Dealer will be a separate company, distinct from Lithia Motors, Inc. in the form of either a corporation. partnership or other business enterprise form acceptable to GM, which is capitalized in accordance with the "GM Owned Working Capital Agreement". Each of the Dealer Companies will be owned by Lithia Motors, Inc. or may have minority interests held by employees of that Dealer Company subject to GM approval.

2.2 Lithia Motors, Inc. hereby warrants that the representations and assurances contained in this Agreement are within its authority to make and do not contravene any directive, policy or procedure of Lithia Motors. Inc.

2.3 Change in Ownership. Any material change in ownership of any Dealer company and any material change in Lithia Motors, Inc. or any event described in section 2.4 2(b) shall be considered a change in ownership of the Dealer Company under the terms of the dealer agreements and all applicable terms of the Dealer Agreement as supplemented by this Agreement will apply to any such change.

2.4 Acquisition of Ownership Interest by Third Party. Given the ultimate control Lithia Motors, Inc. will have over the Dealer Companies, and the Divisions' strong interest in assuring that those who own and control their Dealers have interests consistent with those of the Divisions, Lithia Motors, Inc. agrees to the following:

2.4.1 Lithia Motors, Inc. will deliver to GM copies of all Schedules 13D and 13G, and all amendments thereto and termination's thereof, received by Lithia Motors, Inc. within five (5) days of receipt of such Schedules. If Lithia Motors, Inc. is aware of any ownership of its stock that should have been reported to it on Schedule 13D but that is not reported in a timely manner, it will promptly give GM written notice of such ownership, with any relevant information about the owner that Lithia Motors, Inc. possesses.

2.4.2 If Lithia Motors, Inc. through its Board of Directors or through shareholder action proposes or if any person. entity or group sends Lithia Motors, Inc. a schedule 13D, or any amendment thereto, disclosing (a) a binding agreement to acquire or the acquisition of aggregate ownership of more than twenty percent (20%) of the voting stock of Lithia Motors, Inc. and (b) Lithia Motors, Inc. through its Board of Directors or through shareholder action proposes or if any plans or proposals which relate to or would result in the following: (i) the acquisition by any person of more than 20% of the voting stock of Lithia Motors, Inc. other than for the purposes of ordinary passive investment; (ii) an extraordinary corporate transaction, such as a material merger, reorganization or liquidation, involving Lithia Motors, Inc. or a sale or transfer of a material amount of assets of Lithia Motors, Inc. and its subsidiaries; or (iii) any change which together with any changes made to the Board of Directors within the preceding year, would result in a change in control of the then current board of directors of Lithia Motors, Inc.; or (iv) in the case of an entity that produces or controls or is controlled by or is under common control with an entity that either produces motor vehicles or is a motor vehicle franchisor, the acquisition by any person entity or group of more than 20% of the voting stock of Lithia Motors, Inc. and any proposal by any such person, entity or group through the Lithia Motors, Inc. Board of Directors or shareholders action to change the board of directors of Lithia Motors, Inc., then if such actions in GM's business judgment could have a material or adverse effect on its image or reputation in the GM dealerships or be materially incompatible with GM's interests (and upon notice of GM's reasons for such judgment), Lithia Motors, Inc. agree that it will take one of the remedial actions set forth in Section 2.4.3 below within ninety (90) days of receiving such Schedule 13D or such

amendment.

2.4.3 If Lithia Motors, Inc. is obligated under Section 2.4.2 above to take remedial action, it will (a) transfer to GM or its designee, and GM or its designee will acquire the assets, properties or business associated with any Dealer Company at fair market value as determined in accordance with Section 8 below, or (b) provide evidence to the Divisions (reasonably acceptable to GM) that such person entity or group no longer has such threshold level of ownership interest in Lithia Motors, Inc. or that the actions described in Section 2.4.2(b) will not occur.

2.4.4 Should Lithia Motors, Inc. or Dealer Company enter into an agreement to transfer the assets of a Dealer Company to a third party, the right of first refusal described in Article 12.3 of the Dealer Agreement shall apply to any such transfer.

2.4.5 Lithia Motors, Inc. will describe such provisions of this
Section in any prospectus it delivers in connection with the offer or sale of its stock or any other securities filing as may be required by any applicable laws or regulations.

2.5 Officers and Key Management. Lithia Motors, Inc. agrees to provide to GM a list of the key management of Lithia Motors, Inc. responsibilities in regard to the control and management of Lithia Motors, Inc. and each Dealer Company. Each Dealer Company shall agree to propose to GM any material changes in the key management of the Dealer Company or their responsibilities. Such proposal should be provided to GM in writing prior to such change to the extent practicable and shall include sufficient information to permit GM to evaluate the proposed change consistent with normal policies and procedures Lithia Motors, Inc. will notify GM in writing of any material change in the key management of Lithia Motors, Inc. or their responsibilities. For purposes of this Agreement, the term "key management" shall mean CEO, President and Vice Presidents with respect to each dealer company and executive officers with respect to Lithia Motors, Inc.

3. Lithia Motors, Inc. Operating Policies and Procedures

3.1 GM Brand Strategy. Lithia Motors, Inc. acknowledges that GM has a Brand Strategy and has invested significant capital in the development of corporate, divisional and brand image. Relevant information regarding this strategy has been shared with Lithia Motors, Inc. . Lithia Motors, Inc. agrees to accommodate GM's Brand Strategy in its Lithia Motors, Inc. GM dealership Operations. Lithia Motors, Inc. will incorporate in each of its GM Dealerships the following as a minimum in support of the GM Brand Strategy:

3.1.1 GM has developed retail and service operating standards for each of its Divisions. At each of its GM Dealerships. Lithia Motors, Inc. will implement and use those divisional standards, or higher standards which it may develop, subject to GM's approval.

3.1.2 Dealer marketing associations for each of the Divisions are an integral part of GM's Brand Strategy. Lithia Motors, Inc. agrees that its advertising and marketing practices will support and enhance GM and Divisional brand and marketing practices and goals. Lithia Motors, Inc. agrees and each Dealer Company shall agree that the Dealer Company will participate in the appropriate dealer marketing association or group as provided in Section 11.

3.1.3 Lithia Motors, Inc. will not, and will not permit any Dealer Company to jointly advertise or market any of their non-GM automotive operations in conjunction with its approved GM Dealership Operations (it being understood that the advertising example attached hereto as Exhibit C will be permissible).

4. Acquisition of GM Dealerships

4.1 In consideration for the representations, covenants and commitments contained herein, and assuming compliance with the normal requirements of General Motors regarding transfer of assets and appointment as a dealer. General Motors will permit the acquisition of up to five (5) General Motors Dealerships during the period commencing from the date of this Agreement and ending 24 months thereafter. Currently Lithia Motors is not in compliance with General Motors standards for the Pontiac dealership in Medford, Oregon for Customer Satisfaction and Sales performance. Lithia represents intent to bring the performance into compliance, but believes it will be able to do so if the location is in compliance with GM's channel plan. Accordingly, General Motors will approve. upon receipt of an acceptable proposal Lithia's acquisition of the Buick/Cadillac dealership or the Oldsmobile/GMC dealership or the sale of Pontiac assets to either of those dealers in Medford in order that the plan of a Pontiac-Buick-GMC dealership and a Chevrolet Oldsmobile/Cadillac dealership may be accomplished. If Lithia does not accomplish this purchase or sale within 12 months of the date of this agreement and the Pontiac Customer Satisfaction and Sales performance does not meet the performance standards identified in sections 4.2 and 4.3 of this agreement, Lithia will voluntarily terminate its Pontiac dealer agreement in exchange for payment provided in section 5.2 of this agreement. In the first 12 months following the date of this agreement, GM will allow Lithia to acquire two additional GM dealers, subject to receipt of acceptable proposals. while working on the purchase/sale/correction of the Medford Pontiac

dealership deficiencies. In the second 12 months, GM will allow, subject to receipt of acceptable proposals the acquisition of two additional GM dealerships if Lithia is meeting the performance standards for its then owned GM dealerships. Total Lithia owned GM dealerships will not exceed 5 at the conclusion of the 24 months following the date of this agreement.

4.2 Following the 24 month period, each Dealer company in which Lithia Motors, Inc. has an investment must be in compliance with the terms of the General Motors Policies for Changes in GM Dealership Ownership Management bulletin of September 19, 1994 (a copy of which has already been provided) including any revisions or replacements of that bulletin, in order to be approved for additional acquisitions of General Motors Dealerships.

4.3 Multiple Dealer Policy. Lithia Motors, Inc. recognizes that customers benefit from competition in the marketplace and agree that any proposal to acquire additional GM dealerships shall be subject to the terms of General Motors Multiple Dealer Investor/Multiple Dealer Operator policies as set forth in NAO Bulletin 94-1l, including any revisions of replacements to the bulletin.

4.4 GM and Lithia Motors, Inc. agree that Lithia Motors, Inc. will not attempt to acquire more than 50% of the GM dealerships by franchise line in a GM defined Multiple Dealer Area. GM will provide upon Lithia Motors, Inc. request the number of GM dealerships, by line, in the Multiple Dealer Area and the maximum number of dealerships Lithia Motors, Inc. may acquire in that Multiple Dealer Area.

4.5 Evaluation of Operations. GM will conduct semi annual evaluation meetings with the management of Lithia Motors, Inc. and the Dealer Operators of each GM Dealer Company to review the performance of each GM Dealer Company. In the event GM advises Lithia Motors, Inc. for any two consecutive evaluation periods that the performance of a GM dealership is not meeting the sales volume. Customer Satisfaction and Branding requirements of GM, in addition to other available remedies. GM will have the right to demand a change in the management of the dealer company not meeting those requirements. Lithia Motors, Inc. will make the management changes at any deficient dealership within not more than six (6) months after notice of the deficiencies.

5. Dealership Operations

5.1 Dealership Operations. Each Dealer Company shall be a distinct and complete business entity which shall include complete Dealership Operations as that term is defined in the Dealer Agreement including, but -not limited to sales, service, parts and used car operations. This requirement will not preclude certain centralized functions provided that they are consistent with GM's Channel

Strategy, and that such centralized functions are reviewed with and approved by GM, which approval shall not be unreasonably withheld. However, no sales, service or parts operations may be combined with any non-GM representation and all GM Dealerships will have reasonable used car operations.

5.2 GM Channel Strategy. Lithia Motors, Inc. further stipulates and agrees that if Lithia Motors, Inc., . GM, and the public are to realize the potential benefits that Lithia Motors, Inc. represents to be the result of the acquisitions proposed by Lithia Motors, Inc., then an integral component of the participation by Lithia Motors, Inc. and Dealer Company is their agreement that all GM Dealerships shall fully comply with General Motors Channel Strategy including proper divisional representation alignment and facilities that are properly located and that are in compliance with appropriate divisional image programs. The Channel Strategy is set forth in a memorandum dated October 5, 1995, from Ronald L Zarrella to all GM dealers, and in the written statement of the strategy as it relates to each Dealer Company, copies of which will be provided to Lithia Motors, Inc. and each Dealer Company. Lithia Motors, Inc. agrees and each Dealer Company shall agree that within 12 months of the acquisition of any GM Dealership that is not consistent with the Channel Strategy, Lithia Motors, Inc. and Dealer Company will have complied with the Channel Strategy for that location. Notwithstanding the above, GM will consider reasonable requests from Lithia Motors, Inc. for an extension if Lithia Motors, Inc. is making reasonable progress and is unable to comply with the Channel Strategy for reasons beyond Lithia Motors, Inc. control. If Lithia Motors, Inc. and Dealer Company fail to do so within the time provided, then Lithia Motors, Inc. will cause Dealer Company and Dealer Company will agree to terminate the representation of such products as reasonably required by GM to comply with the Channel Strategy If such termination is required. GM will compensate Lithia Motors, Inc. the of sum $1,000 for each unit of GM retail planning guide for each Dealer Agreement so terminated.

5.3 Exclusive Representation. Lithia Motors, Inc. agrees and each Dealer Company shall agree that all GM Dealerships shall be used solely for the exclusive representation of GM products and related services and in no event shall be used for the display, sale or promotion or warranty service of any new vehicle other than those of General Motors Corporation (provided that if Lithia Motors, Inc. acquires a GM Dealership having a sales and service agreement with a competitive automobile manufacturer or importer and related sales and service operations at the same facility, at GM's request Lithia Motors, Inc. shall cause the competitive sales and service operations to be relocated within one year of acquisition). Lithia Motors, Inc. agrees and each Dealer Company shall agree that should a Dealer Company cease to provide exclusive representation of GM products, based on the proper franchise alignment as determined by the Channel Strategy, then that shall constitute good cause in and of itself for the termination

of the Dealer Agreement then in effect with such Dealer Company and Lithia Motors, Inc. shall cause Dealer Company to and Dealer Company shall voluntarily terminate the Dealer Agreements then in effect.

5.4 Image Compliance. Any Dealer Company acquired by Lithia Motors, Inc. shall be brought into compliance with applicable Divisional facility image requirements. Any new construction or significant interior or exterior remodeling of any GM Dealerships shall incorporate the appropriate divisional image program and shall be subject to approval by the appropriate Division before such construction is undertaken.

5.5 Corporate Name and Tradenames. Both the corporate name and any tradename or d/b/a of each Dealer Company must include the names of those GM Divisions represented by such Dealer Company.

5.6 Dealer Company Advertising. Lithia Motors, Inc. agrees that the advertising of each of the Dealer companies will maintain and support the GM brand strategy Newspaper, radio, television and any other form of advertising will not combine GM brands or non GM brands, unless GM has approved combined operations and will clearly identify each GM dealership as a separate entity at its approved location (it being understood that the advertising example attached hereto as Exhibit C will be permissible).

6. Dealer Operator

6.1 Appointment of Dealer Operator. For purposes of the Dealer Agreement, including Paragraph Third and Article 2 and for each GM Dealership, Lithia Motors, Inc. shall appoint an individual who shall act as Executive Manager of that GM Dealership only and who shall be considered as Dealer Operator for purposes of the Dealer Agreement. The Divisions will rely upon the personal qualifications and management skills of Dealer Operator. Lithia Motors, Inc. hereby represents that Dealer Operator will have complete managerial authority to make all decisions, and enter into any and all necessary business commitments required in the normal course of conducting Dealership Operations on behalf of Dealer Company and may take all actions normally required of a Dealer Operator pursuant to Paragraph Third and Article 2 of the Dealer Agreement. Lithia Motors, Inc. will not revoke, modify or amend such authority without the prior written approval of the applicable Division (except as provided in Section 6.3 below). Because of the unique structure of Lithia Motors, Inc., the 15% ownership requirement contained in Article 2 shall not apply to Dealer Operator.

6.2 Removal of Dealer Operator. Except as provided in Section 6.3 below, the removal or withdrawal of Dealer Operator without Divisions' prior written consent shall constitute grounds for termination of the Dealer Agreements

However, the Divisions recognize that employment responsibilities of the Dealer Operator with Dealer Company may change, making it impractical for the Dealer Operator to continue to fulfill his/her responsibilities as Dealer Operator. In that case, or in the event Dealer Operator leaves the employ of the Dealer Company, Dealer Company shall have the opportunity to propose a replacement Dealer Operator. The Divisions will not unreasonably withhold approval of any such proposal, provided the proposed replacement has the skills and qualifications to act as Dealer Operator pursuant to the standard policies and procedures of GM.

6.3 Replacement Dealer Operator Dealer Company shall make every effort to obtain the consent of the Divisions to a proposed replacement Dealer Operator prior to the removal or withdrawal of the approved Dealer Operator. If that is not practical, Dealer Company shall notify Division in writing within 10 days following the removal or withdrawal of the approved Dealer Operator. Within 30 days of that removal or withdrawal, Dealer Company will submit to Division a plan and appropriate applications to replace Dealer Operator with a qualified replacement acceptable to Division. The replacement Dealer Operator must assume his/her responsibilities no later than 90 days following the withdrawal of the approved Dealer Operator. Lithia Motors, Inc. shall be permitted to appoint a temporary general manager to manage the GM Dealership during the interim period while the Dealer Operator is being replaced.

7. Dispute Resolution. Lithia Motors, Inc. agrees not to join any legal or administrative action a seller of a General Motors dealership may take against General Motors in the event General Motors declines to approve a proposed transfer to Lithia Motors, Inc. . Lithia Motors, Inc. and GM stipulate and agree and each Dealer Company shall stipulate and agree that the dispute resolution process attached hereto as Exhibit D, or any replacement process offered to all GM Dealers, shall be the exclusive source of resolution of any dispute regarding the Dealer Agreements and this Agreement including, but not limited to, involuntary termination of the Dealer Agreements and/or approval of Lithia Motors, Inc. for additional investment in or ownership of GM Dealerships. The parties further agree that the Chevrolet dealer dispute resolution process will be used for the resolution of the matter. regardless of the GM Division involved.

8. Right to Purchase or Lease. In the event of any termination of the Dealer Agreement or any transaction or event that would, in effect, discontinue Dealership Operations from that GM Dealership, or a transfer of assets, properties or business to GM or a GM designee pursuant to Section 2.4.3, Lithia Motors, Inc. agrees and each Dealer Company shall agree to provide GM with: (a) the right to purchase the dealership assets, properties or business for fair market value based on automotive use, and (b) an assignment of any existing lease or lease options that are available. subject in each case to any legal or contractual obligations existing at such time through the process attached hereto as Exhibit B, that Lithia Motors, Inc. shall assure GM or its delegate of quiet possession of the dealership facilities for a period of not less than five years if the right to have any existing lease or lease option assigned as set forth above is exercised with respect to such

facilities within ten years of the execution of this Agreement. If, however, Lithia Motors, Inc. enters into a financing arrangement with respect to GM's option as described in this Section 8 would be subordinated to the interests of any lender in connection with any default by Lithia Motors, Inc. under the terms of the financing arrangement other than a default due to the discontinuance of dealership operations from such facilities. The Parties agree that GM may exercise its rights under this Section 8 with respect to some or all of the dealership facilities to which it may apply at any given time, and that failure to exercise such rights as to one facility shall not affect GM's rights as to other facilities.

9. Electronic Funds Transfer. Lithia Motors, Inc. agrees that each Dealer Company will use Electronic Funds Transfer (EFT) for settlement of the dealership obligations to GM and that GM will have a right of offset for any unpaid debit balances for any Dealer Company at the time the indebtedness is due and will have the right to collect those amounts from the account of the Dealer Company that owes the debt or the account of any other Dealer Company.

10. Compliance with Policies and Procedures. Each Dealer Company must comply with all terms of the Dealer Agreement and all GM policies applicable to Dealer company's Dealership Operations. Those procedures include policies precluding joint advertising and prohibiting sales of GM auction vehicles from other than the purchasing GM Dealership. Except as specifically provided herein, all Dealership Operations shall be conducted consistent with requirements for other GM dealerships.

11. Membership in Dealer Marketing Group. Each Dealer Company will join its respective dealer marketing group and area marketing group including membership financial support and will participate as a regular member in meetings and marketing activities.

12. Capital Standards. Lithia Motors, Inc. agrees and Dealer Company shall agree that Dealer Company shall maintain, at all times. sufficient working capital to meet or exceed the minimum net working capital standards for the Dealer Company as determined from time to time by GM consistent with its normal practices and procedures Lithia Motors, Inc. and Dealer Company shall provide such documentation as reasonably requested by GM to assure compliance with that requirement. Lithia Motors, Inc. shall submit an annual consolidated balance sheet for the combined GM Dealership operations of Lithia Motors, Inc.

13. Discontinuance of Representation. In the event that Lithia Motors, Inc. determines. voluntarily or otherwise to discontinue representation in any given Multiple Dealer Area, Lithia Motors, Inc. shall grant the right to GM to acquire at fair market value as determined in accordance with Exhibit B the right to representation of the Divisions previously represented by any Dealer Company in that Multiple Dealer Area. GM shall also have the option to acquire the fixed assets and/or the Dealership Facilities in that Multiple Dealer Area in accordance with section 8. The terms and conditions for the exercise of such rights shall be set forth in appropriate and customary documents. Lithia

Motors, Inc. has received GM's standard option agreements modified for this Agreement.

14. Supplement to Dealer Agreement. The parties agree that each Dealer Company shall be required to execute an addendum to the Dealer Agreements binding the Dealer Company to the applicable portions of this Agreement. For each Dealer Company, this Agreement shall supplement the terms of the Dealer Agreements in accordance with Article 17.11 of the Dealer Agreements.

15. Further Modifications. In the event that the policies of GM with regard to Dealerships owned or controlled in whole or in part by' public shareholders should be modified, the parties agree to review such modifications to determine whether modification to this Agreement is appropriate.

16. No Third Party Rights. Nothing in this Agreement or the Dealer Agreement shall be construed to confer any rights upon any person not a party hereto or thereto, nor shall it create in any party an interest as a third party beneficiary of this Agreement or the Dealer Agreement. Lithia Motors, Inc. and Dealer Company hereby agree to indemnify and hold harmless GM, its directors, officers, employees, subsidiaries, agents and representatives from and against all claims, actions, damages, expenses, costs and liability, including attorneys fees, arising from or in connection with any action by a third-party in its capacity as a stockholder of Lithia Motors, Inc. relating to this Agreement other than through a derivative stockholder suit authorized by the Board of Lithia Motors, Inc., provided that Lithia Motors, Inc. shall have the right to assume the defense and control any such actions or suits and that GM shall not settle any such actions or suits without Lithia Motors, Inc. consent (such consent not to be unreasonably withheld). Notwithstanding the above, GM may choose, at its own expense, to manage and control its own defense in any such action.

17. Modification of Dealer Agreement. This Agreement is intended to modify and adapt certain provisions of the Dealer Agreement and is intended to be incorporated as part of the Dealer Agreement for each Dealer Company. In the event that any provisions of this Agreement are in conflict with other provisions of the standard Dealer Agreement, the provisions contained in this Agreement shall govern. Except as expressly provided in this Agreement the terms of the Dealer Agreements remain unchanged and apply herein.

18. Confidentiality. Each party agrees not to disclose the content of this Agreement to non-affiliated entities and to treat the Agreement with the same degree of confidentiality as it treats its own confidential documents of the same nature, except as expressly provided by Article 2.3.5 of this Agreement or unless authorized by the other party, required by law, pertinent to judicial or administrative proceedings or to proceedings under the Dispute Resolution Process.

19. Duration of Agreement. This .Agreement remains in effect so long as Lithia Motors, Inc. or any successor thereto, directly or indirectly holds or has an agreement to hold an

ownership interest in any GM Dealer Company.

IN WITNESS WHEREOF, the parties have executed this Agreement this 16th day of January, 1998.

LITHIA MOTORS, INC.

By: /s/
Sidney B. DeBoer
CEO

GENERAL MOTORS CORPORATION

By: /s/
E.K. Roggenkamp, III
General Manager
North American Operations
Dealer Network Investment and Development

Exhibit 10.20.1

TOYOTA DEALER AGREEMENT

This is an Agreement between Toyota Motor Sales, USA, Inc. (DISTRIBUTOR) and Lithia Motors, Inc., DBA Lithia Toyota, (DEALER) corporation. If a corporation, DEALER is duly incorporated in the State of Oregon and doing business as Lithia Toyota.

PURPOSES AND OBJECTIVES OF THIS AGREEMENT

DISTRIBUTOR sells Toyota Products which are manufactured or approved by Toyota Motor Corporation (FACTORY) and imported and/or sold to DISTRIBUTOR by Toyota Motor Sales, U.S.A., Inc. (IMPORTER). It is of vital importance to DISTRIBUTOR that Toyota Products are sold and serviced in a manner which promotes consumer confidence and satisfaction and leads to increased product acceptance. Accordingly, DISTRIBUTOR has established a network of authorized Toyota dealers, operating at approved locations and pursuant to certain standards, to sell and service Toyota Products. DEALER desires to become one of DISTRIBUTOR's authorized dealers. Based upon the representations and promises of DEALER, set forth herein, DISTRIBUTOR agrees to appoint DEALER as an authorized Toyota dealer and welcomes DEALER to DISTRIBUTOR's -network of authorized dealers of Toyota Products.

This Agreement sets forth the rights and responsibilities of DISTRIBUTOR as seller and DEALER as buyer of Toyota Products. DISTRIBUTOR enters into this Agreement in reliance upon DEALER's integrity, ability, assurance of personal services, expressed intention to deal fairly with the consuming public and with DISTRIBUTOR, and promise to adhere to the terms and conditions herein. Likewise, DEALER enters into this Agreement in reliance upon DISTRIBUTOR's promise to adhere to the terms and conditions herein. DISTRIBUTOR and DEALER shall refrain from conduct which may be detrimental to or adversely reflect upon the reputation of the FACTORY, IMPORTER, DISTRIBUTOR, DEALER or Toyota Products in general. The parties acknowledge that the success of the relationship between DISTRIBUTOR and DEALER depends upon the mutual understanding and cooperation of both DISTRIBUTOR and DEALER.

I. RIGHTS GRANTED TO THE DEALER

Subject to the terms of this Agreement, DISTRIBUTOR hereby grants DEALER the nonexclusive right:

A. To buy and resell the Toyota Products identified in the Toyota Product Addendum hereto which may be periodically revised by IMPORTER;

B To identify itself as an authorized Toyota dealer utilizing approved signage at the location(s) approved herein;

C To use the name Toyota and the Toyota Marks in the advertising, promotion, sale and servicing of Toyota Products in the manner herein provided.

DISTRIBUTOR reserves the unrestricted right to sell Toyota Products and to grant the privilege of using the name Toyota or the Toyota Marks to other dealers or entities, wherever they may be located.

II. RESPONSIBILITIES ACCEPTED BY THE DEALER

DEALER accepts its appointment as an authorized Toyota dealer and agrees to:

A. Sell and promote Toyota Products subject to the terms and conditions of this Agreement;

B Service Toyota Products subject to the terms and conditions of this Agreement;

C. Establish and maintain satisfactory dealership facilities at the locations set forth herein; and

D. Make all payments to DISTRIBUTOR when due.

III. TERM OF AGREEMENT

This Agreement is effective this 15th day of February, 1996 and shall continue for a period of Six (6) Years and shall expire on February 14, 2002, unless ended earlier by mutual agreement or terminated as provided herein. This Agreement may not be continued beyond its expiration date except by written consent of DISTRIBUTOR and IMPORTER.

IV. OWNERSHIP OF DEALERSHIP

This Agreement is a personal service Agreement and has been entered into by DISTRIBUTOR in reliance upon and in consideration of DEALER's representation that only the following named persons are the Owners of DEALER, that such persons will serve in the capacities indicated, and that such persons are committed to achieving the purposes. goals and commitments of this Agreement:

OWNERS' PERCENT OF
NAMES TITLE OWNERSHIP

Sidney B. DeBoer President 62.5% Manfred Heiman Vice President 37.5%

V. MANAGEMENT OF DEALERSHIP

DISTRIBUTOR and DEALER agree that the retention of qualified management is of critical importance to satisfy the commitments made by DEALER in this Agreement. DISTRIBUTOR, therefore, enters into this Agreement in reliance upon DEALER's representation that Sidney B. DeBoer and no other person, will exercise the function of General Manager, be in complete charge of DEALER's operations, and will have to make all decisions on behalf of DEALER with respect to DEALER's operations. DEALER further agrees that the General Manager shall devote his or her full effort to DEALER's operations.

VI. CHANGE IN MANAGEMENT OR OWNERSHIP

This is a personal service contract. DISTRIBUTOR has entered into this Agreement because DEALER has represented to DISTRIBUTOR that the Owners and General Manager of DEALER identified herein possess the personal qualifications, skill and commitment necessary to ensure that DEALER will promote, sell and service Toyota Products in the most effective manner, enhance the Toyota image and increase market acceptance of Toyota Products. Because DISTRIBUTOR has entered into this Agreement in reliance upon these representations and DEALER's assurances of the active involvement of such persons in DEALER operations, any change in ownership no matter what the share or relationship between parties, or any changes in General Manager from the person specified herein, requires the prior written consent of DISTRIBUTOR, which DISTRIBUTOR shall not unreasonably withhold.

DEALER agrees that factors which would make DISTRIBUTOR's withholding of consent reasonable would include, without limitation, the failure of a new Owner or General Manager to meet DISTRIBUTOR'S standards with regard to financial capability, experience and success in the automobile dealership business.

VII. APPROVED DEALER LOCATIONS

In order that DISTRIBUTOR may establish and maintain an effective network of authorized Toyota dealers, DEALER agrees that it shall conduct its Toyota operation only and exclusively in facilities and at locations herein designated and approved by DISTRIBUTOR. DISTRIBUTOR hereby designates and approves the following facilities as the exclusive location(s) for the sale and servicing of Toyota Products and the display of Toyota Marks:

New Vehicle Sales and Showroom	Used Vehicle Display and Sales
360 E. Jackson Street Medford, OR 97501	400 North Central Medford, OR 97501
Sales and General Office	Body and Paint
360 E. Jackson Street Medford, OR 97501	None
Parts	Service
345 Apple Street Medford, OR 97501	345 Apple Street Medford, OR 97501
Other Facilities	
325 East Jackson Medford, OR 97501	

DEALER may not, either directly or indirectly, display Toyota Marks or establish or conduct any dealership operations contemplated by this Agreement. including the display, sale and servicing of Toyota Products, at any location or facility other than those approved herein without the prior written consent of DISTRIBUTOR. DEALER may not modify or change the usage or function of any location or facility approved herein or otherwise utilize such locations or facilities for any functions other than the approved functions without the prior written consent of DISTRIBUTOR.

VIII. PRIMARY MARKET AREA

DISTRIBUTOR will assign DEALER a geographic area called a Primary Marker Area ("PMA"). The PMA is used by DISTRIBUTOR to evaluate DEALER's performance of its obligations, among other things. DEALER agrees that it has no exclusive right to any such PMA. DISTRIBUTOR may add new dealers, relocate dealers, or adjust DEALER's PMA as it reasonably determines is necessary. DEALER's PMA is set forth on the PMA Addendum hereto.

Nothing contained in this Agreement, with the exception of Section XIV(B), shall limit or be construed to limit the geographical area in which, or the persons to whom, DEALER may sell or promote the sale of Toyota products.

IX. STANDARD PROVISIONS

The "Toyota Dealer Agreement Standard Provisions" are incorporated herein and made

part of this Agreement as if fully set forth herein.

X. ADDITIONAL PROVISIONS

In consideration of DISTRIBUTOR's agreement to appoint DEALER as an authorized Toyota dealer, DEALER further agrees:

1. Dealer agrees to achieve, within twelve months of the effective date of this Agreement and to thereafter maintain throughout the duration of this Agreement, a satisfactory customer satisfactory performance, as measured by all applicable standards established by Toyota Motor Sales USA Inc. and which are modified from time to time.

Undertaking by IMPORTER: In the event of termination of this Agreement by virtue of termination or expiration of DISTRIBUTOR's contract with IMPORTER, IMPORTER, through its designee, will offer DEALER a new agreement of no less than one year's duration and containing the terms of the Toyota Dealer Agreement then prescribed by IMPORTER.

TOYOTA MOTOR SALES, U.S.A., INC.

Date: February 15, 1996

By: /s/
Shinji Sakai
President

Exhibit 10.22.1

NISSAN PUBLIC OWNERSHIP ADDENDUM

This Nissan Public Ownership Addendum (the "Addendum") is entered into effective the date last set forth below by Nissan Motor Corporation in U.S.A. ("Nissan" or "Seller") and Hutchins Eugene Nissan, Inc. ("Hutchins" or "Dealer"]. In consideration of the agreements and mutual covenants set forth herein, and other good and valuable consideration, the receipt and sufficiency which is hereby acknowledged, the parties hereto agree as follows:

1. THE PUBLIC OWNERSHIP ADDENDUM

The Public Ownership Addendum is an addendum to, supplements and modifies the Nissan Dealer Sales and Service Agreement between Nissan and Dealer (the "Dealer Agreement"), including the Standard Provisions thereto (the "Standard Provisions"). To the extent that this Addendum conflicts with the Dealer Agreement, the Addendum controls and shall govern the relationship between the parties. The Dealer Agreement, to the extent not modified or amended, remains in full force and effect.

2. DEFINITIONS

The parties agree that the following terms, as used in the Addendum and the Dealer Agreement shall be defined exclusively as set forth below.

"Nissan Products" shall mean Nissan Vehicles, Genuine Parts and Accessories, Nissan Security+Plus and such other products and services offered by Nissan to Dealer and designated in writing by Nissan as a Nissan Product.

"Dealer Principal" shall mean the person named in the Final Article of the Dealer Agreement as "Principal Owner" upon whose personal qualifications, expertise, integrity, experience, ability and representations Nissan has relied in entering into this Addendum, and any successor approved in writing by Nissan. For purposes of this Addendum, the terms "Dealer Principal" and "Principal Owner" are used interchangeably.

"Business Plan" shall mean the written plan meeting Nissan's approval that is prepared and executed by the Dealer and that contains Dealer's plan and commitment to develop its business throughout the PMA, including but not limited to its plan and commitment with respect to organizational, operational, financial, succession and other issues as well as certain standards on which its performance hereunder will be evaluated.

3. OWNERSHIP

This Agreement has been entered into by Nissan in reliance upon the commitment, representation, and agreement of Dealer to provide the personal services of Dealer Principal and Executive Manager; and in reliance upon the representations and agreements of Dealer as follows: i) Dealer represents that LITHIA MOTORS, INC. owns 100% of HUTCHINS

EUGENE NISSAN, INC. , (if applicable) and LITHIA MOTORS, INC. will, at all times during the term of this Addendum, exercise full management and control of HUTCHINS EUGENE NISSAN, INC. ; ii) Dealer represents that LITHIA MOTORS, INC. owns 100% of Dealer and will, at all times during the term of this Addendum, exercise full management and control of Dealer.

In view of the fact that the Dealer Agreement and this Addendum is a personal services agreement, and in view of its objectives and purposes, this Addendum and the rights and privileges conferred on Dealer hereunder are not assignable, transferable or salable; and no property right or interest herein is or shall be deemed to be sold, conveyed or transferred. Dealer agrees, on behalf of itself and, LITHIA MOTORS, INC., that any change in the ownership of Dealer other than specified herein requires the prior written consent of Nissan, if Dealer desires to remain an Authorized Nissan Dealer. Dealer agrees that, without the prior written consent of Nissan: i) No sale, pledge, hypothecation or other transfer of any of the capital stock or ownership interest of Dealer will be made. ii) Dealer will not be merged with or into, or consolidated with, any other entity without Nissan's prior written consent, nor will the principal assets necessary for the performance of Dealer's obligations under this Addendum or the Dealer Agreement be sold, transferred or assigned without Nissan's prior, written consent. Dealer represent that no capital stock, or securities convertible into capital stock, of Dealer will be issued, sold or otherwise transferred by Dealer directly or indirectly to any automobile manufacturer, automobile distributor, or potential competitor of Seller, or any affiliate of any of the foregoing.

If any person or entity acquires more than 20% of LITHIA MOTORS, INC.'s common stock issued and outstanding at any time, and Nissan determines that such person or entity does not have interests compatible with those of Nissan, or is otherwise not qualified to have an ownership interest in a Nissan dealership (an "Adverse Person"), Dealer must terminate the Dealer Agreement or transfer Dealer's principal assets or 100% of the outstanding stock of Dealer to a third party acceptable to Nissan unless, within 90 days after notification of Nissan's determination, the Adverse Person's ownership interest is reduced to less than 20%

The parties to this Addendum expressly agree that, while changes in the ownership of LITHIA MOTORS, INC. may not be entirely within the control of Dealer, in light of the personal services nature of the Dealer Agreement and Nissan's substantial interest in the owners of its dealers and distribution network, and in consideration of Nissan's willingness to enter into this Public Ownership Addendum with Dealer, any transaction involving the ownership and stock of LITHIA MOTORS, INC. and HUTCHINS EUGENE NISSAN, INC. which violates the provisions of this Section 3 of this Addendum shall constitute a substantial and material breach of the Dealer Agreement and this Addendum and grounds for termination of the Dealer Agreement and this Addendum.

4. MANAGEMENT

The Dealer Agreement and this Addendum have been entered into in reliance on the following representations and agreements of Dealer that: i) . The Dealer Principal of Dealer will, subject

to any other obligations set forth in the Dealer Agreement and this Addendum, devote his/her professional efforts to the business operations of Dealer and the entity for which he/she is responsible; ii) Executive Manger will devote his full time and professional efforts to the affairs of Dealer; iii) The Officers and Directors of Dealer are set forth in Schedule "A".

Nissan and Dealer agree that the retention by Dealer of qualified management is of critical importance to the successful operation of Dealer and to the achievement of their mutual purposes and objectives. The Dealer Agreement and Addendum have been entered into by Nissan in reliance upon, and in consideration of, among other things, the following representations and agreements of LITHIA MOTORS, INC., and Dealer, that: i) The Dealer Principal and the Executive Manager shall have full and complete control over the Dealership Operations, subject to the powers of the Board of Directors of Dealer, to manage the business and affairs of Dealer, and at all times the Dealer Principal shall be a member of the Board of Directors of Dealer and the Executive Manager shall be an officer of Dealer; ii) The Board of Directors of Dealer shall delegate the day to day management of the Dealership Operations to the Executive Manager. The Board of Directors of Dealer will not exercise any extraordinary powers or interfere unduly in the day-to-day Dealership Operations; iii) Executive Manager, subject to any other obligations set forth in the Dealer Agreement, shall be physically present at the Dealership Facilities on a full-time basis;
iv) Dealer acknowledges and agrees that, in view of the increased responsibilities of the Dealer Principal of Dealer, Nissan has and will apply heightened standards with respect to the personal, business and financial qualifications, expertise, reputation, integrity, experience and ability of a proposed Dealer Principal;. v) Nissan may from time to time develop standards and/or procedures for evaluating the performance of Dealer. Nissan may, from time to time, evaluate the performance of the Dealer and will advise Dealer, the Dealer Principal and the Executive Manager of the results of such evaluations.

5. TERM

This Addendum and the Dealer Agreement shall have a term commencing on its effective date and continuing for a term of five years unless sooner terminated in accordance with the provisions of the Dealer Agreement and this Addendum. Should Dealer be in full compliance with its obligations under the Dealer Agreement and this Addendum at the end of this term, Dealer will be offered a new Dealer Agreement and Public Ownership Addendum, in the form then in use by Nissan.

6. BUSINESS PLAN

Dealer and Nissan shall periodically execute a Business Plan in the form specified in Nissan's Business Planning Process Workbook that describes how Dealer will fulfill its sales, service, customer relations, marketing and other commitments hereunder. The Business Plan is subject to Nissan's approval, is an essential part of the Dealer Agreement and Public Ownership addendum and is hereby incorporated in and made a part of this Addendum and the Dealer Agreement.

The Business Plan shall include the following elements: i) a statement of Dealer's legal and financial structure, including capitalization, line of credit and equity ownership; ii) the sales,

service, customer relations, marketing and other standards on which Dealer's performance will be evaluated; iii.) a detailed organizational structure and staffing plans for the dealer; iv) specific plans for maximizing owner loyalty and customer satisfaction; v) advertising, merchandising, and marketing plans;
vi) successorship, including the identity of the proposed successors to Dealer, Dealer Principal (Principal Owner) and/or Executive Manager; and vii) other standards or plans as agreed by Nissan and dealer. The standards on which dealer's sales performance will be evaluated will include (i) market share objectives for Nissan products set by the parties, and (ii) sales penetration achieved by dealer in each of the various segments in which Nissan vehicles compete.

Dealer shall review and update its Business Plan annually, or more often if needed, and submit it to Nissan for review and approval. If Nissan determines that changes to the proposed Business Plan are necessary, Dealer will make such changes and resubmit the proposed Business Plan to Nissan. The updated business plan shall (i) analyze Dealer's performance relative to the objectives, standards, and plans set forth in the business plan for the preceding year or other period, (ii) identify any deficiencies in Dealer's performance, and (iii) specify the steps that Dealer will take to remedy such deficiencies.

If, based on the evaluation thereof made by Nissan, Dealer shall fail to substantially fulfill its responsibilities with respect to: i) the implementation of the plans set forth in the Business Plan, including but not limited to any deviation therefrom; ii) the performance of its sales, service, customer relations or other obligations based on the standards established therefor in the Business Plan; or iii) any other material responsibilities assumed by Dealer, Nissan will notify Dealer of such failure and will review with Dealer the nature and extent of such failure and the reasons which, in Nissan's opinion, account for such failure. Thereafter, Nissan will provide Dealer with a reasonable opportunity to correct the failure. If Dealer fails to make substantial progress towards remedying such failure before the expiration of such period, Nissan may terminate the Dealer Agreement, such termination to be effective at least sixty (60) days after notice is given

7. OTHER DEALER RESPONSIBILITIES

A. Branding and Business Name: Dealer shall actively and effectively promote the "Nissan" name. Under no circumstances shall the name "Nissan" be subordinated to or promoted less aggressively than any other name (e.g., "LITHIA MOTORS, INC.") by Dealer.

B. Financial and Operational Reporting: Dealer shall furnish to Nissan annual reviewed financial statements and, upon demand, shall furnish annual certified financial statements, and otherwise disclose to Nissan in a format satisfactory to Nissan the financial and operational results of Dealer's Nissan business.

C. Examination and Audit: Nissan shall be entitled, at all reasonable times during regular business hours and upon advance notice, to examine, audit and make and take copies of all records, accounts and supporting data of Dealer, HUTCHINS EUGENE NISSAN, INC. and

LITHIA MOTORS, INC. relating to the business, ownership or operations of Dealer.

D. Disclosure of Financial Information to Affiliated Companies: Nissan shall be entitled to disclose to and receive from affiliated companies, including but not limited to Nissan Motor Acceptance Corporation, all financial statements and reports provided by Dealer, HUTCHINS EUGENE NISSAN, INC. and/or LITHIA MOTORS, INC.

8. DISPUTE RESOLUTION PROCESS

The parties acknowledge that, at the state and federal level, various courts and agencies would, in the absence of this Paragraph 8, be available to them to resolve claims or controversies which might arise between them. The parties agree that it is inconsistent with their relationship for either to use courts or governmental agencies to resolve such claims or controversies.

THEREFORE, CONSISTENT WITH THE PROVISIONS OF THE UNITED STATES ARBITRATION ACT (9 U.S.C. SEC. 1 ET SEQ.), THE PARTIES TO THIS AGREEMENT AGREE THAT THE DISPUTE RESOLUTION PROCESS OUTLINED IN THIS SECTION, WHICH INCLUDES BINDING ARBITRATION, SHALL BE THE EXCLUSIVE MECHANISM FOR RESOLVING ANY DISPUTE, CONTROVERSY OR CLAIM ARISING OUT OF OR RELATING IN ANY WAY TO THIS AGREEMENT OR TO THE RELATIONSHIP BETWEEN THE PARTIES, INCLUDING BUT NOT LIMITED TO CLAIMS UNDER ANY STATE OR FEDERAL STATUTES (HEREINAFTER "DISPUTES"). SECTION 16 OF THE STANDARD PROVISIONS IS DELETED IN ITS ENTIRETY.

There are two steps in the Dispute Resolution Process: Mediation and Binding Arbitration. All Disputes must first be submitted to Mediation, unless that step is waived by written agreement of the parties. Mediation is conducted by a panel consisting of an equal number of representatives of the parties designated by Nissan and selected by Dealer. The Mediation Panel will evaluate each position and recommend a solution. This recommended solution is not binding.

If a dispute has not been resolved after Mediation, or if Dealer and Nissan have agreed in writing to waive Mediation, the Dispute will be settled by Binding Arbitration. SPECIFICALLY, THE PARTIES AGREE TO RESOLVE ALL SUCH DISPUTES BY BINDING ARBITRATION CONDUCTED IN ACCORDANCE WITH THE RULES AND PROCEDURES OF JAMS/ENDISPUTE, WITH THE PREVAILING PARTY TO RECOVER ITS COSTS AND ATTORNEY'S FEES FROM THE OTHER PARTY. ALL ARBITRATION AWARDS ARE BINDING AND NON-APPEALABLE, EXCEPT AS OTHERWISE PROVIDED IN THE UNITED STATES ARBITRATION ACT. JUDGMENT UPON ANY SUCH AWARD MAY BE ENTERED AND ENFORCED IN ANY COURT HAVING JURISDICTION.

9. RELEASE

Dealer hereby releases Nissan from any and all claims and causes of action that they or any of them may have against Nissan for money damages or other relief relating to or arising out of any event occurring prior to the execution of the Addendum, except for any accounts payable by Nissan to Dealer in connection with the provision of any services under the Dealer Agreement

and any claim described in Section 11.A.1 of the Standard Provisions. In connection with this release, Dealer expressly acknowledges and waive their respective rights under California Civil Code, Section 1542, which provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN ITS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

10. EXCLUSIVITY AND RIGHT OF FIRST REFUSAL

A. Exclusivity: The additional provisions set forth in Attachment "A" -- "Exclusivity Provisions" -- are hereby incorporated in and made a part of this Addendum and Dealer Agreement.

B. Right of First Refusal: The additional provisions set forth in Attachment "B" -- "Right of First Refusal" -- are hereby incorporated in and made a part of this Addendum and Dealer Agreement.

11. SPECIAL CONDITIONS

WITNESS WHEREOF, the parties have executed this Nissan Addendum in triplicate as of _____, _____, at Carson, California.

[DEALER]:

By: _____
Sidney B. DeBoer
Title: President

NISSAN:

By: _____
Michael J. Seergy
Vice President

Title: General Manager,
Nissan Division

By: _____
Olga Reisler

Title: Regional Vice President

ATTACHMENT "A"
PUBLIC OWNERSHIP ADDENDUM

Exclusivity Provisions

In order for Dealer to maintain competitive Dealership Facilities to effectively market NMC Products, Dealer hereby agrees to abide by and never challenge the following provisions (hereinafter "Exclusivity Provisions"). These Exclusivity Provisions shall be effective on or before _____, 1998 and continue in effect thereafter so long as Dealer (or its principals) are authorized NMC dealers and these provisions shall be binding on any successors-in-interest, assigns or purchasers of "Hutchins".

a) The only line-make of new, unused motor vehicles which Dealer shall display and sell at the Approved Site shall be the NMC line and make of motor vehicles. Dealer shall not conduct any dealership operations for any other make or line of vehicles from the Approved Site.

b) Dealer shall sell and maintain a full line of Genuine NMC Parts and Accessories at the Approved Site and shall provide a full range of automotive servicing for NMC vehicles at the Approved Site pursuant to Section 5 of the Standard Provisions to the Agreement. Nothing contained herein, however, shall preclude Dealer from offering parts, accessories or servicing for vehicles of other lines or makes so long as such products or services are incidental to Dealer's NMC Dealership Operations;

c) Dealer shall not advertise or promote any make or line of new, unused vehicles from the Approved Site other than the NMC line; and

d) Dealer shall not install or maintain any sign at or near the Approved Site which would tend to lead the public into believing that any line or make of vehicles other than the NMC line is sold at the Approved Site.

e) Any failure by Dealer to abide by the foregoing subparts (a) through (d) shall constitute a material breach of the Agreement warranting its termination, and shall constitute "good cause" for its termination.

ATTACHMENT "B"
PUBLIC OWNERSHIP ADDENDUM

Seller's Right of First Refusal on Sale of Assets.

In addition to its rights under Articles Third and Fourth and Section 15 of the Standard Provisions, Dealer agrees that, commencing _____, 1998 and continuing in effect thereafter so long as Dealer (or its principals) are authorized NMC dealers, and these provisions shall be binding on any successors-in-interest, assigns or purchasers of "Hutchins"., whenever there is a proposal to sell substantially all of the assets necessary to conduct the Dealership Operations, Seller shall have the additional right and option, but not the obligation, to purchase the dealership assets or ownership interests pursuant to this provision.

a) If Seller chooses to exercise its right of first refusal, it must do so in its response to the proposed sale or transfer pursuant to Section 15. Dealer agrees not to complete any proposed change or sale prior to the expiration of the period for exercise of Seller's right of first refusal and without Seller's prior written consent. Such exercise shall be null and void if Dealer withdraws its proposal within thirty (30) days following Dealer's receipt of Seller's notice exercising its right of first refusal.

b) After being exercised, Seller's right to purchase may be assigned to any party, and Seller hereby agrees to guarantee the full payment of the purchase price by such assignee. Seller's rights under this provision shall be binding on and enforceable against any assignee or successor in interest of Dealer or purchaser of Dealer's assets. Seller shall have no obligation to exercise its rights hereunder.

c) If Dealer has entered into a bona fide written buy/sell agreement respecting its NMC dealership, Seller's right under this provision shall be a right of first refusal, enabling Seller to assume the prospective purchaser's rights and obligations under such buy/sell agreement. The purchase price and other terms of sale shall be those set forth in such agreement and any related documents. Seller may request and Dealer agrees to provide all other documents relating to Dealer and the proposed transfer, including, but not limited to, those reflecting any other agreements or understandings between the parties to the buy/sell agreement. If Dealer refuses either to provide such documentation or to state in writing that no such documents exists, it shall be conclusively presumed that the agreement is not bona fide. Seller may also determine by other means that the buy/sell is not bona fide.

d) If Seller determines pursuant to paragraph (c) above that the buy/sell agreement is not bona fide, Seller will so notify Dealer. Dealer shall have ten (10) days from its receipt of such notice within which to withdraw its proposal. Seller's exercise of its rights hereunder shall be null and void if Dealer withdraws its proposal within such time period. If the proposal is not withdrawn, Seller shall have the option, but no obligation, under this provision to purchase the principal assets of Dealer utilized in the Dealership Operations, including real estate

and leasehold interest, and to terminate all rights granted Dealer hereunder. If the New Dealership Facilities are leased by Dealer from an affiliated company, the right to purchase the principal assets of Dealer shall include the right to lease the New Dealership Facilities. The purchase price of Dealer's assets shall be at their fair market value as a going concern as negotiated by the parties and the other terms of sale shall be those agreed by Dealer and Seller. If Dealer and Seller are unable to reach a negotiated settlement in a reasonable time, the price and other terms of sale shall be established by arbitration in accordance with the rules of JAMS/Endispute.

e) In addition to any other rights Seller may have at law, in equity or hereunder, any conveyance of the dealership or dealership assets in violation of this right of first refusal shall be voidable by Seller.

Right of First Refusal on Sale or Lease of Property to a Third Party.

a) In addition to its rights under Articles Third and Fourth and Section 15 of the Standard Provisions, Dealer agrees that, commencing _____, 1998 and continuing in effect thereafter so long as Dealer (or its principals) are authorized NMC dealers, and these provisions shall be binding on any successors-in-interest, assigns or purchasers of "Hutchins", should Dealer seek to sell or lease all or substantially all of the Approved Site to a third party for use as a NMC New Motor Vehicle Dealership, Seller shall have the additional right and option, but not the obligation, to purchase or lease the Approved Site pursuant to this provision. A sale or lease for use other than a NMC New Motor Vehicle Dealership is void.

b) If Seller chooses to exercise its right of first refusal, it must do so by written notice delivered to Dealer within 60 days of Seller's receipt of notice of the proposed sale or lease by Dealer. Dealer agrees not to complete any proposed sale or lease prior to the expiration of the period for exercise of Seller's right of first refusal and without Seller's prior written consent, and agrees to allow Seller to perform an environmental study of the property. Such exercise shall be null and void if Dealer withdraws its sale or lease proposal within thirty (30) days following Dealer's receipt of Seller's notice exercising its right of first refusal.

c) After being exercised, Seller's right to purchase or lease may be assigned to any party, and Seller hereby agrees to guarantee the full payment of the purchase price or the rental payment by such assignee. Seller's rights under this Article Tenth shall be binding on and enforceable against any assignee or successor in interest of Dealer or purchaser of Dealer's assets. Seller shall have no obligation to exercise its rights hereunder, and Seller may rescind its offer if the property is determined to be contaminated pursuant to an environmental study.

d) Should Seller actually purchase or lease the facility, Dealer shall also furnish to Seller copies of any easements, licenses, environmental studies or other documents affecting the property.

e) Dealer shall transfer the affected property by deed conveying marketable title free and clear of liens, claims, mortgages, encumbrances, tenancies and occupancies, or, if applicable, by an assignment of any existing lease. The Warranty Deed shall be in proper form for recording. Dealer shall deliver complete possession of the property at the time of delivery of the Deed or lease assignment. Dealer shall also furnish to Seller copies of any easements, licenses, or other documents affecting the property and shall assign any permits or licenses which are necessary for the conduct of the Dealership Operations.

f) In addition to any other rights Seller may have at law, in equity or hereunder, any sale or lease of the Approved Site in violation of this right

of first refusal shall be voidable by Seller.

EXHIBIT 10.27

HYUNDAI MOTOR AMERICA
DEALER SALES AND SERVICE AGREEMENT
STANDARD PROVISIONS

The Standard Provisions set forth below are expressly incorporated in and made a part of the HMA Dealer Sales and Service Agreement.

10. SALE OF HYUNDAI PRODUCTS

A. DEALER'S AGREEMENT TO PURCHASE HYUNDAI PRODUCTS

1. Quantities

DEALER agrees to purchase Hyundai Products in such quantities and varieties as may be necessary to fulfill its obligations under this Agreement. HMA will distribute such products pursuant to such procedures as HMA may deem appropriate from time to time. HMA's agreement to sell may only be established by written confirmation by HMA that the product will be shipped. HMA will use its best efforts to provide Hyundai Products to DEALER subject to available supply from FACTORY, HMA's marketing requirements, and any change or discontinuance with respect to any Hyundai Product.

HMA and DEALER recognize that certain Hyundai Products may be in short supply from time to time because of factors which are beyond the control of HMA or FACTORY. Where such a shortage is determined by HMA to exist, HMA will endeavor to allocate the affected Hyundai Product(s) among its Dealers in a fair and equitable manner, as it may determine in its sole discretion.

HMA agrees to provide DEALER with an explanation of the method used to distribute such products and, upon written request, will advise DEALER of total sales by model to all Dealers collectively in the Region and to DEALER individually.

DEALER acknowledges that certain products manufactured by or for FACTORY may be distributed in the United States by distributors other than HMA. Entering into this Agreement, therefore, confers no rights or benefits upon DEALER with respect to the sale or servicing of such products.

2. Prices and Other Terms of Sale

HMA reserves the right, without prior notice to DEALER, to establish and revise prices and other terms of sale for all Hyundai Products sold to DEALER under this Agreement. HMA, however, will provide notice to DEALER of any revision in prices and other terms of sale before shipping any Hyundai Product subject to such revision.

3. Payment For Hyundai Products

DEALER agrees to pay for Hyundai Products pursuant to such procedures as HMA may designate from time to time. Such procedures may include electronic funds transfer and other automatic collection systems. Automatic collections will be against DEALER's then applicable wholesale credit line. HMA will advise DEALER in writing of the implementation

of such systems. DEALER will make arrangements with its designated financial institution to accommodate the use of such systems.

4. Delivery of Hyundai Products

a. Mode and Place of Delivery

HMA will select the distribution points, carriers and the mode of transportation and will be responsible for all charges in effecting delivery of Hyundai Products to DEALER. DEALER agrees to reimburse HMA for all delivery, freight and other related charges as they appear on HMA's invoice to DEALER.

b. Title and Risk of Loss

Subject to the terms of sale which HMA may establish from time to time, title and risk of loss to Hyundai Products will pass to DEALER upon tender of the Hyundai Products to DEALER or its authorized agent HMA will retain, and DEALER hereby grants to HMA, a security interest in, and the right to retain or repossess, all Hyundai Products sold to DEALER by HMA until HMA is paid in full therefor.

c. Diversion of Deliveries

If DEALER should fail or refuse or for any reason be unable to take delivery of any Hyundai Products, or if DEALER should request diversion of a shipment from HMA, DEALER will be responsible, and will pay HMA promptly upon demand, for all costs and expenses incurred by HMA as a result of such diversion. HMA may direct that the returned Hyundai Products be delivered to another destination. The amount charged DEALER, however, will not exceed the charge of returning the products to the original point of shipment plus any demurrage, storage or related charges.

d. Failure or Delay of Delivery

DEALER will not be liable for any delay or failure to accept delivery and HMA will not be liable for delay or failure to deliver Hyundai Products, where such delay or failure to deliver is due, in whole or in part, to any event of Force Majeure, or any delay or failure of FACTORY or other supplier of HMA or any carrier to deliver Hyundai Products.

e. Damage Claims

As between HMA and DEALER, HMA assumes responsibility for damage to Hyundai Products occurring prior to delivery to DEALER or its authorized agent. DEALER agrees, however, to submit such claims in the manner required in the Hyundai Warranty Policies and Procedures Manual.

f. Option to Repurchase Damaged Motor Vehicles

DEALER agrees to notify HMA promptly if any new motor vehicle(s) in DEALER's inventory, other than those used as demonstrators, should for any reason be substantially damaged. To preserve the quality and value of new Hyundai Motor Vehicles offered to the public, HMA will have the option to repurchase any or all such vehicles at a price equal to the net purchase price paid by DEALER to HMA. HMA will make appropriate payment for repurchased vehicles directly to any lienholder. DEALER agrees to assign its rights under any insurance contract relating to the repurchased vehicle(s) to HMA.

5. Warranties on Hyundai Products

DEALER understands and agrees that the only warranties that will be applicable to each new Hyundai Product sold to DEALER by HMA will be the written limited warranty or warranties expressly furnished by FACTORY or HMA or as stated in the Hyundai Warranty Policies and Procedures Manual, as it may be revised from time to time. With respect to DEALER, such limited warranties are in lieu of all other warranties, express or implied, including any implied warranty of merchantability or fitness for a particular purpose or any liability for commercial losses based on negligence or strict liability. Except for its limited liability under such written warranty or warranties, neither FACTORY nor HMA assumes any other warranty obligation or liability. DEALER is not authorized to assume any additional warranty obligations or liabilities on behalf of HMA or FACTORY. Any such additional obligations or liabilities assumed by DEALER will be solely the responsibility of DEALER.

6. Effect of Change of Design, Specifications or Options

HMA reserves the right at any time in its sole discretion and without notice to change the design or specifications of any Hyundai Product or the availability of options in any Hyundai Product. HMA is under no obligation to make any similar change upon any product previously purchased by or shipped to DEALER. No change will be considered a model year change unless so specified by HMA.

7. Effect of Discontinuance of Manufacture

The manufacture and production of all or part of any Hyundai Product, whether motor vehicle, parts, options, or accessories, including any model, series, or body style of any Hyundai Motor Vehicle, may be discontinued at any time without any obligation or liability to DEALER on the part of FACTORY or HMA by reason thereof.

B. DEALER'S AGREEMENT TO PROMOTE AND SELL HYUNDAI PRODUCTS

1. Best Efforts

DEALER is an integral part of a network of authorized Hyundai Dealers dedicated to the vigorous and effective promotion and sale of Hyundai Products. Accordingly, DEALER agrees to use its best efforts to effectively promote and sell Hyundai Products to Customers in DEALER's primary market area.

2. Adequate Vehicle Inventory

As a duly authorized Hyundai Dealer, DEALER recognizes that its Customers will expect DEALER to stock a reasonable quantity and variety of current model Hyundai Motor Vehicles. Accordingly, DEALER agrees to stock and sell, subject to available supply, all models and types of Hyundai Motor Vehicles in the Hyundai Product Addendum and that it will, at all times, maintain at least the minimum inventory of Hyundai Motor Vehicles requested by HMA. DEALER will maintain all Hyundai Motor Vehicles for display and demonstration purposes in showroom ready condition

3. Hyundai Dealer Advertising Association

HMA and DEALER recognize the benefits which may be derived from a

comprehensive joint advertising effort by Hyundai Dealers. Accordingly, HMA agrees to assist Hyundai Dealers, including DEALER, in the establishment of a cooperative advertising association. DEALER agrees to cooperate with HMA in the formation of such association and, once it is established, to participate actively and to contribute to it in accordance with the by-laws of the association.

The Hyundai Dealer Advertising Association will finance its advertising programs through the assessment of a fixed amount for each new Hyundai Motor Vehicle purchased by Hyundai Dealers. As a service to the Dealer Association, HMA will collect the agreed amount, provided that the Association maintains control over the amount of the assessment and the manner in which the funds are expended and so long as such funds are expended for the promotion of Hyundai Products which may also include Parts and Service advertising campaigns from time to time.

4. Primary Market Area

While DEALER is required to vigorously develop its primary market area, nothing contained in this Agreement will limit or be construed to limit the geographical area in which DEALER may promote, or the persons to whom DEALER may sell, Hyundai Products.

The primary market area is a geographic area which HMA will designate from time to time for the sole purpose of evaluating DEALER'S performance of its sales and service obligations hereunder. DEALER recognizes that the designation of a primary market area is not intended to be permanent and that HMA may, in its sole discretion, change DEALER's primary market area from time to time.

5. Appointment of New Dealers

DEALER agrees that HMA will have the right, from time to time, to appoint or to relocate new or additional authorized Hyundai Dealers in or near the primary market area served by DEALER based upon such reasonable criteria as HMA may establish in its sole discretion.

C. DEALER'S SALES OPERATIONS

1. Sales Organization

To enable DEALER to fulfill its responsibilities satisfactorily under this Agreement, DEALER agrees to organize and maintain an adequate and trained sales organization.

2. Fair Dealing

HMA has selected DEALER because of the reputation of its Owner(s) and the General Manager, identified herein, for integrity and their commitment to fair dealing. DEALER will at all times maintain a high standard of ethics in advertising, promoting and selling Hyundai Products and will not engage in any misrepresentation or unfair or deceptive trade practices. DEALER will not advertise Hyundai Products in a manner likely to mislead or deceive the public or to impair the good will of HMA or DEALER or the reputation of Hyundai Products. Furthermore, DEALER will deal with its Customers in a courteous, fair and forthright manner and will not engage in any deceptive or fraudulent practices, including without limitation, bait and switch and improper retention of deposits.

3. Disclosure as to Prices of Hyundai Products

DEALER agrees to explain to purchasers of Hyundai Products the items which make up the purchase price and to give such purchasers itemized invoices and any other information required by law. DEALER further agrees that it will not make any misleading statements as to the items which make up the total selling price of any Hyundai Motor Vehicle, or as to the prices related to such items including destination or other charges paid to HMA. DEALER also agrees not to charge Customers for any services for which DEALER is reimbursed by HMA, including predelivery inspection and adjustment services, without disclosing the fact of such reimbursement to the Customer.

4. Disclosure as to Parts or Accessories

DEALER recognizes that its Customers have a right to expect that any product that they purchase from DEALER meets the high quality standards associated with HMA, FACTORY, the Hyundai Marks and Hyundai Products in general. Accordingly, DEALER agrees that, if it sells or installs any part or accessory that is not a Hyundai Genuine Part or Accessory, it will disclose such fact to the Customer and will advise the Customer that the item is not included in warranties furnished by HMA or FACTORY. In all cases, the purchaser's contract of purchase and sale will include written notice of such disclosure. In addition, DEALER will clearly explain to the Customer the extent of any warranty covering the equipment, part or accessory involved and will deliver a copy of such warranty to the Customer at the time of sale.

DEALER agrees that it will not represent or offer to sell as new Hyundai Genuine Parts or Accessories, any parts or accessories used by it in the repair or servicing of Hyundai Motor Vehicles which are not in fact Hyundai Genuine Parts or Accessories.

D. ASSISTANCE PROVIDED BY HMA

1. Sales Training Assistance

To assist DEALER in the fulfillment of its sales responsibilities under this Agreement, HMA will offer general and specialized sales management and sales training programs for the benefit and use of DEALER's sales organization. DEALER recognizes the importance of having a well trained sales staff to meet its obligations hereunder and agrees to require its sales personnel to participate in such programs as HMA may offer from time to time for their benefit.

2. Sales Promotion Assistance

In order that authorized Hyundai Dealers may be assured of the benefits of comprehensive advertising and promotion of Hyundai Products, HMA agrees to establish and maintain general advertising and promotion programs and will from time to time make sales promotion and campaign materials available to DEALER to promote the sale of such Hyundai Products at a reasonable charge where applicable. DEALER agrees to cooperate in HMA's advertising programs and to fully utilize the materials offered DEALER by HMA.

3. Field Sales Personnel Assistance

To assist DEALER in handling its sales responsibilities under this Agreement, HMA agrees to provide trained field sales personnel to advise and counsel DEALER on sales-related

subjects, including but not limited to merchandising, training and sales management.

E. EVALUATION OF DEALER'S SALES PERFORMANCE

HMA will evaluate DEALER's sales performance at least annually and agrees to review such evaluations with DEALER so that DEALER may take prompt action if necessary to improve its sales performance to such satisfactory levels as HMA may reasonably require. HMA will provide DEALER with a copy of such evaluation upon request. HMA may, at its discretion, evaluate DEALER's sales performance based on one or more of the following criteria:

1. Achievement of fair and reasonable sales objectives as HMA may establish at its discretion;

2. A comparison of sales and/or registrations of Hyundai Motor Vehicles to sales and/or registrations of other line makes: (i) in DEALER's primary market area; (ii) in HMA's Region or any area thereof as HMA may reasonably establish; or (iii) nationally;

3. The trend of DEALER's sales performance over a reasonable period of time,

4. The manner in which DEALER has conducted its sales operations, including advertising, sales promotions and Customer relations;

5. The availability of new motor vehicles to DEALER from HMA; or

6. Significant local conditions that may have affected DEALER's performance.

11. SERVICE AND PARTS

A. DEALER RESPONSIBILITIES

DEALER recognizes that its Customers are entitled to prompt, courteous and professional service and that Customer satisfaction is vital to the mutual success of DEALER and HMA. DEALER agrees, therefore: to take all reasonable steps to provide service and parts for all Hyundai Motor Vehicles, regardless of where purchased, and whether or not under warranty; to ensure that necessary repairs on Customer vehicles are accurately diagnosed and performed in accordance with the highest professional standards; to advise the Customer and obtain his or her consent prior to the initiation of any repairs; and, to treat the Customer courteously and fairly at all times.

1. New Motor Vehicle Predelivery Service

DEALER will perform predelivery service on each new Hyundai Motor Vehicle prior to delivery to the retail Customer according to HMA'S instructions. Any required campaign or policy service will also be completed at the time of predelivery service.

2. Warranty and Policy Service

DEALER will perform warranty service on each Hyundai Motor Vehicle at the time of

predelivery service and when requested by the owner according to the requirements of the Hyundai Warranty Policies and Procedures Manual. DEALER will perform policy service as HMA may require from time to time. DEALER will provide each owner for whom warranty or policy service is performed with a copy of the repair order stating all services performed.

3. Campaign Inspections

HMA may, from time to time, require DEALER to inspect and correct conditions in Hyundai Motor Vehicles. DEALER agrees to perform such campaign inspections regardless of where or from whom the subject Hyundai Motor Vehicles were purchased. Because of the importance of campaign inspections to the overall reputation of Hyundai Motor Vehicles for their high quality standards, HMA may ship parts and other materials to DEALER without DEALER's authorization. DEALER will accept such shipments and upon completion of the campaign, HMA will credit DEALER for any extra parts and materials so shipped provided DEALER returns or otherwise disposes of such parts and materials according to HMA's instructions.

4. Reimbursement Rates

HMA agrees to compensate DEALER for all warranty, policy, and campaign inspection work, including labor and diagnosis, in accordance with procedures and at rates to be announced from time to time by HMA and in accordance with applicable law. DEALER agrees that such rates will constitute full and complete payment to DEALER for such work. Both parties agree that warranty and policy service is provided for the benefit of Customers and DEALER agrees that the Customer will not be obligated to pay any charges for warranty or policy work, except as required by law.

HMA will reimburse DEALER for predelivery service at an authorized labor and/or diagnosis rate and according to the predelivery service time allowances as established by HMA or as required by law.

If DEALER wishes to adjust the established reimbursement rate for labor and diagnosis in connection with warranty, policy or predelivery service performed on Customer's vehicles, DEALER agrees to make the appropriate written application to HMA and to comply with such applicable procedures or policies as may be set forth in the Hyundai Warranty Policies and Procedures Manual.

5. Independent Warranty or Service Contract

DEALER recognizes that HMA's limited warranties are provided to Customer at no additional expense. HMA recognizes that DEALER is free to sell warranty or service contract protection for Hyundai Motor Vehicles which is different from and independent of HMA's warranties. In order to avoid any misconception among its Customers, however, DEALER agrees that if it elects to sell such independent warranties or service contracts to Customers:

a. DEALER will conspicuously disclose in writing upon the Customer's purchase order the extent to which the independent warranty or service contract protection purchased by the Customer overlaps that provided by HMA or FACTORY; and

b. Whenever a Customer purchases such independent warranty or service contract protection and seeks service on a Hyundai Product during the period of time that such Product is also covered by the limited warranty provided by HMA or FACTORY, DEALER will not apply for, and agrees that it will not be entitled to, reimbursement under such limited warranty unless DEALER has advised the Customer in writing, on all copies of the repair order, that the service was provided pursuant to HMA's limited warranty and not the independent warranty or service contract protection that the Customer purchased.

6. Installation and Use of Non-Genuine Parts or Accessories

DEALER understands that it has the right to sell, install or use products which are not Hyundai Genuine Parts or Accessories.

DEALER agrees, however, that its Customers may reasonably expect that any part or accessory which DEALER sells, installs or uses in the repair or servicing of Hyundai Motor Vehicles meets the high quality standards of Hyundai Genuine Parts or Accessories. Therefore, in cases where DEALER does not sell, install or use a Hyundai Genuine Part or Accessory, DEALER will only utilize such other parts or accessories as:

Will not adversely affect the mechanical operation of the Hyundai Motor Vehicle being serviced or repaired; or

Are equivalent in quality and design to Hyundai Genuine Parts or Accessories.

In the event any disagreement arises between HMA and DEALER regarding the use by DEALER of parts other than Hyundai Genuine Parts or Accessories or parts expressly approved by HMA, DEALER agrees that it will have the burden of proving either:

That the parts replaced will not adversely affect the mechanical operation of the Hyundai Motor Vehicle being serviced or repaired; or

That parts used by it are equivalent in quality and design to Hyundai Genuine Parts or Accessories or parts expressly approved by HMA.

If DEALER uses parts or accessories which are not Hyundai Genuine Parts or Accessories or are not approved in writing by HMA for use in Hyundai Motor Vehicles, DEALER does so at its own risk and neither HMA nor FACTORY will be responsible to DEALER or to any third party for any products liability, warranty or other claim which may arise as a consequence of the installation and/or use of such parts.

7. Safety and Emission Control Laws

DEALER agrees to comply and operate consistently with all applicable provisions of federal, state and local motor vehicle safety and emission control laws, rules and regulations.

In addition, HMA and DEALER will each provide the other with such information and assistance as may reasonably be requested by the other in connection with the performance of obligations imposed on either party by any applicable federal, state and local motor vehicle

safety and emission control requirements.

In the event that the laws of the state in which DEALER is located require motor vehicle dealers or distributors to install in new or used motor vehicles, prior to the retail sale thereof, any safety devices or other equipment not installed or supplied as standard equipment by FACTORY or HMA, then DEALER, prior to its sale of any Hyundai Motor Vehicles on which such installations are so required, will properly install such devices or equipment on such Hyundai Motor Vehicles. DEALER will comply with state and local laws pertaining to installation of such equipment, including without limitation, the reporting thereof.

B. SERVICE AND PARTS OPERATIONS

1. Service and Parts Personnel

DEALER agrees to establish and maintain a complete service and parts organization, including a service manager, a parts manager and a sufficient number of Customer relations, service and parts personnel who meet such educational, management, technical training and competency standards as HMA may establish or approve.

2. Handling of Service Complaints

DEALER understands that the development and maintenance of Customer confidence and satisfaction in Hyundai Products requires DEALER's full support. DEALER, therefore, agrees to investigate and handle all complaints from Customers according to procedures prescribed by HMA and in a manner calculated to secure and maintain the Customers' good will towards DEALER, HMA and Hyundai Products. Moreover, DEALER agrees to cooperate with HMA and to provide such information as HMA may in its judgment require to comply with any federal or state consumer protection law, rule or regulation, including without limitation, warranty and repair or replace laws or to avoid any liability thereunder. Furthermore, DEALER agrees to participate in and cooperate with such Customer complaint resolution procedures as HMA may designate from time to time.

3. Service Equipment and Special Tools

DEALER agrees to procure such service equipment and special tools as HMA may require from time to time, and to maintain the same in good repair and in proper calibration to enable DEALER to fulfill its service responsibilities under this Agreement.

4. Parts Inventory

DEALER will stock a sufficient quantity and variety of parts and accessories to meet Customer demand and to perform warranty repairs and special policy work. DEALER recognizes, however, that its Customers may reasonably expect that DEALER will have Hyundai Genuine Parts or Accessories immediately available for purchase or installation. DEALER, therefore, agrees to carry in stock at all times during the term of this Agreement a complete inventory of Hyundai Genuine Parts or Accessories, as listed in HMA's current inventory guide, to enable DEALER to meet its Customers' needs and to fulfill its service responsibilities under this Agreement. HMA reserves the right to audit DEALER's inventory from time to time and may require DEALER to supplement its inventory to meet its obligations hereunder.

DEALER will install and maintain a parts inventory control system approved by HMA to track availability and sales of parts.

C. ASSISTANCE PROVIDED BY HMA

1. Service Training Assistance

DEALER recognizes the importance of providing consistent, dependable and high quality service to its Customers. DEALER agrees that frequent training and refresher courses are a necessary prerequisite to providing such service.

To assist DEALER in fulfilling its service and parts responsibilities hereunder, HMA from time to time will offer general and specialized service and technical training programs and materials. DEALER will require its service and/or parts personnel to participate in such programs.

2. Service Manuals and Materials

HMA agrees to provide DEALER with copies of such DEALER service manuals and bulletins, publications and technical data as HMA deems necessary for the effective operation of DEALER's service and parts organization. DEALER will have responsibility for keeping such manuals, publications and data current and available for consultation by its parts and service employees.

3. Field Service Personnel Assistance

To assist DEALER in handling its parts and service responsibilities under this Agreement, HMA agrees to make available field service personnel who will, from time to time, advise and counsel DEALER on parts and service related subjects, including product quality, technical adjustment, repair and replacement of product components, parts inventory, parts sales, Customer relations, warranty administration, and service and parts merchandising, training and management.

D. EVALUATION OF DEALER'S SERVICE AND PARTS PERFORMANCE

DEALER's service and parts performance is extremely important to the effective representation of Hyundai Products. Therefore, under this Agreement, HMA will periodically evaluate DEALER'S performance of its service and parts responsibilities, including without limitation: warranty service; Customer relations; service and parts merchandising, management and operations; new vehicle predelivery service; parts inventory; tools and equipment; competency of service and parts personnel; participation of DEALER's personnel in various training programs; and the adequacy of service and parts facilities. HMA agrees to review such evaluations with DEALER so that DEALER may take prompt action if necessary to improve its service and parts performance to satisfactory levels as HMA may reasonably require. HMA will provide DEALER with a copy of the evaluation upon request.

12. DEALER LOCATION

A. RESPONSIBILITIES OF DEALER

HMA has entered into this Agreement in reliance upon DEALER's representation that it will establish and maintain dealership facilities and operations only at the location(s) identified in paragraph 6. DEALER agrees, therefore, that it will not, under any circumstances, conduct Dealer operations at any other location, whether as a satellite operation, subdealership, through an associate Dealer or otherwise, without the prior written consent of HMA.

Moreover, it is the mutual desire of DEALER and HMA that DEALER's facilities reflect a distinctive first-class appearance in common with all other duly authorized Hyundai Dealers. Accordingly, DEALER agrees to procure from approved sources and install all items necessary to insure that DEALER'S retail environment complies in all respects with such distinctive first-class appearance. In addition, DEALER agrees that all of its facilities will be satisfactory as to space, appearance, amenities, layout, equipment, and signage and will at all times be in accordance with HMA's minimum facilities standards, as amended from time to time.

B. OPERATING HOURS

DEALER agrees that the transportation, service and maintenance needs of its Customers can be met properly only if DEALER keeps its dealership premises open for business during hours which are reasonable and convenient for such Customers. Accordingly, DEALER will maintain its respective dealership operations open for business during days and hours which are customary and lawful for such operations in the community or locality in which DEALER is located and in accordance with industry standards.

C. SIGNS

Subject to applicable law, DEALER agrees to purchase from sources designated by HMA and to erect and maintain at the dealership location (s), entirely at DEALER's expense, standard product and service signs of types authorized by HMA, as well as such other authorized signs as are necessary to identify the dealership operations effectively and as recommended by HMA. DEALER shall in no way alter or modify such authorized signs without obtaining prior written approval from HMA.

D. DATA PROCESSING SYSTEMS

To facilitate the accurate and prompt reporting of relevant DEALER operational and financial data including, without limitation, sales reports, warranty claims and parts purchasing and to ensure rapid communication with authorized Hyundai Dealers, HMA requires DEALER, and DEALER agrees, to acquire, install, maintain and upgrade at DEALER's sole expense, electronic data processing systems, compatible with HMA's data systems, from a source designated by HMA. The computer terminals for such system will be installed and maintained at the DEALER location(s) identified herein Furthermore, DEALER agrees to utilize said system in accordance with HMA's instructions.

E. FACILITY PLANNING ASSISTANCE

To assist DEALER in planning, building and maintaining the dealership facilities, HMA will make available to DEALER, upon request, sample copies of building layout plans, facility planning recommendations, and an applicable identification program covering the placement, installation and maintenance of authorized signs. In addition, representatives of HMA will be available to DEALER from time to time to counsel and advise DEALER regarding the proper organization and maintenance of the dealership's exterior and interior facilities and any expansion or alteration thereof.

F. EVALUATION OF DEALERSHIP FACILITIES

HMA will periodically evaluate the adequacy of DEALER's facilities pursuant to its responsibilities under this Agreement. In making such evaluations, HMA will consider: the actual building and land space provided by DEALER for the performance of its responsibilities under this Agreement; compliance with HMA's then current requirements for dealership operations, the appearance, condition, layout and signage of the dealership facilities; and such other factors, if any. which in HMA's judgment may directly relate to DEALER's performance of its responsibilities under this Agreement. HMA will discuss such evaluations with DEALER, so that DEALER may take prompt action, if necessary, to comply with HMA's minimum facility standards. HMA will provide DEALER with a copy of the evaluation upon request.

13. CAPITAL STANDARDS

A. NET WORKING CAPITAL

The net working capital required to conduct the business of DEALER properly depends upon many factors, including the nature, size and volume of DEALER's vehicle sales, service and parts operations. Therefore, DEALER agrees to establish and maintain actual net working capital in an amount not less than the minimum net working capital specified in a separate Minimum Net Working Capital Agreement made between DEALER and HMA and executed by DEALER and HMA concurrently with this Agreement. If HMA determines, in its sole discretion, that changed circumstances require it to adjust the net working capital requirement hereunder, DEALER agrees to revise its minimum net working capital to be used in the dealership's operation accordingly and within a reasonable period of time.

B. WHOLESALE CREDIT

DEALER recognizes that in order to operate its dealership successfully and to fulfill its responsibilities hereunder, it must maintain flooring and lines of credit adequate to meet its ongoing obligations. Accordingly, DEALER agrees to obtain, maintain and increase as HMA may require, adequate flooring and lines of credit from any reputable financial institution or other credit source. Subject to the foregoing obligations, DEALER is free to do its financing business, wholesale or retail or both, with whomever it chooses and to the extent it desires.

14. ACCOUNTS, RECORDS AND REPORTS

A. UNIFORM ACCOUNTING SYSTEM

HMA uses the operating information provided by its Dealers to develop composite operating statistics which are useful to Dealers and to HMA in business management. In order for such information to be useful, however, Hyundai Dealers must submit data which is accurate and based on uniform accounting procedures. Accordingly, DEALER agrees to maintain a uniform accounting system designated by HMA, and in accordance with the Hyundai Accounting Manual, as amended from time to time. In addition, DEALER will furnish to HMA, by the tenth (10th) of each month, in a format prescribed by HMA, a complete and accurate financial and operating statement covering the preceding month and calendar year-to-date operations. DEALER will also promptly furnish to HMA a copy of any adjusted financial or operating statement prepared by or for DEALER.

B. SALES REPORTING

HMA requires timely sales information to evaluate correctly current market trends and to maintain a fair and equitable vehicle distribution system. In addition, such data is necessary for HMA to evaluate DEALER's sales performance and to provide meaningful advice and recommendations to DEALER.

Accordingly, DEALER agrees to:

1. Accurately report to HMA, with such relevant information as HMA may reasonably require, the delivery of each new motor vehicle to a purchaser by the end of the day in which the vehicle is delivered to the purchaser thereof; and

2. Furnish HMA with such other reports as HMA may reasonably require from time to time.

C. SALES AND SERVICE RECORDS

DEALER agrees to keep complete and up-to-date records regarding the sale and servicing of Hyundai Products for a minimum of five (5) years, exclusive of any retention period required by any governmental entity. In order that the policies and procedures relating to the application for reimbursement for warranty, policy work and predelivery service may be applied uniformly to all Dealers, DEALER agrees to prepare, keep current and retain records in support of requests for reimbursement for warranty and policy work performed by DEALER in accordance with the policies and procedures prescribed in the Hyundai Warranty Policies and Procedures Manual and standards established by HMA consistent with said manual.

D. AUDIT OF DEALER RECORDS

DEALER agrees that HMA will have the right, at all reasonable times and during DEALER'S regular business hours, to examine, audit and reproduce all records, accounts and all other data relating to the sale and service of Hyundai Products by DEALER. HMA will provide a

copy of the report of the examination or audit to DEALER upon request.

E. CONFIDENTIALITY

HMA agrees that it will not provide any data or documents submitted to it by DEALER to any third party, except FACTORY, unless authorized by DEALER, required by law, or otherwise pertinent to legal proceedings. DEALER agrees, however, that HMA may use such data or documents to generate composite data which HMA believes will be useful to assist its Dealers in improving dealership operations. Such composite data will not specifically identify any Dealer.

15. TRADEMARKS, SERVICE MARKS AND TRADE NAMES

A. USE BY DEALER

HMA is the exclusive owner of, or is authorized to use and to permit DEALER and others to use, the Hyundai Marks. HMA grants to DEALER the nonexclusive privilege of displaying or otherwise using the Hyundai Marks in connection with the promotion and sale of Hyundai Products and the conduct of DEALER operations at the location(s) approved herein.

DEALER agrees, however, that it will promptly discontinue the display and use of any such Hyundai Marks, and will change the manner in which any Hyundai Marks are displayed and used, when for any reason, it is requested to do so by HMA. DEALER further agrees that it will do nothing to impair the value of or contest the right of HMA to the exclusive use of any trademark, design mark, service mark or trade name at any time acquired, claimed or adopted by HMA. In addition, no company owned by or affiliated with DEALER or any of its Owners may use any Hyundai Mark or product name without the prior written consent of HMA.

B. DISCONTINUANCE OF USE

Upon termination, non-renewal or expiration of this Agreement, DEALER agrees that it will immediately discontinue all use of the word Hyundai and the Hyundai Marks, or any semblance thereof and cease representing itself as an authorized Hyundai Dealer. Thereafter, DEALER will not use, either directly or indirectly, any Hyundai Marks or any other similar marks in a manner likely to cause confusion or mistake or to deceive the public. In addition, DEALER will promptly remove all product signs bearing the word Hyundai or the Hyundai Marks from its facilities at DEALER's sole cost and expense.

In the event DEALER fails to comply with its obligations herein within thirty (30) days of termination, non-renewal or expiration, HMA will have the right to enter upon DEALER'S premises and remove, without liability, all signs bearing the word Hyundai or any Hyundai Marks. DEALER will reimburse HMA for any costs and expenses incurred in connection with the enforcement of this paragraph, including reasonable attorney's fees.

16. TERMINATION OF AGREEMENT

A. TERMINATION BY DEALER

DEALER may voluntarily terminate this Agreement at any time by written notice to HMA. Termination will be effective thirty (30) days after HMA receives such notice unless otherwise mutually agreed in writing.

B. TERMINATION FOR CAUSE

1. Immediate Termination

HMA will have the right to terminate this Agreement immediately in any of the following situations:

a. Any misrepresentation to HMA by DEALER or any Owner or General Manager in applying for this Agreement or for approval as Owner or General Manager of DEALER;

b. If DEALER, or any Owner, officer, or General Manager of DEALER, is convicted of any felony or for any violation of law which in HMA's sole opinion tends to adversely affect the operation, management, reputation, business or interests of DEALER or HMA, or to impair the good will associated with the Hyundai Marks. Such violations of law may include, without limitation, any finding or adjudication by any court of competent jurisdiction or government agency that DEALER has engaged in any misrepresentation or unfair or deceptive trade practice;

c. Submission by DEALER to HMA of: (i) false claims for reimbursement, sales incentives, refunds, rebates or credits; (ii) false financial information, sales reports or other data required by HMA; or (iii) false statements relating to predelivery preparation, testing, warranties, servicing, repairing, or maintenance required by HMA;

d. If the dealership is closed for a period of seven (7) consecutive days, except when due to an event of Force Majeure;

e. Failure of DEALER to obtain or maintain any license, or the suspension or revocation of any license, necessary for the conduct by DEALER of its business pursuant to this Agreement, or

f. If DEALER becomes insolvent, or files any voluntary petition under any bankruptcy law, or executes an assignment for the benefit of creditors, or any petition is filed by any third party to have DEALER declared bankrupt or to appoint a receiver or trustee, or another officer having similar power, and such filing or appointment is not vacated within thirty
(30) days or there is any levy under attachment or execution or similar process which is not vacated or removed by payment or bonding within ten
(10) days.

2. Termination Upon Sixty Days Notice

If HMA learns that any of the following events have occurred and determines, in its sole discretion, that the matter may require termination of this Agreement, HMA will so advise

DEALER in writing. If DEALER does not correct the condition or explain the matter to HMA's satisfaction within thirty (30) days of such notice, then HMA will have the right to terminate this Agreement upon sixty (60) days notice. Events which may result in such termination include:

a. Any sale or transfer of ownership interest by DEALER without the prior written consent of HMA;

b. Any removal, withdrawal or change, whether voluntary or involuntary, of a General Manager having an ownership interest in DEALER without the prior written consent of HMA;

c. Any attempted or actual sale, transfer or assignment by DEALER of this Agreement or any of the rights granted DEALER hereunder, or any attempted or actual transfer, assignment or delegation by DEALER of any of the responsibilities assumed by it under this Agreement, without the prior written consent of HMA;

d. The conduct, directly or indirectly, of any dealership operation at any location other than those specifically approved herein, without the prior written consent of HMA;

e. Any sale or transfer, by operation of law or otherwise, or any relinquishment or discontinuance of use by DEALER, of any of the locations approved herein or of other principal assets required in the conduct of dealership operations, without the prior written consent of HMA;

f. Any dispute, disagreement or controversy between or among partners, managers, officers or stockholders of DEALER which, in the sole opinion of HMA, adversely affects DEALER's operations or the interests of DEALER or HMA;

g. Retention by DEALER of any General Manager, who in HMA's reasonable opinion is not competent, whether or not such person was previously approved by HMA as General Manager of DEALER;

h. Any conduct which in HMA'S opinion impairs the reputation of DEALER or HMA;

i. Any refusal to permit HMA to examine or audit DEALER's accounts and records as provided herein upon receipt by DEALER of written notice from HMA requesting such permission or information;

j. Repeated failure of DEALER to furnish timely sales or financial information and related data;

k. Failure of DEALER to establish or maintain required net working capital or adequate wholesale credit;

1. Failure of DEALER to pay HMA for any Hyundai Products in accordance with the terms and conditions of sale;

m. Failure of DEALER to comply with the provisions of any laws or regulations relating to the sale or service of Hyundai Products;

n. Repeated failure of DEALER'S sales, service or parts personnel, including but not limited to management, to fully participate in any training program offered by HMA to DEALER;

o. Failure of DEALER to properly obtain, erect, maintain, repair and illuminate signs and other displays in a manner approved by HMA;

p. Failure to maintain an adequate supply of general and special tools and equipment designated by HMA;

q. Failure by DEALER to maintain good relations with its Customers including but not limited to failure to notify HMA of complaints by Customers, as HMA may require, and repeated failure to properly resolve Customer complaints;

r. Failure to maintain the required minimum inventory of Hyundai Motor Vehicles, whether for showroom display, demonstration or immediate sale;

s. Failure to maintain an adequate parts inventory;

t. Repeated failure to use proper parts and accessories in the repair and servicing of Hyundai Motor Vehicles; or

u. Breach or violation by DEALER of any other term or provision of this Agreement.

3. Termination For Failure of Performance

If, upon evaluation of DEALER's performance pursuant to paragraphs 10(E), 11(D) and/or 12(F) herein, HMA determines that DEALER has failed to perform adequately its sales, service or parts responsibilities or to provide adequate dealership facilities, HMA will endeavor to review promptly with DEALER the nature and extent of such failure(s). As soon as practicable thereafter, HMA will notify DEALER in writing of DEALER's failure of performance and will grant DEALER 180 days from the date of such notice to correct such failure(s). If DEALER fails or refuses to correct such failure(s) or has not made substantial progress towards remedying such failure(s) at the expiration of such period, HMA may terminate this Agreement upon sixty (60) days notice or such other notice as may be required by law.

4. Termination of HMA

This Agreement will terminate upon the effective date of the termination or expiration of HMA's right to distribute Hyundai Products.

5. Termination Upon Death or Incapacity

HMA has entered into this Agreement in reliance upon the personal services of Owner(s) and General Manager and is concerned that DEALER continues to be owned and operated by persons who meet HMA's requirements. In order to ensure that it is represented by qualified persons, and to protect its interests, and subject to paragraphs 16(B)(5)(a)-(c), HMA will have the right to terminate this Agreement in the event of the death of an Owner or upon the incapacity of any Owner who is also the General Manager identified herein, upon written notice to DEALER. HMA will provide such notice within a reasonable time after Owner's death or incapacity. Termination hereunder will be effective ninety (90) days from the date of such notice.

a. Succession to Majority Ownership by Designated Successor

Notwithstanding its right to terminate upon the death of any Owner, HMA agrees to permit succession to majority ownership by any person approved as a Successor Owner as provided herein. Accordingly, at any time during the term of this Agreement, any Majority Owner may nominate a candidate to assume his or her ownership interest in the dealership upon the death or incapacity of the requesting Owner. Such nomination must be made on a form provided by HMA. In the event that the Majority Owner is also the General Manager, such Owner may also nominate the candidate to succeed as General Manager.

As soon as practicable after such nomination, HMA will request such personal and financial information from the Majority Owner and/or the candidate as it reasonably and customarily may require in evaluating candidates for ownership and/or management. Owner agrees that HMA may apply criteria then currently used by HMA in qualifying Owners and/or General Managers of authorized Dealers. Upon receipt of all requested information, HMA will either approve or disapprove such candidate. If HMA initially approves the candidate, said approval will remain in effect for the term of this Agreement. HMA agrees that the Majority Owner may renominate a candidate after the expiration of this Agreement and HMA will review such nomination: (i) so long as HMA and DEALER have entered into a new Hyundai Dealer Sales and Service Agreement; and (ii) the proposed candidate continues to comply with the then current criteria used by HMA in qualifying such candidates.

If HMA does not initially qualify the candidate, HMA agrees to review its decision with the Majority Owner. The Majority Owner is free at any time to renew his or her nomination. However, in such instance, the candidate must again qualify pursuant to HMA's then current criteria. The Majority Owner may, by written notice, withdraw a nomination at any time, even if HMA previously has qualified said candidate.

In the event that the Majority Owner has obtained approval of his or her candidate as Successor Owner, and upon the death of the Majority Owner, HMA agrees to enter into a new Hyundai Dealer Sales and Service Agreement promptly with the Successor Owner and any remaining Owner(s). The term of the new agreement shall be for one year. The Majority Owner recognizes, however, that before HMA shall be obligated to appoint the approved Successor Owner as the new Majority Owner, HMA shall have the right to request assurances from the legal representative of the Majority Owner's estate that there is no conflict between the appointment of the Successor Owner hereunder and any valid will executed by the Majority Owner. In any case where a Successor Owner has been designated pursuant to this paragraph but

the beneficial interest of the deceased Majority Owner in DEALER has passed by will or by the laws of intestate succession to another person, then HMA will proceed as though the Majority Owner had withdrawn his or her nomination of the Successor Owner pursuant to this paragraph.

b. Succession to Ownership After Death of Owner

Except for those cases in which a Successor Owner is appointed pursuant to the foregoing paragraph 16(B)(5)(a), if any Owner's interest in DEALER passes by will (or in the absence of a will, if such interest would pass by the laws of intestate succession) to any person (heir), HMA agrees to review the qualifications of such heir to succeed as Owner of DEALER. Such right to be considered will not arise until the legal representative of the Owner's estate notifies HMA within ninety (90) days of the date of notice of termination hereunder of the heir's interest in succeeding Owner and provided that:

(i) there has been no change in the General Manager of DEALER; or

(ii) the notice from the legal representative proposes a new DEALER General Manager candidate for HMA's approval.

The effect of notice from the legal representative will be to suspend the notice of termination issued hereunder.

Upon receipt of such notice, HMA will investigate and make a determination as to the proposed new Owner's qualifications as provided in paragraph 16(B)(5)(d) herein. HMA expressly retains the right to terminate this Agreement if the proposed new Owner fails to meet HMA's then current ownership and/or General Manager qualification requirements.

c. Succession Upon Incapacity of Owner

The parties agree that, as used herein, incapacity will refer to any physical or mental ailment which, in HMA's opinion, adversely affects Owner's ability to meet his or her obligations under this Agreement. Termination for incapacity will apply only where the incapacitated Owner is also the General Manager identified herein.

Prior to the effective date of any notice of termination hereunder, an incapacitated Owner, or his or her legal representative, may propose a new candidate for the position of General Manager to HMA. Such proposal must be in writing and will suspend the pending notice of termination until HMA advises DEALER of its approval or disapproval of the new candidate. Upon receipt of the notice, HMA will investigate and make a determination as to the qualifications of the proposed General Manager as provided in paragraph 16(B)(5)(d) herein.

d. HMA's Investigation and Determination

Any heir wishing to succeed to ownership pursuant to paragraph 16(B)(5)(b) or any person seeking to be a General Manager pursuant to either paragraph 16(B)(5)(b) or (c) must complete such application and submit such personal and financial information in such form as HMA may reasonably and customarily require in connection with its review. All requested information must be provided promptly and in no case later than thirty (30) days after receipt of

such request. Upon the submission of all requested information, HMA agrees to review the qualifications of the applicant pursuant to the then current criteria generally applied by HMA in qualifying Dealer Owners and/or General Managers. HMA will either approve or disapprove the application within ninety (90) days of full compliance with all of HMA's requests for information. If HMA approves the application, it will offer to enter into a new Hyundai Dealer Sales and Service Agreement with DEALER or its successor in interest in the form then currently in use, except that the newly approved applicants will be identified as new Owner and/or General Manager as appropriate. Except in cases involving the death of a Minority Owner, discussed in the next sentence, the new agreement will be for a term of one (1) year. In cases involving the death of a Minority Owner, which does not result in a change in General Manager, if HMA approves the heir as new Minority Owner, then HMA and DEALER will simply amend the current Agreement to reflect the new minority ownership.

In the event that HMA disapproves the applicant or the applicant withdraws his or her application to be approved as Owner or General Manager or fails to provide the required information in a timely fashion, HMA may reinstate the notice of termination by written notice to DEALER and to the proposed new Owner, candidate for General Manager and/or incapacitated Owner.

C. EFFECTIVE DATE OF TERMINATION

If any period of notice of termination required under this paragraph 16 is less than that required by applicable law, the period of notice required hereunder will be deemed to be the minimum period required by such law.

D. EFFECT OF TERMINATION

1. DEALER's Conduct

Upon receipt of any notice of termination, expiration or non-renewal, DEALER agrees to conduct itself and its operations until the effective date of termination, expiration or non-renewal in a manner which will not injure the reputation or good will of the Hyundai Marks or HMA and is consistent with its obligations hereunder.

2. The Right to Purchase

Upon sending any notice of termination, expiration or non-renewal hereunder, HMA will have no further obligation whatsoever to sell and DEALER will have no right to purchase any Hyundai Products. Any decision to permit DEALER to purchase Hyundai Products thereafter will be in HMA's sole discretion and will not be construed as a waiver of the termination or a renewal, extension or continuation of this Agreement.

Upon the expiration or prior termination of this Agreement, HMA will have the right to cancel any and all pending requests by DEALER to purchase Hyundai Products and any shipments of same scheduled for delivery to DEALER.

3. Repurchase of Hyundai Products

a. HMA's Obligations

Upon expiration, non-renewal or termination of this Agreement, HMA will repurchase from DEALER the following products which DEALER initially purchased from HMA or from a source designated by HMA:

(i) New, unused, unmodified and undamaged current model Hyundai Motor Vehicles then in DEALER's inventory. The prices of such Motor Vehicles will be the price at which they were originally purchased by DEALER, less all prior refunds or other allowances made by HMA to DEALER with respect thereto.

(ii) New, unused and undamaged Hyundai Genuine Parts or Accessories then unsold in DEALER's inventory which are in good and saleable condition, provided that they are listed in the then current Hyundai Dealer Parts Price List. The prices for such parts and accessories will be the prices last established by HMA for the sale of identical parts or accessories to Dealers in the area in which DEALER is located.

(iii) Tools and equipment required or recommended by HMA and then owned by DEALER which are especially designed for servicing Hyundai Motor Vehicles. The prices for such tools and equipment will be the price paid by DEALER less appropriate depreciation or such other price as the parties may negotiate.

(iv) Signs which HMA has required or recommended for identification of DEALER. The price of such signs will be the price paid by DEALER less appropriate depreciation or such other price as the parties may negotiate.

HMA shall have no obligation to repurchase products as provided herein in the event it agrees to enter into a new Hyundai Dealer Sales and Service Agreement with DEALER.

b. DEALER's Responsibilities

DEALER's right to reimbursement hereunder is contingent upon the following:

(i) Within thirty (30) days after the date of expiration or the effective date of termination of this Agreement, DEALER will request HMA in writing to purchase its qualifying inventory and will provide HMA with a detailed and accurate list of such inventory. After receiving such list, HMA may, in its discretion, enter upon DEALER's premises to verify such inventory as qualifying under Paragraph 16(D)(3)(a) herein. If DEALER does not provide HMA with a list of inventory, then HMA may enter upon DEALER's premises, without liability, to take inventory and DEALER will reimburse HMA for any costs and expenses incurred in connection therewith.

(ii) Upon HMA's instructions, DEALER will deliver such products as HMA will agree to repurchase hereunder to HMA's place of business at DEALER's expense. If DEALER fails to do so. HMA may transport such products and deduct the cost therefor from the repurchase price.

(iii) DEALER agrees to execute and deliver to HMA instruments satisfactory

to HMA conveying good and marketable title to such property as HMA may require. If such property is subject to any lien or charge of any kind, DEALER agrees to secure the discharge and satisfaction thereof prior to the repurchase of such property by HMA. DEALER further agrees to comply with the requirements of any federal or state laws which relate to the repurchase including bulk sales or transfer laws.

(iv) DEALER agrees that it must remove, at its own expense, all signage bearing the Hyundai Marks before it is eligible for payment hereunder.

c. Payment by HMA

HMA will pay DEALER for such items as DEALER may request repurchase and which qualify hereunder as soon as practicable upon DEALER's compliance with the obligations set forth herein and upon computation of any outstanding indebtedness of DEALER to HMA, which indebtedness HMA may offset from any amounts due to DEALER hereunder.

d. Disagreement Regarding Valuation

If DEALER disagrees with HMA's valuation of any item herein, and DEALER and HMA have not resolved their disagreement within sixty (60) days of the effective date of termination or expiration of this Agreement, HMA will pay to DEALER the amount to which it reasonably believes DEALER is entitled. DEALER's exclusive remedy to recover any additional sums which it believes is due under this paragraph will be by arbitration in accordance with the commercial arbitration rules of the American Arbitration Association. The site of the arbitration will be the office of the American Arbitration Association in the locality of HMA's principal place of business or Regional Office.

17. RIGHT OF FIRST REFUSAL OR OPTION TO PURCHASE

HMA has entered into this Agreement to secure market representation at the location(s) identified herein. The vitality of HMA's authorized Dealer network and the effective sale and servicing of Hyundai Products nationwide is dependent upon the continued representation of HMA by its authorized Dealers at their approved location(s). Accordingly, DEALER agrees that in the event that HMA refuses to approve a transfer or sale of any ownership interest in the dealership, pursuant to paragraph 5, HMA will have the right of first refusal or an option to purchase the dealership assets, including any leasehold interest or realty, as provided herein.

A. HMA'S RIGHTS

HMA must advise DEALER in writing of its decision to exercise its right of first refusal or option to purchase the dealership within thirty (30) days of its refusal to approve any sale or transfer pursuant to paragraph 5. DEALER agrees that HMA will have the right to assign its rights hereunder to any third party it may select. HMA hereby guarantees the full payment of the purchase price by such assignee. DEALER may render HMA's exercise of its rights hereunder null and void if it withdraws its buy/sell proposal within thirty (30) days following receipt of HMA's notice exercising such rights.

If DEALER has entered into a bona fide arm's length written buy/sell agreement regarding ownership of DEALER or its rights under this Agreement, HMA's right under this paragraph will be a right of first refusal, permitting HMA to assume the buyer's rights and obligations under such written agreement.

If DEALER has not entered into a bona fide arm's length written buy/sell agreement governing such transfer or sale, then HMA'S rights hereunder will be the option to purchase the principal assets of DEALER utilized in the dealership operations, including real estate and/or leasehold interest, and to terminate this Agreement.

B. PURCHASE PRICE

If DEALER has entered into a bona fide arm's length buy/sell agreement as provided herein, the purchase price and other terms of sale will be those set forth in such agreement and any related documents. HMA may request and DEALER agrees to provide any and all supporting documents relating to the transfer which HMA may require to assess the bona fides of the agreement. Refusal to provide such documentation or to state that no such documents exist will create the presumption that the buy/sell agreement is not a bona fide agreement. In the absence of a bona fide arm's length buy/sell agreement, the purchase price will be the fair market value as negotiated by the parties. If the parties are unable to reach a negotiated sale in a reasonable time, the price and other terms of sale will be established exclusively by arbitration in accordance with the commercial arbitration rules of the American Arbitration Association. The site of the arbitration will be the office of the American Arbitration Association in the locality of HMA's principal place of business or Regional Office.

C. TRANSFER CONDITIONS

Upon HMA's exercise of its rights and tender of the purchase price hereunder, DEALER will transfer the affected real property by warranty deed conveying marketable title free and clear of all liens, claims, mortgages, encumbrances, tenancies and occupancies. The warranty deed will be in proper form for recording and DEALER will deliver complete possession of the property and the deed at time of closing. DEALER will also furnish to HMA copies of any easements, licenses or other documents affecting the property or dealership operations and will assign any permits or licenses which are necessary for the use of the property or the conduct of such DEALER operations.

DEALER also agrees to execute and deliver to HMA instruments satisfactory to HMA conveying title to all personal property, including leasehold interests, involved in the transfer or sale to HMA. If any personal property is subject to any lien or charge of any kind, DEALER agrees to secure the discharge and satisfaction thereof prior to the transfer or sale of such property to HMA.

18. DEFENSE AND INDEMNIFICATION

A. DEFENSE AND INDEMNIFICATION BY HMA

HMA will assume the defense of DEALER and agrees to indemnify and hold DEALER harmless in any legal proceeding naming DEALER as a defendant and involving any Hyundai Product when the proceeding also involves allegations of:

(1) Breach of any Hyundai warranty related to the Hyundai Product, bodily injury or property damage allegedly caused solely by a defect in design, manufacture or assembly of a Hyundai Product (except for tires not manufactured by FACTORY), provided that the defect could not reasonably have been discovered by DEALER by reasonable inspection or during the predelivery service on the Hyundai Product required hereunder;

(2) Any misrepresentation or misleading statement or unfair or deceptive trade practice of HMA; or

(3) Any substantial damage to a Hyundai Product purchased by DEALER from HMA which was repaired by HMA and where DEALER had not been notified of such damage in writing prior to the delivery of the subject vehicle, part or accessory to a retail Customer; and

Provided:

(4) That DEALER promptly delivers to HMA, in a manner to be designated by HMA, copies of any summons and complaint and requests in writing a defense and/or indemnification as provided herein;

(5) That the complaint does not involve allegations of DEALER misconduct, including but not limited to, improper or unsatisfactory service or repair, misrepresentation, or any claim of DEALER's unfair or deceptive trade practice;

(6) That the Hyundai Product which is the subject of the lawsuit was not altered by or for DEALER;

(7) That DEALER agrees to cooperate fully in the defense of such action as HMA may reasonably require; and

(8) That DEALER agrees that HMA may offset any recovery on DEALER's behalf against any indemnification that may be required hereunder.

B. DEFENSE AND INDEMNIFICATION BY DEALER

DEALER will assume the defense of HMA and FACTORY and indemnify and hold them harmless in any legal proceeding naming HMA or FACTORY as a defendant when the legal proceeding involves allegations of:

(1) DEALER's alleged failure to comply, in whole or in part, with any

obligation assumed by DEALER pursuant to this Agreement;

(2) DEALER's alleged negligent or improper repairing or servicing of a new or used Hyundai Motor Vehicle or equipment, or such other motor vehicles or equipment as may be sold or serviced by DEALER;

(3) DEALER's alleged breach of any contract or warranty other than that provided by HMA or FACTORY;

(4) DEALER'S alleged misleading statements, misrepresentations, or deceptive or unfair trade practices; or

(5) Any modification or alteration made by or on behalf of DEALER to a Hyundai Product, except those made pursuant to the express instruction of HMA; and

Provided:

(6) That HMA or FACTORY promptly delivers to DEALER, copies of any summons and complaint and requests in writing a defense and/or indemnification as provided herein.

(7) That HMA or FACTORY agree to cooperate fully in the defense of such action as DEALER may reasonably require; and

(8) That the complaint does not involve allegations of liability premised upon separate HMA or FACTORY conduct or omissions.

C. EXTENT OF RESPONSIBILITY

The assumption of the defense of a party includes the obligation of selecting counsel and paying all attorney's fees, court costs and expenses (including expert's fees). The assumption of the obligation to indemnify and hold harmless will include payment of any judgment amount awarded on any claim subject to the indemnity and hold harmless provision and any settlement amount as the indemnifying party may agree to pay to resolve such claim.

D. CONDITIONAL DEFENSE AND/OR INDEMNIFICATION

In agreeing to defend and/or indemnify each other, DEALER and HMA each may make their agreement conditional on the continued existence of the state of facts as then known to such party and may provide for the withdrawal of such defense and/or indemnification at such time as facts arise which, if known at the time of the original request for a defense and/or indemnification, would have caused either DEALER or HMA to refuse such request.

The party withdrawing from its agreement to defend and/or indemnify will give timely notice of its intent to withdraw. Such notice will be in writing and will be effective upon receipt. Moreover, the withdrawing party will be responsible for all costs and expenses of defense up to the date of receipt of the notice of withdrawal.

E. THE EFFECT OF SUBSEQUENT DEVELOPMENTS

In any case where a request for a defense and/or indemnification is rejected, or is not made at the outset of any legal proceeding, and subsequent developments in the case make clear that the allegations which initially precluded a request or an acceptance of a request for a defense and/or indemnification are no longer at issue therein or are without foundation, then any party having a right to a defense and/or indemnification hereunder may still tender such request for a defense and/or indemnification to the other party. Neither DEALER nor HMA, however, will be required to agree to such subsequent request for a defense and/or indemnification where that party would be unduly prejudiced by such a delay.

F. TIME TO RESPOND AND RESPONSIBILITIES OF THE PARTIES

DEALER and HMA will have thirty (30) days from the receipt of a request for a defense and/or indemnification to conduct an investigation to determine whether or not, or under what conditions, it may agree to defend and/or indemnify pursuant to this paragraph 18. If local rules require a response to the complaint in the lawsuit prior to the time provided hereunder for a response to such request, the requesting party will take all steps necessary, including obtaining counsel, to protect its own interest in the lawsuit until DEALER or HMA assumes the requested defense and/or indemnification. In the event that HMA or DEALER agrees to assume defense and/or indemnification obligations hereunder, such party will have the right to engage and direct counsel of its own choosing and, except in cases where the request is made pursuant to paragraph 18(E) herein, will have the obligation to reimburse the requesting party for all reasonable costs and expenses, including attorney fees, incurred prior to such assumption.

G. SURVIVAL OF OBLIGATION

The obligations of the parties set forth in this Paragraph 18 shall survive the termination of this Agreement.

19. MISCELLANEOUS PROVISIONS

A. ENTIRE AGREEMENT

Except as otherwise specifically provided for herein, this Agreement constitutes the entire agreement of the parties and contains all covenants, warranties or representations made by the parties to each other and supersedes any and all previous agreements, either oral or in writing, between the parties and relating to the subject matters covered herein.

B. AMENDMENT

No amendment of any portion of this Agreement will be valid or binding upon the parties hereto unless the same is approved in writing by an authorized representative of each of the parties.

C. RELEASE OF CLAIMS

Upon execution of this Agreement by DEALER, and in consideration of HMA entering into this Agreement, DEALER hereby releases HMA from any and all claims, demands, contracts and liabilities (including, but not limited to, statutory liabilities) known or unknown, of any kind whatsoever, arising out of or in connection with any prior agreements, business transactions, course of dealing, discussions or negotiations between the parties prior to the effective date hereof and regardless of whether DEALER knows or suspects the claim to exist in its favor at the time of executing the release and whether or not if known to it, it would have materially affected its release hereunder. Notwithstanding any other provision herein, however, this release does not extend to any accounts payable by one party to the other as a result of the purchase of any Hyundai Products, audit adjustments or reimbursement for any services.

D. ASSIGNMENT

Except as provided in this Agreement, neither this Agreement nor the rights or obligations of either party hereunder may be sold, assigned. delegated or otherwise transferred without the prior written consent of the other party.

E. SEVERABILITY

If any term or provision of this Agreement, or the application thereof to any person or circumstance, will be contrary to any law or will be adjudged by any court or government agency to be invalid, void or unenforceable, such term or provision will be deemed deleted from this Agreement and the remaining provisions and any application thereof will continue in full force and effect without being impaired or invalidated in any way.

F. CAPTIONS

The various captions used in this Agreement are for organizational purposes only and may not be used to interpret the provisions hereof. In any case where the caption and the related text conflict, the text will govern.

G. GOVERNING LAW

This Agreement will be governed and construed according to the laws of the state in which DEALER is located.

H. WAIVERS

Any failure of either party at any time to require performance by the other party of any provision herein will not be deemed to be a waiver by such party of any subsequent breach

or violation of the same or any other provision.

I. NOTICES

Unless otherwise specifically provided herein, any notice required to be given by either party to the other under or in connection with this Agreement will be in writing and delivered personally or by certified mail, return receipt requested and will be effective from the date of receipt. Notices to DEALER will be directed to DEALER or its representative at DEALER's place of business identified herein. Notices to HMA will be directed to the President of HMA at its national headquarters. In the event that any party refuses to accept delivery of notice hereunder, such notice will be effective on the date delivery is refused.

J. NEW AND SUPERSEDING DEALER AGREEMENTS

In the event any new and superseding form of Dealer agreement is offered by HMA to authorized Hyundai Dealers in general at any time prior to the expiration of the term of this Agreement, HMA may, by written notice to DEALER, terminate this Agreement and replace it with a new agreement in the new and superseding form for a term not less than the then unexpired term of this Agreement. Unless otherwise agreed in writing, the rights and obligations of DEALER that may otherwise become applicable upon any termination or expiration of the term of this Agreement will not be applicable in the event of the execution by HMA and DEALER of any new or superseding Dealer agreement and the matured rights and obligations of either party hereunder will continue under the new agreement.

K. INDEPENDENT ENTITY

DEALER is an independently owned business entity. This Agreement does not make DEALER the agent or legal representative of HMA or FACTORY for any purpose whatsoever. DEALER is not granted any express or implied right or authority to assume or to create any obligation or responsibility on behalf of or in the name of HMA or FACTORY or to bind it (or them) in any manner whatsoever.

L. FORCE MAJEURE

Neither party will be liable for any breach of this Agreement to the extent caused by or resulting from prohibition or restriction by law or regulation of any government, fire, flood, storm, war, strike, lockout or other labor troubles, accident, riot, act of God or other events beyond that party's control.

M. NO FRANCHISE FEE

DEALER warrants and agrees that it has paid no fee, nor has it provided any goods or services in lieu of same, to HMA in consideration of entering into this Agreement and that the sole consideration for HMA's entering into this Agreement was DEALER's ability, integrity, assurance of personal services and expressed intention to deal fairly and equitably with HMA and the public and any other promises recited herein.

N. WAIVER OF TRIAL BY JURY

HMA and DEALER hereby waive, to the extent permitted by law, the right to trial by jury for all disputes, controversies or claims which may arise between DEALER and HMA out of or in connection with this Agreement, or its construction, interpretation, effect, performance or nonperformance, termination or the consequences thereof, or in connection with any transaction contemplated between the parties.

O. TAXES

DEALER will pay all local, state, federal or other applicable taxes, including without limitation, sales taxes, use taxes, excise taxes, levied or based upon the sale of Hyundai Products by HMA to DEALER and will maintain accurate records of same for reporting purposes.

20. DEFINITIONS

The following terms, as used in this Agreement, will be defined exclusively as set forth below:

A. Agreement: This Agreement consists of the HMA Dealer Sales and Service Agreement entered into by DEALER and HMA and includes the Standard Provisions.

B. Authorized Hyundai Dealer: Dealers who are authorized by HMA to sell and service Hyundai Products, and to use the Hyundai Marks in connection therewith, pursuant to a duly executed Hyundai Dealer Sales and Service Agreement.

C. DEALER Facilities: The buildings, improvements, fixtures and equipment situated at the approved DEALER location(s).

D. DEALER Location: The location or locations, and any facilities located thereon, identified in paragraph 6, which HMA has approved for dealership operations.

E. Dealership Operations: All Dealer operations contemplated by this Agreement, including, without limitation, sale and servicing of Hyundai Products, use and display of Hyundai Marks, advertising and promotion of Hyundai Products, rental and leasing of Hyundai Motor Vehicles, sale of used cars, body shop work, and financing or insurance services, whether conducted directly or indirectly by DEALER.

F. General Manager: The person identified in paragraph 4 of the Agreement considered to be a "Dealer Operator" with full operational responsibility and authority for dealership operations.

G. Hyundai Genuine Parts or Accessories: All new or remanufactured Hyundai parts, accessories and equipment marketed by BMA and listed in HMA's parts catalog, or the functional equivalent thereof, as amended from time to time.

H. Hyundai Marks: The various Hyundai trademarks, service marks, names, logos and designs used by HMA in connection with Hyundai Products and which HMA authorizes DEALER to use in the sale and servicing of Hyundai Products.

I. Hyundai Motor Vehicles: All automobiles, trucks, vans, cab/chassis or other motor vehicles which FACTORY, in its sole discretion, sells to HMA for resale to authorized Hyundai Dealers.

J. Hyundai Products: All Hyundai Motor Vehicles, parts, accessories and equipment which FACTORY, in its sole discretion, and/or authorized suppliers sell to HMA for resale to authorized Hyundai Dealers.

K. Hyundai Warranty Policies and Procedures Manual: The current publication issued by HMA known as the Hyundai Warranty Policies and Procedures Manual, or its functional equivalent, as it may be revised or supplemented from time to time.

L. Owner: The person(s) identified in paragraph 3 of this Agreement.

M. Standard Provisions: The Standard Provisions are a part of all Hyundai Dealer Sales and Service Agreements and are fully incorporated therein by the express provision of paragraph 7 of the Agreement. The Standard Provisions commence with paragraph 10 to reflect continuity with the first nine paragraphs of the Agreement.

Exhibit 10.31.1

AMENDMENT TO CREDIT AGREEMENT
(Acquisition Revolving Line of Credit)

THIS AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated December 1, 1999, is by and between LITHIA MOTORS, INC., an Oregon corporation ("Borrower"), whose address is 360 East Jackson Street, Medford, Oregon 97501, and FORD MOTOR CREDIT COMPANY, a Delaware corporation ("Lender"), whose address is 13555 S.E. 36th Street, Suite 280, Bellevue, Washington 98006 ("Lender's Address").

WHEREAS, pursuant to the terms of a certain Credit Agreement (the "Agreement") dated November 23, 1998, Lender made a loan to Borrower in the original principal amount of $75,000,000.00 (the "Original Loan"); and

WHEREAS, the Original Loan is evidenced by a certain Promissory Note dated November 23, 1998, made by Borrower to the order of Lender in the original principal amount of $75,000,000.00 (the "Original Note"); and

WHEREAS, Borrower has requested an increase in the principal balance of the Original Loan to $115,000,000.00 to provide financing for Borrower's Permitted Acquisition of Dealership Guarantors (as defined herein) and a renewal of the Original Loan, pursuant to the terms of a certain Amended & Restated Promissory Note in the principal amount of $115,000,000.00 dated as of even date herewith and made by Borrower to the order of Lender (the "Amended Note" and with the Original Note collectively referred to as the "Note"); and

WHEREAS, Lender is willing to increase the Original Loan if and only if
(i) Borrower executes this Amendment and the Amended Note, (ii) each Dealership Guarantor reaffirms its obligations under its Dealership Guaranty and Dealership Security Agreement and under the Contribution Agreement (each as defined in the Agreement), and (iii) the Loan continues to be cross-collateralized and cross-defaulted with other Indebtedness of Borrower and Dealership Guarantors.

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Agreement is hereby amended as follows:

1. Except as modified herein, all capitalized terms used herein and in the foregoing recitals have the meanings set forth in the Agreement and the Note. The following amendments are effective as of December 1, 1999.

2. The term "Loan" shall mean the Original Loan as amended by this Amendment.

3. Section 1.1(z) of the Agreement, entitled "Commitment" is hereby deleted in its entirety and the following is substituted therefor:

"(z) "Commitment" means the lessor of (i) $115,000,000.00 minus the amount of any Decision Reserve in effect from time to time or (ii) any lower amount Borrower may have elected pursuant to Section 2.3 hereof."

4. Section 1.1(ff) of the Agreement, entitled "Contribution Agreement" is hereby deleted in its entirety and the following is substituted therefor:

"(ff) "Contribution Agreement" means collectively, that certain Contribution Agreement dated November 23, 1998, as amended by the Amended & Restated Contribution Agreement dated _____, 2000, as it may be amended, restated or otherwise modified and in effect from time to time, and each of those certain Binding Acknowledgments dated as of various dates and executed by Dealership Guarantors acquired pursuant to Permitted Acquisitions, and any future Binding Acknowledgments executed by Dealership Guarantors acquired pursuant to any future Permitted Acquisitions."

5. Section 1.1(rrr) of the Agreement, entitled "Note" is hereby deleted in its entirety and the following is substituted therefor:

"(rrr) "Note" means collectively, that certain Promissory Note dated November 23, 1998, from Borrower to the order of Lender in the principal amount of $75,000,000.00, as amended by the Amended & Restated Promissory Note dated _____, 2000 in the principal amount of $115,000,000.00, as it may be amended, restated or otherwise modified and in effect from time to time."

6. Section 1.1(vvvv) of the Agreement, entitled "Termination Date" is hereby deleted in its entirety and the following is substituted therefor:

"(vvvv) "Termination Date" means the earlier of (a) December 1, 2002 or (b) the date of termination of the Commitment pursuant to either of Section 2.3 or Section 7.1 hereof."

7. Section 3.3 of the Agreement, entitled "Condition Precedent to Additional Advance" is hereby deleted in its entirety and the following is substituted therefor:

"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, liens permitted under Section 5.3 (c) hereof, 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."

8. Section 4.2 of the Agreement is hereby deleted in its entirety and the following is substituted therefor:

"(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 (notwithstanding the foregoing, Transaction Documents that are not Loan Documents may be amended or modified without Lender's prior written consent provided that Borrower provides Lender with copies of any such amendment or modification in a timely manner after the making of any such amendment or modification), 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."

9. Section 5.3 (a) (xv) of the Agreement is hereby deleted in its entirety and the following is substituted therefor in order to correct a typographical error:

"(xv) Indebtedness not in excess of $250,000 in connection with the liens set forth in Section 5.3(c)(ix)."

10. Section 5.3 (b) (vi) is hereby added to the Agreement to read in its entirety as follows:

"(vi) transfers from one Dealership Guarantor to another Dealership Guarantor or to Borrower."

11. Section 5.3 (l) of the Agreement is hereby amended and restated in its entirety to read as follows:

"(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. 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, none of the Borrower's Subsidiaries shall issue any Equity Interests other than to the Borrower or to a wholly owned Subsidiary of Borrower."

12. Section 5.3 (c) (x) is hereby added to the Agreement to read in its entirety as follows:

"(x) previously existing Liens which encumber Equipment acquired in connection with a Permitted Acquisition."

13. Section 5.3 (h) of the Agreement is hereby deleted in its entirety and the following is substituted therefor in order to correct a typographical error:

"(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(l) and 5.3(f)."

14. Schedule 4.8 attached hereto (i) contains a description as of the date of this Amendment 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 date of this Amendment (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.

15. Borrower hereby reaffirms each representation and warranty made in the Agreement and represents that no Event of Default or Unmatured Default exists.

16. The security interest granted by Borrower to Lender under the Borrower Security Agreement and the terms and conditions of the Borrower Security Agreement shall apply equally to the indebtedness evidenced by the Note, and the covenants of the Borrower Security Agreement and the Agreement, as amended by this Amendment shall remain in full force and effect until the Principal Balance of the Note and interest thereon is paid in full and all of the obligations of Borrower to Lender under the Agreement, as amended, and the Note are fully performed and observed. Except as otherwise amended in this Amendment, the terms and conditions of the Agreement shall remain in full force and effect in accordance with the provisions thereof. The Loan may be further renewed or extended only upon such terms and conditions and at such rate of interest as the parties hereby may agree upon in writing. Furthermore, Borrower hereby reaffirms its obligations under the Borrower Guaranty.

NOTICE: UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY US AFTER OCTOBER 3, 1989, CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY US TO BE ENFORCEABLE.

IN WITNESS WHEREOF, Borrower and Lender have executed this Amendment as of the date set forth above intending to be legally bound hereby.

FORD MOTOR CREDIT COMPANY, a
Delaware corporation

By _____ B. W. Evans, National Account Manager

LITHIA MOTORS, INC.,
an Oregon corporation

By _____
M. L. Dick Heimann, President

Attest: _____
Sidney B. DeBoer, Secretary

Exhibit 10.32.1

AMENDMENT TO CREDIT AGREEMENT
(Used Vehicle Inventory Revolving Line of Credit)

THIS AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated December 1, 1999, is by and between LITHIA MOTORS, INC., an Oregon corporation ("Borrower"), whose address is 360 East Jackson Street, Medford, Oregon 97501, and FORD MOTOR CREDIT COMPANY, a Delaware corporation ("Lender"), whose address is 13555 S.E. 36th Street, Suite 280, Bellevue, Washington 98006 ("Lender's Address").

WHEREAS, pursuant to the terms of a certain Credit Agreement (the "Agreement") dated November 23, 1998, Lender made a loan to Borrower in the original principal amount of $60,000,000.00 (the "Original Loan"); and

WHEREAS, the Original Loan is evidenced by a certain Promissory Note dated November 23, 1998, made by Borrower to the order of Lender in the original principal amount of $60,000,000.00 (the "Original Note"); and

WHEREAS, Borrower has requested an increase in the principal balance of the Original Loan to $85,000,000.00 to provide financing for the Dealership Guarantor's (as defined herein) used vehicle inventory and a renewal of the Original Loan, pursuant to the terms of a certain Amended & Restated Promissory Note in the principal amount of $85,000,000.00 dated as of even date herewith and made by Borrower to the order of Lender (the "Amended Note" and with the Original Note collectively referred to as the "Note"); and

WHEREAS, Lender is willing to increase the Original Loan if and only if
(i) Borrower executes this Amendment and the Amended Note, (ii) each Dealership Guarantor reaffirms its obligations under its Dealership Guaranty and Dealership Security Agreement and under the Contribution Agreement (each as defined in the Agreement), and (iii) the Loan continues to be cross-collateralized and cross-defaulted with other Indebtedness of Borrower and Dealership Guarantors.

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Agreement is hereby amended as follows:

1. Except as modified herein, all capitalized terms used herein and in the foregoing recitals have the meanings set forth in the Agreement and the Note. The following amendments are effective as of December 1, 1999.

2. The term "Loan" shall mean the Original Loan as amended by this Amendment.

3. Section 1.1(g) of the Agreement, entitled "Applicable Commercial Paper Rate" is hereby deleted in its entirety and the following is substituted therefor:

"(g) "Applicable Commercial Paper Rate" means the Commercial Paper Rate plus two and seventy-five hundredths percent (2.75%) per annum."

4. Section 1.1 (aa) of the Agreement, entitled "Commitment" is hereby deleted in its entirety and the following is substituted therefor:

"(aa) "Commitment" means the lesser of (i) $85,000,000.00 minus the amount of any Decision Reserve in effect from time to time, (ii) 100% of the Used Vehicle Value minus the amount of any Decision Reserve in effect from time to time or (iii) any lower amount Borrower may have elected pursuant to Section 2.3 hereof."

5. Section 1.1(ff) of the Agreement, entitled "Contribution Agreement" is hereby deleted in its entirety and the following is substituted therefor:

"(ff) "Contribution Agreement" means collectively, that certain Contribution Agreement dated November 23, 1998, as amended by the Amended & Restated Contribution Agreement dated _____, 2000, as it may be amended, restated or otherwise modified and in effect from time to time, and each of those certain Binding Acknowledgments dated as of various dates and executed by Dealership Guarantors acquired pursuant to Permitted Acquisitions, and any future Binding Acknowledgments executed by Dealership Guarantors acquired pursuant to any future Permitted Acquisitions."

6. Section 1.1(rrr) of the Agreement, entitled "Note" is hereby deleted in its entirety and the following is substituted therefor:

"(rrr) "Note" means collectively, that certain Promissory Note dated November 23, 1998, from Borrower to the order of Lender in the principal amount of $60,000,000.00, as amended by the Amended & Restated Promissory Note dated _____, 2000 in the principal amount of $85,000,000.00, as it may be amended, restated or otherwise modified and in effect from time to time."

7. Section 1.1(vvvv) of the Agreement, entitled "Termination Date" is hereby deleted in its entirety and the following is substituted therefor:

"(vvvv) "Termination Date" means the earlier of (a) December 1, 2002 or (b) the date of termination of the Commitment pursuant to either of Section 2.3 or Section 7.1 hereof."

8. Section 1.1(eeeee) of the Agreement, entitled "Used Vehicle Value" is hereby restated in its entirety as follows in order to correct a typographical error:

"(eeeee) "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(p) 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."

9. Section 2.9(c) of the Agreement, entitled Commitment Fees is hereby deleted in its entirety.

10. Section 3.3 of the Agreement, entitled "Condition Precedent to Additional Advance" is hereby deleted in its entirety and the following is substituted therefor:

"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, liens permitted under Section 5.3 (c) hereof, 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."

11. Section 4.2 of the Agreement is hereby deleted in its entirety and the following is substituted therefor:

"(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 (notwithstanding the foregoing, Transaction Documents that are not Loan Documents may be amended or modified without Lender's prior written consent provided that Borrower provides Lender with copies of any such amendment or modification in a timely manner after the making of any such amendment or modification), 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."

12. Section 5.1(j) of the Agreement, entitled Used Vehicle Inventory is hereby deleted in its entirety and the following is substituted therefor:

"(j) Used Vehicle Inventory. Deliver or cause to be delivered, on each Payment Date, an itemized list of each Lithia Dealership's 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."

13. Section 5.2(p) of the Agreement, entitled Used Vehicle Ledger is hereby deleted in its entirety and the following is substituted therefor:

"(p) Used Vehicle Ledger. Borrower and/or each Dealership Guarantor shall maintain a current ledger of used vehicle inventory, noting the make, model, vehicle identification number and value of each used vehicle held in a Lithia Dealership's inventory."

14. Section 5.3 (a) (xv) of the Agreement is hereby deleted in its entirety and the following is substituted therefor in order to correct a typographical error:

"(xv) Indebtedness not in excess of $250,000 in connection with the liens set forth in Section 5.3(c)(ix)."

15. Section 5.3 (b) (vi) is hereby added to the Agreement to read in its entirety as follows:

"(vi) transfers from one Dealership Guarantor to another Dealership Guarantor or to Borrower."

16. Section 5.3 (c) (x) is hereby added to the Agreement to read in its entirety as follows:

"(x) previously existing Liens which encumber Equipment acquired in connection with a Permitted Acquisition."

17. Section 5.3 (l) of the Agreement is hereby amended and restated in its entirety to read as follows:

"(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. 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, none of the Borrower's Subsidiaries shall issue any Equity Interests other than to the Borrower or to a wholly owned Subsidiary of Borrower."

18. Section 5.3 (h) of the Agreement is hereby deleted in its entirety and the following is substituted therefor in order to correct a typographical error:

"(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(l) and 5.3(f)."

19. Section 5.4(d) of the Agreement, entitled Fixed Charge Coverage Ratio is hereby restated in its entirety as follows in order to correct a typographical error:

"(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 ("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."

20. Schedule 4.8 attached hereto (i) contains a description as of the date of this Amendment 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 date of this Amendment (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.

21. Borrower hereby reaffirms each representation and warranty made in the Agreement and represents that no Event of Default or Unmatured Default exists.

22. The security interest granted by Borrower to Lender under the Borrower Security Agreement and the terms and conditions of the Borrower Security Agreement shall apply equally to the indebtedness evidenced by the Note, and the covenants of the Borrower Security Agreement and the Agreement, as amended by this Amendment shall remain in full force and effect until the Principal Balance of the Note and interest thereon is paid in full and all of the obligations of Borrower to Lender under the Agreement, as amended, and the Note are fully performed and observed. Except as otherwise amended in this Amendment, the terms and conditions of the Agreement shall remain in full force and effect in accordance with the provisions thereof. The Loan may be further renewed or extended only upon such terms and conditions and at such rate of interest as the parties hereby may agree upon in writing. Furthermore, Borrower hereby reaffirms it obligations under the Borrower Guaranty.

NOTICE: UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY US AFTER OCTOBER 3, 1989, CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY US TO BE ENFORCEABLE.

IN WITNESS WHEREOF, Borrower and Lender have executed this Amendment as of the date set forth above intending to be legally bound hereby.

FORD MOTOR CREDIT COMPANY, a
Delaware corporation

By _____ B. W. Evans, National Account Manager

LITHIA MOTORS, INC.,
an Oregon corporation

By _____
M. L. Dick Heimann, President

Attest: _____

Sidney B. DeBoer, Secretary

Exhibit 10.34

LEASE AGREEMENT

This Lease is made as of this 14th day of May, 1999, between MORELAND PROPERTIES, LLC ("Landlord") and LITHIA REAL ESTATE, INC. ("Tenant")

For and in consideration of the mutual covenants contained herein, Landlord and Tenant agree as follows:

1. LEASE DATA; DEFINITIONS. Whenever used in this Lease, the following terms shall have the meanings indicated below.

1.1 Applicable Laws. Any law, ordinance, code, order, rule or regulation of any Governmental Authority.

1.2 Commencement Date. May 14, 1999

1.3 Expiration Date. May 31, 2009, subject to extension in accordance with Section 4 hereof.

1.4 Governmental Authority. The United States, the State of Colorado, and any political subdivision thereof or any local public or quasi-public authority, agency, department, commission, board, bureau or instrumentality of any of them including, with respect to matters pertaining to insurance, rating bureaus or insurance carriers to the extent they have power to impose conditions on the issuance of policies or the coverage thereof.

1.5 Notice Addresses.

Landlord: Moreland Properties, LLC
2727 S. Havana
Aurora, Colorado 80014

Tenant: Lithia Real Estate, Inc.
360 E. Jackson St.
Medford, Oregon 97501

Landlord or Tenant may change its Notice Address in the manner set forth in Section 20.5.

1.6 Premises. That certain real property located in Arapahoe County, Colorado, legally described in Exhibit A hereto, together with all improvements and fixtures thereon.

1.7 Rent. The Rent payable hereunder as set forth in Section 3 and 4 hereof.

1.8 Term. A ten (10) year period commencing on the Commencement Date and expiring on the Expiration Date, subject to Tenant's right to extend the Term for eight (8) additional five (5) year renewal terms in accordance with Section 4 hereof.

2. LEASE OF PREMISES. Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, the Premises during the Term hereof, upon the terms and conditions contained herein.

3. RENT.

3.1 Initial Rent. Tenant shall pay Rent for the Premises in equal monthly installments initially of Thirty-Two Thousand, Five Hundred Dollars ($32,500) per month, in advance on the first (1st) day of each calendar month included in the Term, as the same may be extended. All Rent shall be paid in lawful money of the United States at the address of Landlord set forth in this Lease or at such other place as Landlord in writing may designate, without notice, offset, demand, or deduction (except as otherwise set forth herein). For any portion of a calendar month included at the beginning or end of the Term, Tenant shall pay the prorata portion of the Rent installment for each day of such portion, payable in advance at the beginning of such portion. All monies to be paid under this Lease by Tenant to Landlord will be Additional Rent, and will be due and payable without offset, demand, or deduction, and Landlord will have the same remedies for Tenant's failure to pay the Additional Rent as for the nonpayment of Rent.

3.2 Rent Adjustment. Commencing on the fifth anniversary of the Commencement Date and thereafter annually on each subsequent anniversary of the Commencement Date during the original ten (10) year Term of this Lease, monthly Rent payable hereunder shall be increased from that payable in the immediately preceding lease year by the lesser of (i) two percent (2%), or (ii) the same percentage as the increase, if any, in the Consumer Price Index "U.S. City Average, All Items, All Urban Consumers, 1982-1984" published by the United States Department of Labor, Bureau of Labor Statistics (the "CPI"), during the immediately preceding lease year, determined by comparing the CPI most recently published on the first day of the immediately preceding lease year and that most recently published at the end of said preceding lease year. In no event shall Rent increase by more than two percent (2%) during any single year. In the event the CPI shall hereafter be converted to a different standard reference base or otherwise revised, the determination of the percentage increase shall be made with the use of such conversion factor, formula, or table for converting such index as may be published by the Bureau of Labor Statistics. If publication of the index is discontinued, the parties hereto shall select another index which best measures inflation in the Denver, Colorado area for purposes of making these calculations.

3.3 Interest. In the event any Rent or Additional Rent is not paid within ten (10) days of when due, the amount so unpaid shall bear interest at the rate of one percent (1%) per month until paid.

4. OPTIONS TO RENEW.

4.1 Extension of Term. Tenant shall have the options to renew this Lease and to extend the Term hereof for eight (8) additional, consecutive five
(5) year terms. Tenant may exercise the renewal options by giving written notice to Landlord not less than one hundred eighty (180) days prior to the expiration of the then-current term. The first renewal term shall commence on the date following the expiration of the original term, and subsequent renewal terms shall commence on the day following the expiration of the previous renewal term. All terms and conditions of this Lease shall remain the same during the renewal term(s), except that Rent to be paid hereunder shall be as provided for in
Section 4.2 hereof. The parties acknowledge that time is strictly of the essence in this Lease, such that if Tenant does not timely give notice of such renewal, Tenant's rights to renew as set forth in this section will immediately terminate and be of no further force or effect.

4.2 Renewal Term Rent.

(a) First Renewal Term. On the first day of the first renewal term (if any), monthly Rent payable hereunder shall be increased from that payable for the first five (5) years of the original lease term in accordance with Section 3.1 by the lesser of (i) twenty-five percent (25%), or (ii) the same percentage as the increase, if any, in the CPI during the last five (5) years of the original lease term, determined by comparing the CPI most recently published as of the fifth anniversary of the Commencement Date, and that most recently published at the end of the original lease term. In no event shall Rent increase by more than five percent (5%) during any single year within the applicable term or twenty-five percent (25%) during the entire said term.

(b) Subsequent Renewal Terms. On the first day of subsequent renewal terms (if any), monthly Rent payable hereunder shall be increased from that payable in the immediately preceding renewal term by the lesser of (i) twenty-five percent (25%), or (ii) the same percentage as the increase, if any, in the CPI during the immediately preceding renewal term, determined by comparing the CPI most recently published at the commencement date of the immediately preceding renewal term and that published at the end of said preceding renewal term. In no event shall Rent increase by more than five percent (5%) during any single year within the applicable renewal term or twenty-five percent (25%) during the entire said renewal term.

5. USE.

5.1 Permitted Use. Tenant may use the Premises for the operation of automobile dealerships, servicing facilities, and related uses, and for no other purpose without Landlord's prior written consent, which consent may be withheld in Landlord's sole and absolute discretion.

5.2 Operations. Tenant shall comply with all Applicable Laws affecting the use of the Premises. Tenant shall not commit or allow to be committed any waste upon the Premises, or any public or private nuisance or other act or thing which disturbs the quiet enjoyment of any

other tenants. Tenant shall, within five (5) days after receipt of Landlord's written request, provide Landlord with copies of all documents and information, including but not limited to permits, registrations, manifests, applications, reports and certificates, evidencing Tenant's compliance with any Applicable Laws specified by Landlord, and shall immediately upon receipt, notify Landlord in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Tenant or the Premises to comply with any Applicable Laws.

5.3 Landlord's Inspection. Landlord, prospective purchasers, prospective lenders, and the holders of any mortgages, deeds of trust, option agreements, or ground leases, or another prior right on the Premises, and their agents, employees, contractors and designated representatives, shall have the right to enter the Premises at any time in the case of an emergency, and otherwise at reasonable times following reasonable notice to Tenant, for any reasonable purpose of Landlord or such parties, including, without limitation, to examine the Premises, to exhibit the Premises to others, or for the purpose of performing any obligation of Landlord under this Lease or exercising any right or remedy reserved to Landlord in this Lease. Landlord shall exercise its rights under this section at such times and in such a manner as to minimize interference with Tenant and its operations on the Premises. If Tenant shall not be personally present to open and permit an entry into the Premises at any time when such entry by Landlord is necessary or permitted hereunder, Landlord may enter by means of a master key without liability to Tenant and without affecting this Lease. Such entry shall not be construed as a manifestation by Landlord of an intent to terminate this Lease. Tenant shall not, without the prior consent of Landlord, change the locks or install additional locks on any entry door or doors to the building.

6. HAZARDOUS SUBSTANCES.

6.1 Tenant's Compliance. Tenant shall not, other than in full compliance with all Applicable Laws and as is necessary for the conduct of Tenant's business in the ordinary course, engage in any activity in or about the Premises involving (i) the installation or use of any above or below ground storage tank, or (ii) the generation, possession, use, storage, transportation or disposal of Hazardous Substances. Tenant shall, at Tenant's sole cost and expense, fully, diligently and in a timely manner, comply with all "Applicable Requirements," which term is used in this Lease to mean all laws, rules, regulations, ordinances, directives, covenants, easements and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Landlord's engineers and/or consultants, relating in any manner to the Premises (including but not limited to matters pertaining to (i) industrial hygiene, (ii) environmental conditions on, in, under or about the Premises, including soil and groundwater conditions, and (iii) the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill, or release of any Hazardous Substances), now in effect or which may hereafter come into effect. Tenant shall, within five (5) days after receipt of Landlord's written request, provide Landlord with copies of all documents and information, including but not limited to permits, registrations, manifests, applications, reports and certificates, evidencing Tenant's compliance with any Applicable Requirements specified by Landlord, and shall immediately upon receipt, notify Landlord in writing (with copies of any

documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Tenant or the Premises to comply with any Applicable Requirements.

6.2 Indemnification. Tenant hereby agrees, at its sole cost and expense, to be directly responsible for and to indemnify, protect, defend and hold Landlord, its directors, officers, employees, and agents, option, harmless from and against any and all losses, damages (whether direct or consequential), liabilities, judgments, costs, claims, liens, expenses, fines, injunctions, suits, proceedings, disbursements, penalties, loss of permits, attorneys', experts' and consultants' fees and disbursements, and court costs arising out of or involving any Hazardous Substance brought onto the Premises by or for Tenant, its agents, contractors, subcontractors, independent contractors, employees, invitees, licensees, or by anyone under Tenant's control, in violation of this section or as a result of a breach of Tenant's covenant set forth in Section 6.1 above. Tenant's obligations under this Section 6.2 shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Tenant, and the cost of investigation (including consultants' and attorneys' fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Landlord and Tenant shall release Tenant from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Landlord in writing at the time of such agreement.

6.3 Landlord's Representations. Except as set forth on Schedule 6.3 attached hereto, Landlord hereby represents, warrants, and covenants to Tenant that, as of the date of mutual execution of this Lease, to the actual, present knowledge of Landlord, without investigation: (i) except in full compliance with all Applicable Laws, no Hazardous Substances (a) have been used, treated, stored, disposed of, released, spilled, generated, manufactured, or otherwise handled on the Premises, or transported to or from the Premises, (b) have been spilled, released, intruded, leached, or disposed of from the Premises onto adjacent property, or (c) have otherwise come to be located on or beneath the Premises; (ii) the Premises and all operations conducted thereon have been in full compliance with all applicable Environmental Laws; (iii) no liens have been placed on the Premises under any Environmental Laws, and Landlord has no actual, present knowledge, without investigation, of any threatened or pending liens; and (iv) Landlord has received no written notice and has no actual, present knowledge, without investigation, of any administrative or judicial investigations, proceedings, or actions with respect to violations, alleged or proven, of any Environmental Laws by Landlord or otherwise involving the Premises or the operations conducted thereon. Landlord hereby agrees, at its sole cost and expense, to indemnify, protect, defend, and hold Tenant, its directors, officers, employees, and agents, harmless from and against any and all losses, damages (whether direct or consequential), liabilities, judgments, costs, claims, liens, expenses, fines, injunctions, suits, proceedings, disbursements, penalties, loss of permits, attorneys', experts' and consultants' fees and disbursements, and court costs arising as a result of a breach by Landlord of any representations and warranties contained in this Section 6.3.

6.4 Definitions. For purposes of this Lease, the terms "Environmental Laws" and "Hazardous Substances" shall have the following meanings: (i) Environmental Laws - All federal, state, and local statutes, regulations, ordinances, directives, and rules pertaining to the protection of human health or the environment that are applicable to the Premises, including, without limitation, the Comprehensive Environmental Response, Compensation and Recovery Act of 1980, as amended, the Resource Conservation and Recovery Act of 1976, the Superfund Amendments and Reauthorization Act of 1986, as amended, and the Hazardous Materials Transportation Act, together with all regulations pertaining thereto; (ii) Hazardous Substances - All dangerous, toxic, or hazardous pollutants, contaminants, chemicals, waste, materials, or substances as defined in or governed by the provisions of any Environmental Laws, including, without limitation, polychlorinated biphenyls, dioxin, nuclear fuel or waste, and petroleum and its fractions, or any other waste, substance, pollutant, or contaminant which would subject the owner or operator of the Premises to any damages, penalties, or liabilities under any applicable Environmental Laws.

7. MAINTENANCE AND REPAIR.

7.1 Tenant's Obligation. Tenant agrees, throughout the Term of this Lease, including any extensions or renewals hereof, to maintain and repair the Premises in good order and condition, to keep the Premises clean and to remove all refuse, trash and debris therefrom, and to surrender the Premises in the same order and repair as at the commencement of the Term of this Lease, reasonable wear and tear and damage by condemnation excepted, upon the expiration or sooner termination of the Term of this Lease, and to comply with all Applicable Laws and notices issued by any Governmental Authority having jurisdiction of the Premises, as well as with the reasonable recommendations with respect to Tenant's use and occupancy of the Premises made by insurance carriers insuring the Premises. Without limiting the generality of the foregoing, Tenant, at Tenant's sole cost and expense, shall provide (i) maintenance, repair, and replacement of the electrical, heating, plumbing, elevators, sprinkler and air conditioning systems in the Premises; (ii) repair, maintain, and replace all exterior and interior doors, windows, partitions, lighting, glass, floor surfaces, entry ways, roof, and parking areas; and (iii) generally keep and maintain the Premises, both interior and exterior, structural or nonstructural, in good repair and condition.

7.2 Compliance with Laws. Tenant shall comply with and make all repairs, alterations, additions or replacements to the Premises, including appurtenances, equipment, facilities and fixtures therein, to fully comply with any Applicable Law, and shall keep the Premises equipped with all safety appliances so required because of such use or occupancy, and otherwise to comply with the orders and regulations of any Governmental Authority.

7.3 Condition of Premises. Landlord hereby represents, warrants, and covenants to Tenant that, as of the date hereof, to the actual, present knowledge of Landlord, without investigation, the structural portions of the improvements on the Premises, including, without limitation, the roof, downspouts, gutters, foundation, and structural supports, are in good condition and repair.

8. ALTERATIONS. Except as otherwise set forth herein, Tenant may make non-structural, cosmetic alterations to the Premises that do not affect any building systems without the prior consent of Landlord. All other alterations, subdivisions, installations, decorations, sign installations, improvements, additions or other physical changes in or about the Premises, including those which are necessary to satisfy any Applicable Laws, may only be done with Landlord's prior written consent, which consent shall not unreasonably be withheld or delayed, subject to Section 20.18. Landlord may condition its consent to an alteration upon Tenant's removal of the alteration at the expiration or earlier termination of this Lease. In the event Tenant makes an alteration without first obtaining Landlord's consent as required by this section, without limiting any other remedies available to Landlord, Landlord may notify Tenant and require removal of the alteration at the end of the term of this Lease. Any such alterations by Tenant during the term of this Lease shall be done in a good and workmanlike manner, with good and sufficient materials, and be in compliance with all Applicable Laws. Upon removal of an alteration, Landlord shall repair any damage caused by such removal.

9. INSURANCE.

9.1 Liability Insurance. Tenant shall obtain and keep in force during the term of this Lease a commercial general liability policy of insurance protecting Tenant and Landlord, as an additional insured, against claims for bodily injury, personal injury, and property damage based upon, involving, or arising out of the ownership, use, occupancy, maintenance, or repair of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than $2,000,000 per occurrence, which coverage limit may be increased by Landlord during the term hereof as commercially reasonable by notice to Tenant, and Tenant will obtain such increased insurance coverage within thirty (30) days of such notice. Tenant will also obtain an excess liability umbrella insurance coverage policy in an amount not less than $10,000,000, naming Landlord as an additional insured.

9.2 Casualty Insurance. Tenant shall also obtain and keep in force during the Term of this Lease a policy or policies insuring against loss or damage to the Premises and all improvements thereon, naming Landlord as the loss payee. Such insurance shall be for full replacement cost, as the same shall exist from time to time, and shall name Landlord and any lenders of Landlord as additional insureds.

9.3 Personal Property Insurance. Tenant, at its cost, shall either by separate policy or by endorsement to a policy already carried, maintain insurance coverage on all personal property, trade fixtures and alterations in, on, or about the Premises. Such insurance shall be full replacement cost coverage with a deductible not to exceed $1,000 per occurrence. The proceeds from any such insurance shall be used for the replacement of personal property and the restoration of fixtures and alterations.

9.4 Garage Keeper's Insurance. Tenant shall also obtain and keep in force during the Term of this Lease a Garage Keeper's insurance policy or policies in an amount not less than $400,000 per occurrence.

9.5 Insurance Policies. Insurance required hereunder shall be from companies duly licensed to transact business in the state in which the Premises are located, and maintaining during the policy term a 'General Policyholders Rating' of at least B +, V, as set forth in the most current issue of 'Best's Insurance Guide', or such commercially reasonable greater rating that may be specified by Landlord from time to time. Neither party shall do or permit to be done anything which shall invalidate the insurance policies referred to in this section. Upon reasonable request by Landlord or Tenant, the other party shall deliver to the requesting party, within seven (7) days, certified copies of, or certificates evidencing the existence and amounts of, the insurance required under this section. No such policy may be cancelable or subject to modification except after thirty (30) days' prior written notice to the other party. Nothing herein shall prevent Tenant from maintaining the insurance required hereunder by a blanket or umbrella policy or policies obtained by Tenant or Tenant's parent or affiliated entity. In the event of any claim under any insurance policies, Tenant will promptly pay the deductible.

9.6 Waiver of Subrogation. Without affecting any other rights or remedies, Tenant and Landlord each hereby release and relieve the other, and waive their entire right to recover damages (whether in contract or in tort) against the other, for loss or damage to their property arising out of or incident to the perils insured against under this Section 9, but only to the extent of available insurance proceeds. Landlord and Tenant agree to have their respective insurance companies issuing property damage insurance waive any right to subrogation that such companies may have against Landlord or Tenant, as the case may be, so long as the insurance is not invalidated thereby.

9.7 Exemption of Landlord from Liability. Landlord shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Tenant, Tenant's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said injury or damage results from conditions arising upon the Premises or from other sources or places, except for any such damage or injury that arises out of Landlord's negligence or breach of this Lease that is not otherwise insured.

10. TAXES. Tenant shall pay prior to delinquency all taxes and assessments which may be levied upon or assessed against the Premises, and all taxes or assessments levied upon or assessed against the improvements situated thereon, together with all taxes levied upon or assessed against the personal property, fixtures, or equipment situated upon the Premises; provided, however, that any taxes or assessments which may be levied or assessed for a period beginning prior to the Commencement Date or ending after the Expiration Date shall be prorated between Landlord and Tenant as of such date or dates. Tenant shall not be obligated to pay any income tax or other tax, assessment, or charge which may be levied or become due by reason of the rents and profits received by Landlord as a result of this Lease.

11. DAMAGE. In the event of damage to or destruction of the Premises, or to any portion thereof, caused by fire or other casualty, and if such damage or destruction cannot be

restored as determined by mutual agreement of Landlord and Tenant within one hundred twenty (120) days after commencement of the work to the condition as existed immediately prior to such damage or destruction, then Tenant shall have the right to terminate this Lease by notice to Landlord given no less than thirty (30) days from the date of such casualty. If Landlord and Tenant are unable to agree whether the Premises can or should be restored, such determination will be submitted to arbitration pursuant to Section 21. If Tenant elects to so terminate, this Lease shall terminate on the date specified in Tenant's termination notice to Landlord, which termination date shall be no earlier than thirty (30) days nor later than one hundred-eighty (180) days after the date of such casualty, and Tenant shall pay the Rent and all Additional Rent to that date. If this Lease is not so terminated, Landlord shall, at its sole cost and expense, promptly repair such damage and restore the Premises to the condition that existed immediately prior to such damage. If the damage to the Premises or Landlord's repair thereof renders the Premises untenantable for a period in excess of nine (9) months from the date of the casualty and the Premises are not actually used by Tenant, Rent payable hereunder shall be abated following such nine (9) month period to the extent the Premises are untenantable and are not actually used by Tenant until the Premises are rendered tenantable and available for use by Tenant.

12. EMINENT DOMAIN.

12.1 Entire Taking. If all of the Premises are taken by eminent domain, this Lease shall automatically terminate as of the date title vests in the condemning authority and all Rents, Additional Rents and other payments shall be paid to that date. Sale by Landlord of all or part of the Premises to a purchaser with the power of eminent domain in the face of a threat or probability of the exercise of the power shall be treated for the purposes of this section as a taking by condemnation, and shall be subject to the terms of this section.

12.2 Constructive Taking of Entire Premises. In the event of a taking of a part but less than all of the Premises, where Tenant and Landlord mutually agree that the remaining portions of the Premises cannot be economically and effectively used by Tenant (whether on account of physical, economic, aesthetic or other reasons), Tenant may elect to terminate this lease by delivering a written notice to Landlord of such election not more than sixty
(60) days after the date of taking. The term of this Lease shall expire upon such date as Tenant shall specify in the notice but not earlier than sixty (60) days after the date of such notice.

12.3 Partial Taking. In case of taking of a part of the Premises, or a portion thereof not required for the reasonable use of the Premises, as mutually determined by Landlord and Tenant, then this Lease shall continue in full force and effect and Rent shall be equitably reduced effective as of the date title to such portion vests in the condemning authority.

12.4 Awards and Damages. Landlord reserves all rights to damages to the Premises for any partial, constructive, or entire taking by eminent domain, and Tenant hereby assigns to Landlord any right Tenant may have to such damages or award. Tenant shall have the right, however, to make a separate claim and recover a separate award from the condemning authority for compensation for any loss incurred for Tenant's moving expenses, business

interruption, taking of Tenant's personal property, equipment and trade fixtures. In addition, if the taking occurs during the first fifteen (15) years of the term of this Lease, Tenant shall be entitled to a portion of any award equal to the depreciated book value as of the date of the taking of any leasehold improvements owned by Tenant at the Commencement Date (but not any improvements made or installed after the Commencement Date).

12.5 Dispute. In the event the Landlord and Tenant cannot agree pursuant to Section 12.2 and 12.3 above, the issue of whether the Premises can be economically and effectively used by Tenant will be submitted to arbitration pursuant to Section 21.

13. DEFAULTS AND REMEDIES.

13.1 Default By Tenant. If at any time Tenant shall fail to remedy any default in the payment of Rent due under this Lease within fifteen (15) days after the date of written notice from Landlord of any such failure, or shall fail to remedy any default in any of the other provisions, covenants or conditions of this Lease to be kept or performed by Tenant within a period of thirty (30) days after the date of written notice from Landlord, Landlord shall have the right to pursue any remedy available to Landlord at law or in equity or as set forth in Section 13.2 hereof on account of such default. Provided, however, that if such default cannot reasonably be cured within said thirty (30) day period, Tenant shall not be in default of this Lease if Tenant commences curative action within said thirty (30) day period and diligently, continuously without interruption, and in good faith continues to pursue the same to completion. Provided, further, that Landlord shall not be required to deliver to Tenant notice of Tenant's default under the same Lease provision more than two
(2) times in any twelve (12) month period.

13.2 Remedies of Landlord.

(a) Termination. If a default has occurred in accordance with the preceding subsection, then Landlord may, without notice, institute summary proceedings, terminate all services, dispossess Tenant and the legal representative of Tenant or other occupants of the Premises, and remove their effects and hold the Premises as if this Lease had not been made, and Tenant shall remain liable for damages as provided herein.

(b) Landlord's Re-entry. Upon default, Landlord, in addition to any other rights or remedies it may have, at its option, may enter the Premises or any part thereof, either with or without process of law, and expel, remove or put out Tenant or any other persons who may be thereon, together with all personal property found therein. Landlord may also terminate this Lease, or it may from time to time, without terminating this Lease and as agent of Tenant, re-let the Premises or any part thereof for such term or terms (which may be for a term less than or extending beyond the term hereof), with the right to repair, renovate, remodel, redecorate, alter and change the Premises, Tenant remaining liable for any deficiency computed as hereinafter set forth. In the case of any default, re-entry and/or dispossession by summary proceedings or otherwise, all Rent shall become due thereupon and be paid up to the time of such re-entry or dispossession, together with such expenses as Landlord may incur in connection with such default for attorneys fees, advertising

expenses, brokerage fees and/or putting the Premises in good order or preparing the same for re-rental.

(c) Re-letting the Premises. At the option of Landlord, rents received by Landlord from such re-letting shall be applied first to the payment of any indebtedness from Tenant to Landlord other than Rent due hereunder; second, to the payment of any costs and expenses of such re-letting and including, but not limited to, attorneys fees, advertising fees and brokerage fees, and to the payment of any alteration and changes in the Premises; third, to the payment of Rent due and to become due hereunder, and, if after so applying said rents there is any deficiency in the Rent to be paid by Tenant under this Lease, Tenant shall pay any deficiency to Landlord monthly on the dates specified herein and any payment made or suits brought to collect the amount of the deficiency for any month shall not prejudice in any way the right of Landlord to collect the deficiency for any subsequent month. In no event shall Tenant be entitled to receive any excess of net rents collected over sums payable by Tenant to Landlord hereunder. No such re-entry or taking possession, of the Premises shall be construed as an election on Landlord's part to terminate this Lease unless a written notice of such intention be given to Tenant. Notwithstanding any such re-letting without termination, Landlord may at any time thereafter elect to terminate this Lease for such previous default. Should Landlord at any time terminate this Lease by reason of such default, in addition to any other remedy it may have, it may recover from Tenant as damages the amount of Rent reserved in this Lease for the balance of the Term, as it may have been extended, over the then fair market rental value of the Premises for the same period, plus all court costs and attorneys' fees incurred by Landlord in the collection of the same.

13.3 Default by Landlord. Landlord shall be in default under this Lease if Landlord fails or refuses to perform any of Landlord's obligations under this Lease within thirty (30) days after notice of the default has been given by Tenant to Landlord and the holder of any Encumbrance (as hereinafter defined) of which Tenant has been given written notice. If the default cannot reasonably be cured within said thirty (30) day period, Landlord shall not be in default of this Lease if Landlord or the holder of any encumbrance commences to cure the default within said thirty (30) day period and diligently and in good faith continues to pursue the same to completion. Should Landlord fail to pay or discharge any obligation which Landlord is obligated under this Lease to pay or discharge, Tenant shall have the right, but not the obligation, at any time to pay or discharge any such obligation. Should Tenant elect to pay or discharge any such obligation, Landlord shall, upon demand, reimburse Tenant for the full amount thereof, together with interest at the rate of ten percent (10%) per annum as well as Tenant's expenses incurred in connection therewith, including reasonable attorney's fees.

13.4 Trial by Jury. Landlord and Tenant shall and hereby do waive trial by jury in any action, proceeding or counterclaim brought by either of the parties hereto against the other arising out of or in any way connected with this Lease, the relationship of landlord and tenant, Tenant's use or occupancy of the Premises, and any emergency statutory or any other statutory remedy.

13.5 Holdover by Tenant. In the event Tenant remains in possession of any portion of the Premises after the expiration of the Term without the written permission of

Landlord, Tenant shall be deemed to be occupying such portion of the Premises as a tenant from month to month, at a monthly rental equal to 200% of the monthly installment of Rent payable during the last month of the Term, subject to all the other conditions, provisions and obligations of this Lease insofar as the same are applicable to a month-to-month tenancy.

13.6 Waiver of Default. No consent or waiver, express or implied, by Landlord or Tenant to or of any breach of any covenant, condition, or duty of the other shall be construed as a consent or waiver to or of any other breach of the same or any other covenant, condition, or duty of the other party, unless in writing signed by the party against whom waiver is sought.

14. ASSIGNMENT, SUBLETTING. Tenant may assign this Lease or sublet all or any portion of the Premises to any entity that is owned at least seventy-five percent (75%) by Lithia Motors, Inc. without the prior consent of, but with prior written notice to, Landlord. Tenant may so assign or sublet to any other party only with the prior consent of Landlord, which consent shall not unreasonably be withheld or delayed if the proposed assignment or subletting is in connection with the sale of the business located on the Premises, subject to Section 20.18, but otherwise may be withheld in Landlord's sole and absolute discretion in all other circumstances, and provided further that: (1) such consent to any assignment or subletting shall not relieve Tenant from its obligations as primary obligor (and not as surety or guarantor) for the payment of all rental due hereunder, and for the full and faithful observance and performance of the covenants, terms and conditions herein contained; (2) the proposed subtenant or assignee is engaged in a business and the Premises will be used in a manner which is in keeping with the use provisions contained herein; (3) the proposed subtenant or assignee is a reputable party of reasonable financial worth in light of the responsibilities involved, and Tenant shall have provided Landlord with reasonable proof thereof; (4) Tenant is not in default hereunder at the time it makes its request; and (5) Landlord's obligation not to unreasonably withhold consent to an assignment in connection with a sale of the business is subject to Section 20.18. Any dissolution, merger, consolidation or other reorganization of Tenant, or the sale or transfer of a controlling percentage of the corporate stock of Tenant, shall constitute and be deemed an assignment for purposes of this section. Consent by Landlord to an assignment or subletting shall not be construed to relieve Tenant from obtaining the consent of Landlord to any further assignment or subletting, nor shall the collection of Rent by Landlord from any assignee, subtenant or other occupant be deemed a waiver of this covenant or an acceptance of the assignee or subtenant as Tenant or a release of Tenant from the covenants in this Lease on Tenant's part to be performed. Tenant and any assignee or subtenant shall be jointly and severally liable for the obligations of this Lease. Tenant shall not permit any part of the Premises to be used or occupied by any persons other than Tenant and the employees of Tenant, nor shall Tenant permit any part of the Premises to be used or occupied by any licensee or concessionaire, or permit any persons to be upon the Premises other than Tenant, and employees, customers and others having lawful business with Tenant.

15. RIGHT OF REFUSAL TO PURCHASE. During the Term hereof, should Landlord receive a bona fide offer from any third party to purchase the Premises which Landlord desires to accept, Landlord shall, before accepting such offer, notify Tenant in writing of all of the terms and conditions thereof and shall first offer in writing to sell the Premises to Tenant upon the

same terms and conditions. Upon receipt of any such notice and offer from Landlord, Tenant shall have twenty (20) days thereafter within which to accept the same. Should Tenant fail to accept any such offer within said twenty (20) day period, Landlord shall be free to sell the Premises to the original offeror upon the same terms and conditions offered to Tenant without further notice to Tenant, which sale shall be subject to this Lease, except that Tenant's right of first refusal contained herein shall thereupon terminate. Should Landlord, after having made such offer to Tenant as above-described, fail to sell the Premises to the original offeror upon the same terms and conditions offered to Tenant within one hundred-eighty (180) days of making such offer to Tenant, Landlord shall give Tenant notice in the manner set forth above of any further or different offers received by Landlord for the purchase of the Premises and shall first offer to sell the same to Tenant upon the same terms and conditions before accepting any such further or different offer. In the event Tenant does not exercise its right to purchase the Premises and the same is sold in accordance with this section to the original offeror, Tenant's rights under this section shall terminate upon such sale. The foregoing notwithstanding, Tenant's right of first refusal contained in this section shall not be effective and shall not apply in the event of, and Landlord shall not be required to first offer to sell the Premises to Tenant prior to: (a) the transfer of the Premises to and among (i) entities or trusts, directly or indirectly owned, controlled, controlling, or under common control by or with Landlord, (ii) W. Douglas Moreland or Carol Moreland, or any person who is a descendant, by blood relation or adoption, of W. Douglas Moreland or Carol Moreland, or any spouse or adopted child of any of the foregoing (the "Related Parties"), or (iii) any entity or trust, directly or indirectly owned, controlled, controlling, or under common control by or with Landlord or one or more Related Parties; (b) the granting of a bona fide mortgage, deed of trust, ground lease, or other financing arrangement, or the foreclosure or deed in lieu of foreclosure thereunder; or (c) the exercise by any holder of any prior rights in and to the Premises, including, without limitation, any option holders; provided, however, that any such transfer of the Premises shall be subject to this Lease, including Tenant's right of first refusal contained herein.

16. TENANT FINANCING

16.1 Leasehold Mortgages. Tenant shall have the unrestricted right to mortgage or otherwise encumber its leasehold interest under this Lease. Tenant shall notify Landlord of the existence, identity, and address of any Leasehold Mortgagee, and shall provide Landlord with a copy of all recorded instruments constituting the Leasehold Mortgage.

16.2 Protection of Leasehold Mortgagees. So long as any such Leasehold Mortgage shall remain unsatisfied of record, the following provisions shall apply:

(a) No cancellation, surrender or modification of this Lease shall be effective as to any Leasehold Mortgagee unless consented to in writing by such Leasehold Mortgagee.

(b) Landlord, upon providing Tenant any notice of (i) a default under this Lease, (ii) a termination of this Lease, or (iii) a matter on which Landlord may predicate or

claim a default, shall at the same time provide a copy of such notice to every Leasehold Mortgagee of which Landlord has been provided notice in accordance with this section. No such notice by Landlord to Tenant shall be deemed to have been duly given unless and until a copy thereof has been so provided to every Leasehold Mortgagee of which Landlord has been provided notice in accordance with this section. From and after the date such notice has been given to Leasehold Mortgagee, such Leasehold Mortgagee shall have the same period, after the giving of such notice upon it, for remedying any default or acts or omissions which are the subject matter of such notice which can be remedied by such Leasehold Mortgage, or causing the same to be remedied, as is given Tenant after the giving of such notice to Tenant. Landlord shall accept such performance by or at the instigation of such Leasehold Mortgagee as if the same had been done by Tenant.

(c) In the event a Leasehold Mortgage acquires Tenant's leasehold interest under this Lease by foreclosure of the Leasehold Mortgage or otherwise, Landlord agrees to recognize said Leasehold Mortgage as the tenant hereunder, subject to all of the terms and conditions of this Lease, including, without limitation, the subordination provisions in Section 18 hereof.

(d) Subject always to Section 20.18 hereof, Landlord agrees to consent to any commercially reasonable amendment to this Lease as may be reasonably requested by any Leasehold Mortgagee of Tenant. If Landlord and Tenant disagree as to the reasonableness of such a request, the dispute shall be submitted to arbitration pursuant to Section 21.

17. LANDLORD'S WAIVER. If Tenant (or its affiliated or related entities) shall acquire trade fixtures, equipment, machinery, inventory, or other goods and effects ("Personal Property") subject to a purchase money security interest, or shall lease any of the same, or if any lender provides Tenant with financing, the proceeds of which are intended to enable Tenant to use and occupy the Premises or to operate Tenant's business, and such financing is secured in whole or in part by a lien on such Personal Property, Landlord shall, upon request from Tenant, execute a waiver, in a commercially reasonable form and content acceptable to the holders of any such security interest or the lessor under any such lease, of any right it may have to distrain upon or secure a lien against such Personal Property for Tenant's failure to pay Rent, or any other event of default under the terms, covenants, conditions and provisions of this Lease, and to allow the holders of any such security interest or the lessor under any such lease to remove such Personal Property from the Premises.

18. MORTGAGE PRIORITY; SUBORDINATION. It is agreed that this Lease may, at the option of Landlord, be made subordinate to any ground or underlying leases, mortgages, or deeds of trust which may hereafter affect the real property of which the Premises forms a part, and that Tenant, or Tenant's successors-in-interest, will execute and deliver upon the demand of Landlord, any and all instruments reasonably requested by Landlord subordinating this Lease to such lease, mortgage, or deed of trust. Tenant's agreement to subordinate this Lease is subject to and is conditioned upon its receipt from the holder or any such lease, mortgage, or deed of trust, a commercially reasonable form of non-disturbance agreement, that provides that, as long as Tenant

pays the rent and observes and performs all of the provisions of this Lease, and as long as the Lease is not otherwise terminated pursuant to its terms, no foreclosure, deed given in lieu of foreclosure, or sale pursuant to the terms of such lease, mortgage, or deed of trust, or other steps or procedures taken thereunder, shall affect Tenant's rights under this Lease. Tenant agrees that, at the option of the landlord under any ground lease hereafter affecting the real property of which the Premises forms a part, Tenant will attorn to said landlord in the event of the termination or cancellation of such ground lease and, if requested by said landlord, enter into a new lease with said landlord (or a successor ground lessee designated by said landlord) for the balance of the term then remaining under this Lease upon the same terms and conditions as those herein provided. In the event of foreclosure or exercise of power of sale under any mortgage or deed of trust hereafter affecting the real property of which the Premises forms a part, the holder of any such mortgage or deed of trust (or purchaser at any sale pursuant thereto) will have the option of (a) supplementing this section to require Tenant to attorn to such holder or purchaser, or to enter into a new lease with such holder or purchaser (as landlord) for the balance of the term then remaining under this Lease upon the same terms and conditions as those provided in this Lease, or (b) notwithstanding this section, to elect that this Lease become or remain, as the case may be, superior to said mortgage or deed of trust.

19. OWNERSHIP, REMOVAL, SURRENDER, AND RESTORATION.

19.1 Ownership. Subject to Landlord's right to require their removal at the expiration or earlier termination of this Lease in accordance with Section 8 hereof, all alterations made to the Premises by Tenant shall be the property of and owned by Tenant, but considered a part of the Premises. Unless otherwise instructed by Landlord pursuant to Section 8, all Tenant-owned alterations shall, at the expiration or earlier termination of this Lease, become the property of Landlord and remain upon the Premises and be surrendered with the Premises by Tenant.

19.2 Surrender/Restoration. Tenant shall surrender the Premises by the end of the last day of the Lease term or any earlier termination date, broom clean and free of debris, and in the similar operating order, condition, and state of repair that existed as of the Commencement Date, ordinary wear and tear excepted. Ordinary wear and tear shall not include any damage or deterioration that would have been prevented by the maintenance, repair, and replacement practice required under this Lease. Except for those alterations required to be removed by Landlord, the Premises, as surrendered, shall include the alterations. Tenant shall remove Tenant's trade fixtures, furnishings, equipment, and alterations required to be removed by Landlord pursuant to
Section 8, and shall repair any damage caused by such removal, Tenant shall also remove any storage tank installed by or for Tenant, and the removal, replacement, or remediation of any soil, material or ground water contaminated by Tenant, all as may then be required by Applicable Laws. Tenant's trade fixtures shall remain the property of Tenant and shall be removed by Tenant subject to its obligation to repair and restore the Premises in accordance with this Lease.

20. MISCELLANEOUS PROVISIONS.

20.1 Quiet Possession. Upon payment by Tenant of the Rent for the Premises and the performance of all of the covenants, conditions and provisions on Tenant's part to be observed and performed under this Lease, Tenant shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. Landlord warrants that Landlord has full right and sufficient title to lease the Premises for the term and upon the terms and conditions set forth herein, subject to covenants, conditions, restrictions, rights, options, encumbrances, and rights-of-way of record. Landlord hereby agrees, at its sole cost and expense, to indemnify, protect, defend, and hold Tenant, its directors, officers, employees, and agents, harmless from and against any and all losses, damages (whether direct or consequential), liabilities, judgments, costs, claims, liens, expenses, fines, injunctions, suits, proceedings, disbursements, penalties, loss of permits, attorneys', experts' and consultants' fees and disbursements, and court costs arising as a result of a breach by Landlord of the representations and warranties contained in this Section 20.1.

20.2 Liens. Neither Landlord nor Tenant shall permit any judgment lien, lien for payment of real property taxes, or construction or materialman's lien for any work done, materials furnished, or for the performance of any other construction work for which each such respective party is responsible, to be placed against the Premises; provided, however, that the responsible party may contest the validity of any such lien to the extent the responsible party posts a bond to cover the lien as provided by Applicable Law or provides other security acceptable to the other party that such contest will not unreasonably jeopardize the other party's interest in the Premises, and upon a final determination of the validity of the contested lien, shall cause the same to be satisfied and released of record.

20.3 Time of Essence. Time is of the essence with respect to each and every provision of this Lease.

20.4 Attorneys Fees. In the event either Landlord or Tenant shall institute any action or proceeding against the other relating to any of the terms, covenants, conditions or provisions of this Lease, or any default herein, the unsuccessful party in such action or proceeding shall reimburse the successful party for reasonable attorney's fees and other costs and expenses incurred therein by the successful party, including fees, costs and expenses incurred in any appellate proceeding.

20.5 Notices. Any notice or demand from Landlord to Tenant or from Tenant to Landlord shall be in writing and shall be deemed duly served if mailed by registered or certified mail, return receipt requested, or by overnight courier, addressed to the address of each party set forth herein, or to such other address as either party shall have last designated by notice in writing to the other party. The foregoing notwithstanding, Landlord may give a notice to pay or quit pursuant to state law and any notices under the forcible entry and detainer laws by posting the same on the Premises in accordance with state law, with a courtesy copy thereof sent to Tenant in accordance with this section, provided that the failure of Tenant to receive such courtesy copy so sent by Landlord shall not affect Landlord's eviction procedure.

20.6 Brokerage. Tenant and Landlord warrant that they have had no dealings with any broker or agent in connection with this Lease and each covenants to pay, hold harmless and indemnify the other from and against any and all cost, expense or liability for any compensation, commissions and charges claimed by any broker or agent with respect to this Lease or the negotiation thereof with whom they had dealings.

20.7 Estoppel Certificates. Each of the parties agrees that it will, at any time and from time to time, within ten (10) business days following written notice by the other party hereto (or any lender of such party) specifying that it is given pursuant to this section, execute, acknowledge and deliver to the party who gave such notice a statement in writing certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating the modifications), and the dates to which the Rent and any other payments due hereunder from Tenant have been paid in advance, if any, and stating whether or not, to the best of knowledge of the signer of such certificate, the other party is in default in performance of any covenant, agreement or condition contained in this Lease, and, if so, specifying each such default of which the signer may have knowledge.

20.8 Applicable Law and Construction. The laws of the state of Colorado shall govern the validity, performance and enforcement of this Lease. The invalidity or unenforceability of any provision of this Lease shall not affect or impair any other provision All negotiations, considerations, representations and understandings between the parties are deemed merged into this Lease. The headings of the several articles and sections contained herein are for convenience only and do not define, limit or construe the contents of such articles or sections. Whenever herein the singular number is used, the same shall include the plural, and the neuter gender shall include the masculine and feminine genders. This Lease has been negotiated at arms length and shall not be construed for or against any party by reason of the authorship or alleged authorship of any provision hereof.

20.9 Relationship of the Parties. Nothing contained herein shall be deemed or construed by the parties hereto, or by any third party, as creating the relationship of principal and agent or partnership or joint venture between the parties hereto, it being understood and agreed that no provisions herein, nor any acts of the parties hereto, shall be deemed to create any relationship between the parties hereto other than the relationship of landlord and tenant.

20.10 Binding Effect of Lease. The covenants, agreements and obligations herein contained, except as herein otherwise specifically provided, shall extend to, bind and inure to the benefit of the parties hereto and their respective personal representatives, heirs, successors and permitted assigns. Each covenant, agreement, obligation or other provision herein contained shall be deemed and construed as a separate and independent covenant of the party bound by, undertaking or making the same, not dependent on any other provision of this Lease unless otherwise expressly provided. At the request of either party, a memorandum of this Lease and the right of first refusal contained herein will be executed by both parties and may be recorded in the public records of the county in which the Premises is located. Upon signing of this Lease, Tenant

will deposit with Landlord a quitclaim deed to release said memorandum, that Landlord agrees not to record until the termination or expiration of this Lease.

20.11 Transfer of Landlord's Interest. In the event of any transfers of Landlord's interest in the Premises, other than a transfer for security purposes only, the transferor shall be automatically relieved of any and all obligations and liabilities on the part of Landlord accruing from and after the date of such transfer and such transferee shall have no obligation or liability with respect to any matter occurring or arising prior to the date of such transfer. Tenant agrees to attorn to the transferee.

20.12 Effect of Unavoidable Delays. The provisions of this section shall be applicable if there shall occur, during the Term, or prior to the commencement thereof, any (i) strike(s), lockout(s) or labor dispute(s); (ii) inability to obtain labor or materials, or reasonable substitutes therefor; or
(iii) acts of God, governmental restrictions, regulations or controls, enemy or hostile governmental action, civil commotion, fire or other casualty, or (iv) other conditions similar or dissimilar to those enumerated in this section beyond the reasonable control of the party obligated to perform. If Landlord or Tenant shall, as the result of any of the above-described events, fail punctually to perform any obligation on its part to be performed under this Lease, other than the payment of money, then such delay in performance shall be excused and not be a breach of this Lease by the party in question, but only to the extent such delay is occasioned by such event. If any right or option of either party to take any action under or with respect to this Lease is conditioned upon the same being exercised within any prescribed period of time or at or before a named date, then such prescribed period of time and such named date shall be deemed to be extended or delayed, as the case may be, for a period equal to the period of delay occasioned by any above-described event.

20.13 No Oral Changes. Neither this Lease nor any provision hereof may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought.

20.14 Executed Counterparts of Lease. This Lease may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same Lease.

20.15 Invalid Provisions. If any provision of this Lease is held unlawful or invalid, then this Lease shall continue in full force and effect but such unlawful or invalid provision shall be deemed omitted. If any portion of the Rent shall at any time be held to be higher than the amount which the Landlord may lawfully reserve, then the amount thereof shall be reduced to the highest lawful amount.

20.16 Entire Agreement. This Lease is the final and complete expression of Landlord and Tenant relating in any manner to the leasing, use and occupancy of the Premises and other matters set forth in this Lease. No prior agreement or understanding pertaining to the same shall be valid or of any force or effect.

20.17 Exculpation. All personal and separate liability of Landlord or any officer or partner of Landlord under this Lease, of every kind or nature, if any, is waived by Tenant, and by every person now or later claiming by, through, or under Tenant, and Tenant shall look solely to the equity of Landlord in the Premises for any claims against Landlord under this Lease. Such exculpation of liability is absolute and without exception.

20.18 Landlord's Loan. Notwithstanding any other provision of this Lease to the contrary, Landlord and Tenant agree that all rights of Tenant and all obligations of Landlord under this Lease, except Landlord's obligation to obtain a non-disturbance agreement in accordance with Section 18 hereof, are subject to the terms of any mortgage, deed of trust, or other instrument encumbering the Premises. If the exercise of any such right or the performance of any such obligation would constitute a breach of or default under any such instrument, the right shall not be exercised or the obligation performed unless a consent or waiver is first obtained from the beneficiary of such instrument. The parties agree to use reasonable commercial efforts to obtain a consent or waiver from the beneficiary, but neither party shall have any liability if such consent or waiver cannot be so obtained. This provision shall apply to encumbrances created after the date hereof only if the encumbrance secures a loan from an institutional lender regularly engaged in the business of making loans secured by real estate. In the case of a subsequent encumbrance to which this provision applies, Landlord shall also use reasonable commercial efforts
(i) to include provisions in the governing loan documents to permit, or (ii) to exclude provisions in such loan documents that would prohibit, the exercise of all such rights and the performance of all such obligations as set forth in this Lease, but shall have no liability if it is unable to do so.

21. DISPUTE RESOLUTION.

21.1 Mediation. The parties hope there will be no disputes arising out of this Lease. To that end, each commits to cooperate in good faith and to deal fairly in performing its duties under this Lease in order to accomplish their mutual objectives and avoid disputes. But if a dispute arises, the parties agree to resolve all disputes by the following alternate dispute resolution process. The parties will seek a fair and prompt negotiated resolution, but if this is not successful, and except as otherwise set forth herein, all disputes shall be resolved by binding arbitration; provided, however, that during this process, at the request of either party made not later than twenty-five (25) days after the initial arbitration demand, the parties will attempt to resolve any dispute by nonbinding mediation (but without delaying the arbitration hearing date). The parties recognize that negotiation or mediation may not be appropriate to resolve some disputes and agree that either party may proceed with arbitration without negotiating or mediating. Except as set forth in the following sentence, the parties confirm that by agreeing to this alternate dispute resolution process, they intend to give up their right to have any dispute decided in court by a judge or jury. Anything to the contrary contained herein notwithstanding, the provisions of this Section 21 shall not apply to the exercise by Landlord of any of its rights or remedies contained in Sections 13.1 and 13.2 hereof following a default by Tenant, and the same may be pursued by Landlord without complying with the alternative dispute resolution procedures set forth in this

section, except that the determination of any damages that may be owed by Tenant following its default shall be made in accordance with this section.

21.2 Binding Arbitration. Except as otherwise set forth in Section 21.1, any claim between the parties arising out of or relating to this Lease shall be determined by arbitration in Reno, Nevada (or some other place as the parties may agree). The arbitration shall be conducted before one neutral arbitrator; provided, however, that if either party demands a total award greater than $250,000, including interest, attorneys' fees and costs, then either party may require that there be three (3) neutral arbitrators. If the parties cannot agree on the identity of the arbitrator(s) within ten (10) days of the arbitration demand, the arbitrator(s) shall be selected by the administrator of the American Arbitration Association (AAA) office having jurisdiction over Reno, Nevada. Each arbitrator shall be an attorney with at least fifteen (15) years' experience in real estate law. Whether a claim is covered by this Lease shall be determined by the arbitrator(s). All statutes of limitations which would otherwise be shall apply to any arbitration proceeding hereunder.

21.3 Procedures. The arbitration shall be conducted in accordance with the AAA Commercial Arbitration Rules with Expedited Procedures, as modified by this Lease. There shall be no dispositive motion practice. As may be shown to be necessary to ensure a fair hearing, the arbitrator (s) may authorize limited discovery, and may enter pre-hearing orders regarding (without limitation) scheduling, document exchange, witness disclosure and issues to be heard. The arbitrator(s) shall not be bound by the rules of evidence or of civil procedure, but may consider such writings and oral presentations as reasonable business people would use in the conduct of their day-to-day affairs, and may require the parties to submit some or all of their case by written declaration or such other manner of presentation as the arbitrator(s) may determine to be appropriate. The parties intend to limit live testimony and cross-examination to the extent necessary to ensure a fair hearing on material issues.

21.4 Hearing and Award. The arbitrator(s) shall take such steps as may be necessary to hold a private hearing within ninety (90) days of the initial demand for arbitration and to conclude the hearing within three (3) days; and the arbitrator(s)'s written decision shall be made not later than fourteen (14) calendar days after the hearing. The parties have included these time limits in order to expedite the proceeding, but they are not jurisdictional, and the arbitrator(s) may for good cause afford or permit reasonable extensions or delays, which shall not affect the validity of the award. The written decision shall contain a brief statement of the claim(s) determined and the award made on each claim. In making the decision and award, the arbitrator(s) shall apply applicable substantive law. Absent fraud, collusion or willful misconduct by an arbitrator, the award shall be final, and judgment may be entered in any court having jurisdiction thereof. The arbitrator(s) may award injunctive relief or any other remedy available from a judge, including the joinder of parties or consolidation of this arbitration with any other involving common issues of law or fact or which may promote judicial economy, and may award attorneys' fees and costs to the prevailing party, but shall not have the power to award punitive or exemplary damages. If the arbitration is conducted by three arbitrators, the decision and award of

the arbitrators need not be unanimous; rather, the decision and award of two arbitrators shall be final.

21.5 Chrysler Option Agreement. Landlord and Tenant acknowledge that the Premises is subject to that certain option agreement between Landlord, as optionee, and Chrysler Realty Corporation, as optionor ("Chrysler"), presently recorded against the Premises (the "Option Agreement"). Tenant acknowledges that the Premises may only be leased, if at all, to a franchise dealer of Chrysler Corporation products, that this Lease is subject and subordinate to the terms of the Option Agreement, that the terms of the Option Agreement are incorporated in this Lease by this reference as if fully set forth herein, and that in the event of a reconveyance of the Premises to Chrysler, this Lease will automatically cease and terminate as of the date of such reconveyance. In the event this Lease is so terminated upon a reconveyance that occurs as a result of Landlord's act or failure to act in violation of a duty to act, the same shall constitute a breach by Landlord of the representation and warranty of quiet possession contained in Section 20.1 hereof.

Landlord and Tenant have executed this Lease as of the day and year set forth at the beginning of this Lease.

LANDLORD

MORELAND PROPERTIES, LLC

By:_____
Its:_____

TENANT

LITHIA REAL ESTATE, INC.

By:_____
Its:_____

EXHIBIT A
TO LEASE AGREEMENT

DESCRIPTION OF PREMISES

That certain real property situated in Arapahoe County, Colorado, legally described as follows:

GUARANTY

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in consideration for, and as an inducement to Landlord to make the foregoing lease with Tenant, the undersigned absolutely and unconditionally guarantees, to Landlord and its successors, the full payment and performance and observation of all of the terms, covenants, conditions, provisions and agreements therein provided to be performed or observed by Tenant, without requiring any notice of nonpayment, non-performance or non-observance, or proof, or notice, or demand, all of which the undersigned expressly waives. The undersigned expressly agrees that the validity of this guaranty and the obligations of the undersigned as guarantor hereunder will in no way be terminated, affected or impaired by reason of the assertion by Landlord against Tenant of any of the rights or remedies reserved to Landlord pursuant to the provisions of the lease. Landlord may grant extensions of time and other indulgences and may modify, amend and waive any of the terms, covenants, conditions, provisions or agreements of the lease, and discharge or release any party or parties to the lease, all without notice to the undersigned and without in any way impairing, releasing or affecting the liability or obligation of the undersigned. The undersigned agrees that Landlord may proceed directly against the undersigned without taking any action under the lease and without exhausting Landlord's remedies against Tenant; and no discharge of Tenant in bankruptcy or in any other insolvency proceedings will in any way or to any extent discharge or release the undersigned from any liability or obligation under this guaranty. The undersigned further covenants and agrees that this guaranty will remain and continue in full force and effect as to any renewal, modification or extension of the lease, and that no subletting and no assignment of the lease, with or without Landlord's consent, will release or discharge the undersigned. As a further inducement to Landlord to make the lease and in consideration of the lease, Landlord and the undersigned covenant and agree that in any action or proceeding brought by either Landlord or the undersigned against the other on any matter whatsoever arising out of, under, or by virtue of any of the terms, covenants, conditions, provisions or agreements of the lease or of this guaranty, Landlord and the undersigned will and do hereby waive trial by jury. The undersigned agrees to pay, in addition to any damages which a court of competent jurisdiction may award, such amount or amounts as the court may determine to be reasonable attorneys' fees and costs incurred by Landlord or its successors or assigns in the enforcement of this guaranty. In the event Landlord or the undersigned institute any action or proceeding against the other relating to this guaranty, the unsuccessful party in such action or proceeding shall reimburse the successful party for reasonable attorneys' fees and other costs and expenses incurred therein by the successful party. All rights under this guaranty will inure to the benefit of any successors or assigns of Landlord.

Dated as of the _____ day of _____, 1999.

GUARANTOR:

LITHIA MOTORS, INC.

By: _____
Its: _____

Address:
360 E. Jackson St.

Medford, Oregon 97501

Exhibit 10.35

SUBLEASE AGREEMENT

This Sublease Agreement (this "Sublease") is made May 14, 1999, between Moreland Properties LLC ("Sublessor") and Lithia Real Estate, Inc. (Sublessee").

RECITALS

A. On February 3, 1978, J. William Crouch, as tenant and successor in interest to Bill Crouch, Inc., entered into that certain lease (the "Capra Lease") with David E. Capra and Gloria A. Capra, as landlords (the "Capra Lessors"), for the demise of certain premises more particularly described in the Capra Lease and more commonly referred to as 50 East Chenango. Englewood, Colorado (the "Capra Premises"). On March 23, 1994, Monaco Finance, Inc., as tenant, entered into that certain lease (the "Crouch Lease") with J. William Crouch, as landlord (the "Crouch Lessor), for the demise certain premises more particularly described in the Crouch Lease and including both the Capra Premises and certain premises more commonly referred to as 4940 South Broadway, Englewood, Colorado. On February 29, 1996, Moreland Properties LLC, as tenant and as successor in interest to W. Douglas Moreland, entered into that certain lease (the "Prime Lease") with Monaco Finance, Inc. (the "Prime Lessor") for the demise of certain premises more particularly described in the Prime Lease and including both the property commonly referred to as 50 East Chenango, Englewood, Colorado and the property commonly referred to as 4940 South Broadway, Englewood, Colorado (the "Premises").

B. Pursuant to the terms of that certain lease (the "Rosen Auto Lease") dated January 29, 1999, by and between Moreland Properties LLC, as landlord and successor in interest to W. Douglas Moreland, and Rosen Auto Leasing, Inc., as tenant, Rosen Auto Leasing, Inc. leased a portion of the Premises more particularly described in the Rosen Auto Lease (the "Rosen Auto Premises").

C. Sublessor desires to sublease to Sublessee and Sublessee desires to sublease form Sublessor certain premises more particularly described below.

AGREEMENT

1. Sublease. Sublessor subleases to Sublessee, and Sublessee accepts and agrees to sublease, all of Sublessor's rights, title and interest as tenant (except as otherwise may be excluded below) in and to the Prime Lease for the Sublease Premises (defined below). The Prime Lease is incorporated herein, and except as expressly excluded or limited by this Sublease, the provisions of the Prime Lease will be the provisions of this Sublease and will govern the occupancy of the Sublease Premises by Sublessee, the rights, privileges, duties and obligations of Sublessee and the rights and privileges of Sublessor. For the purposes of this Sublease, the following defined terms of the Prime Lease will have the following meanings: "Tenant" means the Sublessee; "Landlord" means the Prime Lessor with respect to obligations and duties of the landlord, and both Prime Lessor and the Sublessor with respect to the rights and privileges of the landlord; "Rent: means the

rent set forth in Paragraph 4 below and all other sums to be paid by the tenant under the Prime Lease (other than minimum base rental payable under Section 6 of the Prime Lease) or by Sublessee under this Sublease; and, "Term" means the Term set forth in this Sublease. However, Sublessee acknowledges that Sublessor is not agreeing to perform any of the obligations or covenants of Prime Lessor, as both parties acknowledge that these are retained by Prime Lessor and will continue to be performed by Prime Lessor.

2. Rights and Duties. Sublessee agrees to perform and observe each and every covenant, duty and obligation of the Sublessor, as tenant, under the Prime Lease with respect to the Sublease Premises (except as may be expressly excluded or limited by this Sublease). Sublessee acknowledges that the Sublessor will be deemed to be substituted for the Prime Lessor under the Lease with respect to the rights of the Prime Lessor, and the Sublessor will be entitled to exercise all of the rights and privileges of the Prime Lessor as set forth in the Prime Lease (except as may be modified by this Sublease). By way of illustration and not by way of limitation, the Sublessor will be entitled to exercise any remedy provided to the Prime Lessor under the Prime Lease in the event the Sublessee breaches any condition, provision or covenant of this Sublease or the Prime Lease. All consents under the Prime Lease required to be obtained by Sublessee as tenant under the Prime Lease must be first obtained from the Prime Lessor and the Sublessor, and all standards of and conditions to obtaining such consent form Prime Lessor will also apply to the consent to be obtained from Sublessor. All covenants of the tenant under the Prime Lease will be deemed to run for the benefit of both Prime Lessor and Sublessor as if expressly set forth therein for all purposes under this Sublease and the Prime Lease.

3. Sublease Premises. The premises subleased to Sublessee consists of the Premises, however, excluding therefrom the Rosen Auto Premises, and is more commonly identified as 4940 South Broadway, Englewood, Colorado and 50 East Chenango Avenue, Englewood, Colorado (the "Sublease Premises").

4. Term. The sublease term commences on May 14, 1999, and expires one day before the expiration of the Prime Lease. Sublessor hereby grants Sublessee the right to exercise any renewal options expressly set forth in the Prime Lease, and Sublessor hereby appoints Sublessee as its attorney-in-fact for the sole purpose of giving any exercise notice(s) under the Prime Lease on behalf of Sublessor in order to exercise any renewal option(s) thereunder.

5. Rent. In consideration of this Sublease, Sublessee will pay to Sublessor (a) base rent in the amount of $150,000.00 per year, payable in twelve equal monthly installments of $12,500.00, and (b) additional rent equal to any other amounts to be paid by the tenant under the Prime Lease or to be paid by Sublessee under this Sublease. Payments will be paid in advance without notice, set off or deduction on the first day of each month during the term. The monthly installment of rent for any partial month will be prorated by the number of days in such month.

6. Use. The Sublease Premises may be used only for the operation of an automobile dealership. servicing facilities and related uses. and for no other purpose without Sublessor's consent, which may be withheld in Sublessor's sole and absolute discretion.

7. Notices. Any notice or demand from Sublessor to Sublessee or from Sublessee to

Sublessor will be in writing and will be deemed duly served if mailed by registered or certified mail, return receipt requested, or by overnight courier, addressed to the address of each party set forth herein, or to such other address as either party will have last designated by notice in writing to the other parry. The foregoing notwithstanding, Sublessor may give a notice to pay or quit pursuant to state law and any notices under the forcible entry and detainer laws by posting the same on the Sublease Premises in accordance with state law, with a courtesy copy thereof sent to Sublessee in accordance with this paragraph, provided that the failure of Sublessee to receive such courtesy copy so sent by Sublessor will not affect Sublessor's eviction process.

Sublessee's Address for notices. The Sublease Premises

With a courtesy copy to	Lithia Real Estate, Inc. 360 E. Jackson St. Medford, Oregon 97501
Sublessor's Address for notices:	W. Douglas Moreland Moreland Properties LLC 2727 S. Havana Aurora, Colorado 80014

8. Prime Lease. This Sublease is subject and subordinate to the Prime Lease. It is also subject and subordinate to any agreement to which the Prime Lease is subject and subordinate Sublessee represents and warrants to Sublessor that it has read the Prime Lease.

9. Prime Lessor's Duties. If the Prime Lessor fails to perform under the Prime Lease. Sublessee must send Sublessor written notice detailing the default and non-performance by Prime Lessor. Sublessor will then promptly notify the Prime Lessor and demand that the Prime Lease agreements be carried out by the Prime Lessor, and Sublessor agrees to use commercially reasonable efforts to and agrees to cooperate with Sublessee to enforce the Prime Lease at the sole cost and expense of Sublessee, subject to any reimbursement to Sublessee from the Prime Lessor as may be provided in the Prime Lease. Notwithstanding the foregoing. nothing in this Sublease grants Sublessee the right to (a) declare a default of Prime Lessor under the Prime Lease. (b) terminate the Prime Lease, or
(c) modify the Prime Lease or waive any rights of Sublessor thereunder.

10. Assignment or Subletting. Any assignment or subletting will be subject to the terms and conditions of the Prime Lease, and if no consent is required by Prime Lessor under the terms of the Prime Lease, then the following provision will control the agreement between Sublessor and Sublessee regarding any assignment of this Sublease or subletting of the Sublease Premises:

Sublessee may assign this Sublease or sublet all or any portion of the Sublease Premises to any entity that is owned at least seventy-five percent (75%) by Lithia Motors, Inc. without the prior written consent of, but with prior notice to, Sublessor. Sublessee may so assign or sublet to any other party only with the prior written consent of Sublessor. which consent shall not be unreasonably withheld or delayed if the proposed assignment or subletting is in connection with

the sale of the business located on the Sublease Premises, or otherwise may be withheld in Sublessor's sole and absolute discretion in all other circumstances, and provided further that: (1) such consent to any assignment or subletting shall not relieve Sublessee from its obligations as primary obligor (and not as surety or guarantor) for the payment of all rental due hereunder, and for the full and faithful observance and performance of the covenants, terms and conditions herein contained; (2) the proposed subtenant or assignee is engaged in a business and the Sublease Premises will be used in a manner which is in keeping with the use provisions contained herein: (3) the proposed subtenant or assignee is a reputable party of reasonable financial worth in light of the responsibilities involved, and Sublessee shall have provided Sublessor with reasonable proof thereof: and (4) Sublessee is not in default hereunder at the time it makes its request. Any dissolution. merger. consolidation or other reorganization of Sublessee, or the sale or transfer of a controlling percentage of the corporate stock of Sublessee. shall constitute and be deemed an assignment for purposes of this Paragraph. Consent by Sublessor to an assignment or subletting shall not be construed to relieve Sublessee from obtaining the consent of Sublessor to any' further assignment or subletting, nor shall the collection of rent by Sublessor from any assignee, subtenant or other occupant be deemed a waiver of this covenant or an acceptance of the assignee or subtenant as Sublessee or a release of Sublessee from the covenants in this Sublease on Sublessee's part to be performed Sublessee and any assignee or subtenant shall be jointly and severally liable for the obligations of this Sublease. Sublessee shall not permit any part of the Sublease Premises to be used or occupied by any persons other than Sublessee and the employees of Sublessee, nor shall Sublessee permit any part of the Sublease Premises to be used or occupied by any licensee or concessionaire, or permit any persons to be upon the Sublease Premises other than Sublessee. and employees, customers and others having lawful business with Sublessee.

11. Amendments to Prime Lease. Sublessor agrees that it will not amend the Prime Lease in any- manner without first obtaining the prior written consent of Sublessee, which will not be unreasonably withheld if such amendment does not materially adversely affect Sublessee.

12. No Authority. Except as otherwise expressly set forth herein, Sublessee has no authority to contact or make any agreement with the Prime Lessor regarding the Sublease Premises or the Prime Lease. Sublessee will immediately send to Sublessor a copy of any written notice from Sublessee to Prime Lessor.

13. Changes. This Sublease can be modified only by an agreement in writing signed by .the Sublessor and the Sublessee

14. Counterparts. This Sublease may be signed in two or more counterparts, all of which when taken together will constitute one original agreement.

15. Additional Provisions.

A. Sublessor covenants that it holds a valid leasehold estate for the Sublease Premises and has the full right to make this Sublease. Sublessor further warrants to Sublessee that the Prime Lease is in full force and effect, that Sublessor is not in default in the payment of rent under the Prime Lease and has received no written notice from Prime Lessor of any default by Sublessor under the Prime Lease, and that there have been no amendments thereto other than have been provided to Sublessee.

B. Sublessor hereby covenants that it will pay to Prime Lessor, as and when due, all rents and other amounts required to be paid pursuant to the terms of the Prime Lease, and Sublessor will not do any act, nor fail to do any act, which would cause the Prime Lease to become in default. Sublessor hereby agrees to protect. defend, and hold harmless Sublessee from and against any loss, liability, or claim arising out of Sublessor's breach of the Prime Lease. except for any such breach arising out of Sublessee's failure to perform its obligations hereunder. Sublessee hereby covenants that it will not do any act, nor fail to do any act, which would cause the Prime Lease to become in default Sublessee hereby agrees to protect. defend, and hold harmless Sublessor from and against any loss, liability, or claim arising out of Sublessee's breach of the Prime Lease, except for any such breach arising out of Sublessor's failure to perform its obligations hereunder

C. Sublessor agrees to immediately forward to Sublessee a copy of any written notices received by Sublessor from Prime Lessor. In the event that Sublessor fails to make any payments when due under the Prime Lease, or is otherwise in default thereunder. Sublessee may. but is not obligated to. make such payments on behalf of Sublessor, or take such other action as may be necessary, in Sublessee's estimation to cure such default, or to prevent the Prime Lease from being terminated. All amounts paid by' Sublessee to Prime Lessor to cure Sublessor's default and all costs of taking such actions on behalf of Sublessor. together with any interest or penalty required to be paid in connection therewith, shall be payable on demand by Sublessor to Sublessee. and if not so paid by' Sublessor. may be applied by' Sublessee to reduce subsequent rent payments owed to Sublessor under this Sublease Notwithstanding the foregoing. the covenants of Sublessor and Sublessee are deemed independent covenants of the parties.

16. Condition Precedent. This Sublease, if consented to by Prime Lessor and Crouch Lessor in writing, will be effective as of May 14, 1999. If Prime Lessor and Crouch Lessor do not give their consent to this Sublease on or before August 12, 1999, this Sublease will be ineffective and void.

SUBLESSEE	*SUBLESSOR:*
LITHIA REAL ESTATE, INC.	*MORELAND PROPERTIES LLC*
By: /s/	*By: /s/*
Its: Vice President Acquisitions	*Its: Member*

GUARANTY

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in consideration for, and as an inducement to Sublessor to make the foregoing Sublease with Sublessee, the undersigned absolutely and unconditionally guarantees, to Sublessor and its successors, the full payment and performance and observation of all of the terms, covenants, conditions, provisions and agreements therein provided to be performed or observed by Sublessee, without requiring any notice of nonpayment, non-performance or non-observance, or proof, or notice, or demand, all of which the undersigned expressly waives. The undersigned expressly agrees that the validity of this guaranty and the obligations of the undersigned as guarantor hereunder will in no way be terminated, affected or impaired by reason of the assertion by Sublessor against Sublessee of any of the rights or remedies reserved to Sublessor pursuant to the provisions of the Sublease. Sublessor may grant extensions of time and other indulgences and may modify, amend and waive any of the terms, covenants, conditions, provisions or agreements of the Sublease, and discharge or release any party or parties to the Sublease, all without notice to the undersigned and without in any way impairing, releasing or affecting the liability or obligation of the undersigned. The undersigned agrees that Sublessor may proceed directly against the undersigned without taking any action under the Sublease and without exhausting Sublessor's remedies against Sublessee; and no discharge of Sublessee in bankruptcy or in any other insolvency proceedings will in any way or to any extent discharge or release the undersigned from y liability or obligation under this guaranty. The undersigned further covenants and agrees that this guaranty will remain and continue in full force and effect as to any renewal, modification or extension of the Sublease, and that no subletting and no assignment of the Sublease, with or without Sublessor's consent, will release or discharge the undersigned. As a further inducement to Sublessor to make the Sublease and in consideration of the Sublease, Sublessor and the undersigned covenant and agree that in any action or proceeding brought by either Sublessor or the undersigned against the other on any matter whatsoever arising out of, under, or by virtue of any of the terms, covenants, conditions, provisions or agreements of the Sublease or of this guaranty, Sublessor and the undersigned will and do hereby waive trial by jury. In the event Sublessor or the undersigned institute any action or proceeding against the other relating to this guaranty, the unsuccessful party in such action or proceeding shall reimburse the successful party for reasonably attorneys' fees and other costs and expenses incurred therein by the successful party. All rights under this guaranty will inure to the benefit of any successors or assigns of Sublessor.

Dated as of the 14th day of May, 1999.

GUARANTOR:

LITHIA MOTORS, INC.

By: /s/
---------- Vice President, Acquisitions

Address:

360 E. Jackson Street
Medford, Oregon 97501

Exhibit 10.36

LEASE AGREEMENT

THIS LEASE AGREEMENT (this "Lease") is dated as of the ____ day of June, 1999, by and between CAR LIT L.L.C., a Delaware limited liability company ("Landlord"), and LITHIA REAL ESTATE, INC., an Oregon corporation ("Tenant").

ARTICLE I
DEFINITIONS

1.1 Premises: that certain piece or parcel of land located in Medford, Jackson County, Oregon, as more fully described on Exhibit A attached hereto and made a part hereof, together with all improvements, fixtures and other items of real property now or hereafter located thereupon and all appurtenances, rights, privileges, easements and other property interests existing thereon and benefiting, belonging or pertaining thereto, subject, however, to all liens, encumbrances, restrictions, agreements, and other title matters of record.

1.2 Lease Term: one hundred forty-four (144) months.

1.3 Renewal Options: eight (8) options for five (5) years each, as more particularly described in Article XXII below.

1.4 Lease Commencement Date: The date on which Landlord funds the purchase price for the Premises at the closing, pursuant to that certain Purchase Agreement (the "Purchase Agreement") dated as of December 17, 1998, by and between Landlord (as assignee of Capital Automotive L.P.), as purchaser, and Tenant or its Affiliate (as hereinafter defined) as seller).

1.5 Base Rent: as set forth below.

Lease Year	Base Rent Per annum
lst-3rd Lease Years	$521,463.00
4th and 5th Lease Years	$534,500.00
6th-l2th Lease Years	$542,322.00
13th-l7th Lease Years	$568,395.00
18th-22nd Lease Years	$599,683.00
23rd-27th Lease Years	$636,185.00
28th-32nd Lease Years	$677,902.00
33rd-37th Lease Years	$724,834.00
38th-42nd Lease Years	$776,980.00
43rd-47th Lease Years	$834,341.00
48th-52nd Lease Years	$896.917.00

1.6 [Intentionally omitted].

1.7 [Intentionally omitted].

1.8 Security Deposit Amount: Twenty-Eight Thousand Five Hundred Five Dollars ($28,505.00).

1.9 Tenant Notice Address: c/o Lithia Motors, Inc., 360 East Jackson Street, Medford, Oregon 97501, Attn: Brian R. Neill.

1.10 Landlord Notice Address: 1420 Spring Hill Road, Suite 525, McLean, Virginia 22102, Attention: Portfolio Manager.

1.11 Guarantor(s): Lithia Motors, Inc.

ARTICLE II
PREMISES

2.1 Lease of Premises. Tenant leases the Premises from Landlord for the term and upon the conditions and covenants set forth in this Lease.

2.2 Contingency. Notwithstanding anything to the contrary contained in this Lease, in the event this Lease is executed prior to the conveyance of the Premises to Landlord, the parties acknowledge that the effectiveness of this Lease is contingent upon such conveyance and, in the event such conveyance fails to occur, this Lease shall be void and without force and effect.

ARTICLE III
LEASE TERM

3.1 Lease Term. All of the provisions of this Lease shall be in full force and effect from and after the date first above written, subject to Section 2.2 above. The Lease Term shall commence on the Lease Commencement Date specified in
Section 1.4 above. If the Lease Commencement Date is not the first day of a month, then the Lease Term shall be the period set forth in Section 1 2 less the portion of the month prior to the date on which the Lease Commencement Date occurs. Landlord may provide Tenant with a certificate in the form of Exhibit B attached hereto confirming the Lease Commencement Date. The Lease Term shall also include any properly exercised renewal or extension of the term of this Lease.

3.2 Lease Year. "Lease Year" shall mean a period of twelve (12) consecutive months commencing on the Lease Commencement Date, and each successive twelve (12) month period thereafter; provided, however, that if the Lease Commencement Date is not the first day of a month, then the second Lease Year shall commence on the first day of the month in which the first anniversary of the Lease Commencement Date occurs.

ARTICLE IV
BASE RENT

4.1 Base Rent. From and after the Lease Commencement Date, Tenant shall pay the Base Rent in equal monthly installments in advance on the first day of each month during each Lease Year. If the Lease Commencement Date is not the first day of a month, then the Base Rent from the Lease Commencement Date until the first day of the following month shall be prorated on a per diem basis at the rate of one-thirtieth (1/30th) of the monthly installment of the Base Rent payable during the first Lease Year, and Tenant shall pay such prorated installment of the Base Rent on the Lease Commencement Date.

4.2 Base Rent Escalation. During the Lease Term, the Base Rent shall be increased from time to time as set forth in Section 1.5.

4.3 Payment of Base Rent. All sums payable by Tenant under this Lease, whether or not stated to be Base Rent, additional rent or otherwise, shall be paid to Landlord in legal tender of the United States, without setoff, deduction or demand, by direct deposit wire transfer of immediately available funds to the following bank account, or to such other party or address as Landlord may designate in writing:

NationsBank, Richmond, Virginia
ABA# 051000017

For credit to Capital Automotive L.P.,

Operating Account # 004112955706

Landlord's acceptance of rent after it shall have become due and payable shall not excuse a delay upon any subsequent occasion or constitute a waiver of any of Landlord's rights hereunder.

ARTICLE V
NET LEASE; IMPOSITIONS; UTILITIES AND SERVICES

5.1 Net Lease. Notwithstanding anything to the contrary contained herein, this Lease shall be an absolute net lease, so that this Lease shall yield all Base Rent payable hereunder as an absolutely net return to Landlord. Accordingly, with the sole exception of Landlord's Income Taxes (as hereinafter defined), Tenant shall pay all taxes, insurance and other costs, expenses and obligations of every kind and nature whatsoever relating to the Premises, including without limitation, costs with respect to the ownership and operation thereof (including without limitation, the costs of performing obligations imposed on the owner from time to time of the Premises pursuant to any deferred improvement agreements or any easement containing a covenant to bear the maintenance and repair costs incurred in connection with a drainage easement), which accrue prior to the expiration of the Lease Term. Tenant's obligation to pay all amounts described in this Section 5.1 shall survive the expiration or earlier termination of the Lease Term.

5.2 Payment of Impositions. On or before the Lease Commencement Date, Tenant shall notify the appropriate taxing authorities to deliver directly to Tenant all statements and invoices for the Impositions, effective as of the Lease Commencement Date. Tenant shall pay all Impositions (as hereinafter defined) at least thirty (30) days prior to the date they become due;

provided, however, that with respect to Impositions that are payable only after the applicable governmental or quasi-governmental authority notifies Tenant of the amount assessed, if Tenant is not notified of the amount of any such Imposition on or before the date that is thirty-five (35) days prior to the date on which such Impositions become due, then Tenant shall pay such Impositions prior to the earlier of (a) five (5) days after the date on which Tenant receives notice of the amount of the applicable Imposition and (b) the date on which such Imposition is due. As soon as practicable after the payment thereof but in no event more than ten (10) days after the date thereof, Tenant shall deliver to Landlord evidence of each such payment. To the extent that any such Impositions are imposed upon Landlord, at Landlord's option, Tenant shall either pay such Impositions directly to the taxing authority or reimburse Landlord for such Impositions. If the Lease Term expires on a day other than the first day or the last day of a calendar year, then Tenant's liability for Impositions for such calendar year shall be apportioned by multiplying the amount of the Impositions for the full calendar year by a fraction, the numerator of which is the number of days during such calendar year falling within the Lease Term, and the denominator of which is three hundred sixty-five (365).

5.3 Definition of Impositions. The term "Impositions" shall mean all present and future real estate taxes (and all taxes or other impositions that are in the nature of or in substitution for real estate taxes), vault and/or public space rentals, business district or arena taxes, special user fees, governmental charges, rates, and assessments (including general and special assessments, if any), ordinary and extraordinary, foreseen and unforeseen, which are imposed upon Landlord or Tenant or assessed against the Premises, the fixtures, machinery, equipment or systems used in connection with the Premises or the business being operated on the Premises, including without limitation, taxes in the nature of a sales, use, gross receipts or other tax or levy on the rents payable by Tenant. Impositions shall not include any federal, state, or local income tax imposed on Landlord ("Landlord's Income Taxes"), except to the extent levied expressly in lieu of an imposition described in the first sentence of this Section 5.3.

5.4 Contest of Impositions. Tenant, upon at least ten (10) days prior written notice to Landlord but without Landlord's consent, may in good faith and using counsel reasonably acceptable to Landlord, contest or review the existence, amount or applicability of any Impositions by appropriate legal or administrative proceedings, at Tenant's sole cost and expense; provided, however, that such contests are accomplished in the manner expressly permitted therefor in the jurisdiction in which the Premises is located, such that in no event whatsoever shall the failure to pay the Imposition being contested impair in any manner the Premises. Landlord, at no cost or expense to Landlord, shall execute such documents as are necessary, in Landlord's reasonable discretion, in connection with any such contest. Tenant shall be entitled to any refund received with respect to Impositions paid by Tenant.

5.5 Utilities and Services. Tenant, at its own expense, shall arrange with the appropriate utility companies and service providers for the provision to the Premises of water, sewer, trash collection, electricity, gas, telephone, window washing, landscaping, snow removal, and all other utilities and services desired by Tenant ("Utilities and Services"). On or before the Lease Commencement Date, Tenant shall notify the appropriate utility and service providers to deliver directly to Tenant all statements and invoices for the amounts for which Tenant is responsible pursuant to this Section 5.5, effective as of the Lease Commencement Date. Tenant

shall pay directly to the appropriate utility companies and service providers all charges for all Utilities consumed in and Services performed for the Premises, as and when such charges become due and payable. To the extent the invoices for any such Utilities and Services are received by Landlord, at Landlord's option, Tenant shall either pay the charge for such Utilities and Services directly to the utility or service provider or reimburse Landlord for such charges.

ARTICLE VI
USE OF PREMISES

6.1 Use of Premises. Tenant shall use and occupy the Premises only for the purposes for which the Premises is being used as of the Lease Commencement Date and for any other motor vehicle retail or related purposes, and for no other purpose. Notwithstanding the foregoing, Tenant shall not use or occupy the Premises for any unlawful purpose, or in any manner that will violate the certificate of occupancy for the Premises or that will constitute waste or nuisance. Tenant shall comply with all present and future laws (including, without limitation, the Americans with Disabilities Act (the "ADA") and the regulations promulgated thereunder, as the same may be amended from time to time), ordinances (including without limitation, zoning ordinances and land use requirements), regulations, orders and recommendations (including, without limitation, those made by any public or private agency having authority over insurance rates) (collectively, "Laws") concerning the use, occupancy and condition of the Premises and the business being conducted thereon, and all machinery, equipment, furnishings, fixtures and improvements on or used in connection with the Premises, all of which shall be complied with in a timely manner at Tenant's sole expense. If any such Law requires an occupancy or use permit or license for the Premises or the operation of the business conducted therein, then Tenant shall obtain and keep current such permit or license at Tenant's expense. Tenant shall deliver to Landlord, promptly upon request, all licenses, permits and other certificates evidencing compliance of Tenant and the Premises with Laws. If any such Law requires any modification to the Premises. Tenant shall perform such alterations, at its sole cost and expense, in accordance with the terms and conditions of Article IX below. Use of the Premises is subject to all covenants, conditions and restrictions of record. Tenant shall continuously, diligently and actively conduct its business in the Premises in a first-class and reputable manner.

6.2 Assessments on Tenant's Business and Personalty. Tenant shall pay before delinquency any business, rent, sales, franchise or other taxes or fees that are now or hereafter levied, assessed or imposed upon Tenant's use or occupancy of the Premises, the conduct of Tenant's business at the Premises, or Tenant's equipment, fixtures, furnishings, inventory or personal property. If any such tax or fee is enacted or altered so that such tax or fee is levied against Landlord or so that Landlord is responsible for collection or payment thereof, then Tenant shall pay to Landlord as additional rent the amount of such tax or fee.

6.3 Hazardous Materials.

(a) Tenant shall not cause or permit any Hazardous Materials (as hereinafter defined) to be generated, used, released, stored or disposed of in or about the Premises, provided that Tenant may use, store and dispose of reasonable quantities of Hazardous Materials commonly used in motor vehicle retail or related business operations as may be reasonably

necessary for Tenant to conduct such operations, provided such Hazardous Materials are used, stored and disposed of in accordance with all Environmental Laws (as hereinafter defined) and commercially reasonable standards prevailing in the motor vehicle retail and related industries. Tenant acknowledges that Tenant or its Affiliate owned or leased the Premises immediately prior to the Lease Commencement Date. Accordingly, at the expiration or earlier termination of this Lease, Tenant shall surrender the Premises to Landlord in compliance with all Environmental Laws, without regard to whether any violations of Environmental Laws existed at the Premises as of the Lease Commencement Date. "Hazardous Materials" means (i) asbestos and any asbestos containing material,
(ii) any substance that is then defined or listed in, or otherwise classified pursuant to, any Environmental Law or any other applicable Law as a "hazardous substance," "hazardous material," "hazardous waste," "infectious waste," "toxic substance," "toxic pollutant" or any other formulation intended to define, list, or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, toxicity, reproductive toxicity, or Toxicity Characteristic Leaching Procedure (TCLP) toxicity, (iii) any petroleum and drilling fluids, produced waters, and other wastes associated with the exploration, development or production of crude oil, natural gas, or geothermal resources, and (iv) any petroleum product, polychlorinated biphenyls, urea formaldehyde, radon gas, radioactive material (including any source, special nuclear, or byproduct material), medical waste, chlorofluorocarbon, lead or lead-based product, and any other substance whose presence could be detrimental to the Premises or hazardous to health or the environment. "Environmental Law" means any present and future Law and any amendments (whether common law, statute, rule, order, regulation or otherwise), permits and other requirements or guidelines of governmental authorities applicable to the Premises and relating to the environment and environmental conditions or to any Hazardous Material (including, without limitation, CERCLA, 42 U.S C. ss. 9601 et seq., the Resource Conservation and Recovery Act of 1976,42 U.S.C. ss. 6901 et seq., the Hazardous Materials Transportation Act, 49 U.S.C. ss. 1801 et seq., the Federal Water Pollution Control Act, 33 U.S.C. ss. 1251 et seq., the Clean Air Act, 33 U.S.C. ss. 7401 et seq., the Toxic Substances Control Act, 15 U.S.C. ss. 2601 et seq., the Safe Drinking Water Act, 42 U.S.C. ss. 300fet seq., the Emergency Planning and Community Right-To-Know Act, 42 U.S.C. ss. 1101 et seq., the Occupational Safety and Health Act, 29 U.S.C. ss. 651 et seq., and any so-called "Super Fund" or "Super Lien" law, any Law requiring the filing of reports and notices relating to Hazardous Materials, environmental laws administered by the Environmental Protection Agency, and any similar state and local Laws, all amendments thereto and all regulations, orders, decisions, and decrees now or hereafter promulgated thereunder concerning the environment, industrial hygiene or public health or safety).

(b) Tenant shall give Landlord immediate verbal and follow-up (within seventy-two (72) hours) written notice of any actual or threatened Environmental Default (as hereinafter defined). Tenant shall cure such Environmental Default in accordance with all Environmental Laws. An "Environmental Default" means any of the following: a violation of an Environmental Law; a release, spill or discharge of a Hazardous Material on or from the Premises (regardless of whether or not a reporting requirement exists), which release, spill or discharge is not permitted under this Section 6.3; an environmental condition requiring responsive action, including without limitation, an environmental condition at the Premises caused by a third party; or an emergency environmental condition. Upon any Environmental Default, in addition to all other rights available to Landlord under this Lease, at law or in equity.

Landlord shall have the right to require Tenant, at its sole cost and expense, to address such Environmental Default, in which event Landlord shall have the right to supervise and approve any actions taken by Tenant to address the Environmental Default. In the event that Tenant falls promptly to commence and thereafter diligently to pursue the compliance with such Environmental Laws, then Landlord shall have the right, but not the obligation, to perform, at Tenant's sole cost and expense, any lawful action necessary to address the same, in which event Tenant shall pay the costs thereof to Landlord as additional rent, within ten (10) days after written evidence thereof.

(c) Landlord shall have the right, but not the obligation, to conduct, at its expense, periodic audits of the Premises (including without limitation, the air, soil, surface water and groundwater at or near the Premises) and Tenant's compliance with Environmental Laws with respect thereto. If Landlord reasonably determines that alterations or improvements or replacements of equipment on the Premises are necessary in connection with any such Environmental Laws, Landlord shall have the right to require Tenant, at its expense, to perform the same. In the event that Tenant fails promptly to commence and thereafter diligently to pursue the compliance with such Environmental Laws, then Landlord shall have the right, but not the obligation, to perform the same, at Tenant's sole cost and expense, in which event Tenant shall pay the costs thereof to Landlord as additional rent, within ten (10) days after written evidence thereof. If any lender or governmental agency having jurisdiction over Landlord, Tenant or the Premises shall require testing at or near the Premises and Landlord incurs expenses in complying with such requirement, then Tenant shall pay to Landlord the reasonable costs therefor as additional rent, within ten (10) days after written evidence thereof.

(d) Tenant acknowledges that it or its Affiliate owned or leased and operated the Premises immediately prior to the Lease Commencement Date. Accordingly, as a material consideration for Landlord's willingness to enter into this Lease. Tenant hereby waives, and releases Landlord and its Affiliates from, any and all claims for damage, injury or loss (including without limitation, claims for the interruption of or loss to business) which relate to any Environmental Default, whether occurring prior or subsequent to the Lease Commencement Date. Promptly upon request, Tenant shall execute from time to time affidavits, representations and similar documents concerning Tenant's best knowledge and belief regarding the presence of Hazardous Materials at the Premises.

(e) Tenant's obligations pursuant to this Section 6.3 shall survive the expiration or earlier termination of this Lease, but shall relate only to violations of Environmental Laws occurring prior to the expiration or earlier termination of this Lease, except to the extent caused by Tenant or anyone acting through or under Tenant following such expiration or earlier termination. If any required actions by Tenant pursuant to this Section 6.3 continue beyond the expiration or earlier termination of this Lease and hinder Landlord's ability to re-lease the same for the uses contemplated under this Lease, Tenant shall pay to Landlord an amount equal to the Base Rent that would have been payable under this Lease for the period of such required actions in the absence of the expiration or earlier termination of this Lease.

ARTICLE VII
ASSIGNMENT AND SUBLEYFING

7.1 Consent Required for Assignment or Subletting. Tenant shall not assign, transfer or otherwise encumber (collectively, "assign") this Lease or all or any of Tenant's rights hereunder or interest herein, or sublet or permit anyone to use or occupy (collectively, "sublet") the Premises or any part thereof, without obtaining the prior written consent of Landlord, which consent may be withheld or granted in Landlord's sole and absolute discretion. Notwithstanding the foregoing, provided that there has occurred no Event of Default hereunder, Landlord shall not unreasonably withhold its consent to any proposed assignment of this Lease or subletting of the Premises to a franchisee under any franchise agreement approved by Landlord and in effect with respect to the business being conducted at the Premises, provided that Landlord determines, in its sole and absolute discretion, that (a) the use of the Premises pursuant to such assignment or sublease is in compliance with Article VI hereof; (b) Landlord is satisfied with the financial condition of the assignee under any such assignment or the sublessee under any such sublease; (c) the initial Tenant remains fully liable as a primary obligor for the payment of all rent and other charges hereunder and for the performance of all its other obligations hereunder; (d) such assignment or sublease does not violate the terms of any Mortgage; and (e) such assignment or sublease is effected on a form approved by Landlord. Notwithstanding the foregoing, provided that there has occurred no Event of Default hereunder, Tenant may, upon thirty (30) days prior written notice to Landlord, but without Landlord's consent, sublet the Premises to an Affiliate of Tenant as described in clause (a) of Section 7.5 below, provided that the initial Tenant remains fully liable as a primary obligor for the payment of all rent and other charges hereunder and for the performance of all its other obligations hereunder and the Guarantor executes and delivers to Landlord an affirmation of its Guaranty in form satisfactory to Landlord. No assignment or right of occupancy hereunder may be effectuated by operation of law or otherwise without the prior written consent of Landlord. Any attempted assignment, transfer or other encumbrance of this Lease or all or any of Tenant's rights hereunder or interest herein, and any sublet or permission to use or occupy the Premises or any part thereof not in accordance with this Article VII shall be void and of no force or effect. Any assignment or subletting, Landlord's consent thereto, or Landlord's collection or acceptance of rent from any assignee or subtenant shall not be construed either as waiving or releasing Tenant from any of its liabilities or obligations under this Lease as a principal and not as a guarantor or surety, or as relieving Tenant or any assignee or subtenant from the obligation of obtaining Landlord's prior written consent to any subsequent assignment or subletting. As security for this Lease, Tenant hereby assigns to Landlord the rent due from any assignee or subtenant of Tenant. For any period during which there exists an Event of Default hereunder, Tenant hereby authorizes each such assignee or subtenant to pay said rent directly to Landlord upon receipt of notice from Landlord specifying same. Landlord's collection of such rent shall not be construed as an acceptance of such assignee or subtenant as a tenant. Notwithstanding anything to the contrary contained herein, Tenant shall not mortgage. pledge, hypothecate or encumber (collectively "mortgage") this Lease without Landlord's prior written consent, which consent shall not be unreasonably withheld. Without limiting the generality of the immediately preceding sentence, it is specifically agreed that it shall be reasonable for Landlord to withhold its consent if such mortgage (I) would (x) expand Landlord's obligations or liability under this Lease, or (y) reduce Tenant's obligations or liability under this Lease, or (z) require the consent of the holder of such mortgage to any cancellation, surrender, or modification of this Lease or (II) would violate the terms of any Mortgage. Tenant shall pay to Landlord as additional rent all reasonable expenses (including attorneys' fees and accounting costs) incurred by

Landlord in connection with Tenant's request for Landlord to give its consent to any assignment, subletting or mortgage. Tenant shall notify Landlord prior to engaging a real estate broker in connection with any proposed assignment or sublease. Tenant shall deliver to Landlord a fully-executed copy of each agreement evidencing a sublease or assignment or mortgage within ten (10) days after Tenant's execution thereof.

7.2 Change in Control. If Tenant is a partnership, then any event (whether voluntary, concurrent or related) resulting in a dissolution of Tenant, any withdrawal or change (whether voluntary, involuntary or by operation of law) of partners owning a controlling interest in Tenant (including each general partner), or any structural or other change having the effect of limiting the liability of the partners shall be deemed a voluntary assignment of this Lease subject to the provisions of this Article. If Tenant is a corporation (or a partnership with a corporate general partner), then any event (whether voluntary, concurrent or related) resulting in a dissolution, merger, consolidation or other reorganization of Tenant (or such corporate general partner), or the sale or transfer or relinquishment of the interest of shareholders who, as of the date of this Lease, own a controlling interest of the capital stock of Tenant (or such corporate general partner), shall be deemed a voluntary assignment of this Lease subject to the provisions of this Article; provided, however, that the foregoing portion of this sentence shall not apply to (a) the trading of stock in a corporation in the ordinary course through a national or regional exchange or over-the-counter market, or (b) the transfer of stock between or among any of the following: Sidney deBoer, his wife, his brothers and sisters, his brothers- and sisters-in-law, his children, his nieces and nephews. his grandchildren, his grand-nieces and -nephews (collectively, the "deBoer Family"), and charitable trusts, corporations, partnerships, trusts, and other entities, the equitable ownership of which is entirely owned by members of the deBoer Family. If Tenant is a limited liability company, then any dissolution of Tenant or a withdrawal or change, whether voluntary, involuntary or by operation of law, of members owning a controlling interest in Tenant shall be deemed a voluntary assignment of this Lease. In addition, a transfer of all or substantially all of the assets of Tenant, either by merger, consolidation, or otherwise shall be deemed to be an assignment under this Article VII.

7.3 Notice to Landlord. If at any time during the Lease Term Tenant desires to assign, sublet or mortgage all or part of this Lease or the Premises, then in connection with Tenant's request to Landlord for Landlord's consent thereto, Tenant shall give notice to Landlord in writing containing: the identity of the proposed assignee, subtenant or other party and a description of its business; the terms of the proposed assignment, subletting or other transaction; the commencement date of the proposed assignment, subletting or other transaction; the area proposed to be assigned, sublet or otherwise encumbered; the most recent financial statement or other evidence of financial responsibility of such proposed assignee, subtenant or other party; and a certification executed by Tenant and such party stating whether or not any premium or other consideration is being paid for the assignment, sublease or other transaction.

7.4 Restrictions and Obligations Extend to Transferees. All restrictions and obligations imposed pursuant to this Lease on Tenant shall be deemed to extend to any subtenant, assignee, licensee, concessionaire or other occupant or transferee, and Tenant shall cause such person or entity to comply with such restrictions and obligations. Any assignee shall be deemed to have assumed obligations as if such assignee had originally executed this Lease

and at Landlord's request shall execute promptly a document confirming such assumption. Each sublease is subject to the condition that if the Lease Term is terminated or Landlord succeeds to Tenant's interest in the Premises by voluntary surrender or otherwise, at Landlord's option, the sublease shall not terminate as a matter of law and the subtenant shall be bound to Landlord for the balance of the term of such sublease and shall attorn to and recognize Landlord as its landlord under the then executory terms of such sublease.

7.5 Affiliate. For purposes of this Lease, the term "control" shall mean the ownership of fifty percent (50%) or more of the stock or other voting interest of the controlled entity. For purposes of this Lease, the term "Affiliate" shall mean any person or entity that (a) directly or indirectly controls, is controlled by, or is under common control with, Landlord or Tenant, as applicable or (b) holds direct or indirect beneficial ownership (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of voting securities or other voting interests representing at least five percent (5%) of the outstanding voting power of an entity or equity securities or other equity interests representing at least five percent (5%) of the outstanding equity securities or interests in any entity.

ARTICLE VIII
MAINTENANCE AND REPAIRS

8.1 Tenant to Maintain and Repair. Tenant, at Tenant's sole cost and expense, shall promptly make all repairs, perform all maintenance, and make all replacements in and to the Premises (including without limitation, all interior and exterior, structural, non-structural and systems maintenance, repairs and replacements) that are necessary or desirable to keep the Premises in at least as good a condition and repair as they were in on the Lease Commencement Date, in a clean, safe and tenantable condition, and otherwise in accordance with all Laws and the requirements of this Lease, including without limitation, repairs required as a result of any act or omission of any invitee, agent, employee, Affiliate, subtenant, assignee, contractor, client, family member, licensee, customer or guest of Tenant (collectively, "Invitees"). Tenant shall maintain all fixtures and personal property (including all equipment) located in, or serving, the Premises in clean, safe and sanitary condition, shall take good care thereof and make all required repairs and replacements thereto. Tenant shall give Landlord prompt written notice of any defects or damage to the structure of, or equipment or fixtures in, any improvements located in the Premises. Tenant shall maintain all drives, sidewalks, parking areas and lawns on the Premises in a clean condition, free of accumulations of dirt, trash, snow and ice. Tenant shall suffer no waste or injury to any part of the Premises, and shall, at the expiration or earlier termination of the Lease Term, surrender the Premises in at least as good a condition and repair as they were in on the Lease Commencement Date, ordinary wear and tear excepted. Notwithstanding anything to the contrary contained herein, after the expiration of any applicable notice and cure period set forth in Section 17.1(b), Landlord shall have the right, but not the obligation, to make any repair and to charge Tenant as additional rent for all costs and expenses incurred in connection therewith.

8.2 Fixtures. Tenant shall not remove from the Premises any fixtures unless replaced with similar fixtures of equal or greater quality and value. Each such fixture shall become the property of Landlord upon installing the same at the Premises. Tenant may not grant any lien or

security interest in and to such fixture replacements without the prior written consent of Landlord, subject to the terms of Section 17.9 below with respect to Tenant's equipment, machinery and other personalty.

ARTICLE IX
ALTERATIONS

9.1 As-Is Condition. TENANT ACKNOWLEDGES THAT IT OR ITS AFFILIATE OWNED OR LEASED AND OPERATED THE PREMISES IMMEDIATELY PRIOR TO THE LEASE COMMENCEMENT DATE. ACCORDINGLY, TENANT SHALL ACCEPT POSSESSION OF THE PREMISES IN ITS "AS IS" CONDITION AS OF THE LEASE COMMENCEMENT DATE. LANDLORD MAKES NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, WITH RESPECT TO THE PREMISES, EITHER AS TO ITS FITNESS FOR USE, ITS DESIGN OR CONDITION, OR ANY PARTICULAR USE OR PURPOSE TO WHICH THE PREMISES MAY BE FIT, OR OTHERWISE, OR AS TO QUALITY OF THE MATERIAL OR WORKMANSHIP THEREIN, OR THE EXISTENCE OF ANY DEFECTS, LATENT OR PATENT, IT BEING AGREED THAT ALL SUCH RISKS ARE TO BE BORNE BY TENANT. Landlord is under no obligation to make any alterations, decorations, additions, improvements or other changes (collectively, "Alterations") in or to the Premises.

9.2 Consent Required for Alterations. Tenant shall not make or permit anyone to make any Alterations in or to the Premises, without the prior written consent of Landlord, which consent shall not be unreasonably withheld. Notwithstanding the foregoing, Tenant shall have the right, upon at least ten
(10) days prior written notice to Landlord but without Landlord's consent, to perform any Alteration other than (a) Alterations that are capital in nature, irrespective of the cost thereof (including without limitation, Alterations to construct new buildings or structures on the Premises, or to repair, restore or replace the improvements existing on the Premises as of the date of this Lease in a manner other than that which constitutes ordinary and recurring maintenance) and (b) Alterations that cost more than One Hundred Thousand Dollars ($100,000.00). All Alterations in or to the Premises shall be made in a good, workmanlike and first-class manner, in accordance with such commercially reasonable terms and conditions as Landlord may impose. If any lien (or a petition to establish such lien) is filed in connection with any Alteration, such lien (or petition) shall be discharged by Tenant within ten (10) days thereafter, at Tenant's sole cost and expense, by the payment thereof or by the filing of a bond acceptable to Landlord. If Landlord gives its consent to the making of any Alteration, such consent shall not be deemed to be an agreement or consent by Landlord to subject its interest in the Premises to any liens which may be filed in connection therewith. Promptly after the completion of an Alteration, Tenant at its expense shall deliver to Landlord one (1) set of accurate as-built drawings showing such Alteration in place.

9 3 Removal of Alterations. Except as otherwise expressly provided pursuant to Section 9.2 above, if any Alterations are made without the prior written consent of Landlord, then, after the expiration of any notice and cure period applicable pursuant to Section 17.1(b), Landlord shall have the right, in addition to all other remedies, at Tenants expense to remove and correct such Alterations and restore the Premises to its condition immediately prior thereto, or to

require Tenant to do the same. All Alterations to the Premises during the Lease Term shall be the property of Landlord and shall remain upon and be surrendered with the Premises as a part thereof at the expiration or earlier termination of the Lease Term; provided, however, that (a) if there exists no Event of Default under this Lease, then Tenant shall have the right to remove, prior to the expiration or earlier termination of the Lease Term, all movable furniture, furnishings and equipment installed in the Premises solely at the expense of Tenant, and (b) Tenant shall remove all Alterations and other items in the Premises that Landlord designates in writing for removal. Notwithstanding anything to the contrary contained herein, Tenant shall have the right to claim, during the Lease Term, all federal and state income tax benefits associated with Alterations to the Premises performed at Tenant's sole cost and expense during the Lease Term, if and to the extent permitted under applicable Laws; provided, however, that in no event shall Landlord have any liability to Tenant whatsoever in connection with any inability by Tenant to obtain any such benefits. Landlord shall have the right at Tenant's expense to repair all damage and injury to the Premises caused by any removal of such furniture, furnishings, equipment and Alterations or to require Tenant to do the same; provided, however, that Landlord shall not perform any such repair until after notice and the expiration of the applicable cure period pursuant to Section 17.1(b), if and to the extent that such cure period occurs prior to the expiration or earlier termination of the Lease Term. If such furniture, furnishings and equipment are not removed by Tenant prior to the expiration or earlier termination of the Lease Term, the same shall at Landlord's option become the property of Landlord and shall be surrendered with the Premises as a part thereof; provided, however, that Landlord shall have the right at Tenant's expense to remove from the Premises such furniture, furnishings and equipment and any Alteration which Landlord designates in writing for removal or to require Tenant to do the same. If Tenant fails to return the Premises to Landlord as required by this Section, then Tenant shall pay to Landlord, as additional rent, all costs incurred by Landlord in effecting such return.

ARTICLE X
REPRESENTATIONS, WARRANTIES AND COVENANTS OF TENANT

10.1 Representations, Warranties and Covenants of Tenant. Tenant hereby represents, warrants and covenants to Landlord as follows:

(a) Operating Agreements. Tenant shall provide to Landlord, within ten (10) days after execution or receipt thereof, as applicable, copies of all franchise and other operating agreements (including without limitation, any buy-sell agreements or similar agreements affecting the control of the business being operated at or from the Premises) pursuant to which the business is being operated at or from the Premises which are not in effect as of the date of this Lease, and all modifications, supplements or other amendments to, and notices of breach or default under, all such agreements, whether now existing, or hereafter entered into. Tenant further covenants at all times during the Lease Term to operate the business being conducted at or from the Premises in compliance with such franchise or other operating agreements.

(b) Change in Financial Condition. No material adverse change has occurred with respect to the financial condition of Tenant, any Affiliate of Tenant operating the business being conducted at or from the Premises, or such business since the date of the most recent Quarterly Statement or Annual Statement (as hereinafter defined), as applicable, delivered to

Landlord, and Tenant and any such Affiliate each has not entered into any material transaction outside the ordinary course of its business operations being conducted at the Premises.

(c) Proceedings. No proceeding at law or in equity or before any administrative agency or arbitrator or similar forum is pending or, to the knowledge of Tenant, threatened which could reasonably be expected to result in a material adverse change in the financial condition of Tenant, any Affiliate of Tenant operating the business being conducted at or from the Premises, or either such party's ability to conduct its business at the Premises.

(d) Compliance with Financial Covenants of Operating Agreements. Tenant and any Affiliate operating the business being conducted at or from the Premises are in compliance in all material respects with all financial covenants required to be maintained pursuant to all franchise and other agreements pursuant to which Tenant or such Affiliate operates the business being conducted at or from the Premises.

(e) Tenant and Guarantor Financial Statements. Tenant and each Guarantor, if any, shall provide Landlord and any Mortgagee, at the times set forth herein (or more often as may be reasonably requested by Landlord), the following financial information during the Lease Term: (i) within forty-five
(45) days after the end of each fiscal quarter, Tenant- or Guarantor-prepared year-to-date financial statements of Tenant and of each Guarantor, prepared in accordance with generally accepted accounting principles ("GAAP") consistently applied (the "Quarterly Statements"); (ii) within ninety (90) days after the end of each fiscal year of Tenant and each Guarantor, annual financial statements prepared in accordance with GAAP, consistently applied, audited or reviewed by an independent certified public accountant (the "Annual Statements"); and (iii) such additional financial information as Landlord shall reasonably request. Notwithstanding the foregoing provisions of this Section 10.1(e) to the contrary, during any period that (I) Tenant is a wholly-owned subsidiary of Guarantor, (II) financial statements and tax returns of Tenant, Guarantor, and other wholly-owned subsidiaries of Guarantor are prepared on a consolidated basis, and (III) such consolidated financial statements and tax returns do not also aggregate financial data for any entities that are not wholly-owned by Guarantor, then such financial statements and tax returns may be provided on such a consolidated basis. Further notwithstanding anything to the contrary contained herein, with respect to any period during the Lease Term in which Tenant is, or is wholly owned by, a public company, Tenant shall be permitted to satisfy the conditions contained in this Section 10.1(e) by delivering to Landlord, at the times required herein, all such financial information as Tenant (or such public company that wholly owns Tenant, as applicable) is required to file with the United States Securities and Exchange Commission, and such additional financial information as may be required by Landlord to obtain or comply with the terms of any Mortgage; provided, however, that to the extent any such financial information is of a confidential nature, Landlord agrees to enter into confidentiality agreements with Tenant in forms reasonably acceptable to Landlord.

(f) Cash Flow Coverage Ratio Certification. Tenant shall provide to Landlord, within forty-five (45) days after the end of each fiscal quarter, a written calculation, prepared by Tenant or a Guarantor and certified by Tenant's and each Guarantor's chief financial officer, evidencing that Tenant, taken together as a whole with all Guarantors, shall have

maintained a Cash Flow Coverage Ratio, during the past four (4) calendar quarters taken as a whole, of no less than 1.5 to 1.0, based on the Quarterly Statements and Annual Statements delivered to Landlord pursuant to Section 10.1(e) above. For purposes of this Lease, "Cash Flow Coverage Ratio" shall mean the quotient of (i) the sum of (with respect to Tenant and all Guarantors) all net income (computed in accordance with GAAP, consistently applied) plus (A) income taxes, (B) all rent payable under all leases for real property and improvements to which Tenant or any Guarantor is a party ("Aggregate Rent Obligations"), (C) depreciation and amortization, (D) owners' compensation and bonuses in excess of the lesser of Five Hundred Thousand Dollars ($500,000) or twenty-five one-hundredths of one percent (0.25%) of the revenue of Tenant and all Guarantors, taken as a whole; (E) the annual LIFO adjustment; and (F) other non-cash expenses, less recurring capital expenditures and principal payments under long-term debt divided by (ii) the Aggregate Rent Obligations. Tenant and each Guarantor shall provide to Landlord, within ten (10) days after request, all evidence reasonably requested supporting the Cash Flow Coverage Ratio calculations delivered to Landlord.

(g) Disclosure. This Lease does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make any statement contained herein not misleading in light of the circumstances in which it was made. To Tenant's knowledge, there is no event, fact or occurrence that has resulted, or in the future (so far as Tenant can reasonably foresee) could result, in any material adverse change in the financial condition of Tenant or its Affiliate operating the business being conducted at or from the Premises from the most recent Quarterly Statements or Annual Statements, as applicable, provided to Landlord.

(h) [Intentionally omitted].

(i) Material Litigation. Within ten (10) days after Tenant has knowledge of any litigation or other proceeding related to or arising out of this Lease or the Premises in which claims are asserted in an amount in excess of Fifty Thousand Dollars ($50,000), that (a) may be instituted against Tenant or its Affiliate or (b) may affect the title to or the interest of Landlord in the Premises, Tenant shall give written notice thereof to Landlord. If and to the extent Landlord reasonably determines that such proceeding may adversely affect the Premises or this Lease, Landlord may, after notice to Tenant, undertake such investigation or proceeding and Tenant shall pay all reasonable costs and expenses related thereto that are incurred by Landlord, as additional rent, within ten (10) days after delivery of written evidence thereof, whether or not Landlord has received notice from Tenant of such investigation or proceeding, and whether or not an Event of Default has occurred or has been cured. Notwithstanding anything to the contrary contained herein, in the event that Tenant provides written notice to Landlord requesting the right to undertake such investigation and/or proceeding and specifying, in such detail as Landlord shall reasonably require, the manner in which it will perform the same, Landlord shall approve such request if Landlord determines, in its sole and absolute discretion, that (I) the same will not adversely affect the Premises and (II) the same will not violate the terms of any Mortgage and shall be in accordance with all policies and procedures that Landlord and/or the holder of any Mortgage may require; provided, however, that such approval may be revoked by Landlord at any time if Landlord determines, in its sole and absolute discretion, that Tenant is not proceeding with such investigation and/or proceeding in accordance with the terms outlined to Landlord in its request for approval or is not prosecuting the same to completion with due

diligence.

ARTICLE XI
SECURITY DEPOSIT; GUARANTY

11.1 Security Deposit. Simultaneously with Tenant's execution of this Lease, Tenant shall deposit with Landlord the Security Deposit Amount (as defined in Section 1.6) as a security deposit which shall be security for the performance by Tenant of all of Tenant's obligations, covenants, conditions and agreements under this Lease. Landlord shall not be required to maintain such security deposit in a separate account. Except as may be required by law, Tenant shall not be entitled to interest on the security deposit. Within approximately sixty (60) days after the later of the expiration or earlier termination of the Lease Term or Tenant's vacating the Premises, Landlord shall return such security deposit to Tenant, less such portion thereof as Landlord shall have appropriated to satisfy any of Tenant's obligations, or any default by Tenant, under this Lease. If there shall be any default under this Lease by Tenant, then Landlord shall have the right, but shall not be obligated, to use, apply or retain all or any portion of the security deposit for the payment of any (a) Base Rent, additional rent or any other sum as to which Tenant is in default, or (b) amount Landlord may spend or become obligated to spend, or for the compensation of Landlord for any losses incurred, by reason of Tenant's default (including, but not limited to, any damage or deficiency arising in connection with the reletting of the Premises). If any portion of the security deposit is so used or applied, then within three (3) business days after Landlord gives written notice to Tenant of such use or application, Tenant shall deposit with Landlord cash in an amount sufficient to restore the security deposit to the original Security Deposit Amount, and Tenant's failure to do so shall constitute an Event of Default under this Lease.

11.2 Guaranty. As additional security for the faithful performance by Tenant of all covenants, conditions and agreements of this Lease, each Guarantor (as defined in Section 1.11 above) has executed and delivered to Landlord a guaranty of lease (the "Guaranty") in the form attached to the Purchase Agreement.

ARTICLE XII
INSPECTION

12.1 Inspection of Premises. At all times (after reasonable notice, except in the event of emergency) Tenant shall permit Landlord, its agents and representatives, and the holder of any Mortgage, to enter the Premises without charge therefor and without diminution of the rent payable by Tenant in order to examine, inspect or protect the Premises, or to exhibit the same to brokers, prospective tenants (but only (a) after an Event of Default or (b) during the last twelve (12) months of the then-current Lease Term), lenders, purchasers and others. Landlord shall endeavor to minimize disruption to Tenant's normal business operations in the Premises in connection with any such entry.

ARTICLE XIII
INSURANCE

13.1 Insurance.

(a) Types and Amounts of Required Insurance Coverage. Throughout the Lease Term, Tenant shall obtain and maintain (I) commercial general liability insurance (written on an occurrence basis) including contractual liability coverage insuring the obligations assumed by Tenant under this Lease (including the indemnity obligations set forth in this Lease), premises and operations coverage, broad form property damage coverage and independent contractors coverage, and containing an endorsement for personal injury, (2) business interruption insurance, (3) all-risk property insurance, including coverage for flood and, upon Landlord's request, earthquake, (4) comprehensive automobile liability insurance (covering automobiles owned or operated by Tenant), (5) worker's compensation insurance, and (6) employer's liability insurance. Such commercial general liability insurance shall be in minimum amounts typically carried by prudent tenants engaged in similar operations, but in no event shall be in an amount less than the greater of (x) Three Million Dollars ($3,000,000) combined single limit per occurrence with a Five Million Dollar ($5,000,000) annual aggregate and (y) the minimum amounts required under the franchise agreement or other license pursuant to which Tenant or its Affiliate operates the business at or from the Premises. Such business interruption insurance shall be in minimum amounts typically carried by prudent tenants engaged in similar operations, but in no event shall be in an amount less than the Base Rent, Impositions and all other additional rent payable under this Lease during any Lease Year. Such property insurance shall be in an amount not less than that required to replace all of the improvements installed on or about the Premises as of the Lease Commencement Date, all Alterations and all other contents of the Premises (including, without limitation, Tenant's trade fixtures, decorations, furnishings, equipment and personal property). Such automobile liability insurance shall be in an amount not less than One Million Dollars ($1,000,000) for each accident. Such worker's compensation insurance shall carry minimum limits as defined by the law of the jurisdiction in which the Premises is located (as the same may be amended from time to time). Such employer's liability insurance shall be in an amount not less than One Million Dollars ($1,000,000) for each accident. Tenant shall have the right to maintain the insurance coverages set forth in this Article under a blanket insurance policy covering other premises owned or operated by Tenant, provided that (i) the Premises is covered independently by such blanket insurance policy to the full extent required by this Article, and (ii) such coverage for the Premises shall not be diminished for any reason whatsoever (including without limitation a claim made with respect to any other premises) during the Lease Term.

(b) Conditions of Insurance Coverage. All such insurance shall: (1) be issued by a company that is licensed to do business in the jurisdiction in which the Premises is located, that has been approved in advance by Landlord and that has a rating equal to or exceeding A-:XII from Best's Insurance Guide; (2) name Landlord and the holder of any Mortgage as additional insureds and/or loss payees (as applicable), and all loss adjustment shall require the written consent of Landlord and Tenant, and such Mortgagee, if applicable; (3) contain an endorsement that such policy shall remain in full force and effect notwithstanding that the insured may have waived its right of action against any party prior to the occurrence of a loss (Tenant hereby waiving its right of action and recovery against and releasing Landlord and its employees and agents from any and all liabilities, claims and losses for which they may otherwise be liable to the extent Tenant is covered by insurance carried or required to be

carried under this Lease); (4) provide that the insurer thereunder waives all right of recovery by way of subrogation against Landlord, its partners, agents, employees, and representatives, in connection with any loss or damage covered by such policy; (5) be acceptable in form and content to Landlord; (6) be primary and non-contributory; (7) contains an endorsement for cross liability and severability of interests; and (8) contain an endorsement prohibiting cancellation, failure to renew, reduction of amount of insurance or change in coverage without the insurer first giving Landlord thirty (30) days' prior written notice (by certified or registered mall, return receipt requested) of such proposed action. No such policy shall contain any deductible provision except as otherwise approved in writing by Landlord, which approval shall not be unreasonably withheld. Landlord reserves the right from time to time to require Tenant to obtain higher minimum amounts or different types of insurance if it becomes customary for owners or tenants of comparable properties in the vicinity of the Premises to carry insurance of such higher minimum amounts or of such different types. Tenant shall deliver to Landlord, concurrently with Tenant's execution of this Lease and at least annually thereafter, (A) a certificate of all such insurance, (B) receipts evidencing payment therefor (and, upon request, copies of all required insurance policies, including endorsements and declarations), and (C) a certification from Tenant's insurance agent for the benefit of Landlord confirming that Tenant is carrying all of the insurance required pursuant to this Article, and that such coverage is in full force and effect. Tenant shall give Landlord immediate notice in case of fire, theft or accident in the Premises. Neither the issuance of any insurance policy required under this Lease nor the minimum limits specified herein shall be deemed to limit or restrict in any way Tenant's liability arising under or out of this Lease.

ARTICLE XIV
LIABILITY OF LANDLORD

14.1 Release of Landlord. Landlord, its Affiliates, employees and agents shall not be liable to Tenant, its Affiliates and Invitees or any other person or entity for any damage (including indirect and consequential damage), injury, loss or claim (including claims for the interruption of or loss to business) based on or arising out of any cause whatsoever, including without limitation the following: the violation of any Environmental Law or the use, storage or disposal of any Hazardous Materials at, on or under the Premises (whether prior or subsequent to the Lease Commencement Date); repair to any portion of the Premises; interruption in the use of the Premises or any equipment therein; any accident or damage resulting from any use or operation (by Landlord, Tenant or any other person or entity) of elevators or heating, cooling, electrical, sewerage or plumbing equipment or apparatus; termination of this Lease by reason of damage to the Premises; any fire, robbery, theft, vandalism, mysterious disappearance or any other casualty; actions of any other person or entity; leakage in any part of the Premises from water, rain, ice or snow that may leak into, or flow from, any part of the Premises, or from drains, pipes or plumbing fixtures in the Premises; and, notwithstanding anything to the contrary contained in Section 21.1 below, (a) the encroachment of improvements over, under, into, or across the boundaries of the Premises, easements, setback requirements, or utilities (including, without limitation, storm drains and overhead power lines), or (b) the extinguishment of any easement benefiting (or constituting a portion of) the Premises in connection with the foreclosure of any mortgage or deed of trust superior to such easement. Any property placed by Tenant, its Affiliates or Invitees in or about the Premises shall be at the sole risk of Tenant, and Landlord

shall not in any manner be held responsible therefor. Notwithstanding the foregoing provisions of this Section, Landlord shall not be released from liability to Tenant for any physical injury to any natural person caused by Landlord's willful misconduct or gross negligence; provided, however, that in no event shall Landlord have any liability for any loss to Tenant's business or any other indirect losses or consequential damages.

14.2 Indemnification of Landlord. Tenant shall reimburse Landlord, its Affiliates, partners, officers, directors, members, trustees, employees, agents and mortgagees (as additional rent) for, and shall indemnify, defend upon request and hold them harmless from and against, all costs, damages (including punitive and consequential damages), claims, liabilities, reasonable, out-of-pocket expenses (including attorneys' fees, disbursements and actual costs), losses, penalties and court costs suffered by or claimed against any of them, directly or indirectly, based on or arising out of, in whole or in part,
(a) the use and occupancy of the Premises or the business conducted therein, (b) any act or omission of Tenant or its Affiliates or Invitees, (c) any Environmental Law (irrespective of whether there has occurred a violation thereof) relating to the Premises, including without limitation, any loss of value to the Premises in connection therewith, and (d) any breach of Tenant's obligations under this Lease, including without limitation, the failure to comply with Laws.

14.3 Liability Accruing Subsequent to Transfer. No landlord hereunder shall be liable for any obligation or liability based on or arising out of any event or condition occurring during the period that such landlord was not the owner of the Premises or a landlord's interest therein. Within five (5) business days after request, Tenant shall attorn to such transferee and execute, acknowledge and deliver any document submitted to Tenant confirming such attornment.

14.4 Tenant's Remedies. Tenant shall not have the right to set off, recoup, abate or deduct any amount allegedly owed to Tenant pursuant to any claim against Landlord from any rent or other sum payable to Landlord. Tenant's sole remedy for recovering upon such claim shall be to institute an independent action against Landlord, which action shall not be consolidated with any action of Landlord.

14.5 Landlord's Liability. If Tenant or its Affiliates or Invitees are awarded a money judgment against Landlord, then recourse for satisfaction of such judgment shall be limited to execution against Landlord's estate and interest in the Premises. No other asset of Landlord, any partner, director, member, officer or trustee of Landlord (each, an "officer") or any other person or entity shall be available to satisfy or be subject to such judgment, nor shall any officer or other person or entity be held to have personal liability for satisfaction of any claim or judgment against Landlord or any officer.

ARTICLE XV
DAMAGE OR DESTRUCTION

15.1 Tenant's Restoration Obligations. If the improvements located on the Premises are totally or partially damaged or destroyed, then promptly after such damage or destruction, Tenant shall promptly repair, rebuild, or restore all damaged improvements on or about the Premises, in accordance with the following, so as to make the Premises at least equal in value to

the Premises existing immediately prior to such damage or destruction. All such restoration shall be at Tenant's expense; provided, however, that Landlord will make available to Tenant the net proceeds of any fire or other casualty insurance paid to Landlord after deduction of any costs incurred in connection with the collection thereof, including reasonable attorneys' fees. Payment to Tenant of such net proceeds shall be made in accordance with reasonable procedures customarily required in connection with construction loans. Tenant shall deliver to Landlord for Landlord's approval (which shall be granted or withheld in accordance with the standards set forth in Section 9.2 for Landlord's consent to Alterations) the plans and specifications for such restoration. Promptly after receiving Landlord's approval of such plans and specifications, Tenant shall deliver to Landlord for Landlord's approval a schedule setting forth the estimated monthly draws for such work. Upon Landlord's approval thereof, Tenant will begin such repairs or restoration and will prosecute the repairs and restoration to completion with diligence and in accordance with the terms and conditions contained in Article IX of this Lease. Landlord and its architects and engineers shall have the right to inspect the Premises from time to time during such repair and restoration. In no event, however, shall Landlord have any liability whatsoever for any defects in the design or construction of the repairs and restoration, or the compliance of the plans and specifications with Laws. In no event shall any damage or destruction cause an abatement of any rent required to be paid by Tenant under this Lease, nor permit any termination of this Lease.

ARTICLE XVI
CONDEMNATION

16.1 Permanent Taking. If the entire Premises, or the use or occupancy thereof, shall be permanently taken or condemned by any governmental or quasi-governmental authority for any public or quasi-public use or purpose or sold under threat of such a taking or condemnation (collectively, "condemned") so as to render Tenant unable to operate the business being conducted at or from the Premises as of the Lease Commencement Date, as reasonably determined by Landlord, then this Lease shall terminate on the day prior to the date title thereto vests in such authority, and rent shall be apportioned as of such date. If less than the entire Premises or occupancy thereof is permanently condemned, but such partial condemnation renders Tenant unable to operate the business being conducted at or from the Premises as of the Lease Commencement Date, as reasonably determined by Landlord, then Tenant shall have the right to terminate this Lease upon written notice thereof to Landlord within ten (10) business days after Tenant receives notice of such taking, this Lease shall terminate on the day prior to the date title thereto vests in the applicable authority, and rent shall be apportioned as of such date. If less than the entire Premises or occupancy thereof is permanently condemned and such partial condemnation does not render Tenant unable to operate the business being conducted at or from the Premises as of the Lease Commencement Date, as reasonably determined by Landlord, then this Lease shall remain in full force and effect. Notwithstanding anything to the contrary contained in this Article, if the condemnation is the result of the failure of Tenant to maintain the Premises in the condition required under this Lease, then upon such termination, Tenant shall pay to Landlord as liquidated damages, an amount equal to the sum of all Base Rent, additional rent and other sums which would have been payable under this Lease through the remainder of the Lease Term in the absence of such termination. For purposes of this Section, the Premises or portion thereof, as applicable, shall be deemed to be permanently condemned if condemned for a

period in excess of twenty-four (24) consecutive calendar months.

16.2 Temporary Taking. If all or any portion of the Premises is condemned for a period of twenty-four (24) consecutive calendar months or less, all of the terms and conditions of this Lease shall remain in full force and effect, notwithstanding such condemnation. In such event, there shall be no abatement of rent or other amounts payable under this Lease.

16.3 Awards. All awards, damages and other compensation paid on account of condemnation shall belong to Landlord, and Tenant assigns to Landlord all rights to such awards, damages and compensation. Tenant shall not make any claim against Landlord or such authority for any portion of such award, damages or compensation attributable to damage to the Premises, value of the unexpired portion of the Lease Term, loss of profits or goodwill, leasehold improvements or severance damages. Nothing contained herein, however, shall prevent Tenant from pursuing a separate claim against the authority for relocation expenses and for the value of furnishings, equipment and trade fixtures (a)(i) which were installed in the Premises at Tenant's expense following the Lease Commencement Date or (ii) that Tenant retained title to as of the Lease Commencement Date, and (b) which Tenant is entitled pursuant to this Lease to remove at the expiration or earlier termination of the Lease Term, provided that such claim shall in no way diminish the award, damages or compensation payable to or recoverable by Landlord in connection with such condemnation.

ARTICLE XVII
DEFAULT

17.1 Events of Default. Each of the following shall constitute an "Event of Default": (a) Tenant's failure to make when due any payment of the Base Rent, additional rent or other sum; provided, however, that with respect to the first
(1st) such failure in any twelve (12) month period only, no Event of Default shall be deemed to have occurred unless such failure continues for a period of five (5) business days after Landlord delivers written notice thereof to Tenant;
(b) Tenant's failure to perform or observe any covenant or condition of this Lease not otherwise specifically described in this Section, which failure continues for twenty (20) days after Landlord delivers written notice thereof to Tenant, or, provided that if such failure cannot be cured within such twenty
(20) day period, and Tenant begins such cure promptly within such twenty (20) day period and thereafter diligently pursues the same to completion, then Tenant shall have such additional time, up to an additional forty (40) days, as is necessary to effect such cure; provided, however, that no cure period whatsoever shall be applicable if, in Landlord's sole and absolute discretion, (i) such failure raises a life/safety issue with respect to the Premises or its occupants or visitors, including but not limited to, a threat of personal injury or continuing physical injury to the Premises, and/or (ii) with respect solely to an Environmental Default (as specified in Section 6.3), such failure would materially adversely affect Landlord and/or the Premises; (c) Tenant's abandonment of or failure to occupy continuously the Premises; (d) an Event of Bankruptcy as specified in Article XVIII; (e) Tenant's dissolution or liquidation; (f) [intentionally omitted]; (g) any subletting, assignment, transfer, mortgage or other encumbrance of the Premises or this Lease not permitted by Article VII; (h) any representation, warranty or covenant made by Tenant for itself or an Affiliate is incorrect in any material respect when made; (i) any termination or relinquishment of any franchise or license pursuant to which Tenant

or an Affiliate conducts business at or from the Premises as of the date of this Lease, unless Tenant or its Affiliate conducting business at or from the Premises has entered into a new written franchise or license, as applicable, for the operation of motor vehicle retail or related businesses at the Premises within thirty (30) days after the termination or relinquishment of the previous franchise or license, as applicable, which new franchise or license, as applicable, shall have been approved in writing by Landlord in the exercise of its commercially reasonable discretion; (j) a final, non-appealable judgment for the payment of money not fully covered by insurance is rendered against Tenant or any Affiliate conducting business at or from the Premises, and the same has not been discharged, vacated, bonded, appealed or stayed within thirty (30) days after rendering of the same; (k) any failure to maintain the insurance required pursuant to Article XIII above, which failure continues for three (3) days after Landlord delivers written notice thereof to Tenant; (1) any default by Tenant, any Guarantor or any of Tenant's Affiliates under any other instrument entered into with or for the benefit of Landlord or any of Landlord's Affiliates, which default continues following any applicable notice and cure period provided in such instrument; and (m) any breach of Tenant's covenant regarding the Case Flow Coverage Ratio requirement described in Section 10.1(f) above; provided, however, that no Event of Default shall be deemed to have occurred pursuant to this Section 17.1(m) if, upon such breach, Tenant promptly commences and thereafter diligently pursues the cure of the breach of the covenant.

17.2 Landlord's Remedies. If there shall be an Event of Default (even if prior to the Lease Commencement Date), then the provisions of this Section shall apply. Landlord shall have the right, at its sole option, to terminate this Lease. In addition, with or without terminating this Lease, Landlord may re-enter, terminate Tenant's right of possession and take possession of the Premises. The provisions of this Article shall operate as a notice to quit, and Tenant hereby waives any other notice to quit or notice of Landlord's intention to re-enter the Premises or terminate this Lease. If necessary, Landlord may proceed to recover possession of the Premises under applicable Laws, or by such other proceedings, including re-entry and possession, as may be applicable. If Landlord elects to terminate this Lease and/or elects to terminate Tenant's right of possession, everything contained in this Lease on the part of Landlord to be done and performed shall cease without prejudice, however, to Tenant's liability for all Base Rent. additional rent and other sums specified herein. Whether or not this Lease and/or Tenant's right of possession is terminated, Landlord shall have the right, at its sole option, to terminate any right of renewal, expansion, first offer or refusal and any right to purchase the Premises contained in this Lease and to grant or withhold any consent or approval pursuant to this Lease in its sole and absolute discretion. If there exists an Event of Default under this Lease and Tenant has vacated the Premises, then Landlord shall thereafter use reasonable efforts to relet the Premises; provided, however, that Tenant hereby acknowledges the special use of the Premises for the conduct of business by a franchised dealer of motor vehicles and agrees that the ability of Landlord to relet the same to another dealer of motor vehicles under a franchise agreement satisfactory to Landlord is extremely uncertain and would be likely to require a substantial amount of time. Whether or not this Lease and/or Tenant's right of possession is terminated or any suit is instituted. Tenant shall be liable for any Base Rent, additional rent, damages or other sum which may be due or sustained prior to such default, and for all costs, fees and reasonable, out-of-pocket expenses (including, but not limited to, attorneys' fees and costs, brokerage fees, expenses incurred in enforcing any of Tenant's obligations under the Lease or in placing the Premises in first-class rentable condition, advertising expenses, and any concessions or

allowances granted by Landlord) incurred by Landlord in pursuit of its remedies hereunder and/or in recovering possession of the Premises and renting the Premises to others from time to time plus other actual or consequential damages suffered or incurred by Landlord on account of Tenant's default (including, but not limited to, late fees or other charges incurred by Landlord under any Mortgage). Tenant also shall be liable for additional damages which at Landlord's election shall be either one or a combination of the following: (a) an amount equal to the Base Rent and additional rent due or which would have become due from the date of Tenant's default through the remainder of the Lease Term, less the amount of rental, if any, which Landlord receives during such period from others to whom the Premises may be rented (other than any additional rent received by Landlord as a result of any failure of such other person to perform any of its obligations to Landlord), which amount shall be computed and payable in monthly installments, in advance, on the first day of each calendar month following Tenant's default and continuing until the date on which the Lease Term would have expired but for Tenant's default, it being understood that separate suits may be brought from time to time to collect any such damages for any month(s) (and any such separate suit shall not in any manner prejudice the right of Landlord to collect any damages for any subsequent month(s)), or Landlord may defer initiating any such suit until after the expiration of the Lease Term (in which event such deferral shall not be construed as a waiver of Landlord's rights as set forth herein and Landlord's cause of action shall be deemed not to have accrued until the expiration of the Lease Term), and it being further understood that if Landlord elects to bring suits from time to time prior to reletting the Premises, Landlord shall be entitled to its full damages through the date of the award of damages without regard to any Base Rent, additional rent or other sums that are or may be projected to be received by Landlord upon reletting of the Premises; or (b) an amount equal to the sum of
(i) all Base Rent, additional rent and other sums due or which would be due and payable under this Lease as of the date of Tenant's default through the end of the scheduled Lease Term, plus (ii) all reasonable, out-of-pocket expenses (including broker and attorneys' fees) and value of all vacancy periods projected by Landlord to be incurred in connection with the reletting of the Premises. Such amount shall be discounted using a discount factor equal to the yield of the Treasury Note or Bill, as appropriate, having a maturity period approximately commensurate to the remainder of the Term, and such resulting amount shall be payable to Landlord in a lump sum on demand, it being understood that upon payment of such liquidated and agreed final damages, Tenant shall be released from further liability under this Lease with respect to the period after the date of such payment. Landlord may bring suit to collect any such damages at any time after an Event of Default shall have occurred. In the event Landlord relets the Premises for a term extending beyond the scheduled expiration of the Lease Term, it is understood that Tenant will not be entitled to apply any base rent, additional rent or other sums generated or projected to be generated in the period extending beyond the scheduled expiration of the Lease Term (collectively, the "Extra Rent') against Landlord's damages. Similarly in proving the amount that would be received by Landlord upon a reletting of the Premises as set forth in clause (iii) above, Tenant shall not take into account the Extra Rent. The provisions contained in this Section shall be in addition to, and shall not prevent the enforcement of, any claim Landlord may have against Tenant for anticipatory breach of this Lease. Nothing herein shall be construed to affect or prejudice Landlord's right to prove, and claim in full, unpaid rent accrued prior to termination of this Lease. If Landlord is entitled, or Tenant is required, pursuant to any provision hereof to take any action upon the termination of the Lease Term, then Landlord shall be entitled, and Tenant shall be required, to take such action also upon the termination of

Tenant's right of possession.

17.3 Tenant Waiver. Tenant hereby expressly waives, for itself and all persons claiming by, through or under it, any right of redemption, re-entry or restoration of the operation of this Lease under any present or future Law, including without limitation any such right which Tenant would otherwise have in case Tenant shall be dispossessed for any cause, or in case Landlord shall obtain possession of the Premises as herein provided.

17.4 Landlord's Rights Cumulative. All rights and remedies of Landlord set forth in this Lease are cumulative and in addition to all other rights and remedies available to Landlord at law or in equity, including those available as a result of any anticipatory breach of this Lease. The exercise by Landlord of any such right or remedy shall not prevent the concurrent or subsequent exercise of any other right or remedy. No delay or failure by Landlord to exercise or enforce any of Landlord's rights or remedies or Tenant's obligations shall constitute a waiver of any such rights, remedies or obligations. Landlord shall not be deemed to have waived any default by Tenant unless such waiver expressly is set forth in a written instrument signed by Landlord. If Landlord waives in writing any default by Tenant, such waiver shall not be construed as a waiver of any covenant, condition or agreement set forth in this Lease except as to the specific circumstances described in such written waiver.

17.5 Accord and Satisfaction. If Landlord shall institute proceedings against Tenant and a compromise or settlement thereof shall be made, then the same shall not constitute a waiver of the same or of any other covenant, condition or agreement set forth herein, nor of any of Landlord's rights hereunder. Neither the payment by Tenant of a lesser amount than the monthly installment of Base Rent, additional rent or of any sums due hereunder nor any endorsement or statement on any check or letter accompanying a check for payment of rent or other sums payable hereunder shall be deemed an accord and satisfaction. Landlord may accept the same without prejudice to Landlord's right to recover the balance of such rent or other sums or to pursue any other remedy. Notwithstanding any request or designation by Tenant, Landlord may apply any payment received from Tenant to any payment then due. No re-entry by Landlord, and no acceptance by Landlord of keys from Tenant, shall be considered an acceptance of a surrender of this Lease.

17.6 Default Rate. If Tenant fails to make any payment to any third party or to do any act herein required to be made or done by Tenant, then, after the expiration of the applicable notice and cure period (if any) set forth in
Section 17.1, Landlord may, but shall not be required to, make such payment or do such act. The taking of such action by Landlord shall not be considered a cure of such default by Tenant or prevent Landlord from pursuing any remedy it is otherwise entitled to in connection with such default. If Landlord elects to make such payment or do such act, then all reasonable, out-of-pocket expenses incurred by Landlord, plus interest thereon at a rate (the "Default Rate") equal to the lesser of (a) the greater of (i) eighteen percent (18%) per annum or (ii) the rate per annum which is five (5) whole percentage points higher than the prime rate published in the Money Rates section of the Wall Street Journal, or
(b) the highest lawful rate per annum, from the date incurred by Landlord to the date of payment thereof by Tenant, shall constitute additional rent due hereunder.

17.7 Late Fee. If Tenant fails to make any payment of Base Rent, additional rent or any other sum on or before the date that is five (5) days after the date on which such payment is due and payable (without regard to any grace period specified in Section 17.1), then Tenant shall pay to Landlord a late charge of five percent (5%) of the amount of such payment. In addition, such payment and such late fee shall bear interest at the Default Rate from the date such payment or late fee, respectively, became due to the date of payment thereof by Tenant; provided, however, that nothing contained herein shall be construed as permitting Landlord to charge or receive interest in excess of the maximum rate then allowed by law. Such late charge and interest shall constitute additional rent due hereunder without any notice or demand.

17.8 Joint and Several Liability. If more than one natural person or entity shall constitute Tenant, then the liability of each such person or entity shall be joint and several. If Tenant is a general partnership or other entity the partners or members of which are subject to personal liability, then the liability of each such partner or member shall be joint and several. No waiver, release or modification of the obligations of any such person or entity shall affect the obligations of any other such person or entity.

17.9 Subordination of Landlord's Interest. Landlord will agree to subordinate its interest in any of Tenant's equipment, machinery, or other personalty to any lien or security interest then being granted to a bona fide third party financial institution by Tenant in or to any of Tenant's equipment, machinery, or other personalty as security for indebtedness secured for the sole purpose of financing the purchase or leasing of such equipment, machinery, or other personalty; provided that the secured party agrees in writing to provide written notice of any defaults under such financing to Landlord, to provide reasonable advance notice to Landlord prior to removing such collateral, and to promptly repair any damage to the Premises that occurs if the secured party removes its collateral.

ARTICLE XVIII
BANKRUPTCY

18.1 Events of Bankruptcy. An "Event of Bankruptcy" is the occurrence with respect to any of Tenant, a Guarantor or any other person liable for Tenant's obligations hereunder (including, without limitation, any general partner (or, if Tenant is a limited liability company, any member of Tenant) of Tenant (a "General Partner")) of any of the following: (a) such entity or person becoming insolvent, as that term is defined in Title 11 of the United States Code (the "Bankruptcy Code") or under the insolvency laws of any state (the "Insolvency Laws"); (b) appointment of a receiver or custodian for any property of such entity or person, or the institution of a foreclosure or attachment action upon any property of such entity or person; (c) filing by such entity or person of a voluntary petition under the provisions of the Bankruptcy Code or Insolvency Laws; (d) filing of an involuntary petition against such entity or person as the subject debtor under the Bankruptcy Code or Insolvency Laws, which either (1) is not dismissed within thirty (30) days after filing, or (2)results in the issuance of an order for relief against the debtor; or (e) such entity or person making or consenting to an assignment for the benefit of creditors or a composition of creditors; (f) such entity or person submitting (either before or after execution hereof) to Landlord any financial statement containing any material inaccuracy or omission; or (g) a decrease by fifty percent (50%) or more of such entity's or person's net worth below the net

worth of such entity or person as of the date hereof.

18.2 Remedies. Upon occurrence of an Event of Bankruptcy, Landlord shall have all rights and remedies available pursuant to Article XVII; provided, however, that while a case (the "Case") in which Tenant is the subject debtor under the Bankruptcy Code is pending, Landlord's right to terminate this Lease shall be subject, to the extent required by the Bankruptcy Code, to any rights of Tenant or its trustee in bankruptcy (collectively, "Trustee") to assume or assume and assign this Lease pursuant to the Bankruptcy Code. After the commencement of a Case: (i) Trustee shall perform all post-petition obligations of Tenant under this Lease; and (ii) if Landlord is entitled to damages (including, without limitation, unpaid rent) pursuant to the terms of this Lease, then all such damages shall be entitled to administrative expense priority pursuant to the Bankruptcy Code. Any person or entity to which this Lease is assigned pursuant to the Bankruptcy Code shall be deemed without further act or deed to have assumed all of the obligations arising under this Lease on and after the date of assignment, and any such assignee shall upon request execute and deliver to Landlord an instrument confirming such assumption. Trustee shall not have the right to assume or assume and assign this Lease unless Trustee promptly (a) cures all defaults under this Lease, (b) compensates Landlord for damages incurred as a result of such defaults, (c) provides adequate assurance of future performance on the part of Trustee as debtor in possession or Trustee's assignee, and (d) complies with all other requirements of the Bankruptcy Code. If Trustee fails to assume or assume and assign this Lease in accordance with the requirements of the Bankruptcy Code within sixty (60) days after the initiation of the Case, then Trustee shall be deemed to have rejected this Lease. If this Lease is rejected or deemed rejected, then Landlord shall have all rights and remedies available to it pursuant to Article XVII. Adequate assurance of future performance shall require, among other things, that the following minimum criteria be met: (1) Tenant's gross receipts in the ordinary course of business during the thirty
(30) days preceding the Case must be greater than ten (10) times the next monthly installment of Base Rent and additional rent due; (2) both the average and median of Tenant's monthly gross receipts in the ordinary course of business during the seven (7) months preceding the Case must be greater than the next monthly installment of Base Rent and additional rent due; (3) Trustee must pay its estimated pro-rata share of the cost of all services performed or provided by Landlord (whether directly or through agents or contractors and whether or not previously included as part of Base Rent) in advance of the performance or provision of such services; (4) Trustee must agree that Tenant's business shall be conducted in a first-class manner, and that no liquidating sale, auction or other non-first-class business operation shall be conducted in the Premises: (5) Trustee must agree that the use of the Premises as stated in this Lease shall remain unchanged and that no prohibited use shall be permitted; (6) Trustee must pay at the time the next monthly installment of Base Rent is due, in addition to such installment, an amount equal to the monthly installments of Base Rent, and additional rent due for the next six (6) months thereafter, such amount to be held as a security deposit; (7) Trustee must agree to pay, at any time Landlord draws on such security deposit, the amount necessary to restore such security deposit to its original amount; (8) Trustee must comply with all duties and obligations of Tenant under this Lease; (9) financial condition and operating performance of the proposed assignee and its guarantors, if any, shall be similar to the financial condition and operating performance of the Tenant and Guarantors as of the date of this Lease; and (10) all assurances of future performance specified in the Bankruptcy Code must be provided.

ARTICLE XIX
SUBORDINATION

19.1 Subordination. This Lease shall be subject and subordinate to the lien, provisions. operation and effect of all mortgages, deeds of trust, ground leases or other security instruments which may now or hereafter encumber the Premises (collectively, "Mortgages"), to all funds and indebtedness intended to be secured thereby, and to all renewals, extensions, modifications, recastings or refinancings thereof, provided that Landlord obtains for Tenant a non-disturbance agreement providing for the continuation of this Lease in the event of any transfer of the Premises (subject to the terms and conditions contained therein), on the standard form of the holder of any then-applicable Mortgage. The holder of any Mortgage to which this Lease is subordinate shall have the right (subject to any required approval of the holders of any superior Mortgage) at any time to declare this Lease to be superior to the lien, provisions, operation and effect of such Mortgage and Tenant shall execute, acknowledge and deliver all documents required by such holder in confirmation thereof. Tenant shall, within five (5) business days after Landlord's request, execute any requisite or appropriate document confirming the foregoing subordination.

19.2 Attornment and Non-Disturbance. Tenant waives the provisions of any statute or rule of law now or hereafter in effect which may give or purport to give Tenant any right to terminate or otherwise adversely affect this Lease and Tenant's obligations hereunder in the event any foreclosure proceeding is prosecuted or completed or in the event the Premises or Landlord's interest therein is transferred by foreclosure, by deed in lieu of foreclosure or otherwise. If this Lease is not extinguished upon any such transfer or by the transferee following such transfer, then, at the request of such transferee, Tenant shall attorn to such transferee and shall recognize such transferee as the landlord under this Lease. Tenant agrees that upon any such attornment, such transferee shall not be (a) bound by any payment of the Base Rent or additional rent more than one (1) month in advance, except prepayments in the nature of security for the performance by Tenant of its obligations under this Lease, but only to the extent such prepayments have been delivered to such transferee, (b) bound by any amendment of this Lease made without the written consent of the holder of each Mortgage existing as of the date of such amendment, (c) liable for damages for any breach, act or omission of any prior landlord, or (d) subject to any offsets or defenses which Tenant might have against any prior landlord; provided, however, that after succeeding to Landlord's interest under this Lease, such transferee shall agree to perform in accordance with the terms of this Lease all obligations of Landlord arising after the date of transfer. Within five (5) days after the request of such transferee, Tenant shall execute, acknowledge and deliver any requisite or appropriate document submitted to Tenant confirming such attornment.

19.3 Lender Required Modifications. If any prospective or current holder of a Mortgage requires that modifications to this Lease be obtained, and provided that such modifications (a) are reasonable, (b) do not adversely affect in a material manner Tenant's use of the Premises as herein permitted, and (c) do not increase the rent and other sums to be paid by Tenant, then Landlord may submit to Tenant an amendment to this Lease incorporating such required modifications, and Tenant shall execute, acknowledge and deliver such amendment to Landlord within five (5) days after Tenant's receipt thereof.

19.4 Lender Cure Rights. If (a) the Premises are at any time subject to a Mortgage, (b) this Lease and rent payable hereunder is assigned to the holder of the Mortgage, and (c) the Tenant is given notice of such assignment, including the name and address of the assignee, then, in that event, Tenant shall not terminate this Lease or make any abatement in the rent payable hereunder for any default on the part of the Landlord without first giving notice, in the manner provided elsewhere in this Lease for the giving of notices, to the holder of such Mortgage, specifying the default in reasonable detail, and affording such holder a reasonable opportunity to make performance, at its election, for and on behalf of the Landlord, except that (i) such holder shall have at least thirty
(30) days to cure the default; (ii) if such default cannot be cured with reasonable diligence and continuity within thirty (30) days, such holder shall have any additional time as may be reasonably necessary to cure the default with reasonable diligence and continuity; and (iii) if the default cannot reasonably be cured without such holder having obtained possession of the Premises, such holder shall have such additional time as may be reasonably necessary under the circumstances to obtain possession of the Premises and thereafter to cure the default with reasonable diligence and continuity. If more than one such holder makes a written request to Landlord to cure the default, the holder making the request whose lien is the most senior shall have such right.

ARTICLE XX
HOLDING OVER

20.1 Hold Over. If Tenant (or anyone claiming through Tenant) does not immediately surrender the Premises or any portion thereof upon the expiration or earlier termination of the Lease Term, then Tenant shall automatically forfeit all rights to the security deposit then being held by Landlord pursuant to this Lease and the Base Rent payable by Tenant hereunder shall be increased to equal two hundred percent (200%) of the Base Rent, additional rent and other sums that would have been payable pursuant to the provisions of this Lease if the Lease Term had continued during such holdover period. Such rent shall be computed by Landlord and paid by Tenant on a monthly basis and shall be payable on the first day of such holdover period and the first day of each calendar month thereafter during such holdover period until the Premises have been vacated. Notwithstanding any other provision of this Lease, Landlord's acceptance of such rent shall not in any manner adversely affect Landlord's other rights and remedies, including Landlord's right to evict Tenant and to recover all damages. Any such holdover shall be deemed to be a tenancy-at-sufferance and not a tenancy-at-will or tenancy from month-to-month. In no event shall any holdover be deemed a permitted extension or renewal of the Lease Term, and nothing contained herein shall be construed to constitute Landlord's consent to any holdover or to give Tenant any right with respect thereto.

ARTICLE XXI
QUIET ENJOYMENT

21.1 Quiet Enjoyment. Landlord covenants that it has the right to enter into this Lease, and that if Tenant shall perform timely all of its obligations hereunder, then, subject to the provisions of this Lease, Tenant shall during the Lease Term peaceably and quietly occupy and enjoy the full possession of the Premises without hindrance by Landlord or any party claiming

through or under Landlord.

ARTICLE XXII
OPTIONS TO EXTEND LEASE TERM

22.1 Renewal Rights. Landlord hereby grants to Tenant the conditional right, exercisable at Tenant's option. to renew the term of this Lease for eight
(8) successive terms of five (5) years each. If exercised, and if the conditions applicable thereto have been satisfied, the first such renewal term shall commence immediately following the end of the initial Lease Term provided in Sections 1.2 and 3.1 of this Lease and the second renewal term, and each renewal term thereafter, shall commence immediately following the end of the previous renewal term. The rights of renewal herein granted to Tenant shall be subject to, and shall be exercised in accordance with, the following terms and conditions:

(a) Tenant shall exercise its right of renewal with respect to a renewal term by giving Landlord written notice thereof not earlier than fifteen (15) months nor later than twelve (12) months prior to the expiration of the then-current term of this Lease. Notwithstanding the foregoing sentence to the contrary, Tenant's failure to give Landlord, on or before the date that is twelve (12) months prior to the expiration of the then-current term of this Lease, written notice of Tenant's election not to exercise such right of renewal shall conclusively be deemed to constitute timely and irrevocable exercise of Tenant's right of renewal with respect to the applicable renewal period, without any necessity for a written notice of Tenant's exercise of such right of renewal. Notwithstanding the foregoing provisions of this Section 22.1(a) to the contrary, if (i) during any such period Tenant gives Landlord actual (and not deemed) written notice of Tenant's election to renew, and (ii) on or before the date that is twelve (12) months prior to the expiration of the then-current term of this Lease Tenant gives Landlord written notice of Tenant's election not to renew, then the first notice received by Landlord shall govern, and any others with respect to such renewal term shall be disregarded by Landlord.

(b) The Base Rent during each Renewal Term shall be the amounts set forth therefor in Section 1.5 above for the applicable Lease Years within each such Renewal Term. If there exists an Event of Default under this Lease on the date Tenant sends a renewal notice or any time thereafter until a Renewal Term is to commence, at Landlord's election, such Renewal Term shall not commence.

(c) If Tenant's right of renewal with respect to a Renewal Term lapses for any reason (including without limitation, Tenant's failure to timely provide a renewal notice), then Tenant's right of renewal with respect to any subsequent Renewal Term shall similarly lapse and be of no further force or effect.

(d) Tenant's rights of renewal under this Section may be exercised only by Tenant and may not be exercised by any transferee, sublessee or assignee of Tenant.

ARTICLE XXIII
GENERAL PROVISIONS

23.1 Relationship Between Landlord and Tenant. Nothing contained in this Lease shall be construed as creating any relationship between Landlord and Tenant other than that of landlord and tenant. Tenant shall not do or permit to be done anything in connection with Tenant's business or advertising which in the reasonable judgment of Landlord may reflect unfavorably on Landlord or the Premises or confuse or mislead the public as to any apparent connection or relationship between Landlord, the Premises and Tenant.

23.2 Brokers. Landlord and Tenant each warrants to the other that in connection with this Lease it has not employed or dealt with any third party broker, agent or finder. Landlord shall indemnify and hold Tenant harmless from and against any claim for brokerage or other commissions asserted by any broker, agent or finder employed by Landlord or with whom Landlord has dealt. Tenant shall indemnify and hold Landlord harmless from and against any claim for brokerage or other commissions asserted by any broker, agent or finder employed by Tenant or with whom Tenant has dealt.

23.3 Estoppel.

(a) At any time and from time to time, upon not less than five (5) days' prior written notice, Tenant and each subtenant, assignee, licensee or concessionaire or occupant of Tenant shall execute, acknowledge and deliver to Landlord and/or any other person or entity designated by Landlord, a written statement certifying: (a) that this Lease and that certain franchise agreement by and between Lithia Dodge, L.L.C. (d/b/a Lithia Mazda), and Mazda Motor of America, Inc., that certain franchise agreement by and between Lithia TLM, LLC (d/b/a Lithia Lincoln Mercury), and Ford Motor Company dated June 1, 1997, and that certain franchise agreement by and between Lithia TLM, LLC, successor in interest to Lithia Motors, Inc. (d/b/a Lithia Toyota), and Toyota Motor Sales, USA, Inc., dated as of February 15, 1996 (each, a "Franchise Agreement") each are unmodified and in full force and effect (or if there have been modifications, that this Lease or each Franchise Agreement, as applicable, is in full force and effect as modified and stating the modifications); (b) the dates to which the rent and any other charges have been paid; (c) whether or not Landlord is in default in the performance of any obligation, and if so, specifying the nature of such default; (d) the address to which notices to Tenant are to be sent; (e) that this Lease is subject and subordinate to all Mortgages encumbering the Premises; (f) that Tenant has accepted the Premises; and (g) such other matters as Landlord may reasonably request. Any such statement may be relied upon by any owner of the Premises, any prospective purchaser of the Premises, any holder or prospective holder of a Mortgage or any other person or entity. Tenant acknowledges that time is of the essence to the delivery of such statements and that Tenant's failure to deliver timely such statements may cause substantial damages resulting from, for example, delays in obtaining financing secured by the Premises. Tenant shall be liable for all such damages. If any such statement is not delivered timely by Tenant, then all matters contained in such statement shall be deemed true and accurate.

(b) From time to time (but not more often then once in any twelve
(12) month period), upon not less than five (5) business days' prior written notice, Landlord shall execute, acknowledge and deliver to Tenant a written statement certifying, to the best of Landlord's actual knowledge: (a) whether or not Tenant is in default in the performance of any obligation under this Lease, and if so, specifying the nature of such default; (b) the address to which notices

to Landlord are to be sent; and (c) such other matters as Tenant may reasonably request. Any such statement may be relied upon by Tenant and any lender providing financing to Tenant.

23.4 Arbitration.

(a) Notwithstanding anything to the contrary contained in this Lease, except with respect to the payment of Base Rent and additional rent hereunder, in the event a controversy arises between the parties as to any of the requirements of this Lease, which the parties are unable to resolve, the parties agree to waive the remedy of litigation (except for extraordinary relief in an emergency situation) and agree that such controversy shall be determined by arbitration as hereafter provided in this Section 23.5.

(b) The party or parties requesting arbitration shall serve upon the other a demand therefor, in writing, specifying in detail the controversy and matter(s) to be submitted to arbitration before the American Arbitration Association. The selection of arbitrators shall be conducted pursuant to the rules for resolution of commercial disputes promulgated by the American Arbitration Association. The party or parties giving notice shall request a listing of available arbitrators from the American Arbitration Association, and each party shall respond in the selection process within fifteen (15) days after each receipt of such listings until a panel of three (3) arbitrators has been designated. If either party fails to respond within fifteen (15) days, it is agreed that the American Arbitration Association may make such selections as are necessary to complete the panel of three (3) arbitrators.

(c) Within five (5) business days after the selection of the arbitration panel, the arbitrators shall give written notice to each party as to the time and the place of each meeting, which shall be held in Washington, D C., at which the parties may appear and be heard, which shall be no later than fifteen (15) days after certification of the arbitration panel. The applicable rules shall be those in effect at the time for the resolution of commercial disputes promulgated by the American Arbitration Association. The decision of the arbitrators shall be in writing signed by a majority of the panel which decision shall be final and binding upon the parties to the controversy. Provided, however, in rendering their decisions and making awards, the arbitrators shall not add to, subtract from or otherwise modify the provisions of this Lease.

23.5 Notices. All notices or other communications required under this Lease shall be in writing and shall be deemed duly given and received when delivered in person (with receipt therefor), on the next business day after deposit with a recognized overnight delivery service, or on the second day after being sent by certified or registered mail, return receipt requested, postage prepaid, to the following addresses: (a) if to Landlord, at the Landlord Notice Address specified in Article I, with a copy to Shaw Pittman, 2300 N Street, N.W., Washington, D.C. 20037, Attn: Richard F. Williamson; (b) if to Tenant, at the Tenant Notice Address specified in Article I. Either party may change its address for the giving of notices by notice given in accordance with this Section. If Landlord or the holder of any Mortgage notifies Tenant that a copy of any notice to Landlord shall be sent to such holder at a specified address, then Tenant shall send (in the manner specified in this Section and at the same time such notice is sent to Landlord) a copy of each such notice to such holder, and no such notice shall be considered duly sent unless such copy is so sent to such holder. Any cure of Landlord's default by such holder

shall be treated as performance by Landlord. If Tenant or the holder of any Leasehold Financing notifies Landlord that a copy of any notice to Tenant shall be sent to such holder at a specified address, then Landlord shall send (in the manner specified in this Section and at the same time such notice is sent to Tenant) a copy of each such notice to such holder, and no such notice shall be considered duly sent unless such copy is so sent to such holder. Any cure of Tenant's default by such holder prior to the expiration of the applicable notice and cure period (if any) set forth in Section 17.1 shall be treated as performance by Tenant.

23.6 Validity. Each provision of this Lease shall be valid and enforceable to the fullest extent permitted by law. If any provision of this Lease or the application thereof to any person or circumstance shall to any extent be invalid or unenforceable, then such provision shall be deemed to be replaced by the valid and enforceable provision most substantively similar to such invalid or unenforceable provision, and the remainder of this Lease and the application of such provision to persons or circumstances other than those as to which it is invalid or unenforceable shall not be affected thereby. Nothing contained in this Lease shall be construed as permitting Landlord to charge or receive interest in excess of the maximum rate allowed by law.

23.7 Pronouns. Feminine, masculine or neuter pronouns shall be substituted for those of another form, and the plural or singular shall be substituted for the other number, in any place in which the context may require such substitution.

23.8 Successors and Assigns. The provisions of this Lease shall be binding upon and inure to the benefit of the parties and each of their respective representatives, successors and assigns, subject to the provisions herein restricting assignment or subletting.

23.9 Entire Agreement. This Lease and the Purchase Agreement (to the extent surviving the transfer of the Premises to Landlord) together contain and embody the entire agreement of the parties hereto with regard to the subject matter hereof and supersede all prior agreements, negotiations, letters of intent, proposals, representations, warranties, understandings, suggestions and discussions, whether written or oral, between the parties hereto. Any representation, inducement, warranty, understanding or agreement that is not expressly set forth in this Lease or the Purchase Agreement (to the extent surviving) shall be of no force or effect. This Lease may be modified or changed in any manner only by an instrument signed by both parties. This Lease includes and incorporates all Exhibits attached hereto.

23.10 Governing Law. This Lease shall be governed by the Laws of the jurisdiction in which the Premises are located. There shall be no presumption that this Lease be construed more strictly against the party who itself or though its agent prepared it, it being agreed that all parties hereto have participated in the preparation of this Lease and that each party had the opportunity to consult legal counsel before the execution of this Lease.

23.11 Headings. Headings are used for convenience and shall not be considered when construing this Lease.

23.12 Execution and Delivery. The submission of an unsigned copy of this document to Tenant shall not constitute an offer or option to lease the Premises. This Lease shall become

effective and binding only upon execution and delivery by both Landlord and Tenant.

23.13 Time of Essence. Time is of the essence with respect to each of Landlord's and Tenants obligations hereunder.

23.14 Counterparts. This Lease may be executed in multiple counterparts, each of which shall be deemed an original and all of which together constitute one and the same document. Faxed signatures shall have the same binding effect as original signatures.

23.15 Waiver of Jury Trial. LANDLORD, TENANT, ALL GUARANTORS AND ALL GENERAL PARTNERS OF TENANT EACH WAIVES TRIAL BY JURY IN ANY ACTION, PROCEEDING, CLAIM OR COUNTERCLAIM BROUGHT IN CONNECTION WITH ANY MATTER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT HEREUNDER, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM OF INJURY OR DAMAGE. TENANT CONSENTS TO SERVICE OF PROCESS AND ANY PLEADING RELATING TO ANY SUCH ACTION AT THE PREMISES; PROVIDED, HOWEVER, THAT NOTHING HEREIN SHALL BE CONSTRUED AS REQUIRING SUCH SERVICE AT THE PREMISES. LANDLORD, TENANT, ALL GUARAUNTORS AND ALL GENERAL PARTNERS OF TENANT EACH WAIVES ANY OBJECTION TO THE VENUE OF ANY ACTION FILED IN ANY COURT SITUATED IN THE COMMONWEALTH OF VIRGINIA OR IN THE JURISDICTION IN WHICH THE PREMISES IS LOCATED. AND WAIVES ANY RIGHT, CLAIM OR POWER, UNDER THE DOCTRINE OF FORUM NON CON VENIENS OR OTHERWISE, TO TRANSFER ANY SUCH ACTION TO ANY OTHER COURT.

23.16 Additional Rent. Except as otherwise provided in this Lease, any additional rent or other sum owed by Tenant to Landlord (other than Base Rent), and any cost, expense, damage or liability incurred by Landlord for which Tenant is liable, shall be considered additional rent payable pursuant to this Lease to be paid by Tenant no later than ten (10) days after the date Landlord notifies Tenant of the amount thereof.

23.17 Survival of Obligations. Tenant's liabilities and obligations with respect to the period prior to the expiration or earlier termination of the Lease Term shall survive such expiration or earlier termination.

23.18 Force Majeure. For purposes of this Lease, the term "Force Majeure" shall mean fire, act of God, governmental act or failure to act, strike, labor dispute. inability to procure materials, or any cause beyond Landlord's reasonable control (whether similar or dissimilar to the foregoing events).

23.19 No Representations. Landlord's review, approval and consent powers (including the right to review plans and specifications) are for its benefit only. Such review, approval or consent (or conditions imposed in connection therewith) shall be deemed not to constitute a representation concerning legality, safety or any other matter.

23.20 Delivery of Keys. At the expiration or earlier termination of the Lease Term,

Tenant shall deliver to Landlord all keys and security cards to the Premises and the improvements thereon, whether such keys were furnished by Landlord or otherwise procured by Tenant, and shall inform Landlord of the combination of each lock, safe and vault, if any, in the Premises.

23.21 Representations Regarding Organization and Authorization.

(a) Landlord and the person executing and delivering this Lease on Landlord's behalf each represents and warrants that such person is duly authorized to so act; that Landlord is duly organized, is qualified to do business in the jurisdiction in which the Premises are located, is in good standing under the Laws of the state of its organization and the Laws of the jurisdiction in which the Premises are located, and has the power and authority to enter into this Lease; and that all action required to authorize Landlord and such person to enter into this Lease has been duly taken.

(b) Tenant and the person executing and delivering this Lease on Tenant's behalf each represents and warrants that such person is duly authorized to so act; that Tenant is duly organized, is qualified to do business in the jurisdiction in which the Premises are located, is in good standing under the Laws of the state of its organization and the Laws of the jurisdiction in which the Premises are located, and has the power and authority to enter into this Lease and to conduct its business in the manner being conducted; and that all action required to authorize Tenant and such person to enter into this Lease and to conduct its business in the manner being conducted has been duly taken.

(c) Tenant and the person executing and delivering this Lease on Tenant's behalf each represents, warrants and covenants that any Affiliate that conducts any business on or from the Premises, whether now or hereafter, shall be duly organized, qualified to do business in the jurisdiction in which the Premises are located, is in good standing under the Laws of the state of its organization and the Laws of the jurisdiction in which the Premises are located, and shall have the power and authority to conduct its business in the manner being conducted; and that all action required to authorize such Affiliate to so conduct such business on or from the Premises shall have been duly taken.

23.22 Prevailing Party. In the event of any legal proceeding brought by either party against the other under this Lease, the prevailing party. shall be entitled to recover all reasonable costs and expenses incurred in connection with such proceeding. including reasonable attorneys fees, disbursements and actual costs.

23.23 Attorney-In-Fact. Tenant hereby irrevocably and unconditionally appoints Landlord, or Landlord's authorized officer, agent, employee or designee, as Tenant's true and lawful attorney-in-fact, to act, after an Event of Default, for Tenant in Tenant's name, place, and stead, and for Tenant's and Landlord's use and benefit, to execute, deliver and file all necessary documents, to effect a transfer, reinstatement, renewal and/or extension of any and all licenses and other governmental authorizations issued to Tenant in connection with Tenant's operation of the Premises, and to do any and all other acts incidental to any of the foregoing, as fully as Tenant might or could do if personally present or acting, with frill power of substitution. Tenant

hereby ratifies and confirms all that said attorney shall lawfully do or cause to be done by virtue hereof This power of attorney is coupled with an interest and is irrevocable prior to the full performance of Tenant's obligations hereunder.

ARTICLE XXIV
REIT REPRESENTATIONS, WARRANTIES AND COVENANTS

24.1 REIT Status. Tenant acknowledges that Capital Automotive REIT, a Maryland real estate investment trust and the general partner of Landlord (the "Company"), intends to elect to be taxed as a real estate investment trust (a "REIT") under the Code. Tenant shall not take or omit to take any action, or permit any status to exist at the Premises, which would adversely affect the Company's status as a REIT. Tenant hereby agrees to modifications of this Lease which do not materially adversely affect Tenant's rights and liabilities hereunder if such modifications are required to retain or clarify the Company's status as a REIT.

24.2 Sublease and Assignment Restrictions. Notwithstanding anything contained herein to the contrary and without limiting the generality of Section 24.1 above, Tenant shall not: (a) sublet all or part of the Premises or assign this Lease on any basis such that the rental or other amounts to be paid by the sublessee or assignee thereunder would be based, in whole or in part, on the income or profits derived by the business activities of the sublessee or assignee; (b) sublet all or part of the Premises or assign this Lease to any person or entity in which, under Section 856(d)(2)(B) of the Internal Revenue Code of 1986, as amended (the "Code"), Landlord or its general partner owns, directly or indirectly (by applying constructive ownership rules set forth in
Section 856(d) (5) of the Code), a ten percent (10%) or greater interest; or (c) sublet all or part of the Premises or assign this Lease in any other manner or otherwise derive any income which could cause any portion of the amounts received by Landlord pursuant hereto or any sublease to fail to qualify as "rents from real property" within the meaning of Section 856(d) of the Code, or which could cause any other income received by Landlord to fail to qualify as income described in Section 856(c) (2) of the Code. The requirements of this
Section 24.2 shall likewise apply to any further subleasing by any subtenant. All references herein to Section 856 of the Code also shall refer to any amendments thereof or successor provisions thereto.

24.3 Personal Property. Anything contained in this Lease to the contrary notwithstanding and without limiting the generality of Section 24.1 above, the average of the adjusted tax bases of the items of personal property that are leased to Tenant under this Lease, if any, at the beginning and at the end of any calendar year shall not exceed fifteen percent (15%) of the average of the aggregate adjusted tax bases of the Premises at the beginning and at the end of each such calendar year. This Section 24.3 is intended to insure that the rent payable hereunder qualifies as "rents from real property," within the meaning of
Section 856(d) of the Code, or any similar or successor provisions thereto, and shall be interpreted in a manner consistent with such intent.

24.4 Interests in REIT. Without limiting the generality of Section 24.1 above, Tenant covenants and agrees that, during the Lease Term, Tenant and its controlling

shareholders and its or their Affiliates will not acquire, directly or indirectly, more than a nine and nine-tenths percent (9.90%) interest in Capital Automotive REIT, within the meaning of Section 856(d)(2)(B) of the Code, and any amendments thereof or successor provisions thereto. Tenant covenants and agrees that it will divest itself or cause such others to divest themselves of such shares of Capital Automotive REIT as may be necessary to satisfy the limitations of this Section.

ARTICLE XXV
FIRST RIGHT TO NEGOTIATE

25.1 In the event that Lithia Properties, LLC, or any entity controlled by Lithia Properties, LLC (collectively, the "Selling Entity"), elects to market any real property owned by it (each such parcel, an "Additional Property) during the Lease Term (as the same may be extended or renewed), then Landlord shall have a first right to negotiate for the purchase of such Additional Property on the following terms and conditions. Prior to so marketing such Additional Property, the Selling Entity shall notify Landlord in writing (the "Pre-Marketing Notice") of the price at which the Selling Entity intends to market such Additional Property (the "List Price"). If Landlord desires to purchase such Additional Property at the List Price. then Landlord shall provide the Selling Entity with written notice thereof within thirty (30) days after the date of the Pre-Marketing Notice. If Landlord delivers such notice within such thirty (30) day period, then, for a period of thirty (30) days, Landlord and the Selling Entity shall negotiate in good faith regarding the terms and conditions of such sale. If, during such thirty (30) day period, the parties are unable to agree on such terms and conditions (or if Landlord did not timely respond to the Pre-Marketing Notice), then Landlord's right to purchase the Additional Property at the List Price shall lapse and be of no further force or effect, and thereafter the Selling Entity may offer or sell the Additional Property at any price equal to or greater than ninety-five percent (95%) of the List Price (or the lowest List Price, to the extent Landlord has been offered the Additional Property more than once) applicable to such Additional Property without triggering Landlord's rights under this Section. However, the Selling Entity may not offer or sell such Additional Property for less than ninety-five percent (95%) of the List Price (or the lowest List Price applicable to such Additional Property, to the extent Landlord has been offered such Additional Property more than once) without again triggering Landlord's rights under this Section.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease under seal as of the day and year first above written.

LANDLORD:

WITNESS/ATTEST:

CAR LIT L.L.C.,
a Delaware limited liability company

Capital Automotive L.P.,
A Delaware limited partnership,
managing member

By: Capital Automotive REIT,

General partner

_____ By:_____[SEAL]
Name:_____
Title:_____

TENANT:

WITNESS/ATTEST: LITHIA REAL ESTATE,
an Oregon corporation

_____ By:_____[SEAL]
Name:_____
Title:_____

EXHIBIT B

FORM OF CERTIFICATE CONFIRMING LEASE COMMENCEMENT DATE

This Certificate is being provided to Tenant pursuant to the terms of that certain Lease Agreement dated as of June ___, 1999, by and between CAR LIT L.L.C., as Landlord, and Lithia Real Estate, Inc., as Tenant (the "Lease"). This Certificate shall confirm that the Lease Commencement Date is June ___, 1999, and accordingly, the initial term of the Lease shall expire on May 31, 2011, unless earlier terminated or extended pursuant to the terms of the Lease.

CAR LIT L.L.C.

By: Capital Automotive L.P., managing member

By: Capital Automotive REIT, general partner

By:_____[SEAL]
Name:_____
Title:_____

EXHIBIT C

GLOSSARY OF DEFINED TERMS

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Exhibit 10.38

LEASE AND SUBLEASE BETWEEN CAMP INVESTMENTS, L.L.C. AND LITHIA REAL ESTATE, INC.

THIS LEASE and SUBLEASE ("Lease") made and entered into this _____ day of October, 1998, by and between CAMP INVESTMENTS, L.L.C. (hereinafter sometimes referred to as "Landlord" and sometimes referred to as "Camp") with its principal business address at 4123 South Regal, Spokane, Washington, 99223, and LITHIA REAL ESTATE, INC., (hereinafter sometimes referred to as "Tenant" and sometimes referred to as "Lithia"), with its principal business address at 360 E. Jackson St., Medford, Oregon 97501

WITNESSETH:

WHEREAS, Landlord is the Owner and Lessee of certain real property hereinafter described;

WHEREAS, Tenant desires to sublease said real property from Landlord; and

WHEREAS, Landlord is willing to lease and sublease such property, and the improvements thereon, to Tenant, upon the terms and conditions set forth herein, so long as Tenant's obligations under this Lease and Sublease are absolutely and unconditionally guaranteed by Tenant's parent corporation, Lithia Motors, Inc. (hereinafter referred to as "Guarantor").

NOW, THEREFORE, in consideration of the rent, covenants and agreements hereinafter set forth to be paid, observed and performed by Tenant, the observation, payment and performance of which is hereby unconditionally guaranteed by Guarantor, Landlord hereby leases, subleases and sublets to Tenant, and Tenant hereby takes, accepts and leases from Landlord, the leased premises hereinbelow mentioned, and the improvements situated thereon, for the term, at the rental, and upon the covenants and conditions hereinbelow set forth.

I. PREMISES

A. Leased Premises

The premises leased hereunder and covered by this Lease and Sublease are described as follows:

(i) The property which is owned by Landlord, together with the improvements thereon, (including the improvements on the McKay Parcel, as hereinafter described), which property is legally described in Exhibit "A" attached hereto (hereinafter referred to as the "Owned Parcels");

(ii) The property which is subject to a lease dated as of October 15, 1998, between Landlord, as lessee, and Julie A. McKay, as lessor. A true and correct copy of said lease, and the description of the property covered thereby, are attached hereto as Exhibits "B" and "B-1", respectively (hereinafter referred to as the "McKay Lease" and the "McKay Parcel", respectively);

(iii) The property which is subject to a lease dated as of October 15, 1998, between Landlord, as lessee, and JPC Partnership, a Washington general partnership, as lessor, with respect to two parcels of property located on Division Street and also Jackson Street Spokane, Washington, respectively. A true and correct copy of the JPC Lease, and the property covered thereby, are attached hereto as Exhibits "C" and "C-1", respectively (hereinafter referred to as the "JPC Lease and "JPC Parcels", respectively);

(iv) The property which is subject to a lease dated February 1, 1988, between Landlord, as lessee, and the James S. Black Marital Trust and Lloyd L. Dan and Margaret E. Day, as lessors. (hereinafter referred to as the "Black Parcel" and the "Black Lease", respectively). A true and correct copy of the Black Lease, and the property covered thereby, are attached hereto as Exhibits "D" and "D-1", respectively;

(v) The property which is subject to a lease dated June 1, 1991, between Landlord, as lessee, and Greta M. Toll, and Rena E. Wagner and Howard C. Wagner, Co-Trustees of the Ernst H. Toll Disclaimer Trust (hereinafter referred to as the "First Toll Parcel" and the "First Toll Lease", respectively). A true and correct copy of the First Toll Lease, and the property covered thereby, are attached hereto as Exhibits "E" and "E-1", respectively;

(vi) The property which is subject to a lease dated June 1, 1988, as subsequently amended on May 29, 1998, between Landlord, as lessee, and Greta M. Toll, and Rena E. Wagner and Howard C. Wagner, Co-Trustees of the Ernst H. Toll Disclaimer Trust, as lessor (hereinafter referred to as the "Second Toll Parcel" and the "Second Toll Lease", respectively). A true and correct copy of the Second Toll Lease, including the amendment thereto, and the description of the property covered thereby, are attached hereto as Exhibits "F", "F-1", and "F-2", respectively; and

(vii) The property which is subject to a lease dated October 1, 1995, between Landlord, as lessee, and Bruce Barany and William Barany, as lessors (hereinafter referred to

as the "Barany Parcel" and the "Barany Lease", respectively). A true and correct copy of the Barany Lease, and the property covered thereby, are attached hereto as Exhibit "G" and "G-1", respectively.

The Owned Parcels, the McKay Parcel and the JPC Parcels may hereinafter be collectively referred to as the "Camp Family Parcels", and the leases relating to such parcels may hereinafter be referred to as the "Camp Family Leases".

The Black Parcel, the First Toll Parcel, the Second Toll Parcel and the Barany Parcel may hereinafter be collectively referred to as the "Third Party Parcels", and the leases relating to such parcels may hereinafter be referred to as the "Third Party Leases".

Landlord represents and warrants to Tenant that, as of the date hereof, there are no defaults, by either the respective lessors or lessee, under the Camp Family Leases or the Third Party Leases. Further, Landlord covenants and agrees with Tenant that it shall comply with and faithfully perform its obligations under the Camp Family Leases and Third Party Leases.

The Camp Family Parcels and the Third Party Parcels may hereinafter be referred to as the "Leased Premises".

Tenant will take the Leased Premises after thoroughly having examined the same, in their existing "as is" condition and state of repair and without any representation by or on behalf of Landlord or agent representing or purporting to represent Landlord, without any warranties, expressed or implied; provided, however, to the extent Landlord has received warranties from contractors, suppliers or manufacturers, or under any of the Camp Family Leases or Third Party Leases, relating to the improvements to the Leased Premises, Landlord shall give Tenant an assignment of the benefit of such warranties, to the extent assignment is permitted; provided, further, notwithstanding anything to the contrary herein, to the best of Landlord's actual knowledge, the Leased Premises are in compliance with all Federal, State, Regional, County, City, Municipal and other governmental statutes, laws, rules, order, regulations and ordinances affecting any part of the Leased Premises, or the use thereof as the same are in effect on the date hereof.

B. Delivery of Premises

The Leased Premises shall be delivered to Tenant, for Tenant's use, enjoyment, and occupancy, on the date first set forth above.

C. Absolute Net Lease

In addition to the payment of rent, as provided herein, Tenant shall be responsible for payment of all insurance, repair and maintenance, janitorial, taxes and other costs related or incidental to Tenant's use of the Leased Premises.

II. TERM

A. Camp Family Parcels Term

The lease term for the Camp Family Parcels shall be a period of ten (10) years beginning on the later of the delivery of the premises to Tenant, or September 1, 1998, (the "Commencement Date"), and expiring ten (10) years from the Commencement Date, (the "Expiration Date"), unless extended or sooner terminated as hereinafter provided.

B. Third Party Parcels Term

(1) Black Parcel. The lease term for the Black Parcel shall be the same as the term set forth in the Black Lease.

(2) First Toll Parcel. The lease term for the First Toll Parcel shall be the same as the term set forth in the First Toll Lease.

(3) Second Toll Parcel. The lease term for the Second Toll Parcel shall be the same as the term set forth in the Second Toll Lease.

(4) Barany Parcel. The lease term for the Barany Parcel shall be the same as the term set forth in the Barany Lease.

C. Option To Extend Term for Camp Family Parcels

Landlord agrees that Tenant shall have and is hereby granted eight (8) successive options to extend the term of the Lease, with respect to the Camp Family Parcels only, each for a period of five (5) years, each such extended term to begin respectively upon the expiration of the then current term of this Lease or any extension thereof, as the case may be, and all of the covenants and conditions of this Lease shall apply to each extended term, provided on the express condition that at the time of the exercise of the option, and at all times after the exercise of the option and prior to the commencement of any such extension, Tenant shall not be in default under the Lease for a default which it has failed to cure within the applicable cure period; this condition may be waived by Landlord at his sole discretion and may not be used by Tenant as a means to negate the effectiveness of Tenant's exercise of any option. Tenant agrees to give written notice to Landlord at least six (6) months, but not more than one (l) year before expiration of the then current term of this Lease as to whether Tenant desires to extend this Lease, with respect to the Camp Family Parcels only, for the next five (5) year period, and in the event Tenant fails to give such written notice, the right, privilege and option to extend this Lease shall become null and void. Landlord, at its sole discretion may agree to shorten the notice period for exercising any such option to extend the term of the Lease,

with respect to the Camp Family Parcels. Upon receipt of notice from Tenant of its intention to exercise any option to renew, Landlord will give notice to the Landlord under the Camp Family Leases.

Tenant shall have no other right to extend the term of this Lease, with respect to the Camp Family Parcels, beyond the eighth (8th) successive extended five (5) year term.

D. Option To Extend Term for Third Party Parcels

(1) Black Parcel. Tenant shall have no option to extend the lease term for the Black Parcel, except to the extent extension is permitted as set forth in the Black Lease.

(2) First Toll Parcel. Tenant shall have no option to extend the lease term for the First Toll Parcel , except to the extent extension is permitted as set forth in the First Toll Lease.

(3) Second Toll Parcel. Tenant shall have no option to extend the lease term for the Second Toll Parcel, except to the extent extension is permitted as set forth in the Second Toll Lease.

(4) Barany Parcel. Tenant shall have no option to extend the lease term for the Barany Parcel, except to the extent extension is permitted as set forth in the Barany Lease.

Tenant shall give Landlord notice of its intent to extend the term of any Third Party Lease within thirty (30) days of the time required for notice of intent to extend under any such Third Party Lease. Upon receipt of Tenant's notice to Landlord of its intention to extend the term of any Third Party Lease, Landlord will direct a corresponding notice of intention to extend to the pertinent third party landlord.

In the event Tenant elects not to extend the term of any Third Party Lease, or Tenant is unable to extend the term of any Third Party Lease, then, with respect to any such Third Party Lease, this Lease and Sublease shall terminate upon the termination of such Third Party Lease.

III. RENT

A. Initial Rent. Tenant shall pay Rent for the Leased Premises in equal monthly installments, as follows:

(1) Camp Family Parcels

Rent for the Camp Family Parcels, during the initial term of this Lease, shall be Fifty Thousand Dollars ($50,000) per month, in advance on the first
(1st) day of each calendar month included in the Term, as the same may be extended.

(2) Third Party Parcels

(a) Black Parcel. Rent for the Black Parcel shall be the same as is set forth in the Black Lease.

(b) First Toll Parcel. Rent for the First Toll Parcel shall be the same as is set forth in the First Toll Lease.

(c) Second Toll Parcel. Rent for the Second Toll Parcel shall be the same as is set forth in the Second Toll Lease.

(d) Barany Parcel. Rent for the Barany Parcel shall be the same as is set forth in the Barany Lease.

All Rent shall be paid in lawful money of the United States at the address of Landlord set forth in this Lease or at such other place as Landlord in writing may designate. For any portion of a calendar month included at the beginning or end of the Term, Tenant shall pay the prorata portion of the Rent installment for each day of such portion, payable in advance at the beginning of such portion. Upon receipt of Rent from Tenant, Landlord covenants and agrees to pass through, to its lessor, that portion of the rent attributable to the Camp Family Leases, excluding the Owned Parcels, and the Third Party Leases.

B. Rent Adjustment

(1) Camp Family Parcels

During the initial term of this Lease, commencing on the second anniversary of the Commencement Date and thereafter annually on each subsequent anniversary of the Commencement Date during the original term of this Lease, monthly Rent payable hereunder, with respect to the Camp Family Parcels only, shall be increased from that payable in the immediately preceding lease year by the lesser of (i) two percent (2%), or (ii) the same percentage as the increase, if any, that the Consumer Price Index "U.S. City Average, All Items, All Urban Consumers, 1967 = 100" published by the United States Department of Labor, Bureau of Labor Statistics (the "CPI"), has increased during the immediately preceding lease year, by comparing the CPI published at the commencement date of the immediately preceding lease year and that published at the end of said preceding lease year. In no event shall Rent increase by more than two percent (2%) during any single year. In the event the CPI shall hereafter be converted to a different standard reference base or otherwise revised, the determination of the percentage increase shall be made with the use of such conversion factor, formula, or table for converting such index as may be published by the Bureau of Labor Statistics.

If publication of the index is discontinued, the parties hereto shall select another index which best measures inflation in the Spokane, Washington area for purposes of making these calculations

On the first day of a renewal term (if any), and annually thereafter, and any subsequent renewal term (if any), and annually thereafter, monthly Rent payable hereunder shall be increased from that payable in the immediately preceding year by the the same percentage as the increase, if any, that the CPI has increased during the immediately preceding term, by comparing the CPI published at the commencement date of the immediately preceding year and that published at the end of said preceding year; provided, however, notwithstanding the foregoing, the maximum rental adjustment in any lease year shall not exceed six (6.00%) percent.

(2) Third Party Leases

(a) Black Parcel. Rent for any extension period for the Black Parcel shall be the same as is set forth in the Black Lease.

(b) First Toll Parcel. Rent for any extension period for the First Toll Parcel shall be the same as is set forth in the First Toll Lease.

(c) Second Toll Parcel. Rent for any extension period for the Second Toll Parcel shall be the same as is set forth in the Second Toll Lease.

(d) Barany Parcel. Rent any extension period for the Barany Parcel shall be the same as is set forth in the Barany Lease.

To the extent rent during any extension period of any Third Party Lease is subject to further negotiation, Landlord shall include Tenant in any such negotiation, and Landlord shall not agree to any adjustment of the rent under any such Third Party Lease without obtaining Tenant's prior consent.

C. Surcharge

Tenant acknowledges that late payment by Tenant to Landlord of the Rent and any other sums required to be paid by Tenant to Landlord will cause Landlord to incur costs not contemplated by this Lease, the exact amount of such costs being extremely difficult and impracticable to fix. Such costs include, without limitation, costs incurred by Landlord under the Third Party Leases, processing and accounting charges, and-late charges that may be imposed on Landlord by the terms of any encumbrance and note secured by any encumbrance covering the Leased Premises.

Therefore, if any installment of rent due from Tenant is not received by Landlord when due, or any other sum required to be paid by Tenant to Landlord or others as provided for in this Lease, is not received when due, Tenant shall pay to Landlord an additional sum of five percent (5%) of the overdue rent or such other delinquent obligation as a surcharge. Failure to pay "any other sums" due hereunder shall mean the failure to pay such sums after ten (10) days notice from Landlord. Failure

to pay the rent when due shall be construed to mean the failure to mail the monthly rent to Landlord on or before the first (1st) business day of the month with postmark affixed thereto or to deliver the rent to the Landlord by the tenth (10th) calendar day of the month. In addition, if any installment of real property taxes, or other such sums required to be paid to Landlord by Tenant, as the case may be, is not received by Landlord thirty (30) days prior to said real property taxes becoming delinquent, or ten (10) days after Landlord renders a statement, whichever is later, Tenant shall pay to Landlord an additional sum of five percent (5%) of the overdue real property taxes, or other such sums required to be paid to Landlord by Tenant, as a surcharge. Failure to pay real property taxes, or other such sums required to be paid to Landlord by Tenant, on time shall be construed to mean the later of the failure to mail with postmark affixed thereto, or deliver to the Landlord, the real property taxes to Landlord on or before thirty (30) days prior to the real property taxes becoming delinquent, or ten (10) days after Landlord renders a statement for other such sums required to be paid to Landlord by Tenant.

The parties agree that this surcharge represents a fair and reasonable estimate of the costs that Landlord will incur by reason of late payment by Tenant. Acceptance of any surcharge shall not constitute a waiver of Tenant's default with respect to the overdue amount or prevent Landlord from exercising any of the other rights and remedies available to Landlord.

D. Negation of Partnership

Landlord shall not become or be deemed a partner or joint venturer with Tenant by reason of the provisions of this Lease.

IV. USE; LIMITATIONS ON USE

A. Use

Subject to the absolute use restrictions and rights of termination in
Section IV.B.I. of this Lease, Tenant shall use the Leased Premises for the conduct of an automotive sales, service and repair business, and for other purposes so long as such purposes are incidental and complimentary to the primary use, and for no other use without first obtaining the written consent of Landlord, which consent shall not be unreasonably withheld.

Tenant acknowledges that its identity, skill, experience and reputation, and its present business and intended use of the Leased Premises are material considerations to Landlord's entry into this Lease.

B. Limitation on Use

1. Compliance with Laws

Tenant shall, at its sole cost and expense, comply and shall cause the Leased Premises to comply with a) all Federal, State, Regional, County, City, Municipal and other governmental statutes, laws, rules, order, regulations and ordinances affecting any part of the Leased Premises, or the use thereof as the same are in effect on the date hereof and may be hereafter modified, amended, or supplemented; provided, however, to the extent such compliance requires making any structural, unforeseen or extraordinary changes to the Leased Premises, and such changes were not caused directly or indirectly by Tenant's impermissible uses of the Leased Premises, and Landlord and Tenant are unwilling to make such required changes, then this Lease, with respect to that portion of the Property so effected, may be terminated by either party, with the rent to abate pro rata for the the Camp Family Parcels, and the rent to abate as provided in the Third Party Leases; provided, however, Tenant may, subject to Landlord's prior written approval of required changes, which approval shall not be unreasonably withheld, make such changes at its sole cost and expense and, in the event of such an election, this Lease shall not terminate, but shall continue in full force and effect.

Tenant shall not do or permit to be done in or about the Leased Premises, not bring to, keep, or permit to be brought or kept in the Leased Premises, anything which directly or indirectly is forbidden by law, ordinance or governmental or municipal regulation or order, or by any rules, orders or regulations of the applicable Board of Fire Underwriters; all rules and regulations of the National Board of Fire Underwriters, Landlord's casualty insurer(s) and other applicable insurance rating organizations, or other bodies exercising similar functions in connection with the prevention of fire or the correction of hazardous conditions which apply to the Leased Premises, or which may be dangerous to life, limb or property. Tenant shall, at its own expense, make any such improvements, repairs, or installations as may be necessary to satisfy this covenant and shall at all times during the term of this Lease, promptly comply with all such requirements, whether now or hereafter in effect.

Within ten (10) days after receipt, Landlord and Tenant shall advise the other party in writing, and provide the other party with copies of (as applicable), any notices alleging violation of any statute, ordinance, law, rule, or regulation relating to any portion of the Leased Premises; and claims made or threatened in writing regarding such noncompliance and relating to any portion of the Leased Premises; or any governmental or regulatory actions or investigations instituted or threatened regarding noncompliance with such laws and relating to any portion of the Leased Premises.

2. Cancellation of Insurance; Increase in Insurance Rates

Tenant shall not do, bring or keep anything in or about the Leased Premises that will cause a cancellation of any insurance covering the Leased Premises. If the rate of any insurance carried by Landlord is increased as a result of Tenant's use, Tenant shall pay to Landlord within ten (10) days before the date Landlord is obligated to pay a premium on the insurance, or within ten
(10) days after Landlord delivers to Tenant a certified statement from Landlord's insurance carrier stating that the rate increase was caused solely by an activity of Tenant in the Leased Premises as permitted in this Lease, whichever date is later, a sum equal to the difference between the original premium and the increased premium.

3. Waste; Nuisance

Tenant shall use, maintain and occupy the Leased Premises in a careful, safe and proper manner.

Tenant shall not use the Leased Premises in any manner that will constitute a waste, nuisance, or unreasonable annoyance (including, without limitation; a) the use of loudspeakers or sound or light apparatus in violation of any law, rule, regulation or ordinance); b) cause or permit objectionable odors to emanate or to be dispelled from the Leased Premises, to owners or occupants of adjacent properties, or Landlord, in violation of any emission standards established by federal, state or local law, ordinance, statute, rule or regulation.

Any and all exterior trash and garbage facilities of Tenant shall be in compliance with all local laws, rules, regulations, or ordinances.

4. Hazardous Waste

4.1 Tenant's Environmental Compliance. Tenant will not cause nor permit any activities in the Leased Premises which directly or indirectly could result in the Leased Premises, or any other property becoming contaminated with dangerous, hazardous or toxic waste or substances. For purposes of this Lease, the terms "hazardous materials" or "dangerous, hazardous or toxic waste or substances" means any substance or material defined or designated as dangerous, hazardous or toxic waste, dangerous, hazardous or toxic material, a dangerous, hazardous, toxic or radioactive substance, or other similar term by any applicable federal, state or local statute, regulation or ordinance now or hereafter in effect, including, without limitation, a dangerous, hazardous or toxic substance or waste, as defined under Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601 et seq.; Superfund Amendments and Reauthorization Act, 42 U.S.C. Section 9601 et seq.; Hazardous Materials Transportation Act, 49 U.S.C. Section 1802; Resource Conservation and Recovery Act, 42 U.S.C. Section 9601 et seq.; and the Model Toxics Control Act, RCW 70.105A, B, C, and D, et seq.; and the regulations promulgated thereunder. To eliminate any possibility for dispute between Landlord and Tenant with respect to the extent of Tenant's obligations to Landlord under the terms of this Article, Tenant shall, among other things, from and after the Commencement Date, be

exclusively responsible for the integrity of all facilities at the Leased Premises which handle, treat, store, recycle or dispose of Hazardous Materials.

4.2 Indemnity.

a. By Tenant. Tenant will indemnify, defend and hold Landlord harmless from and against any and all Claims, demands, Expenses, damages, costs, losses, liens, liabilities, penalties, fines and lawsuits and other proceedings (including attorneys' fees) arising directly or indirectly from or out of, or in any way connected with any Environmental Condition or Environmental Noncompliance on the Leased Premises arising during the term of this Lease and as a result of Tenant's use of the Leased Premises (but specifically excluding Environmental Conditions that existed on the Leased Premises as of the date of this Lease), and as a result of any activities by Tenant, its agents, customers, purveyors, contractors, subcontractors, or concessionaires in the Leased Premises during Tenant's possession or control of the Leased Premises, which result directly or indirectly in the Leased Premises or any other property becoming contaminated with dangerous, hazardous or toxic waste or substances or the clean-up of dangerous, hazardous or toxic waste or substances from the Leased Premises and arising out of Tenant's use of the Leased Premises. Tenant shall be solely responsible for all costs and expenses relating to the clean-up of dangerous, hazardous or toxic waste or substances from the Leased Premises which become contaminated with dangerous, hazardous or toxic waste or substances during the term of this Lease and as a result of Tenant's activities on the Leased Premises or Tenant's personal property on the Leased Premises.

b. By Landlord. Landlord will indemnify, defend, and hold Tenant harmless from and against any and all Claims, demands, Expenses, damages, costs, losses, liens, liabilities, penalties, fines and lawsuits and other proceedings (including attorneys' fees) arising directly or indirectly from or out of, or in any way connected with, the existence of any Environmental Condition or Environmental Noncompliance on the Leased Premises prior to Tenant's occupancy and the date hereof, which resulted directly or indirectly in the Leased Premises or any other property becoming contaminated with dangerous, hazardous or toxic waste or substances or the clean-up of dangerous, hazardous or toxic waste or substances from the Leased Premises. Landlord shall be solely responsible for all costs and expenses relating to the clean-up of dangerous, hazardous or toxic waste or substances from the Leased Premises which is contaminated with dangerous, hazardous or toxic waste or substances prior to the term of this Lease. Landlord and Tenant both acknowledge receipt of a Level I Environmental Site Assessment, dated October 9, 1998, and prepared by Budinger & Associates, Inc., which identifies certain potential Environmental Conditions which may exist on the Camp Family Parcels as of the date hereof.

4.3 Environmental Investigation. In the event that Environmental Conditions or Environmental Noncompliance are discovered at the Leased Premises subsequent to the date hereof, Tenant shall promptly notify Landlord of the condition(s), whether or not such Environmental Conditions or Environmental Noncompliance are thought to be attributable to the activities of Landlord or its predecessors in interest, or of Tenant. Landlord shall have the right, subject to

Tenant's right to participate should it so desire, to manage and control all investigations to determine the location, type, extent, and source of the Environmental Condition or Environmental Noncompliance. Except to the extent required by any Governmental Entity or applicable law, Tenant shall have no right to conduct environmental testing or audits of the Camp Family Parcels, without first obtaining Landlord's consent, which consent shall not be unreasonably withheld. Both parties shall maintain the confidentiality of, and not disclose to others, any information determined by such investigations, except as required by a Governmental Entity or applicable law.

4.4 Remedial Action Responsibility.

a. By Tenant. With respect to any Environmental Noncompliance or Environmental Condition applicable to the Leased Premises, attributable to Tenant's use or occupancy of the Leased Premises for which Tenant is responsible in accordance with this Seciton 4, and without in any way limiting the scope of Tenant's obligations under the indemnification provisions in Section 4.2(a) above, as between Tenant and Landlord, Tenant will be responsible for the initiation of all investigations, studies, cleanup, corrective action or response or remedial action required by any local, state or federal government agency now or hereafter authorized to regulate environmental matters (hereinafter "Governmental Entities"), or by any consent decree, or court or administrative order now or hereafter applicable to the Leased Premises, or by any federal, state or local law, regulation, rule or ordinance now or hereafter in effect resulting during Tenant's use and occupancy of the Leased Premises and resulting from Tenant's activities on the Leased Premises. Tenant will pay all costs in connection with such actions, including, without limitation, installation, operation, maintenance, testing, monitoring costs, preparation of plans, designs, applications, studies and reports by or for Governmental Entities or other regulating agencies, the preparation of closure or other required plans, the retention of legal counsel, engineers, and other expert consultants. Subject to the limitations set forth herein, Tenant shall have the responsibility and right to manage and control all investigations and any environmental cleanup, remediation, or related activities relating to matters for which Tenant is responsible in accordance with this section. Tenant, however, may not negotiate with, fulfill any requirements or claims made by a Governmental Entity or third party, settle or contest such requirement or third-party claim without the express approval of Landlord, such approval shall not be unreasonably withheld, and Landlord shall have the right to participate fully in any and all meetings, negotiations or decisions relevant to the investigation or remediation of Environmental Conditions at the Leased Premises

b. By Landlord. With respect to any Environmental Noncompliance or Environmental Condition applicable to the Leased Premises existing prior to the date of this Lease, for which Landlord is responsible in accordance with this
Section 4, and without in any way limiting the scope of Landlord's obligations under the indemnification provisions in Section 4.2(b) above, as between Landlord and Tenant, Landlord will be responsible for the initiation of all investigations, studies, cleanup, corrective action or response or remedial action required by any local, state or federal government agency now or hereafter authorized to regulate environmental matters (hereinafter "Governmental Entities"), or by any consent decree, or court or administrative order now or hereafter applicable to the Leased Premises, or by any federal, state or local law, regulation,

rule or ordinance now or hereafter in effect relating to an Environmental Condition or Environmental Noncompliance existing on the Leased Premises as of the date of this Lease. Landlord will pay all costs in connection with such actions, including, without limitation, installation, operation, maintenance, testing, monitoring costs, preparation of plans, designs, applications, studies and reports by or for Governmental Entities or other regulating agencies, the preparation of closure or other required plans, the retention of legal counsel, engineers, and other expert consultants. Subject to the limitations set forth herein, Landlord shall have the responsibility and right to manage and control all investigations and any environmental cleanup, remediation, or related activities relating to matters for which is Landlord is responsible in accordance with this section. Landlord, however, may not negotiate with, fulfill any requirements or claims made by a Governmental Entity or third party, settle or contest such requirement or third-party claim without the express approval of Tenant., such approval shall not be unreasonably withheld, and Tenant. shall have the right to participate fully in any and all meetings, negotiations or decisions relevant to the investigation or remediation of Environmental Conditions at the Leased Premises

4.5 Definitions.

a. As used herein, "Environmental Conditions" means conditions of the environment, including natural resources (including flora and fauna), soil, surface water, groundwater, any present or potential drinking water supply, subsurface strata or the ambient air, relating to or arising out of the use, handling, storage, treatment, recycling, generation, transportation, release, spilling, leaking, pumping, pouring, emptying, discharging, injecting, escaping, leaching, disposal, dumping or threatened release of Hazardous Materials by Tenant, or Landlord as the case may be, or their respective agents, representatives, employees, business guests or invitees, or independent contractors.

b. As used herein, "Environmental Noncompliance" means, but is not limited to: (1) the release of any Hazardous Materials into the environment, any storm drain, sewer, septic system or publicly owned treatment works, in violation of any effluent or emission limitations, standards or other criteria or guidelines established by any federal, state or local law, regulation, rule, ordinance, plan or other; (2) any noncompliance with federal, state or local requirements governing occupational safety and health; (3) any facility operations, procedures, designs, etc. which do not conform to the statutory or regulatory requirements of any other Environmental Law intended to protect public health, welfare and the environment; and (4) the operation of any facility or equipment in violation of any permit condition, schedule of compliance, administrative or court order which have resulted from, directly or indirectly, Tenant's or Landlord's activities on the Leased Premises.

c. As used herein "Claims" shall include, without limitation; claims, demands, suits, causes of action for personal injury or property damage (including any depreciation of property values, lost use of property, consequential damages arising directly or indirectly out of Environmental Conditions; actual damages to natural resources; claims for the recovery of response costs, or administrative or judicial orders directing the performance of investigations, response or remedial actions under state, federal , or local or other Environmental Law, a requirement to

implement "corrective action" pursuant to any order or permit issued pursuant to RCRA; claims for restitution, contribution or equitable indemnity from third parties or any governmental agency; fines, penalties, liens against property; claims for injunctive relief or other orders or notices of violation from federal, state or local agencies or courts; and, with regard to any present or former employees, exposure to or injury from Environmental Conditions.

d. As used herein, "Expenses" shall include any liability, loss, cost or expense including, without limitation, costs of investigation, cleanup, remedial or response action, the costs associated with posting financial assurances for the completion of response, remedial or corrective actions, the preparation of any closure or other necessary or required plans or analyses, or other reports or analyses submitted to or prepared by regulating agencies, including the cost of health assessments, epidemiological studies and the like, retention of engineers and other expert consultants, legal counsel, capital improvements, operation and maintenance testing and monitoring costs, power and utility costs and pumping taxes or fees, and administrative costs incurred by governmental agencies.

4.6 Inspection Rights. Notwithstanding any other provision of this lease to the contrary, Landlord shall have the right to enter and inspect the Premises, including but not limited to all structures thereon and the business operations of Tenant, upon reasonable notice and in a manner so as not to interfere unreasonably with the conduct of tenant's business, to investigate the possibility of any Environmental Condition or Environmental Noncompliance at, upon, about or under the Premises. Landlord may exercise this right in its reasonable discretion. During such inspection, Landlord shall have the right to take such samples and conduct such tests as it or its environmental consultants may determine in its or their discretion to be necessary or advisable. Tenant shall have the right to split samples of any samples so taken. The incurrence by Landlord of any expense under the provisions of this Section D shall not impair any claim for indemnification Landlord may have under the provisions of this Article.

4.7 Survival of Article. The provisions of this Article shall survive, and remain in full force and effect after, the date hereof and termination of the lease term.

5. Overloading

Tenant shall not do anything on the Leased Premises that will cause damage to the Leased Premises.

The Leased Premises shall not be overloaded with heavy articles which would exceed the floor load or roof load which the floor or roof was designed to carry. No machinery, apparatus, or other appliance shall be used or operated in or on the Leased Premises that will in any manner injure, vibrate or shake the Leased Premises.

6. Compliance with Third Party Leases

Tenant shall not conduct any activity on the Third Party Parcels which would constitute or cause an event of default under any of the Third Party Leases. Except as may expressly provided herein, Tenant shall comply with the terms, conditions and covenants applicable to the tenant or lessee under the Third Party Leases.

V. TENANT'S MAINTENANCE AND REPAIR OF LEASED PREMISES

Except as provided in Section XI and I.A., Tenant, at its sole cost and expense, Tenant shall make any and all repairs and replacements to the Leased Premises and shall maintain the Leased Premises in good order and condition; and except as provided in Section XI.

Tenant shall also be liable for any injury sustained by any person or any damage to the Leased Premises.

If Tenant refuses or neglects to maintain, repair, or replace property as required hereunder to the reasonable satisfaction of Landlord as soon as reasonably possible after written demand giving thirty (30) days notice, Landlord may make such maintenance, repairs, or replacement without liability to Tenant's merchandise, fixtures, or other property or to Tenant's business by reason thereof, and upon completion thereof, Tenant shall pay Landlord's reasonable cost for making such maintenance, repair, or replacement upon presentation of bill therefor, as additional rent.

VI. IMPROVEMENTS

Tenant shall not make any alteration, additions or improvements to the Leased Premises without Landlord's written consent first had and obtained except for nonstructural exterior and interior changes not exceeding $35,000 per project and $100,000 in the aggregate. Landlord hereby consents to the installation by Tenant of a phone system, and computer system with any necessary cabling, and the installation of any specialized equipment or machinery required for the operation of Tenant's business, to the extent the same can be installed without damage to the Leased Premises. Any and all alteration, additions and improvements shall be constructed: (i) at Tenant's sole cost and expense by licensed and bonded contractors reasonably acceptable to Landlord; (2) in conformity with applicable building codes and all other necessary or advisable permits and licenses; copies of which shall be furnished to Landlord before work commences; and (3) in a good and workmanlike manner and diligently prosecuted to completion. Any work not acceptable to any governmental authority or agency having or exercising jurisdiction over such work, shall be promptly replaced and corrected at Tenant's expense.

Any and all alterations, additions and improvements to the Leased Premises, not including Tenant's machinery and equipment, shall be deemed to have attached to the freehold and to inure to the benefit of Landlord and shall remain on and be surrendered with the Leased Premises on expiration or termination of the lease term including any extension thereof without compensation to Tenant; provided, however, if not less than ninety (90) days after the expiration or sooner termination of this Lease or any extension thereof, Landlord so elects ("Election Right") by written notice to Tenant, Tenant shall promptly remove all such alterations, additions or improvements

(unless such alterations, additions or improvements have been approved by Landlord) which were so made during the term of this Lease or any extension thereof to the Leased Premises and which are designated in said notice and shall repair any damage occasioned by the original installation or removal and shall restore the Leased Premises to new condition substantially the same as existed prior to the alterations, additions or improvements ("Restoration Work"); and, in default thereof, Landlord may at its option effect said removals and repairs at Tenant's expense. Such Election Right by Landlord shall survive the expiration or sooner termination of the lease term notwithstanding anything to the contrary contained in this Section VI. In the event Tenant fails or refuses to perform such Restoration Work within thirty (30) days after Tenant's receipt of Landlord's Election Right Notice, Landlord may perform same without notice to Tenant and charge Tenant all reasonable costs and expenses associated with such Restoration Work.

VII. LIENS

No work performed by Tenant pursuant to this Lease, whether in the nature of erection, construction, alteration or repair, shall be deemed to be for the immediate use and benefit of Landlord so that no mechanic's or other lien shall be allowed against the estate of Landlord by reason of any consent given by Landlord to Tenant to improve the Leased Premises. Tenant will indemnify and save Landlord harmless from any and all costs and expenses, including reasonable attorneys' fees, suffered or incurred as a result of any such lien against Landlord's interest that may be filed or claimed in connection with or arising out of work undertaken by the Contractors. Tenant shall pay promptly all persons furnishing labor or materials with respect to any work performed by Tenant or its Contractors on or about the Leased Premises.

If any mechanic's or other liens shall at any time be filed against the Leased Premises by reason of work, labor, services or materials performed or furnished, or alleged to have been performed or furnished, to Tenant or to anyone holding the Leased Premises through or under Tenant, and regardless of whether any such lien is asserted against the interest of Landlord or Tenant, Tenant shall forthwith cause the same to be discharged of record or bonded to the reasonable satisfaction of Landlord. If Tenant shall fail to cause such lien forthwith to be so discharged or bonded after being notified of the filing thereof, then, in addition to any other right or remedy of Landlord, Landlord may bond or discharge the same by paying the amount claimed to be due, and the amount so paid by Landlord, including reasonable attorney's fees incurred by Landlord either in defending against such lien or in procuring the bonding or discharge of such lien, together with interest thereon at the Prime Rate as published in the Wall Street Journal, plus five percent (5%), shall be due and payable by Tenant to Landlord.

VIII. TAXES: ASSESSMENTS

A. Personal Properly Taxes

Tenant shall pay before delinquency all taxes, assessments, license fees, and other charges that are levied and assessed against Tenant's personal property installed or located in, on, or about the Leased Premises during the term of this Lease.

B. Real Property Taxes

1. Tenant To Pay All Taxes

Tenant shall pay to the appropriate taxing authority, as additional rent, its prorata share of any and all real estate taxes, ad valorem taxes and assessments, assessments, surcharges and municipal or government charges, general and special, ordinary and extraordinary, of every kind and nature whatsoever attributable to the Leased Premises (excluding any transfer or excise tax imposed as a consequence of Landlord's transfer or assignment of its interest in this Sublease) which may be levied, imposed or assessed during any fiscal tax year which occurs wholly or partially during the term of this Lease against all of the land, buildings and other real property improvements of the Leased Premises.

If any general or special assessment is levied and assessed, Landlord can elect to either pay the assessment in full or use the installment payment method as authorized by the appropriate levying authority. If Landlord pays the assessment in full, Tenant shall pay to Landlord each time a payment of real property taxes is made a sum equal to that which would have been payable, had Landlord elected to pay such assessment under the installment payment method (as both principal and interest, at the rate of interest utilized by the taxing authority), had Landlord used the optional installment payment method; provided, however, Tenant shall be entitled to pay such assessment in full at the time Landlord pays it in full.

At any time during the lease term, if Tenant has not paid when due any tax payment required hereunder or under the Third Party Leases, Landlord may elect to require the real property taxes be paid by Tenant in equal monthly installments in such amounts as are estimated and billed for each tax year by Landlord at the commencement of the lease term and at the beginning of each successive tax year during the lease term, each such installment being due on the first day of each calendar month. At any time during a tax year, Landlord may re-estimate the real properly taxes and thereafter adjust Tenant's monthly installments payable during the tax year to reflect more accurately Tenant's real property taxes. Within thirty (30) days after Landlord's receipt of tax bills for each tax year, or such reasonable time thereafter, Landlord will notify Tenant of the amount of real property taxes for the tax year in question. Any overpayment or deficiency in Tenant's payment of the real property taxes for each tax year shall be adjusted between Landlord and Tenant, and Landlord and Tenant hereby agree that Tenant shall pay Landlord or Landlord shall credit to Tenant's account (or, if such adjustment is at the end of the Term, Landlord shall pay Tenant), as the case may be, within fifteen (15) days of the aforesaid notice to Tenant, such amount necessary to effect such adjustment. The

failure of Landlord to provide such notice within the time prescribed above shall not relive Tenant of any of its obligations hereunder. Notwithstanding the foregoing, if Landlord is required under law to pay real property taxes in advance, Tenant agrees to pay Landlord, upon commencement of the term of this Lease, an amount equal to the real property taxes for the entire tax year in which the term of this Lease commences, and in such event, at the termination of this Lease, Tenant shall be entitled to a refund of real property taxes paid which are attributable to a period after this Lease expires.

2. Proration of Tenant Tax Liability

Tenant's liability to pay the real property taxes shall be prorated on the basis of a 365-day year to account for any fractional portion of a fiscal tax year included in the term at its commencement and expiration. The term "tax year" shall mean calendar year.

IX. UTILITIES AND SERVICES

Tenant shall make all arrangements for and pay before delinquency all utilities and services including, without limitation, gas, electricity, water, sewer, transit, telephone service, trash collection.

If any utility lines which serve the Leased Premises are not maintained by a utility supplier or another party, Tenant shall cause such utility lines to be maintained in good order, repair and condition. that Landlord shall not be responsible for any utility failure.

X. INSURANCE AND INDEMNITY; TENANT'S POSSESSION AT OWN RISK

A. Tenant's Possession at Own Risk

Tenant covenants and agrees that neither the Landlord nor his agents shall be liable in any way for personal injuries or property damages sustained by Tenant, or by any occupant of the Leased Premises, or by any other persons or organizations claiming through Tenant, resulting from the condition, state of repair, or use of the Leased Premises, or any part thereof, or of any equipment therein or appurtenances thereto, or resulting directly or indirectly from any act or neglect of any tenant or occupant therein or of any other person or persons, except for Landlord or its agents. All personal property of every kind and description which may at any time be in, upon or about the Leased Premises shall be there at Tenant's sole risk, or at the risk of those claiming through Tenant, and neither Landlord nor its agents shall be liable for damage to said property or for any loss suffered by Tenant's business or occupation caused by water or other liquid from any source whatever, or by the bursting, overflowing, or leaking of sewer pipes, or by the plumbing, heating or air conditioning equipment, or by electric wires, gas or odors.

B. Indemnities

Tenant covenants, agrees and warrants that it will indemnify and hold Landlord and their employees, agents and contractors free and harmless of and from any and all loss, damage, liability or expense (including attorneys' fees and other costs incurred in connection with litigation or the defense of claims, whether or not claims involves litigation) resulting from any actual or alleged injury to any person, or from any actual or alleged loss of or damage to any property arising from any occurrence in, upon or about the Leased Premises or arising from Tenant's use or occupancy of the Leased Premises or the conduct of its business or from any activity, work or thing done, permitted or suffered by Tenant in, upon or about the Leased Premises, or arising from breach of any obligation on Tenant's part to be performed under the terms of this Lease, or arising wholly or in part from any tortious act, neglect, fault or omission of Tenant, or any person claiming under Tenant or its contractors, agents, employees, visitors, invitees, licensees or concessionaires in, upon or about the Leased Premises; provided, however, Tenant or its agents shall not be required to indemnify Landlord from or against claims or losses resulting from Landlord's own negligence or willful misconduct. The indemnification provided for in this paragraph with respect to any tortious acts or omissions during the term of this Lease shall survive any termination or expiration of this Lease.

C. Fire Insurance on Building and Other improvements

Tenant shall maintain on the Leased Premises a policy of fire insurance to the extent of full replacement value (without deduction for depreciation), including, at Landlord's option, endorsements for extended coverage, vandalism and malicious mischief, special extended perils (all risk), earthquake (if available at commercially reasonable rates) , operation of building laws; provided however if Landlord elects not to require Tenant to maintain earthquake insurance, Tenant shall repair or replace any damage caused by an earthquake within 120 days of such occurrence.

The insurance policy shall be issued in the names of Tenant, Landlord and Landlord's lender, as their interests appear, and the loss, if any, under such policy shall be payable to Tenant, Landlord and Landlord's lender, as their interests may appear, providing that the proceeds of insurance are made available for restoration of the premises as required herein, and providing that said insurance policy may not be canceled or otherwise terminated without the insurance company first giving Landlord and its lender at least thirty (30) days written notice of cancellation; provided further, nothing herein shall be construed to give Landlord or its Lender rights in the proceeds of any insurance policy insuring Tenant's equipment and other personalty, and the proceeds of insurance for any loss to Tenant's equipment and other personalty shall be the property of Tenant.

D. Public Liability and Property Damage Insurance

Tenant, at its cost, shall procure and maintain commercial general liability insurance and property damage insurance with a single combined liability limit of no less than $2,000,000.00 insuring and indemnifying both Tenant and Landlord and their authorized representatives and employees against any and all claims, demands, losses, damages, liabilities and expenses (including, but not limited to, reasonable attorneys' fees, reasonable investigative and discovery costs, and court costs) for any injury to any person, or for any loss of or damage to any property from any cause whatsoever arising from or related to the ownership, use, occupancy or maintenance of the Leased Premises and all areas appurtenant thereto.

This public liability and property damage insurance shall carry a contractual coverage endorsement specifically insuring the performance by Tenant of its indemnity agreement contained in Section X.B.

Tenant shall name Landlord and Landlord's lender as additional insured, and the policy shall contain cross liability endorsements.

Not more frequently than each two (2) years, if, in the reasonable opinion of Landlord or of Landlord's lender, the amount of public liability and property damage insurance coverage at that time is not adequate due to inflation, Tenant's activity, substantial increase in recovered liability claims, or any combination thereof, Tenant shall increase the insurance coverage as may be reasonably required by either Landlord or Landlord's lender, or in accordance with the industry standards.

This comprehensive public liability insurance policy shall (i) provide for contractual liability coverage with respect to the indemnity obligation set forth above, (ii) provide for severability of interests, and (iii) provide that an act or omission of one of the insureds or additional insureds which would void or otherwise reduce coverage shall not reduce or void the coverage as to the other additional insureds or the insured, respectively.

Landlord makes no representations that the limits of liability specified to be carried by Tenant pursuant to this Section are adequate to protect Tenant. If Tenant believes that any of such insurance coverage is inadequate, Tenant will obtain, at Tenant's sole cost and expense, such additional insurance coverage as Tenant deems adequate.

Tenant, at its cost, shall further procure and maintain Worker's Compensation Insurance and Employer's Liability Insurance with a limit of no less than the amount and in form required by law.

E. Tenant's Fire Insurance

Tenant, at its sole cost and expense, shall maintain all-risk fire and casualty insurance with standard extended coverage endorsement, including theft, vandalism, and malicious mischief, for

100% of the replacement value of all furnishings, trade fixtures, leasehold improvements, equipment, merchandise, inventory, records and personal property from time to time in the Leased Premises.

F. Waiver of Subrogation

Landlord and Tenant mutually release the other from any and all liability or responsibility (to the other or anyone claiming through or under them by way of subrogation or otherwise) for any loss or damage to property arising by reason of fire and such items as are included under the normal extended coverage clauses of fire insurance policies as required to be carried by the parties under this Lease or any other insurance actually carried by such party, and do hereby mutually waive all rights of subrogation in favor of any insurance carrier against the other arising out of any such loss or damage.

G. Tenant's Contractor's Insurance

Tenant shall require any contractor of Tenant performing work on the Leased Premises to carry and maintain, at no expense to Landlord: a) comprehensive general liability insurance, including contractor's liability coverage, contractual liability coverage, completed operations coverage, broad form property damage endorsement and contractor's protective liability coverage, to afford protection, with respect to personal injury, death or property damage of not less than One Million Dollars ($1,000,000.00) per occurrence, Combined Single Limit/Two Million Dollars ($2,000,000.00) aggregate; b) comprehensive automobile liability insurance with limits for each occurrence of not less than One Million Dollars ($1,000,000.00) with respect to personal injury or death and Five Hundred Thousand Dollars ($500,000.00) with respect to property damage; and
c) Worker's Compensation or similar insurance in form and amounts required by law.

H. Other Insurance Matters

All the insurance required of Tenant under this Lease shall:

1. Be issued by insurance companies authorized to do business in the State of Washington with a financial rating of at least AA or better as rated in the most recent edition of Best's Insurance Reports.

2. Contain an endorsement requiring thirty (30) days written notice from the insurance company to both parties and Landlord's lender before cancellation, non-renewal or change in the coverage, scope or amount of any policy.

3. Be written as primary policies, not contributing with and not supplemental to the coverage that Landlord may carry.

Tenant shall furnish the insurance carriers with a copy of this Lease to insure proper coverage.

Each policy, or a certificate of the policy, together with evidence of payment of premiums, shall be deposited with the Landlord at the commencement of the term, and on renewal of the policy not less than twenty (20) days before expiration of the term of the policy.

If Tenant shall fail to perform any of its obligations under this Section X, Landlord may perform the same and the cost of the same shall be deemed additional rent and payable upon Landlord's demand.

Tenant's obligation to insure may be provided by appropriate amendment, rider, or endorsement on any blanket policy or policies carried by Tenant.

XI. DESTRUCTION

If the Leased Premises should be damaged or destroyed by fire or other casualty, Tenant shall give immediate written notice thereof to Landlord.

In case the Leased Premises shall be partially or totally damaged or destroyed by fire or other casualty insurable under standard extended risk insurance as to become partially or totally untenable, after date of notification by Tenant to Landlord of the happening of the damage, Tenant, at its sole cost, provided insurance proceeds are made available by Landlord and by its lender in an amount to fully pay for such repairs, shall proceed forthwith to repair or restore such damage as nearly as practicable to the condition and character prior to such damage or destruction within a reasonable time (subject to reasonable time allowance for the purpose of adjusting the insurance loss and for unavoidable delay), unless Landlord or Tenant elects to terminate this Lease as hereinafter provided.

In the event more than forty percent (40%) of any building on the Leased Premises shall be destroyed by fire or other casualty insurable under standard risk insurance, or in the event any building on the Leased Premises shall be damaged or destroyed to any extent by a casualty other than those covered by fire and standard extended coverage risk insurance, then and in such event, Tenant may, if it so elects, rebuild or put said building in good condition and fit for occupancy within a reasonable time after date of notification of the destruction or damage, or may, upon thirty (30) days written notice given within forty-five (45) days of the date of notification of the destruction or damage, terminate this Lease as to the portion of the premises so destroyed, with the rent to abate pro rata for the Camp Family Parcels of by the amount of rent payable under the Third Party Leases, to the extent permitted in the Third Party Leases; provided, however, Tenant may not partially terminate this Lease with respect to that portion of the property so damaged if such terminated portion is of such a size or configuration that it has little or no economic value to Landlord, in which event Tenant shall have the right to terminate this Lease and Sublease with respect to the entire Leased Premises unless, in lieu of such total termination, Landlord elects to allow the partial termination with respect to that portion of the premises so partially damaged. Unless Tenant elects to terminate this Lease, this Lease shall remain in full force and effect. In the event tenant elects to rebuild, rent shall abate ratably, providing that Tenant diligently pursues completion of any required restoration.

If the Lease is canceled or partially terminated by reason of such damage or destruction, any insurance proceeds for damage to the Leased Premises, not including Tenant's fixtures, machinery, equipment, and other personal property, whether obtained by Tenant or Landlord, shall belong to Landlord, free and clear of any claims by Tenant. Any insurance proceeds for damage to Tenant's fixtures, equipment, machinery, and other personal property, shall belong to Tenant, free and clear of any claims by Landlord.

In the event the parking area shall be materially and substantially damaged by reason of any casualty to such an extent as to render the same untenable in whole or in a substantial part thereof, then Tenant, at its option, may terminate this Lease, as to the portion of the parking area so damaged, by giving written notice to the other not later than ninety (90) days after the date of such damage.

XII. ASSIGNMENT AND SUBLETTING

A. Tenant's Assignment or Sublease

Tenant may assign this Lease or sublet all or any portion of the Premises to any entity, including trusts, corporations, partnerships and limited liability companies, that is owned or controlled in majority part by Sidney DeBoer or any member of his Immediate Family, or any other entity owned or controlled in majority party by Sidney DeBoer or any member of his Immediate Family ("Permitted Assignee"), without the prior consent of Landlord; provided, however, such assignment or transfer must be consented to by Guarantor, which must ratify and reaffirm its unconditional guaranty of the payment and performance by the tenant's obligations under this Lease and Sublease . As used herein, Immediate Family shall mean the spouse, sons or daughters of Sidney DeBoer , the Estate of Sidney DeBoer, any entity owned or controlled in majority part by any of them. Tenant and Permitted Assignee's may assign or sublet to any other party only with the prior consent of Landlord, which consent may be given or with held in the exercise of Landlord's sole and unqualified discretion. In the event Landlord refuses its consent to a proposed assignment, Tenant shall thereafter have the right to terminate this Lease upon thirty (30) days notice to Landlord, upon payment to Landlord of the remaining rent reserved under the Lease for the remaining term then in effect. Alternatively, Tenant shall have the right to assign this Lease to the assignee rejected by Landlord for a period of eighteen (18) months from the date of such assignment, during which period Landlord and the assignee shall attempt in good faith to negotiate the terms and conditions of a new lease for the Premises; provided, however, notwithstanding such limited assignment, Tenant shall not be relieved from performance of its obligations under this Lease. In the event Landlord and the assignee shall fail to agree on such terms of a new lease during such eighteen (18) month period, either party may terminate this Lease upon thirty (30) days notice to the other party, and upon payment, by Tenant, of the remaining rent reserved under the Lease for the remaining term then in effect. Notwithstanding the foregoing, if Landlord's consent to a proposed assignment is unreasonably withheld, Tenant shall be relieved of its obligations under this Lease, excluding its obligations under Article IV arising prior to such date. Landlord's consent to a proposed assignment shall be deemed to have been unreasonably withheld if the proposed assignee

is at least as credit worthy as Tenant and Guarantor, its financial condition is at least as good as that of Tenant and Guarantor, and the proposed assignee has sufficient business experience in, and a good business reputation in, the automobile sales and leasing business.

Notwithstanding anything to the contrary contained in the next preceding paragraph Landlord hereby consents to the assignment of the Lease: (i) as security for the Tenant's performances of obligations incurred in order to finance Tenant's business; or (ii) to any corporation, partnership, joint venture, or other entity controlling, controlled by or under common control with Tenant.

If Tenant is a corporation, then any transfer of this Lease from Tenant by merger, consolidation or liquidation and any change in the ownership of Tenant, the result of which is that the power to vote the majority of Lithia Motors, Inc. outstanding voting stock, however accomplished, and whether in a single transaction or in a series of transactions, is not held by Sidney DeBoer or a Permitted Assignee, shall constitute an assignment for the purpose of this
Section requiring Landlord's prior written consent in each instance.

Tenant's request for consent to a transfer shall include a written statement of the details of the proposed transfer, including the name, address, business, intended use of the Leased Premises, financial condition of the prospective transferee, financial details of the proposed transfer, a copy of the proposed transfer documents and any other information Landlord deems, relevant. At any time within thirty (30) days after Landlords receipt of the foregoing information, Landlord shall have the right (1) to withhold consent, to the extent permitted in this Section; or (2) to grant consent, subject to the terms and provisions of this Lease.

Landlord shall have no obligation but shall have the right to accept such rent and other charges from any assignee or subtenant.

Notwithstanding any transfer permitted herein, Tenant hereof shall not be released from the payment and performance of its obligations under this Lease and shall at all times remain directly, primarily and fully responsible and liable for all payments owed by Tenant under this Lease and for compliance with all obligations under the terms, provisions and covenants of this Lease.

Any attempted transfer without Landlord's prior written consent shall be void and of no force or effect.

Notwithstanding anything contained in this Lease to the contrary, Landlord shall not be obligated to entertain or consider any request by Tenant to consent to any proposed transfer of this Lease or sublet of all or any part of the Leased Premises unless each request by Tenant is accompanied by a nonrefundable fee payable to Landlord in the amount of Twenty-Five Hundred Dollars ($2,500.00) to cover Landlord's administrative, legal, other costs and expenses incurred in processing each of Tenant's requests, including but not limited to the cost of investigating the credit,

experience, skill, character, reputation, and ability of the proposed transferee. The foregoing fee shall only be payable upon Landlord's consent to Tenant's request. All transfers shall be by instruments in form satisfactory to Landlord executed by the transferor and the transferee, whereby any transferee assumes and agrees to be bound by and perform all of Tenant's obligations under this Lease. One original copy of such instrument shall be delivered to Landlord within five (5) days of its signing.

Any transfer shall be subject in all respects to the terms and conditions of this Lease and Tenant shall not be in default in any provision hereunder beyond any applicable notice and grace period at the time of such transfer, assignment or subletting.

Landlord's consent to one assignment, sublease or, transfer, if given, will not waive the requirement of obtaining the Landlord's consent to any subsequent assignment, sublease, or transfer.

B. Landlord's Assignment

Landlord shall have the right to transfer and assign, in full or in part, all its rights and obligations hereunder, and in such event and upon its transferee's assumption of Landlord's obligations hereunder (any such transferee to have the benefit of the provisions hereof), no further liability or obligation shall thereafter accrue against Landlord hereunder.

XIII. DEFAULT AND REMEDIES

A. Failure to Pay Rent

Tenants failure to pay rent, or any other sum required to be paid by Tenant hereunder, when due, and after expiration of any applicable cure period, shall constitute a default by Tenant under this Lease.

B. Performance of Covenants

Other than Tenant's failure to pay any rental payment when due, if Tenant shall fail to make any other payment within thirty (30) days after Tenant's receipt of a written notice from Landlord specifying such default or perform any of Tenant's obligations under this Lease, or if such default is of a nature to require more than thirty (30) days for to cure and Tenant has initiated procedures to cure the default within such thirty (30) day period and diligently pursues such efforts to cure to completion, Tenant shall be allowed such additional time, not to exceed sixty (60) days, to cure any such default; notwithstanding the foregoing, Tenant shall not be allowed any grace period to cure a default which creates an imminent danger to the public or to the safety and integrity of the Leased Premises. Landlord may, after expiration of any applicable cure period provided herein, without waiving or releasing Tenant from any obligations of Tenant under this Lease, cure the default, in such a manner and to such extent as Landlord deems reasonable. All sums so paid by Landlord and all necessary costs and expenses in connection with the performance of any such obligation by Landlord, shall be deemed additional rent hereunder and shall be payable to Landlord within ten (10) days after Tenant's receipt of Landlord's statement of account thereon.

C. Remedies Cumulative

All rights and remedies of the Landlord hereunder shall be cumulative, and none shall exclude any other rights or remedies herein specified or otherwise allowed at law or in equity or by statute or otherwise, and the exercise or beginning of the exercise by Landlord of any one or more of the rights or remedies provided for in this Lease or now or hereafter existing at law or in equity or by statute or otherwise will not preclude the simultaneous or later exercise by Landlord of any or all other rights or remedies provided for in this Lease or now or hereafter existing at law or in equity or by statute or otherwise.

D. Reentry by Landlord

If Tenant should neglect or refuse to timely pay any installment of rent, or additional rent, as herein provided, or to timely pay any other sums required by Tenant to be paid for a period of ten (10) days after written notice hereof by Landlord to Tenant (provided, however, Landlord shall only be required to give Tenant notice, written or otherwise, of its failure to pay rent only twice in any twelve (12) calendar month period), or if Tenant should abandon the Leased Premises, or vacate the Leased Premises (which shall be construed to mean Tenant shall not have conducted its business in the Leased Premises for a period of time exceeding thirty [30] days), or fail to keep said Leased Premises in good repair and condition, or should fail or refuse to timely observe, keep or perform any of the other terms, covenants, agreements or conditions contained herein, and if such default should continue for a period of at least forty-five
(45) days after written demand to cure the same has been given, (or, unless the nature of the default cannot be cured within forty-five (45) days, then Tenant shall be granted a reasonable amount of additional time to cure said default so long as Tenant shall commence the curing of the default within such forty-five
(45) day period and shall thereafter diligently prosecute the curing of same), then the Landlord may, at his option, terminate this Lease and upon such termination Tenant shall immediately quit and surrender the Leased Premises to Landlord, but Tenant shall remain liable as hereinafter provided.

Notwithstanding anything to the contrary in this Section XIV, if Tenant shall default in the performance of any covenant or agreement of this Lease two
(2) or more times in any twelve (12) month period for which Landlord has given Tenant notice, then notwithstanding that such defaults have been cured by Tenant, any further similar default during the next succeeding twelve (12) month period shall be deemed a default without further notice.

If this Lease shall be terminated as herein provided, Landlord shall have the following rights:

(1) To reenter the Leased Premises then or at any time thereafter and remove all persons and property and possess the Leased Premises, if the same can be done without a breach of the peace, without prejudice to any other remedies Landlord may have by reason of Tenant's default or of such termination, and Tenant shall have no further claim hereunder;

(2) To remove, at Tenant's sole risk, any and all personal property in the Leased Premises and place such personal property in a public or private warehouse or elsewhere at the sole cost and expense and in the name of Tenant. Any such warehouser shall have all of the rights and remedies provided by law against Tenant as owner of such property. If Tenant shall not immediately pay the cost of such storage within thirty (30) days, Landlord may sell any or all such property at a public or private sale in such manner and at such times and places as Landlord deems proper, with ten (10) days notice to or demand upon Tenant, with the proceeds of such sale to be applied to the cost of such sale and to the payment of charges for storage and to the payment of any other sums of money which may then be due from Tenant to Landlord under any of the terms hereof.

(3) To recover all damages incurred by Landlord by reason of the default. Tenant will remain liable to Landlord for rent and all other payments owed by Tenant to Landlord under the Lease that were earned but unpaid at the time of termination and for damages equal to the loss of net rental and other amounts that would have been owing by Tenant for the balance of the term, had the Lease not been terminated. Landlord shall apply the proceeds of any reletting first to the payment of such reasonable expenses as Landlord may have incurred in recovering possession of the Leased Premises, and removing persons and property therefrom, and in putting the same into good order and condition or preparing or altering the same for reletting, all costs, including without limitation brokerage commissions, advertising costs and restoration and remodeling costs in reletting the Leased Premises plus any other expense, including without limitation attorneys' fees, court costs and accounting and auditing expenses, necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom; and then to Tenant's obligation to pay rental and/or damages for loss of rental. Any such reletting may be for the remainder of the term of this Lease or for a longer or shorter period. If, in connection with any reletting, the new lease term extends beyond the existing term, or the Leased Premises covered by such new lease include other premises not part of the Leased Premises, a fair apportionment of the rent received from such reletting and the expenses incurred in connection with such reletting as provided in this Section XIV will be made in determining the net proceeds from such reletting, and any reasonable rent concessions will be equally apportioned over the term of the new lease. In any case, whether or not the Leased Premises, or any part thereof, be relet, Tenant shall pay to Landlord the rent and all other charges required to be paid by Tenant up to the time of such termination of this Lease and thereafter, Tenant agrees to pay the equivalent of the amount of all rent reserved herein and all other charges required to be paid by Tenant, less the net proceeds of reletting, if any. Such damages shall be due and payable by Tenant monthly as the amount thereof is ascertained by Landlord, and Landlord, from time to time, may bring an action therefor as such monthly deficiencies arise. Tenant shall have no right to any rental which Landlord may receive after reletting which exceeds the rental reserved under this Lease.

Landlord alternatively, at its option, will be entitled forthwith to recover from Tenant, as damages for loss of the bargain and not as a penalty, an aggregate sum, which at the time of such termination, represents:

(a) the rent and all other payments owed by Tenant to Landlord under the Lease that were earned but unpaid at the time of termination;

(b) all costs incurred by Landlord in retaking possession of the Leased Premises and restoring them to good order and condition;

(c) all costs, including without limitation, brokerage commissions, advertising costs and reasonable restoration and remodeling costs, incurred by Landlord in reletting the Leased Premises; plus,

(d) any other amount, including without limitation reasonable attorneys' fees, court costs and accounting and audit expenses, necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom.

No re-entry or taking possession of the Leased Premises shall be construed as an election to terminate this Lease unless such election is affirmatively made in writing by Landlord or is decreed by a court of competent jurisdiction.

D. Injunctive Relief

Upon default by Tenant, Landlord may, at their option, restrain by injunction or other equitable means any breach of this Lease.

E. Interest on Unpaid Rent

The rent, insurance, real property taxes, assessments, and other similar charges, and any other charges as provided for herein, payable by Tenant to Landlord or others shall be deemed to be "rent" or "additional rent". Any such sums not paid when due shall bear interest at the then Prime Rate for all banks, as published in the Wall Street Journal, plus 5.00%, also known as "Default Rate", from the due date until paid. Interest shall accrue from the date funds are first due or, if the payment is for funds expended by Landlord on Tenant's behalf, from the date ten (10) days after Landlord's date of billing to Tenant. Interest shall not be payable on surcharges. Payment of interest shall not excuse or cure any default by Tenant under this Lease.

F. Costs and Attorney Fees

Should any action be brought under this Lease Agreement or should any action be brought to recover any rent due hereunder, or for breach of any provision of this Lease, the substantially prevailing party shall be awarded its reasonable attorneys' fees against the losing party. Landlord and Tenant hereby agree that jurisdiction and venue for any suit shall properly lie in Spokane County, State of Washington.

In the event either Landlord or Tenant is required to employ an attorney or seek legal advice for any reason because of the filing of a voluntary or involuntary bankruptcy petition under any bankruptcy chapter by the other, all such reasonable legal fees and costs so incurred shall be deemed an additional expense under this Lease, and shall be payable in full the month following billing by their respective attorneys. Such legal fees shall include, without limitation, review of any and all notices, schedules, or petitions concerning the case; attendance at creditors meetings; negotiations with debtor or debtor's counsel; preparation and filing of any and all notices, motions, objections, or any other pleadings in connection with the cause on behalf of either Landlord or Tenant, as the

case may be, including, without limitation, motions to assume or reject this Lease, to seek relief from stay, to recover administrative expenses; or review any Disclosure Statements and Plans of Reorganization.

G. Non-Waiver

No failure of Landlord or Tenant to insist upon the strict performance of any provision of this Lease shall be construed as depriving either of the right to insist on strict performance of such provision or any other provision in the future. No custom or practice which may develop between the parties in the administration of the terms hereof shall be construed to waive or lessen Landlord's right to insist upon performance by Tenant in strict accordance with such terms. No waiver by Landlord of any provision of this Lease shall be deemed to have been made unless expressed in writing and signed by Landlord.

No acceptance of partial rent or of any other partial payment by Landlord from Tenant after any default by Tenant shall constitute a waiver of any such default or any other default. No payment by Tenant or receipt by Landlord or its agents of a lesser amount than the rent stipulated shall be deemed to be other than on account of the rent stipulated nor shall an endorsement or statement on any check or any letter accompanying any check or payment of rent be deemed an accord and satisfaction. Landlord or its agents may accept such check or payment without prejudice to Landlord's right to recover the balance of such rent or pursue any other remedy hereunder.

Consent by Landlord in any one instance shall not dispense with necessity of consent by Landlord in any other instance.

H. Remedies In The Event Of Bankruptcy Or Other Proceeding

1. Anything contained herein to the contrary notwithstanding, if termination of this Lease shall be stayed by order of any court having jurisdiction over any proceeding described in Section XIII, or by federal or state statute, then, following the expiration of any such stay, or if Tenant or Tenant as debtor-in possession or the trustee appointed in any such proceeding (being collectively referred to as "Tenant" only for the purposes of this
Section XIV.J.) shall fail to assume Tenant's obligations under this Lease within the period prescribed therefor by law or within fifteen (15) days after entry of the order for relief or as may be allowed by the court, or if Tenant shall fail to provide adequate protection of Landlord's right, title and interest in and to the Leased Premises or adequate assurance of the complete and continuous future performance of Tenant's obligations under this Lease, Landlord, to the extent permitted by law or by leave of court having jurisdiction over such proceeding, shall have the right, at its election, to terminate this Lease on fifteen (15) days notice to Tenant and upon the expiration of said fifteen (15) day period of this Lease shall cease and expire as aforesaid and Tenant shall immediately quit and surrender the Leased Premises as aforesaid. Upon the termination of this Lease as provided above, Landlord, without notice, may reenter and repossess the Leased Premises using such force for that purpose as may be necessary

without being liable to indictment, prosecution or damages therefor and may dispossess Tenant by summary proceedings or otherwise.

2. For the purposes of the preceding Subsection 1. adequate protection of Landlord's right, title and interest in and to the Leased Premises, and adequate assurance of the complete and continuous future performance of Tenant's obligations under this Lease, shall include, without limitation, the following requirements: a) that Tenant comply with all of its obligations under this Lease; b) that Tenant pay to Landlord, on the first day of each month occurring subsequent to the entry of such order, or the effective date of such stay, a sum equal to the amount by which the Leased Premises diminished in value during the immediately preceding monthly period, but, in no event, an amount which is less than the aggregate rent payable for such monthly period; c) that Tenant continue to use the Leased Premises in the manner originally required by this Lease; d) that Landlord be permitted to supervise the performance of Tenant's obligations under this Lease: e) that Tenant pay to Landlord within fifteen (15) days after entry of such order or the effective date of such stay, as partial adequate protection against future diminution in value of the Leased Premises and adequate assurances of the complete and continuous future performance of Tenant's obligations under this Lease, an additional security deposit in a reasonable amount acceptable to Landlord; f) that Tenant has and will continue to have unencumbered assets after the payment of all secured obligations and administrative expenses to assure Landlord that sufficient funds will be available to fulfill the obligations of Tenant under this Lease; g) that if Tenant assumes this Lease and proposes to assign the same (pursuant to Title 11 U.S.C. ss.365, or as the same may be amended) to any person who shall have made a bona fide offer to accept an assignment of this Lease on terms acceptable to such court having competent jurisdiction over Tenant's estate, then notice of such proposed assignment, setting forth (x) the name and address of such person, (y) all of the terms and conditions of such offer, and (z) the adequate assurance to be provided Landlord to assure such person's future performance under this Lease, including, without limitation, the assurances referred to in Title 11 U.S.C. ss.365(b)(3), as it may be amended, shall be given to Landlord by Tenant no later than fifteen (15) days after receipt by Tenant of such offer, but in any event no later than thirty (30) days prior to the date that Tenant shall make application to such court for authority and approval to enter into such assignment and assumption, and Landlord shall thereupon have the prior right and option, to be exercised by notice to Tenant given at any time prior to the effective date of such proposed assignment, to accept, or to cause Landlord's designee to accept, an assignment of this Lease upon the same terms and conditions and for the same consideration, if any, as the bona fide offer made by such person less any brokerage commissions which may be payable out of this consideration to be paid by such person for the assignment of this Lease; and b) that if Tenant assumes this Lease and proposes to assign the same, and Landlord does not exercise its option pursuant to Subsection XIV.J.2.g., Tenant hereby agrees that: I) such assignee shall have a net worth of not less than the net worth of Tenant as of the Commencement Date, or such Tenant's obligations under this Lease shall be unconditionally guaranteed by a person having a net worth equal to Tenant's net worth as of the Commencement Date; ii) such assignee shall not use the Leased Premises except subject to all the restrictions contained in this Lease; iii) such assignee shall assume in writing all of the terms, covenants and conditions of this Lease including,

without limitation, all of such terms, covenants and conditions respecting the permitted use and payment of base rent and all additional rent and such assignee shall provide Landlord with assurances satisfactory to Landlord that it has the experience in operating businesses having the same or substantially similar uses as the permitted use, sufficient to enable it so to comply with the terms, covenants and conditions of this Lease and successfully operate the Leased Premises for the permitted use; (iv) such assignee shall indemnify Landlord against, and pay to Landlord that amount of, any payments which Landlord may be obligated to make to any Mortgagee by virtue of such assignment; and (v) such assignee shall pay to Landlord an amount equal to the unamortized portion of any construction allowance made to Tenant.

XIV. EMINENT DOMAIN

If the whole of the Leased Premises shall be taken by any public authority under the power of eminent domain, or conveyed under a threat of condemnation, the lease term shall cease as of the day possession shall be taken by such public authority, and Tenant shall pay rent up to that date with an appropriate refund by Landlord of such rent as shall have been paid in advance for a period subsequent to the date of taking.

If more than forty percent (40%) of the total square footage of all buildings on the Leased Premises shall be taken under the power of eminent domain, or conveyed under the threat of condemnation, or more than forty percent (40%) of the paved area on the Leased Premises is taken under the power of eminent domain, or conveyed under the threat of condemnation, Tenant may, by notice in writing to Landlord on or before the day of surrendering possession to the public authority, terminate this Lease, and rent shall be paid or refunded as of the date of termination. In the event the Lease is not so terminated, then the Lease shall continue in full force and effect except that the base rent shall be equitably abated for the taking of the Leased Premises and Landlord shall make all necessary repairs or alterations, to the extent of available condemnation proceeds, to the basic building and exterior work so as to constitute the remaining Leased Premises a complete architectural unit.

All compensation awarded for any taking under the power of eminent domain, whether for the whole or part of the Leased Premises, shall be property of the Landlord, whether such damages shall be awarded as compensation for the diminution in the value of or loss of the leasehold or for diminution in the value of or loss of the fee of the Leased Premises, or otherwise. Nothing contained herein shall prevent Tenant from applying for reimbursement from the condemning authority (if permitted by law) for moving expenses, or the expense of removal of Tenant's trade fixtures, or loss of Tenant's good will.

XV. LANDLORD'S ENTRY ON LEASED PREMISES

Landlord, its agents, employees, contractors and authorized representatives shall have the right to enter the Leased Premises at any time in an emergency and otherwise at reasonable times during normal business hours for any of the following purposes:

(1) To determine whether the Leased Premises are in good condition and whether Tenant is complying with its obligations under this Lease.

(2) To serve, post, or keep posted any notices required or allowed under the provisions of this Lease.

(3) To show the Leased Premises Landlords lenders, and to prospective brokers, agents, or buyers.

(4) To do any necessary maintenance, repair or replacement to the Leased Premises, the utility services, that Landlord has the right or obligation to perform.

XVI. SUBORDINATION: OFFSET STATEMENT; TENANT FINANCING

A. SUBORDINATION BY TENANT

This Lease and all rights of the Tenant shall be subordinate to the lien of any existing or and future encumbrance, including any deed of trust, mortgage, or other written security device or agreement now or hereafter affecting the Leased Premises and the note or other obligation secured by it, placed by Landlord on the Leased Premises, and to any encumbrance thereafter placed by Landlord on the Leased Premises. The Tenant shall, upon written demand, execute, acknowledge and deliver to the Landlord, any and all instruments that may be necessary or proper to subordinate this Lease and all rights of the Tenant hereunder, to the lien of any such encumbrance or encumbrances.

Notwithstanding the foregoing subordination, Tenant's rights under this Lease shall not be disturbed by the holder of any encumbrance heretofore or hereafter placed by Landlord upon the Leased Premises, as evidenced by a commercially reasonable nondisburbance agreement, unless Tenant shall breach any of the provisions hereof and this Lease or Tenant's rights to possession hereunder shall have been terminated in accordance with the provisions of this Lease.

From time to time, Tenant will execute, acknowledge and deliver in recordable form to Landlord, within twenty (20) days of receipt, (and which twenty (20) [or thirty (30) days in the event Tenant is out of town or ill] day period is not subject to any notice and cure periods otherwise provided for under this Lease) an estoppel certificate in Landlord's form stating (1) that this Lease is in full force and effect and whether there have been any modifications; (2) the date to which rental and other sums are paid in advance;
(3) that no notice of default has been received which has not been cured, except as specified; and (4) such other reasonably requested matters. Such certificate

may be conclusively relied upon by any prospective purchaser, mortgagee or trust deed beneficiary. Tenant's failure to deliver such certificate within the specified time shall constitute a material default under this Lease.

If any mortgage, insurance, or other institutional lender requires, as a condition to the financing or refinancing, any reasonable modification of the terms or conditions of this Lease, Tenant shall execute such modification or amendment, provided such modification shall not (1) increase the rent or Tenant's share of any costs, (2) reduce or lengthen the term of the Lease, (3) interfere with Tenant's use or occupancy of the Leased Premises, or (4) adversely change any of Tenant's obligations. It is hereby agreed that the following modifications shall be deemed reasonable modifications: (I) Subordination--any change(s) to the subordination and attornment provisions of this Lease, (ii) Notice--any change(s) to the notice provisions of this Lease which require Tenant to give notice of any default by Landlord to the lender, or
(iii) Default--any changes to the default provisions of this Lease which permit the lender to cure any defaults by Landlord together with the granting of such additional time to cure as may be required for Lender to get possession of the building of which the Leased Premises are a part. If Tenant refuses to execute any modifications which are stated by Landlord to be necessary in connection with approval of this Lease for the purposes of such financing within ten (10) days after receipt, it shall constitute an Event of Default hereunder and Landlord, at his sole option, shall have the right by fifteen (15) days written notice, to terminate this Lease and may thereafter pursue its remedies for default as provided herein.

Nothing herein shall restrict the ability of Tenant to encumber its leasehold estate, but Tenant shall have no right or ability to encumber Landlord's interest in the Leased Premises.

B. TENANT FINANCING

(1) Tenant shall have the right to mortgage or otherwise encumber its interests under this Lease and Sublease. Tenant shall notify Landlord of the existence, identity, and address of any Leasehold Mortgagee, and shall provide Landlord with a copy of all recorded instruments constituting the Leasehold Mortgage; Landlord acknowledges that Tenant has or may enter into a Leasehold Mortgage with U.S. Bank National Association. So long as any such Leasehold Mortgage shall remain unsatisfied of record, the following provisions shall apply:

(a) Landlord and Tenant shall not cancel, surrender, or modify this Lease and Sublease without first obtaining the consent of any Leasehold Mortgagee, which consent shall not be unreasonably withheld; provided, however, nothing herein shall prevent the termination of this Lease upon Tenant's uncured default, subject to Leasehold Mortgagee's right to cure such default as set forth herein.

(b) Landlord, upon providing Tenant any notice of default, or of a matter upon which Landlord may predicate or claim a default, or any notice of termination of this Lease and Sublease, shall at the same time provide a copy of such notice to

every Leasehold Mortgagee of which Landlord has been provided notice in accordance with this section. No such notice by Landlord to Tenant shall be deemed to have been duly given unless and until a copy thereof has been so provided to every Leasehold Mortgagee of which Landlord has been provided notice in accordance with this section. From and after the date such notice has been given to Leasehold Mortgagee, such Leasehold Mortgagee shall have the same period, after the giving of such notice upon it, for remedying any default or acts or omissions which are the subject matter of such notice which can be remedied by such Leasehold Mortgagee, or causing the same to be remedied, as is given to Tenant in such Notice.

(c) If Tenant shall acquire trade fixtures, equipment, machinery, inventory, or other goods and effects ("Personal Property") subject to a purchase money security interest, or if any lender provides Tenant with financing, the proceeds of which are intended to enable Tenant to use and occupy the Leased Premises or to operate Tenant's business thereon, and such financing is secured in whole or in part by the Personal Property, Landlord shall, upon request from Tenant, execute a waiver, in favor of any such secured party, waiving its statutory landlord's lien against the Personal Property, and shall allow the holder of any such perfected security interest to remove such personal property from the Premises, so long as the same can be promptly accomplished without material damage to the Premises, and so long as holder of any such perfected security interest provides Landlord with such assurances as Landlord may reasonably require that any damage which may be caused to the premises in such removal will be promptly repaired at the sole cost and expense of such secured party.

(d) If any Leasehold Mortgagee, requires, as a condition to the financing or refinancing of Tenant's leasehold estate, any reasonable modification of the terms or conditions of this Lease, Landlord shall execute such modification or amendment, provided such modification shall not (1) decrease the rent or Tenant's share of any costs, (2) reduce or lengthen the term of the Lease, (3) materially alter the respective rights and obligations of either Tenant or Landlord under this Lease or Sublease. It is hereby agreed that the following modifications shall be deemed reasonable modifications: (i) Notice--any change(s) to the notice provisions of this Lease which require Landlord to give notice of any default by Tenant to the lender, or (ii) Default--any changes to the default provisions of this Lease which permit the lender to cure any defaults by Tenant together with the granting of such additional time to cure as may be required for Lender to get possession of the building of which the Leased Premises are a part; provided, however, nothing herein shall excuse the payment of rent during such period.

XVII. SURRENDER OF LEASED PREMISES; HOLDING OVER

A. Surrender of Premises

Tenant covenants and agrees to deliver up and surrender possession of the Leased Premises, not including Tenant's machinery and equipment hereunder (other than [those] that Landlord has demanded Tenant to remove in accordance with paragraph VI) to the Landlord forthwith upon expiration of the term of this Lease, or upon its earlier termination as herein provided, broom clean and in good condition and repair, reasonable wear and tear excepted (except for destruction to the Leased Premises covered by paragraph XI where Tenant elects to terminate). Tenant hereby agrees that if it fails to surrender the Leased Premises at the end of the Term, or any renewal thereof, Tenant will be liable to Landlord for any and all damages including consequential damages which Landlord shall suffer by reason thereof. In addition, Tenant shall pay to Landlord, during any period that it shall refuse to surrender possession of the Leased Premises to Landlord a rental equal to one hundred fifteen percent (115%) of the base rent payable by Tenant to Landlord during the last rental year of the term. This Section shall survive expiration of the Lease.

Any personal property left in, on or about the Leased Premises after the expiration of this Lease will be deemed conclusively to have been abandoned and may be appropriated, sold, stored, destroyed or otherwise disposed of by Landlord upon ten (10) days notice to Tenant or any other person and without obligation to account for them; and Tenant will pay Landlord for all expenses incurred in connection with such property, including, but not limited to, the cost of repairing any damage to the Leased Premises caused by the removal of such property.

B. Holding Over

If Tenant does not vacate the Leased Premises upon the expiration or earlier termination of this Lease and Landlord thereafter accepts rent from Tenant, such possession by Tenant shall be deemed to be a month-to-month tenancy terminable on thirty (30) days notice given at any time by either party.

All provisions of this Lease except those pertaining to term shall apply to the month-to-month tenancy.

XVIII. Right of First Refusal

During the Term hereof, should Landlord receive a bona fide offer from any third party to purchase the Leased Premises, or any portion thereof, which Landlord desires to accept, Landlord shall, before accepting such offer, notify Tenant in writing of all of the terms and conditions thereof and shall first offer in writing to sell the Premises to Tenant upon the same terms and conditions. Upon receipt of any such notice and offer from Landlord, Tenant shall have twenty (20) days thereafter within which to accept the same. Should Tenant fail to accept any such offer within said

twenty (20) day period, Landlord shall be free to sell the Premises to the original offeror upon the same terms and conditions offered to Tenant without further notice to Tenant, which sale shall be subject to this Lease, including Tenant's right of first refusal contained herein. Should Landlord, after having made such offer to Tenant as above-described, fail to sell the Premises upon the same terms and conditions offered to Tenant, Landlord shall give Tenant notice in the manner set forth above of any further or different offers received by Landlord for the purchase of the Premises and shall first offer to sell the same to Tenant upon the same terms and conditions before accepting any such further or different offer. It is expressly understood and agreed by and between the parties hereto that Tenant shall have the right of first refusal with respect to each and every offer to sell or purchase made or received by Landlord or by any successor Landlord, and that Landlord at the time of the making or receipt of such offer to sell or purchase shall in each and every instance notify Tenant of such offer in the manner set forth above, and Tenant shall have the right to purchase the Premises under the terms and conditions of such offer in accordance with the terms and provisions set forth above.

XIX. MISCELLANEOUS PROVISIONS

A. General Provisions

1. Delivery of Notices

All notices, demands, statements, and requests (collectively the "notice") required or permitted to be given under this Lease must be in writing and shall be deemed to have been properly given or served as of the date hereinafter specified: (I) on the date of personal service upon the party to whom the notice is addressed, (ii) three (3) days after the date the notice is postmarked by the United States Post Office, provided it is sent prepaid, registered or certified mail, return receipt requested, or (iii) on the date the notice is delivered by a reputable professional courier service (including Federal Express, Express Mail, Emery Airborne, DHL or similar operation) to the address of the party to whom it is directed, provided it is sent prepaid, return receipt requested.

Notice to the party to whom such service is to be given shall be at the following addresses:

Landlord: CAMP INVESTMENTS, L.L.C.

Spokane, WA 992____

Lender: WASHINGTON TRUST BANK
717 West Sprague
Spokane, WA 99201

Tenant or Lithia Real Estate, Inc.

Guarantor: Lithia Motors, Inc.
360 East Jackson
Medford, OR 97501

Leasehold Mortgagee: U.S. Bank, National Association
111 SW 5th Avenue, Suite 400
Portland, OR 97204

Each party shall have the right from time to time and at any time, upon at least ten (10) days prior written notice thereof in accordance with the provisions hereof, to change its respective address and to reasonably specify any other addresses within the United States of America; provided, however, notwithstanding anything herein contained to the contrary, in order for the notice of address change to be effective it must actually be delivered. Refusal to accept delivery of a notice or the inability to deliver a notice because of an address change which was not properly communicated shall not defeat or delay the giving of a notice.

Written notices of changes of any of the foregoing addresses may be delivered or mailed from time to time in the same manner as any other written notice hereunder.

2. Exhibits - Incorporation of Lease

All exhibits referred to are attached to this Lease and incorporated by reference.

3. Short Form Lease

The Parties agree to record a mutually acceptable short form memorandum of this lease.

4. Where to Pay Rent

All rent hereunder shall be paid to Landlord at his foregoing address or at such other addresses as Landlord may, from time-to-time designate in writing.

5. Time of Essence

Time is of the essence of each provision of this Lease.

6. Signature

This Lease is submitted to Tenant on the understanding that it will not be considered an offer and will not bind Landlord in any way until (a) Tenant has duly executed and delivered triplicate originals to Landlord and (b) Landlord has executed and delivered one (1) of such originals to Tenant.

7. Parties Bound by Lease

This Lease shall be binding upon and inure to the benefit of the parties hereto, and their heirs, executors, administrators, successors and lawful assigns.

8. Corporate Authority

If Tenant is a corporation, each person signing this Lease on behalf of Tenant represents and warrants that he has full authority to do so and that this Lease binds the corporation. Upon execution of this Lease, Tenant shall deliver to Landlord a certified copy of a resolution of Tenant's Board of Directors authorizing such execution or other reasonably acceptable evidence of such authority. Each person signing on behalf of Landlord represents that he or she has the authority to do so and, upon its execution, binds Landlord.

9. Brokers

Landlord and Tenant respectively represent and warrant to each other that neither of them has consulted or negotiated with any broker or finder with regard to the Leased Premises. Each of them will indemnify the other against and hold the other harmless from any claims for fees or commission from anyone with whom either of them has consulted or negotiated with regard to the Leased Premises.

10. Attachments

The following documents are attached hereto, and such documents, as well as all drawings and documents prepared thereto, shall be deemed to be part hereof:

The Third Party Leases

B. Interpretation of Lease

1. Section Headings for Convenience Only

The headings of the Sections and Subsections herein contained are for convenience only and do not necessarily define, limit, describe or construe the contents thereof.

2. Genders and Plurals

As used in this Lease, the singular includes the plural and vice versa, and words of any gender used in this Lease shall be held and construed to include any other gender.

3. Partial Invalidity

If any term or provision of this Lease or the application thereof to any person or circumstance shall to any extent be invalid or unenforceable, the remainder of this Lease, or the application of such term or provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not affected thereby, and each term and provision of this Lease shall be valid and be enforced as written to the fullest extent permitted by law.

4. Cannon of Construction

This Lease was freely and voluntarily negotiated between the parties. Although the printed provisions of this Lease were initially drawn by Landlord or Landlord's agent, Landlord and Tenant agree that this circumstance shall not create any presumption, canon of construction, or implication favoring the position of either Landlord or Tenant. This Lease has been submitted to the scrutiny of all parties and their counsel if desired or required and the parties agree to hold the author harmless from any liability. Landlord and Tenant agree that the interlineation, obliteration, or deletion of language from this Lease prior to its mutual execution by Landlord and Tenant shall not be construed to have any particular meaning or to raise any presumption, canon of construction, or implication, including, without limitation, any implication that Landlord or Tenant intended to state the converse, obverse, or opposite of the deleted language. This Lease shall be read as if obliterated or deleted language had never existed and interlineated language had always existed and shall be given a fair and reasonable interpretation in accordance with the words hereof, without consideration of weight being given to its having been drafted by any party hereto or its counsel.

5. Entire Agreement

This Lease and the exhibits attached hereto and forming a part hereof, set forth all the final covenants, promises, agreements, conditions and understandings between Landlord and Tenant concerning the Leased Premises, and there are no covenants, promises, agreements, conditions or understandings heretofore made, either oral or written, between them other than as herein set forth. No modification, amendment, change or addition to this Lease shall be binding upon Landlord or Tenant unless reduced to writing and signed by each party.

6. Governing Law

This Lease shall be governed by the laws of the State of Washington.

7. Underlying Leases

a. Landlord's Title. Landlord covenants that it holds valid leasehold estates for the Third Party Leases and the Camp Family Parcels, except for the Owned Parcels, which Landlord owns in fee, and that it has the full right to make this Sublease, and that with full compliance with all of its obligations hereunder, Tenant shall have quiet and peaceful enjoyment of the Leased Premises during the term of this Sublease. Landlord further warrants to Tenant that the Camp Family Leases and the Third Party Leases are in full force and effect, that Landlord is not in default thereunder, and that there have been no amendments thereto other than have been provided to Tenant. Landlord further covenants that Landlord will not enter into any modification of the Underlying Leases without first obtaining Tenant's prior written consent, which consent shall not be withheld if such modification does not adversely affect Tenant's rights under this Sublease.

b. Underlying Lease Payments. Landlord hereby covenants that it will comply with all of its obligations as tenant under the Underlying Leases. Landlord will pay to the lessors under the Camp Family Leases and the Third Party Leases, as and when due, all rents and other amounts required to be paid pursuant to the terms of the Camp Family Leases and Third Party Leases to become in default. Landlord hereby agrees to indemnify, protect, defend, and hold harmless Tenant from and against any loss, liability, or claim arising out of Landlord's breach of the Camp Family Leases and Third Party Leases; provided, however, notwithstanding the foregoing, Landlord shall have no duty to so indemnify Tenant from any action, loss or damage caused by Tenant's failure to make rent payments provided herein, including any failure to pay the rent attributable to the Camp Family Leases and Third Party Leases.

c. Underlying Lease Default. Landlord agrees to immediately forward to Tenant a copy of any notices received by Landlord under the Underlying Leases. In the event Landlord fails to make any payment when due under the Underlying Leases (and such failure is not caused or attributable to Tenant's failure to make rent payments as provided herein, including any failure to pay rent attributable to the Third Party Leases), or is otherwise in default thereunder, Tenant may, but is not obligated to, make such payments on behalf of Landlord, or take such other action as may be necessary, in Tenant's estimation, to cure such default, or to prevent the Underlying Leases from being terminated. All amounts so paid by Tenant, and all costs of taking such actions on behalf of Landlord, together with any interest or penalty required to be paid in connection therewith, shall be payable on demand by Landlord to Tenant, and if not so paid by Landlord, may be applied by Tenant to reduce subsequent rent payments owed to Landlord under this Sublease.

XX. GUARANTY

In consideration of Landlord's agreement to accept Tenant as the tenant of the Leased Premises, Guarantor hereby agrees to absolutely and unconditionally guaranty the full payment and

performance of all of Tenant's obligations and covenants under this Lease and Sublease. Landlord and Tenant may amend, modify, and otherwise alter the terms and conditions of this Lease and Sublease without in any manner effecting or reducing Guarantor's obligation to guaranty the payment and performance of Tenant's obligations under this Lease and Sublease, as so amended, modified or otherwise altered.

EXECUTED ON THE DATE FIRST SET FORTH ABOVE.

LANDLORD:

CAMP INVESTMENTS, L.L.C.

By:_____
Authorized Managing Member

TENANT:

LITHIA REAL ESTATE, INC.

By:_____

Its:_____

GUARANTOR:

LITHIA MOTORS, INC.

By _____

Its _____

Exhibit 10.39

LEASE AGREEMENT

This Lease is made as of this _____ day of _____, 1998, between WILLIAM N. HUTCHINS AND SUZANNE M. HUTCHINS ("Landlord") and LITHIA REAL ESTATE, INC. ("Tenant")

For and in consideration of the mutual covenants contained herein, Landlord and Tenant agree as follows:

1. LEASE DATA; DEFINITIONS. Whenever used in this Lease, the following terms shall have the meanings indicated below.

1.1 Applicable Laws. Any law, ordinance, code, order, rule or regulation of any Governmental Authority.

1.2 Commencement Date. _____, 1998

1.3 Expiration Date. _____, 2003, subject to extension in accordance with Section 4 hereof.

1.4 Governmental Authority. The United States, the State of Oregon, and any political subdivision thereof or any local public or quasi-public authority, agency, department, commission, board, bureau or instrumentality of any of them including, with respect to matters pertaining to insurance, rating bureaus or insurance carriers to the extent they have power to impose conditions on the issuance of policies or the coverage thereof.

1.5 Notice Addresses.

Landlord: William N. Hutchins and Suzanne M. Hutchins 2055 Oakmont Way Eugene, Oregon 97401

Tenant: Lithia Real Estate, Inc. 360 E. Jackson St.

Medford, Oregon 97501

Landlord or Tenant may change its Notice Address in the manner set forth in Section 18.6.

1.6 Premises. That certain real property located in Lane County, Oregon, legally described in Exhibit A hereto, together with all improvements and fixtures thereon.

1.7 Rent. The Rent payable hereunder as set forth in Section 3 hereof.

1.8 Term. A five (5) year period commencing on the Commencement Date and expiring on the Expiration Date, subject to Tenant's right to extend the Term for four (4) additional five (5) year renewal terms in accordance with Section 4 hereof.

2. LEASE OF PREMISES. Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, the Premises during the Term hereof, upon the terms and conditions contained herein.

3. RENT. Tenant shall pay Rent for the Premises in equal monthly installments of Sixteen Thousand Dollars ($16,000) per month for the first two (2) years of the initial five (5) year Term hereof, and Eighteen Thousand Dollars ($18,000) per month for the balance of the initial Term, in advance on the first (1st) day of each calendar month. All Rent shall be paid in lawful money of the United States at the address of Landlord set forth in this Lease

or at such other place as Landlord in writing may designate. For any portion of a calendar month included at the beginning or end of the Term, Tenant shall pay the prorata portion of the Rent installment for each day of such portion, payable in advance at the beginning of such portion.

4. OPTIONS TO RENEW.

4.1 Extension of Term. Tenant shall have the options to renew this Lease and to extend the Term hereof for four (4) additional, consecutive five

(5) year terms. Tenant may exercise the renewal options by giving written notice to Landlord not less than ninety (90) days prior to the expiration of the then-current term. The first renewal term shall commence on the date following the expiration of the original term, and subsequent renewal terms shall commence on the day following the expiration of the previous renewal term. All terms and conditions of this Lease shall remain the same during the renewal term(s), except that Rent to be paid hereunder shall be as provided for in Section 4.2 hereof.

4.2 Renewal Term Rent Adjustment. On the first day of the first renewal term (if any) and any subsequent renewal term, monthly Rent payable hereunder shall be increased from that payable in the immediately preceding five
(5) year term by the lesser of (i) ten percent (10%), or (ii) the same percentage as the increase, if any, that the Consumer Price Index "U.S. City Average, All Items, All Urban Consumers, 1967 = 100" published by the United States Department of Labor, Bureau of Labor Statistics (the "CPI"), has increased during the immediately preceding lease term, by comparing the CPI published at the commencement date of the immediately preceding lease term and that published at the end of said preceding lease term. In no event shall Rent increase by more than two percent (2%) during any single year within the applicable term or ten percent (10%) during the entire said term. In the event the CPI shall hereafter be converted to a different standard reference base or otherwise revised, the determination of the percentage increase shall be made with the use of such conversion factor, formula, or table for converting such index as may be published by the Bureau of Labor Statistics. If publication of the index is discontinued, the parties hereto shall select another index which best measures inflation in the Eugene, Oregon area for purposes of making these calculations.

5. USE.

5.1 Permitted Use. Tenant may use the Premises for any lawful purposes, including, without limitation, in connection with the operation of automobile dealerships and servicing facilities.

5.2 Operations. Tenant shall conform to all reasonable Applicable Laws affecting the use of the Premises. Tenant shall not commit or allow to be committed any waste upon the Premises, or any public or private nuisance or other act or thing which disturbs the quiet enjoyment of any other tenants, owners or users of neighboring premises.

5.3 Hazardous Substances. Tenant shall not, other than in compliance with all Applicable Laws, engage in any activity in or about the Premises involving (i) the installation or use of any above or below ground storage tank, or (ii) the generation, possession, use, storage, transportation or disposal of Hazardous Substances. Landlord hereby represents, warrants, and covenants to Tenant that: (i) no Hazardous Substances are or have been used, treated, stored, disposed of, released, spilled, generated, manufactured, or otherwise handled on the Premises, or transported to or from the Premises, have been spilled, released, intruded, leached, or disposed of from the Premises onto adjacent property, or have otherwise come to be located on or beneath the Premises; (ii) the Premises and all operations conducted thereon have been in full compliance with all applicable Environmental Laws; (iii) no liens have been placed on the Premises under any Environmental Laws, and Landlord has no knowledge of any threatened or pending liens; and (iv) Landlord has received no notice and is not aware of any administrative or judicial investigations, proceedings, or actions with respect to violations, alleged or proven, of any Environmental Laws by Landlord or otherwise involving the Premises or the operations conducted thereon.

For purposes of this Lease, the terms "Environmental Laws" and "Hazardous Substances" shall have the following meanings: (i) Environmental Laws
- All federal, state, and local statutes, regulations, ordinances, directives, and rules pertaining to the protection of human health or the environment that are applicable to the Premises, including, without limitation, the Comprehensive Environmental Response, Compensation and Recovery Act of 1980, as amended, the Resource Conservation and Recovery Act of 1976, the Superfund Amendments and Reauthorization Act of 1986, as amended, and the Hazardous Materials Transportation Act, together with all regulations pertaining thereto; (ii) Hazardous Substances - All dangerous, toxic, or hazardous pollutants, contaminants, chemicals, waste, materials, or substances as defined in or governed by the provisions of any Environmental Laws, including, without limitation, polychlorinated biphenyls, dioxin, nuclear fuel or waste, and petroleum and its fractions, or any other waste, substance, pollutant, or contaminant which would subject the owner or operator of the Premises to any damages, penalties, or liabilities under any applicable Environmental Laws.

Landlord hereby agrees, at its sole cost and expense, to unconditionally indemnify, defend, and hold Tenant, its directors, officers, employees, and agents (the "Indemnitees"), harmless from and against, and shall reimburse the Indemnitees for, any loss, liability, damage (whether direct or consequential), claims, penalties, fines, injunctions, suits, proceedings, disbursements, or expenses (including, without limitation, attorneys' and experts' fees and disbursements and court costs), arising as a result of a breach by Landlord of any obligation hereunder, including the foregoing representations and warranties, or arising under any Environmental Laws, or any other liabilities which may be incurred by or asserted against the Indemnitees, or any of them, directly or indirectly, resulting from the presence of Hazardous Substances on the Premises, whether arising during the term of this Lease, following termination hereof, or at any other time. The obligations contained in this section shall be joint and several as to every individual executing this Lease as Landlord.

6. UTILITIES AND SERVICES. Landlord, at its sole cost and expense, shall provide and connect to the Premises the lines, equipment and/or facilities necessary to enable Tenant to obtain water, gas, electricity, telephone, sewer service and all other appropriate utilities or services thereon, and shall maintain and repair the same during the Term hereof. In the event any such utilities are interrupted as a result of Landlord's failure to perform its obligations hereunder, Rent shall be abated during the period of such interruption. Tenant shall pay when due all charges for such utilities or services incurred in connection with its use and operation of the Premises.

7. MAINTENANCE AND REPAIR.

7.1 By Tenant. Tenant agrees, throughout the Term of this Lease, including any extensions or renewals hereof:

7.1.1 To keep the Premises clean, to remove all refuse, trash and debris therefrom, and to surrender the Premises in the same order and repair as at the commencement of the Term of this Lease, reasonable wear and tear and damage by fire, other casualty, or condemnation excepted, upon the expiration or sooner termination of the Term of this Lease; and

7.1.2 To comply with all notices issued by any governmental or quasi-governmental authorities having jurisdiction of the Premises solely with respect to Tenant's use and occupancy thereof, as well as with the reasonable recommendations with respect to Tenant's use and occupancy of the Premises made by insurance carriers insuring the Premises.

7.2 By Landlord.

Landlord, at its sole cost and expense, shall be responsible for the maintenance and repair (including replacements, as necessary) of (i) the structural portions of the improvements on the Premises, including, without limitation, the roof, downspouts, gutters, exterior and interior walls, foundation and structural supports and windows, and (ii) the water, sewer, gas, telephone, electrical and other utility lines, equipment and facilities serving the Premises. Landlord covenants that all improvements on the Premises are properly constructed and comply with all

laws, statutes, ordinances, regulations, rules, standards and requirements of any governmental or quasi-governmental authority having jurisdiction relating to the Premises, and that the same will be delivered in good condition to Tenant at the commencement of the Term of this Lease.

In carrying out its responsibilities as required under this section, Landlord shall promptly undertake all such maintenance, repair and replacement work as soon as Landlord knows of the need therefor and thereafter shall diligently prosecute the same to completion. All such work shall be undertaken in a manner which does not cause unreasonable interruptions in the business activities of Tenant and, to the extent possible, all repairs shall be done during the hours that Tenant is not open for business. During any period when all or a portion of the Premises is rendered untenantable due to Landlord's activities as contemplated by this section, Tenant's obligation to pay Rent under this Lease shall be abated.

8. ALTERATIONS. Except as otherwise set forth herein, Tenant may make any alterations, subdivisions, installations, decorations, sign installations, improvements, additions or other physical changes in or about the Premises, including those which are necessary to satisfy any Applicable Laws, without Landlord's prior written consent. Any such alterations by Tenant during the term of this Lease shall be done in a good and workmanlike manner, with good and sufficient materials, and be in compliance with all Applicable Laws.

9. INSURANCE.

9.1 Liability Insurance. Tenant shall obtain and keep in force during the term of this Lease a commercial general liability policy of insurance protecting Tenant and Landlord, as an additional insured, against claims for bodily injury, personal injury, and property damage based upon, involving, or arising out of the ownership, use, occupancy, or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than $1,000,000 per occurrence.

9.2 Casualty Insurance. Tenant shall also obtain and keep in force during the Term of this Lease a policy or policies insuring against loss or damage to the Premises, naming Tenant as the loss payee. Such insurance shall be for full replacement cost, as the same shall exist from time to time, and shall name Landlord as an additional insured.

9.3 Personal Property Insurance. Tenant, at its cost, shall either by separate policy or by endorsement to a policy already carried, maintain insurance coverage on all of Tenant's personal property, trade fixtures and Tenant-owned alterations in, on, or about the Premises. Such insurance shall be full replacement cost coverage with a deductible not to exceed $1,000 per occurrence. The proceeds from any such insurance shall be used by Tenant for the replacement of personal property and the restoration of trade fixtures and Tenant-owned alterations.

9.4 Insurance Policies. Insurance required hereunder shall be in companies duly licensed to transact business in the state in which the Premises are located, and maintaining during the policy term a 'General Policyholders Rating' of at least B +, V, as set forth in the most current issue of 'Best's Insurance Guide.' Neither party shall not do or permit to be done anything which shall invalidate the insurance policies referred to in this section. Upon reasonable request by Landlord or Tenant, the other party shall deliver to the requesting party, within seven (7) days, certified copies of, or certificates evidencing the existence and amounts of, the insurance required under this section. No such policy may be cancelable or subject to modification except after thirty (30) days' prior written notice to the other party. Nothing herein shall prevent any party from maintaining the insurance required hereunder by an umbrella policy or policies.

9.5 Waiver of Subrogation. Without affecting any other rights or remedies, Tenant and Landlord each hereby release and relieve the other, and waive their entire right to recover damages (whether in contract or in tort) against the other, for loss or damage to their property arising out of or incident to the perils required to be insured against under this section. The effect of such releases and waivers of the right to recover damages shall not be limited by the amount of insurance carried or required, or by any deductibles applicable thereto.

Landlord and Tenant agree to have their respective insurance companies issuing property damage insurance waive any right to subrogation that such companies may have against Landlord or Tenant, as the case may be, so long as the insurance is not invalidated thereby.

10. TAXES. Tenant shall pay prior to delinquency all taxes and assessments which may be levied upon or assessed against the Premises, and all taxes or assessments levied upon or assessed against the improvements constructed by Tenant situated thereon, together with all taxes levied upon or assessed against the personal property of Tenant situated upon the Premises; provided, however, that any taxes or assessments which may be levied or assessed for a period beginning prior to the Commencement Date or ending after the Expiration Date shall be prorated between Landlord and Tenant as of such date or dates. Tenant shall not be obligated to pay any income tax or other tax, assessment, or charge which may be levied or become due by reason of the rents and profits received by Landlord as a result of this Lease. In the event that the Premises are reassessed due to any transfer or conveyance of the Premises, or any interest therein, by Landlord or Landlord's successors, and as a result thereof general or special real estate or ad valorem taxes on the Premises are increased, Landlord shall pay to Tenant or the appropriate taxing authority no later than ten (10) days prior to delinquency, the amount of such increase for the tax year in which the increase first becomes applicable and for each tax year thereafter. Tenant shall have the right to contest, in good faith and by appropriate and timely legal proceedings, the legality, assessed valuation, or amount of any tax assessment which this Lease obligates Tenant to pay. Landlord shall reasonably cooperate with Lessee in the prosecution of such contest.

11. DAMAGE. In the event of damage to or destruction of the Premises, or to any portion thereof, caused by fire or other casualty, Tenant shall make repairs and restorations as hereinafter set forth, unless this Lease is terminated by either Landlord or Tenant as hereinafter provided. If such damage or destruction cannot be restored as determined in the reasonable opinion of Tenant within one hundred twenty (120) days after commencement of the work to the condition as existed immediately prior to such damage or destruction, then Tenant shall have the right to terminate this Lease by notice to Landlord, as of the date specified in such termination notice, which termination date shall be no earlier than thirty (30) days nor later than one hundred-eighty (180) days after the date of such casualty. If this Lease is not so terminated, then Tenant shall proceed diligently to restore the Premises so as to be substantially as the same existed prior to the occurrence of the damage or destruction. If such damage or destruction to the Premises is of a nature or extent that Tenant's continued use and occupancy of the Premises is impaired, the Rent payable by Tenant hereunder shall be equitably abated or adjusted for the duration of such impairment.

12. EMINENT DOMAIN. If a condemning authority takes all of the Premises or portions sufficient to render the remaining portion thereof unsuitable, in Tenant's sole determination, for the purposes of Tenant's use, then this Lease shall terminate as of the date title vests in the condemning authority. Landlord shall be entitled to all of the proceeds of condemnation, whether from a total or partial taking, except for any award specifically made to Tenant for the taking of Tenant's improvements, trade fixtures, or personal property, the value of the unexpired term of Tenant's leasehold interest, or for any other purpose. Sale by Landlord of all or part of the Premises to a purchaser with the power of eminent domain in the face of a threat or probability of the exercise of the power shall be treated for the purposes of this section as a taking by condemnation, and shall be subject to the terms of this section. In the event this Lease is not terminated following a partial taking, the Rent payable by Tenant hereunder shall be equitably abated or adjusted for the remainder of the Term hereof.

13. DEFAULTS AND REMEDIES.

13.1 Default By Tenant. If at any time Tenant shall fail to remedy any default in the payment of Rent due under this Lease within fifteen (15) days after receipt of written notice from Landlord of any such failure, or shall fail to remedy any default in any of the other provisions, covenants or conditions of this Lease to be kept or performed by Tenant within a period of thirty (30) days after receipt of written notice from Landlord, Landlord shall have the right to pursue any remedy available to Landlord at law or in equity on account of such default. Provided, however, that if such default cannot reasonably be cured within said thirty (30) day period, Tenant shall not be in default of this Lease if Tenant commences curative action within said thirty (30) day period and diligently and in good faith continues to pursue the same. Landlord shall not, upon the exercise of any remedy upon a breach by Tenant of

any covenant or obligation under this Lease, thereby obtain or secure legal title to or ownership of any of the trade fixtures or other equipment placed upon the Premises by Tenant.

13.2 Default by Landlord. Landlord shall be in default under this Lease if Landlord fails or refuses to perform any of Landlord's obligations under this Lease within thirty (30) days after notice of the default has been given by Tenant. If the default cannot reasonably be cured within said thirty
(30) day period, Landlord shall not be in default of this Lease if Landlord commences to cure the default within said thirty (30) day period and diligently and in good faith continues to pursue the same. Should the Premises be subject to the lien of any trust deed, mortgage, judgment, assessment, tax or other obligation, whether incurred before or after the execution of this Lease, which Tenant is not bound under this Lease to pay or discharge, or should Landlord fail to pay or discharge any obligation which Landlord is obligated under this Lease to pay or discharge, Tenant shall have the right, but not the obligation, at any time to pay or discharge any such obligations. Should Tenant elect to pay or discharge any such obligation, Landlord shall, upon demand, reimburse Tenant for the full amount thereof, together with Tenant's expenses incurred in connection therewith, including reasonable attorney's fees and interest from the date of payment at the maximum rate allowable by law, and Tenant shall have the right to deduct from Rent thereafter payable under this Lease or from the purchase price of any sale of the Premises made by Landlord to Tenant all amounts due from Landlord under this section until such amounts have been paid in full.

13.3 Holdover by Tenant. In the event Tenant remains in possession of any portion of the Premises after the expiration of the Term without the written permission of Landlord, Tenant shall be deemed to be occupying such portion of the Premises as a tenant from month to month, at a monthly rental equal to the monthly installment of Rent payable during the last month of the Term, subject to all the other conditions, provisions and obligations of this Lease insofar as the same are applicable to a month-to-month tenancy.

13.4 Waiver of Default. No consent or waiver, express or implied, by Landlord or Tenant to or of any breach of any covenant, condition, or duty of the other shall be construed as a consent or waiver to or of any other breach of the same or any other covenant, condition, or duty of the other party, unless in writing signed by the party against whom waiver is sought.

14. ASSIGNMENT, SUBLETTING. Tenant may assign this Lease or sublet all or any portion of the Premises to any affiliated entity without the prior consent of Landlord. Tenant may so assign or sublet to any other party only with the prior consent of Landlord, which consent shall not unreasonably be withheld or delayed.

15. RIGHT OF REFUSAL TO PURCHASE. During the Term hereof, should Landlord receive a bona fide offer from any third party to purchase the Premises which Landlord desires to accept, Landlord shall, before accepting such offer, notify Tenant in writing of all of the terms and conditions thereof and shall first offer in writing to sell the Premises to Tenant upon the same terms and conditions. Upon receipt of any such notice and offer from Landlord, Tenant shall have thirty (30) days thereafter within which to accept the same. Should Tenant fail to accept any such offer within said thirty (30) day period, Landlord shall be free to sell the Premises to the original offeror upon the same terms and conditions offered to Tenant without further notice to Tenant, which sale shall be subject to this Lease, including Tenant's right of first refusal contained herein. Should Landlord, after having made such offer to Tenant as above-described, fail to sell the Premises upon the same terms and conditions offered to Tenant, Landlord shall give Tenant notice in the manner set forth above of any further or different offers received by Landlord for the purchase of the Premises and shall first offer to sell the same to Tenant upon the same terms and conditions before accepting any such further or different offer. It is expressly understood and agreed by and between the parties hereto that Tenant shall have the right of first refusal with respect to each and every offer to sell or purchase made or received by Landlord or by any successor Landlord, and that Landlord at the time of the making or receipt of such offer to sell or purchase shall in each and every instance notify Tenant of such offer in the manner set forth above, and Tenant shall have the right to purchase the Premises under the terms and conditions of such offer in accordance with the terms and provisions set forth above.

16. TENANT FINANCING

16.1 Leasehold Mortgages. Tenant shall have the unrestricted right to mortgage or otherwise encumber its interests under this Lease. Tenant shall notify Landlord of the existence, identity, and address of any Leasehold Mortgagee, and shall provide Landlord with a copy of all recorded instruments constituting the Leasehold Mortgage.

16.2 Protection of Leasehold Mortgagees. So long as any such Leasehold Mortgage shall remain unsatisfied of record, the following provisions shall apply:

(a) No cancellation, surrender or modification of this Lease shall be effective as to any Leasehold Mortgagee unless consented to in writing by such Leasehold Mortgagee.

(b) Landlord, upon providing Tenant any notice of (i) a default under this Lease, (ii) a termination of this Lease, or (iii) a matter on which Landlord may predicate or claim a default, shall at the same time provide a copy of such notice to every Leasehold Mortgagee of which Landlord has been provided notice in accordance with this section. No such notice by Landlord to Tenant shall be deemed to have been duly given unless and until a copy thereof has been so provided to every Leasehold Mortgagee of which Landlord has been provided notice in accordance with this section. From and after the date such notice has been given to Leasehold Mortgagee, such Leasehold Mortgagee shall have the same period, after the giving of such notice upon it, for remedying any default or acts or omissions which are the subject matter of such notice which can be remedied by such Leasehold Mortgage, or causing the same to be remedied, as is given Tenant after the giving of such notice to Tenant. Landlord shall accept such performance by or at the instigation of such Leasehold Mortgagee as if the same had been done by Tenant.

(c) Landlord agrees to consent to an amendment to this Lease to add such other provisions as may be reasonably requested by any Leasehold Mortgagee which are generally required by institutional lenders for leases of commercial properties of the type subject to this Lease.

17. LANDLORD'S WAIVER. If Tenant (or its affiliated or related entities) shall acquire trade fixtures, equipment, machinery, inventory, or other goods and effects ("Personal Property") subject to a purchase money security interest, or shall lease any of the same, or if any lender provides Tenant with financing, the proceeds of which are intended to enable Tenant to use and occupy the Premises or to operate Tenant's business, and such financing is secured in whole or in part by a lien on such Personal Property, Landlord shall, upon request from Tenant, execute a waiver, in a form and content acceptable to the holders of any such security interest or the lessor under any such lease, of any right it may have to distrain upon or secure a lien against such Personal Property for Tenant's failure to pay Rent, or any other event of default under the terms, covenants, conditions and provisions of this Lease, and to allow the holders of any such security interest or the lessor under any such lease to remove such Personal Property from the Premises.

18. MISCELLANEOUS PROVISIONS.

18.1 Quiet Possession. Upon payment by Tenant of the Rent for the Premises and the performance of all of the covenants, conditions and provisions on Tenant's part to be observed and performed under this Lease, Tenant shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. Lessor warrants that Lessor has full right and sufficient title to lease the Premises for the term and upon the terms and conditions set forth herein and agrees to indemnify Lessee for and against any and all loss and damage that may result to Lessee on account of any failure of, or defect in, Lessor's title or right to make and execute this Lease.

18.2 Liens. Neither Landlord or Tenant shall permit any liens to be placed against the Premises, including, without limitation, any judgment lien, lien for payment of real property taxes, or construction or

materialman's lien for any work done, materials furnished, or for the performance of any other construction work for which each such respective party is responsible; provided, however, that the responsible party may contest the validity of any such lien to the extent such contest does not unreasonably jeopardize the other party's interest in the Premises, and upon a final determination of the validity of the contested lien, shall cause the same to be satisfied and released of record.

18.3 Landlord's Access. Landlord and its agents shall have access in and about the Premises including, without limitation, the right to enter the Premises on reasonable notice (except in the case of emergency) to examine the Premises, to exhibit the Premises to others, or for the purpose of performing any obligation of Landlord under this Lease or exercising any right or remedy reserved to Landlord in this Lease.

18.4 Time of Essence. Time is of the essence with respect to the performance of all obligations to be performed or observed by the parties under this Lease.

18.5 Attorneys Fees. In the event either Landlord or Tenant shall institute any action or proceeding against the other relating to any of the terms, covenants, conditions or provisions of this Lease, or any default herein, the unsuccessful party in such action or proceeding shall reimburse the successful party for reasonable attorney's fees and other costs and expenses incurred therein by the successful party, including fees, costs and expenses incurred in any appellate proceeding.

18.6 Notices. Any notice or demand from Landlord to Tenant or from Tenant to Landlord shall be in writing and shall be deemed duly served if mailed by registered or certified mail, return receipt requested, addressed, to the address of each party set forth herein, or to such other address as either party shall have last designated by notice in writing to the other party.

18.7 Estoppel Certificates. Each of the parties agrees that it will, at any time and from time to time, within ten (10) business days following written notice by the other party hereto (or any lender of such party) specifying that it is given pursuant to this section, execute, acknowledge and deliver to the party who gave such notice a statement in writing certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating the modifications), and the dates to which the Rent and any other payments due hereunder from Tenant have been paid in advance, if any, and stating whether or not, to the best of knowledge of the signer of such certificate, the other party is in default in performance of any covenant, agreement or condition contained in this Lease, and, if so, specifying each such default of which the signer may have knowledge.

18.8 Applicable Law and Construction. The laws of the state of Oregon shall govern the validity, performance and enforcement of this Lease. The invalidity or unenforceability of any provision of this Lease shall not affect or impair any other provision All negotiations, considerations, representations and understandings between the parties are incorporated in this Lease. The headings of the several articles and sections contained herein are for convenience only and do not define, limit or construe the contents of such articles or sections. Whenever herein the singular number is used, the same shall include the plural, and the neuter gender shall include the masculine and feminine genders. This Lease has been negotiated at arms length and shall not be construed for or against any party by reason of the authorship or alleged authorship of any provision hereof.

18.9 Relationship of the Parties. Nothing contained herein shall be deemed or construed by the parties hereto, or by any third party, as creating the relationship of principal and agent or partnership or joint venture between the parties hereto, it being understood and agreed that no provisions herein, nor any acts of the parties hereto, hall be deemed to create any relationship between the parties hereto other than the relationship of landlord and tenant.

18.10 Binding Effect of Lease. The covenants, agreements and obligations herein contained, except as herein otherwise specifically provided, shall extend to, bind and inure to the benefit of the parties hereto and their respective personal representatives, heirs, successors and permitted assigns. Each covenant, agreement,

obligation or other provision herein contained shall be deemed and construed as a separate and independent covenant of the party bound by, undertaking or making the same, not dependent on any other provision of this Lease unless otherwise expressly provided. At the request of either party, a memorandum of this Lease and the right of first refusal contained herein will be executed by both parties and may be recorded in the public records of the county in which the Premises is located.

18.11 Effect of Unavoidable Delays. The provisions of this section shall be applicable if there shall occur, during the Term, or prior to the commencement thereof, any (i) strike(s), lockout(s) or labor dispute(s); (ii) inability to obtain labor or materials, or reasonable substitutes therefor; or
(iii) acts of God, governmental restrictions, regulations or controls, enemy or hostile governmental action, civil commotion, fire or other casualty, or (iv) other conditions similar or dissimilar to those enumerated in this Section beyond the reasonable control of the party obligated to perform. If Landlord or Tenant shall, as the result of any of the above-described events, fail punctually to perform any obligation on its part to be performed under this Lease, then such failure shall be excused and not be a breach of this Lease by the party in question, but only to the extent occasioned by such event. If any right or option of either party to take any action under or with respect to this Lease is conditioned upon the same being exercised within any prescribed period of time or at or before a named date, then such prescribed period of time and such named date shall be deemed to be extended or delayed, as the case may be, for a period equal to the period of delay occasioned by any above-described event.

18.12 No Oral Changes. Neither this Lease nor any provision hereof may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought.

18.13 Executed Counterparts of Lease. This Lease may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same Lease.

18.14 Invalid Provisions. If any provision of this Lease is held unlawful or invalid, then this Lease shall continue in full force and effect but such unlawful or invalid provision shall be deemed omitted. If any portion of the Rent shall at any time be held to be higher than the amount which the Landlord may lawfully reserve, then the amount thereof shall be reduced to the highest lawful amount.

18.15 Entire Agreement. This Lease is the final and complete expression of Landlord and Tenant relating in any manner to the leasing, use and occupancy of the Premises and other matters set forth in this Lease. No prior agreement or understanding pertaining to the same shall be valid or of any force or effect.

Landlord and Tenant have executed this Lease as of the day and year set forth at the beginning of this Lease.

LANDLORD

William N. Hutchins

Suzanne M. Hutchins

TENANT

LITHIA REAL ESTATE, INC.

By:____

Its:_______________________________________

EXHIBIT A
TO LEASE AGREEMENT

DESCRIPTION OF PREMISES

That certain real property situated in Lane County, Oregon, legally described as

follows:

Exhibit 10.40

LEASE AGREEMENT

This Lease is made as of this 30th day of August, 1999, between BRUCE PROPERTIES, LLC ("Landlord") and LITHIA REAL ESTATE, INC. ("Tenant")

For and in consideration of the mutual covenants contained herein, Landlord and Tenant agree as follows:

1. LEASE DATA; DEFINITIONS. Whenever used in this Lease, the following terms shall have the meanings indicated below.

1.1 Applicable Laws. Any law, ordinance, code, order, rule or regulation of any Governmental Authority.

1.2 Commencement Date. August 30, 1999

1.3 Expiration Date. August 30, 2014, subject to extension in accordance with Section 4 hereof.

1.4 Governmental Authority. The United States, the State of Oregon, and any political subdivision thereof or any local public or quasi-public authority, agency, department, commission, board, bureau or instrumentality of any of them including, with respect to matters pertaining to insurance, rating bureaus or insurance carriers to the extent they have power to impose conditions on the issuance of policies or the coverage thereof.

1.5 Notice Addresses.

Landlord: Bruce Properties, LLC
1475 SE Kane
Roseburg, Oregon 97470

Tenant: Lithia Real Estate, Inc.
360 E. Jackson St.
Medford, Oregon 97501

Landlord or Tenant may change its Notice Address in the manner set forth in Section 196.

1.6 Premises. That certain real property located in Douglas County, Oregon, legally described in Exhibit A hereto, together with all improvements and fixtures thereon.

1.7 Rent. The Rent payable hereunder as set forth in Section 3 hereof.

1.8 Term. A fifteen (15) year period commencing on the Commencement Date and expiring on the Expiration Date, subject to Tenant's right to extend the Term for seven (7) additional five (5) year renewal terms in accordance with
Section 4 hereof.

2. LEASE OF PREMISES. Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, the Premises during the Term hereof, upon the terms and conditions contained herein.

3. RENT.

3.1 Initial Rent. Tenant shall pay Rent for the Premises in equal monthly installments initially of Forty-six Thousand Dollars ($46,000) per month, in advance on the first (1st) day of each calendar month included

in the Term, as the same may be extended. All Rent shall be paid in lawful money of the United States at the address of Landlord set forth in this Lease or at such other place as Landlord in writing may designate. For any portion of a calendar month included at the beginning or end of the Term, Tenant shall pay the prorata portion of the Rent installment for each day of such portion, payable in advance at the beginning of such portion.

3.2 Renewal Term and Rent Adjustment. On the fifth (5th) anniversary of the Commencement Date and on the first day of each renewal term (if any), monthly Rent payable hereunder shall be increased from that payable in the immediately preceding five (5) year term by the lesser of (i) the Maximum Percentage Increase (as hereinafter defined), or (ii) the same percentage as the increase, if any, in the Consumer Price Index "U.S. City Average, All Items, All Urban Consumers, 1982-1984 = 100" published by the United States Department of Labor, Bureau of Labor Statistics (the "CPI"), during the immediately preceding five (5) year term, by comparing the CPI published at the commencement date of said term and that published at the end of said term. In no event shall Rent increase by more than the following percentages on the following adjustment dates (the "Maximum Percentage Increase"):

(i) three percent (3%) for any year during the first fifteen years of the Lease term; and

(ii) thereafter there shall be no Maximum Percentage Increase for subsequent renewal terms.

In the event the CPI shall hereafter be converted to a different standard reference base or otherwise revised, the determination of the percentage increase shall be made with the use of such conversion factor, formula, or table for converting such index as may be published by the Bureau of Labor Statistics. If publication of the index is discontinued, the parties hereto shall select another index which best measures inflation in the Roseburg, Oregon area for purposes of making these calculations.

4. OPTIONS TO RENEW.

4.1 Extension of Term. Tenant shall have the options to renew this Lease and to extend the Term hereof for seven (7) additional, consecutive five
(5) year terms. This Lease shall automatically renew at the end of the then current term, unless the Tenant gives written notice to Landlord, not less than eighteen (18) months prior to the expiration of the then-current term, of Tenant's intent to terminate the Lease at the completion of the then current term. The first renewal term shall commence on the date following the expiration of the original term, and subsequent renewal terms shall commence on the day following the expiration of the previous renewal term. All terms and conditions of this Lease shall remain the same during the renewal term(s), except that Rent to be paid hereunder shall be as provided for in Section 4.2 hereof.

4.2 Renewal Term Rent. Rent during a renewal term shall be as set forth in Section 3.2 hereof.

5. USE.

5.1 Permitted Use. Tenant may use the Premises for any lawful purposes, including, without limitation, in connection with the operation of automobile dealerships and servicing facilities.

5.2 Operations. Tenant shall conform to all reasonable Applicable Laws affecting the use of the Premises. Tenant shall not commit or allow to be committed any waste upon the Premises, or any public or private nuisance or other act or thing which disturbs the quiet enjoyment of any other tenants, owners or users of neighboring premises. Tenant shall indemnify, protect, defend and hold Landlord, its directors, officers, members, employees, and agents harmless from and against any and all damages, liabilities, judgments, costs, claims, liens, expenses, and penalties arising out of Tenant's activities on the Premises.

6. HAZARDOUS SUBSTANCES.

6.1 Tenant's Compliance. Tenant shall not, other than in compliance with all Applicable Laws, engage in any activity in or about the Premises involving (i) the installation or use of any above or below ground storage tank, or (ii) the generation, possession, use, storage, transportation or disposal of Hazardous Substances.

6.2 Indemnification. Tenant shall indemnify, protect, defend and hold Landlord, its directors, officers, members, employees, and agents harmless from and against any and all damages, liabilities, judgments, costs, claims, liens, expenses, penalties, loss of permits and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Tenant or by anyone under Tenant's control, in violation of this section. Tenant's obligations under this Section 6.2 shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created by Tenant, and the cost of investigation (including consultants' and attorneys' fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Landlord and Tenant shall release Tenant from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Landlord in writing at the time of such agreement.

6.3 Landlord's Representations. Landlord hereby represents, warrants, and covenants to Tenant that, to the best of Landlord's knowledge: (i) no Hazardous Substances are or have been used, treated, stored, disposed of, released, spilled, generated, manufactured, or otherwise handled on the Premises, or transported to or from the Premises, have been spilled, released, intruded, leached, or disposed of from the Premises onto adjacent property, or have otherwise come to be located on or beneath the Premises; (ii) the Premises and all operations conducted thereon have been in full compliance with all applicable Environmental Laws; (iii) no liens have been placed on the Premises under any Environmental Laws, and Landlord has no knowledge of any threatened or pending liens; and (iv) Landlord has received no notice and is not aware of any administrative or judicial investigations, proceedings, or actions with respect to violations, alleged or proven, of any Environmental Laws by Landlord or otherwise involving the Premises or the operations conducted thereon. Landlord hereby agrees, at its sole cost and expense, to unconditionally indemnify, defend, and hold Tenant, its directors, officers, employees, and agents (the "Indemnitees"), harmless from and against, and shall reimburse the Indemnitees for, any loss, liability, damage (whether direct or consequential), claims, penalties, fines, injunctions, suits, proceedings, disbursements, or expenses (including, without limitation, attorneys' and experts' fees and disbursements and court costs), arising as a result of a breach by Landlord of any representations and warranties contained herein.

6.4 Definitions. For purposes of this Lease, the terms "Environmental Laws" and "Hazardous Substances" shall have the following meanings: (i) Environmental Laws - All federal, state, and local statutes, regulations, ordinances, directives, and rules pertaining to the protection of human health or the environment that are applicable to the Premises, including, without limitation, the Comprehensive Environmental Response, Compensation and Recovery Act of 1980, as amended, the Resource Conservation and Recovery Act of 1976, the Superfund Amendments and Reauthorization Act of 1986, as amended, and the Hazardous Materials Transportation Act, together with all regulations pertaining thereto; (ii) Hazardous Substances - All dangerous, toxic, or hazardous pollutants, contaminants, chemicals, waste, materials, or substances as defined in or governed by the provisions of any Environmental Laws, including, without limitation, polychlorinated biphenyls, dioxin, nuclear fuel or waste, and petroleum and its fractions, or any other waste, substance, pollutant, or contaminant which would subject the owner or operator of the Premises to any damages, penalties, or liabilities under any applicable Environmental Laws.

7. MAINTENANCE AND REPAIR.

7.1 Tenant's Obligation. Tenant agrees, throughout the Term of this Lease, including any extensions or renewals hereof, to keep the Premises clean, to remove all refuse, trash and debris therefrom, and to surrender the Premises in the same order and repair as at the commencement of the Term of this Lease, reasonable wear and tear and damage by fire, other casualty, or condemnation excepted, upon the expiration or sooner termination of the Term of this Lease, and to comply with all notices issued by any Governmental Authority having

jurisdiction of the Premises solely with respect to Tenant's use and occupancy thereof, as well as with the reasonable recommendations with respect to Tenant's use and occupancy of the Premises made by insurance carriers insuring the Premises.

7.2 Compliance with Laws. Tenant shall make all repairs, alterations, additions or replacements to the Premises, including appurtenances, equipment, facilities and fixtures therein, arising out of Tenant's use or occupancy of the Premises or necessary to satisfy any Applicable Law.

7.3 Condition of Premises. Landlord hereby represents, warrants, and covenants to Tenant that, to the best of Landlord's knowledge, the structural portions of the improvements on the Premises, including, without limitation, the roof, downspouts, gutters, foundation, and structural supports, are in good condition and repair.

8. ALTERATIONS. Except as otherwise set forth herein, Tenant may make any alterations, subdivisions, installations, decorations, sign installations, improvements, additions or other physical changes in or about the Premises ("Alterations"), including those which are necessary to satisfy any Applicable Laws, without Landlord's prior written consent. The foregoing notwithstanding, any Alterations that affect the structural elements of the improvements on the Premises shall first be approved by Landlord, which approval shall not unreasonably be withheld or delayed, and may not be withheld if such structural Alteration is necessary to comply with any Applicable Law. Any such alterations by Tenant during the term of this Lease shall be done in a good and workmanlike manner, with good and sufficient materials, and be in compliance with all Applicable Laws.

9. INSURANCE.

9.1 Liability Insurance. Tenant shall obtain and keep in force during the term of this Lease a commercial general liability policy of insurance protecting Tenant and Landlord, as an additional insured, against claims for bodily injury, personal injury, and property damage based upon, involving, or arising out of the ownership, use, occupancy, or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than $1,000,000 per occurrence.

9.2 Casualty Insurance. Tenant shall also obtain and keep in force during the Term of this Lease a policy or policies insuring against loss or damage to the Premises, naming Tenant as the loss payee. Such insurance shall be for full replacement cost, as the same shall exist from time to time, and shall name Landlord as an additional insured.

9.3 Personal Property Insurance. Tenant, at its cost, shall either by separate policy or by endorsement to a policy already carried, maintain insurance coverage on all of Tenant's personal property, trade fixtures and Tenant-owned alterations in, on, or about the Premises. Such insurance shall be full replacement cost coverage with a deductible not to exceed $1,000 per occurrence. The proceeds from any such insurance shall be used by Tenant for the replacement of personal property and the restoration of trade fixtures and Tenant-owned alterations.

9.4 Insurance Policies. Insurance required hereunder shall be in companies duly licensed to transact business in the state in which the Premises are located, and maintaining during the policy term a 'General Policyholders Rating' of at least B +, V, as set forth in the most current issue of 'Best's Insurance Guide.' Neither party shall do or permit to be done, or fail to do, anything which shall invalidate the insurance policies referred to in this section. Upon reasonable request by Landlord or Tenant, the other party shall deliver to the requesting party, within seven (7) days, certified copies of, or certificates evidencing the existence and amounts of, the insurance required under this section. No such policy may be cancelable or subject to modification except after thirty (30) days' prior written notice to the other party. Nothing herein shall prevent any party from maintaining the insurance required hereunder by an umbrella policy or policies.

9.5 Waiver of Subrogation. Without affecting any other rights or remedies, Tenant and Landlord each hereby release and relieve the other, and waive their entire right to recover damages (whether in

contract or in tort) against the other, for loss or damage to their property arising out of or incident to the perils required to be insured against under this section. The effect of such releases and waivers of the right to recover damages shall not be limited by the amount of insurance carried or required, or by any deductibles applicable thereto. Landlord and Tenant agree to have their respective insurance companies issuing property damage insurance waive any right to subrogation that such companies may have against Landlord or Tenant, as the case may be, so long as the insurance is not invalidated thereby.

10. TAXES. Tenant shall pay prior to delinquency all taxes and assessments which may be levied upon or assessed against the Premises, and all taxes or assessments levied upon or assessed against the improvements constructed by Tenant situated thereon, together with all taxes levied upon or assessed against the personal property of Tenant situated upon the Premises; provided, however, that any taxes or assessments which may be levied or assessed for a period beginning prior to the Commencement Date or ending after the Expiration Date shall be prorated between Landlord and Tenant as of such date or dates. Tenant shall not be obligated to pay any income tax or other tax, assessment, or charge which may be levied or become due by reason of the rents and profits received by Landlord as a result of this Lease. Tenant shall have the right to contest, in good faith and by appropriate and timely legal proceedings, the legality, assessed valuation, or amount of any tax assessment which this Lease obligates Tenant to pay. Landlord shall reasonably cooperate with Tenant in the prosecution of such contest.

11. DAMAGE. In the event of damage to or destruction of the Premises, or to any portion thereof, caused by fire or other casualty, Tenant shall make repairs and restorations as hereinafter set forth, unless this Lease is terminated by either Landlord or Tenant as hereinafter provided. If such damage or destruction cannot be restored as determined in the reasonable opinion of Tenant within one hundred twenty (120) days after commencement of the work to the condition as existed immediately prior to such damage or destruction, then, unless such damage or destruction is caused by the intentional act of Tenant, Tenant shall have the right to terminate this Lease by notice to Landlord, as of the date specified in such termination notice, which termination date shall be no earlier than thirty (30) days nor later than one hundred-eighty (180) days after the date of such casualty. If this Lease is not so terminated, then Tenant shall proceed diligently to restore the Premises so as to be substantially as the same existed prior to the occurrence of the damage or destruction. If such damage or destruction to the Premises is of a nature or extent that Tenant's continued use and occupancy of the Premises is impaired, the Rent payable by Tenant hereunder shall be equitably abated or adjusted for the duration of such impairment.

12. EMINENT DOMAIN. If a condemning authority takes all of the Premises or material portions sufficient to render the remaining portion thereof unsuitable, in Tenant's reasonable determination, for the purposes of Tenant's use, then this Lease shall terminate as of the date title vests in the condemning authority. Landlord shall be entitled to all of the proceeds of condemnation, whether from a total or partial taking, except for any award specifically made to Tenant for the taking of Tenant's improvements, trade fixtures, or personal property, the value of the unexpired term of Tenant's leasehold interest, or for any other purpose. Sale by Landlord of all or part of the Premises to a purchaser with the power of eminent domain in the face of a threat or probability of the exercise of the power shall be treated for the purposes of this section as a taking by condemnation, and shall be subject to the terms of this section. In the event this Lease is not terminated following a partial taking, the Rent payable by Tenant hereunder shall be equitably abated or adjusted for the remainder of the Term hereof.

13. DEFAULTS AND REMEDIES.

13.1 Default By Tenant. If at any time Tenant shall fail to remedy any default in the payment of Rent due under this Lease within fifteen (15) days after receipt of written notice from Landlord of any such failure, or shall fail to remedy any default in any of the other provisions, covenants or conditions of this Lease to be kept or performed by Tenant within a period of thirty (30) days after receipt of written notice from Landlord, Landlord shall have the right to pursue any remedy available to Landlord at law or in equity on account of such default. Provided, however, that if such default cannot reasonably be cured within said thirty (30) day period, Tenant shall not be in default of this Lease if Tenant commences curative action within said thirty (30) day period and diligently and in good faith continues to pursue the same to completion. The foregoing notwithstanding, Landlord shall be required to deliver

notice to Tenant of its failure to pay Rent only three (3) times in a twelve (12) month period. In the event no such notice is required in accordance with the preceding sentence, Tenant shall be in default hereunder if it fails to pay Rent within fifteen (15) days of when due. Landlord shall not, upon the exercise of any remedy upon a breach by Tenant of any covenant or obligation under this Lease, thereby obtain or secure legal title to or ownership of any of the trade fixtures or other equipment placed upon the Premises by Tenant.

13.2 Default by Landlord. Landlord shall be in default under this Lease if Landlord fails or refuses to perform any of Landlord's obligations under this Lease within thirty (30) days after notice of the default has been given by Tenant. If the default cannot reasonably be cured within said thirty (30) day period, Landlord shall not be in default of this Lease if Landlord commences to cure the default within said thirty (30) day period and diligently and in good faith continues to pursue the same to completion. Should the Premises be subject to the lien of any trust deed, mortgage, judgment, assessment, tax or other obligation, whether incurred before or after the execution of this Lease, which Tenant is not bound under this Lease to pay or discharge, or should Landlord fail to pay or discharge any obligation which Landlord is obligated under this Lease to pay or discharge, Tenant shall have the right, but not the obligation, at any time to pay or discharge any such obligations. Should Tenant elect to pay or discharge any such obligation, Landlord shall, upon demand, reimburse Tenant for the full amount thereof, together with Tenant's expenses incurred in connection therewith, including reasonable attorney's fees and interest from the date of payment at the maximum rate allowable by law, and Tenant shall have the right to deduct from Rent thereafter payable under this Lease or from the purchase price of any sale of the Premises made by Landlord to Tenant all amounts due from Landlord under this section until such amounts have been paid in full.

13.3 Holdover by Tenant. In the event Tenant remains in possession of any portion of the Premises after the expiration of the Term without the written permission of Landlord, Tenant shall be deemed to be occupying such portion of the Premises as a tenant from month to month, at a monthly rental equal to the monthly installment of Rent payable during the last month of the Term, subject to all the other conditions, provisions and obligations of this Lease insofar as the same are applicable to a month-to-month tenancy.

13.4 Waiver of Default. No consent or waiver, express or implied, by Landlord or Tenant to or of any breach of any covenant, condition, or duty of the other shall be construed as a consent or waiver to or of any other breach of the same or any other covenant, condition, or duty of the other party, unless in writing signed by the party against whom waiver is sought.

14. ASSIGNMENT, SUBLETTING. Tenant may assign this Lease or sublet all or any portion of the Premises to any affiliated entity without the prior consent of Landlord. Tenant may so assign or sublet to any other party only with the prior consent of Landlord, which consent shall not unreasonably be withheld or delayed.

15. RIGHT OF REFUSAL TO PURCHASE. During the Term hereof and provided there is no uncured default by Tenant, should Landlord receive a bona fide offer from any third party to purchase the Premises which Landlord desires to accept, Landlord shall, before accepting such offer, notify Tenant in writing of all of the terms and conditions thereof and shall first offer in writing to sell the Premises to Tenant upon the same terms and conditions. Upon receipt of any such notice and offer from Landlord, Tenant shall have thirty (30) days thereafter within which to accept the same. Should Tenant fail to accept any such offer within said thirty (30) day period, Landlord shall be free to sell the Premises to the original offeror upon the same terms and conditions offered to Tenant without further notice to Tenant, which sale shall be subject to this Lease, including Tenant's right of first refusal contained herein. Should Landlord, after having made such offer to Tenant as above-described, fail to sell the Premises to the original offeror upon the same terms and conditions offered to Tenant within one hundred-twenty (120) days of making such offer to Tenant, Landlord shall give Tenant notice in the manner set forth above of any further or different offers received by Landlord for the purchase of the Premises and shall first offer to sell the same to Tenant upon the same terms and conditions before accepting any such further or different offer. It is expressly understood and agreed by and between the parties hereto that Tenant shall have the right of first refusal with respect to each and every offer to sell or purchase made or received by Landlord or by any successor Landlord, and that Landlord at the time of the making or receipt of such offer to sell or purchase shall in each and every instance notify

Tenant of such offer in the manner set forth above, and Tenant shall have the right to purchase the Premises under the terms and conditions of such offer in accordance with the terms and provisions set forth above.

16. OPTION TO PURCHASE

16.1 Grant of Option. Provided there is no uncured default by Tenant at the time Tenant gives written notice of its intention to exercise its rights under this section, Tenant shall have the option to acquire the Premises on the terms and conditions set forth herein. To exercise such option, Tenant must give Landlord written notice during the Term hereof (including any renewal term) of Tenant's intent to acquire the Premises.

16.2 Purchase Price. The purchase price for the Premises shall be one hundred percent (100%) of the fair market value of the Premises, not considering the effect of this Lease thereon, excepting therefrom the value of any improvements made by Tenant following the Commencement Date and of any trade fixtures, and exclusive of any portion of the Premises previously condemned or conveyed in lieu thereof (the "Purchase Price"). The fair market value of the Premises shall be determined as of the date the purchase option was exercised in accordance with the preceding subsection.

16.3 Determination of Fair Market Value. The fair market value of the Premises shall be determined as follows:

16.3.1 If the parties agree upon the fair market value of the Premises, then such agreed upon amount shall become the Purchase Price.

16.3.2 If the parties cannot agree on the fair market value of the Premises within thirty (30) days of the date of exercise of the purchase option, then the fair market value of the Premises shall be determined by appraisal as follows:

(a) The parties shall each appoint an appraiser to determine the fair market value of the Premises. Tenant shall have the first right to appoint its appraiser by providing written notice to Landlord of the name, address and telephone number of the appraiser selected within five (5) days following expiration of such thirty (30) day period. Landlord shall have the right to appoint its appraiser by providing written notice to Tenant of the name, address and telephone number of the appraiser selected by Landlord within ten (10) days following expiration of the five (5) day period provided to Tenant.

(b) Failure of either party to appoint an appraiser within the time periods provided herein shall constitute a waiver of that party's right to appoint an appraiser, and the determination of the other party's appraiser, if timely made by such party as provided herein, shall be deemed to be the fair market value of the Premises, notwithstanding any other provision contained herein. Should both parties fail timely to appoint an appraiser, then either party may seek appointment of an appraiser by petitioning the presiding judge of the Circuit Court of Douglas County, Oregon, and that appointed appraiser's determination of fair market value shall be conclusive on the parties.

(c) If two appraisers are appointed in accordance with the foregoing and agree upon the fair market value of the Premises, they shall jointly render a single written report of their opinion of the fair market value of the Premises. If two appraisers are appointed but cannot agree on the fair market value, they shall each render a separate written report setting forth their opinions of the fair market value of the Premises within forty-five (45) days after the date the last appraiser was appointed. In the event the opinions of the two appraisers diverge by ten percent (10%) or less, the average of the opinions of value of the two appraisers will be deemed the fair market value of the Premises. In the event the opinions of fair market value shall diverge by more than ten percent (10%), then the two appraisers shall together, within ten (10) days after the end of the forty-five (45) day appraisal period, appoint a third appraiser who shall review the written reports of the initial two appraisers, and issue a written report selecting one of the appraisals made as the fair market value of the Premises within fifteen (15) days of the appointment of the third appraiser. In the

event a third appraiser shall be appointed, the determination of said third appraiser as to the fair market value of the Premises in accordance with the foregoing shall be binding on the parties. If two appraisers are appointed and cannot agree upon the fair market value of the Premises, and cannot agree upon the appointment of a third appraiser, then the parties may seek appointment of a third appraiser by petitioning the presiding judge of the Circuit Court of Douglas County, Oregon.

16.3.3 Each appraiser selected or appointed in accordance with the foregoing to make a determination of the fair market value of the Premises shall be MAI certified and shall be licensed by the State of Oregon. If each party appoints an appraiser, the fees and other costs of such appraisers shall be borne solely by the party appointing such appraiser, and the fees and costs of any third appraiser appointed by such appraisers shall be borne equally by both parties. Should only one appraiser be appointed, whether by a party hereto or by the presiding judge of the Circuit Court of Douglas County, Oregon, the fees and costs of such appraiser shall be borne equally by both parties.

16.4 Escrow; Title Report. Within ten (10) days following the determination of the fair market value of the Premises pursuant to Section 16.3, the parties shall open an escrow with a title company mutually agreed to by both parties (the "Escrow Agent"). Within fifteen (15) days after the opening of the escrow, Landlord shall provide Tenant with a preliminary title report from the Escrow Agent showing the condition of title to the Premises. Landlord shall, at Landlord's expense, provide Tenant at closing with an ALTA Owners Standard Form Policy of Title Insurance issued by the Escrow Agent, with liability coverage in the amount of the Purchase Price and showing title vested in Tenant subject only to (i) real property taxes and installments of special assessments, if any, attributable to the period from and after the Commencement Date; (ii) the encumbrances described in the attached Exhibit B; and (iii) any encumbrances on the Premises arising by, through, or under Tenant (collectively, the "Permitted Encumbrances"). If Tenant requests that any endorsements be included in the ALTA Owners Standard Form Policy of Title Insurance, the cost of such endorsements shall be paid for by Tenant.

16.5 Closing. The purchase and sale of the Premises shall be completed and closed within forty-five (45) days) of opening of the escrow, on a date mutually agreed to by Landlord and Tenant. Tenant shall pay the full amount of the Purchase Price at closing. Except as otherwise set forth herein, Landlord and Tenant shall each be responsible for one-half of any fees or costs incurred in connection with the closing, including, without limitation, all escrow, recording, and transfer fees or taxes.

16.6 Deed. At closing, Landlord will execute and deliver to Tenant a general warranty deed conveying the Premises to Tenant subject only to the Permitted Encumbrances. Landlord hereby agrees that during the Term, Landlord will not create, allow or suffer any encumbrance, lien, or other matter which would affect or encumber title to the Premises, without first obtaining Tenant's written consent.

16.7 Prorated Amounts. To the extent real estate taxes, assessment installments and operating expenses are the obligation of Tenant under this Lease, no proration shall be made between Landlord and Tenant at closing of the sale of the Premises hereunder. Rents due under the Lease and any expenses or obligations which are not the obligation of Tenant under this Lease shall be prorated as of the date of closing.

16.8 1031 Exchange. Landlord and Tenant shall cooperate with each other if either party elects to sell or purchase the Premises (as the case may be) pursuant to a tax deferred exchange in accordance with Section 1031 of the Internal Revenue Code. Each party shall execute and deliver any and all documents, and shall take such other actions, reasonably requested by the other party to effect such exchange, provided the same may be completed without any additional expense to the performing party.

17. TENANT FINANCING

17.1 Leasehold Mortgages. Tenant shall have the unrestricted right to mortgage or otherwise encumber its interests under this Lease. Tenant shall notify Landlord of the existence, identity, and address of any

Leasehold Mortgagee, and shall provide Landlord with a copy of all recorded instruments constituting the Leasehold Mortgage.

17.2 Protection of Leasehold Mortgagees. So long as any such Leasehold Mortgage shall remain unsatisfied of record, the following provisions shall apply:

17.2.1 No cancellation, surrender or modification of this Lease shall be effective as to any Leasehold Mortgagee unless consented to in writing by such Leasehold Mortgagee.

17.2.2 Landlord, upon providing Tenant any notice of (i) a default under this Lease, (ii) a termination of this Lease, or (iii) a matter on which Landlord may predicate or claim a default, shall at the same time provide a copy of such notice to every Leasehold Mortgagee of which Landlord has been provided notice in accordance with this section. No such notice by Landlord to Tenant shall be deemed to have been duly given unless and until a copy thereof has been so provided to every Leasehold Mortgagee of which Landlord has been provided notice in accordance with this section. From and after the date such notice has been given to Leasehold Mortgagee, such Leasehold Mortgagee shall have the same period, after the giving of such notice upon it, for remedying any default or acts or omissions which are the subject matter of such notice which can be remedied by such Leasehold Mortgage, or causing the same to be remedied, as is given Tenant after the giving of such notice to Tenant. Landlord shall accept such performance by or at the instigation of such Leasehold Mortgagee as if the same had been done by Tenant.

17.2.3 Landlord agrees to consent to an amendment to this Lease to add such other provisions as may be reasonably requested by any Leasehold Mortgagee which are generally required by institutional lenders for leases of commercial properties of the type subject to this Lease.

18. LANDLORD'S WAIVER. If Tenant (or its affiliated or related entities) shall acquire trade fixtures, equipment, machinery, inventory, or other goods and effects ("Personal Property") subject to a purchase money security interest, or shall lease any of the same, or if any lender provides Tenant with financing, the proceeds of which are intended to enable Tenant to use and occupy the Premises or to operate Tenant's business, and such financing is secured in whole or in part by a lien on such Personal Property, Landlord shall, upon request from Tenant, execute a waiver, in a form and content acceptable to the holders of any such security interest or the lessor under any such lease, of any right it may have to distrain upon or secure a lien against such Personal Property for Tenant's failure to pay Rent, or any other event of default under the terms, covenants, conditions and provisions of this Lease, and to allow the holders of any such security interest or the lessor under any such lease to remove such Personal Property from the Premises.

19. MORTGAGE PRIORITY; SUBORDINATION. This Lease is and shall be prior to any mortgage or deed of trust ("Encumbrance") recorded after the date of this Lease and affecting the Premises. However, if any lender holding such an Encumbrance requires that this Lease be subordinate to the Encumbrance, then Tenant agrees that this Lease shall be subordinate to the Encumbrance, and to any and all advances made on the security thereof and to all extensions thereof, so long as the holder of the Encumbrance delivers to Tenant a non-disturbance agreement, in a form reasonably acceptable to Tenant, that provides that, as long as Tenant pays the rent and observes and performs all of the provisions of this Lease and as long as the Lease is not otherwise terminated pursuant to its terms, no foreclosure, deed given in lieu of foreclosure, or sale pursuant to the terms of the Encumbrance, or other steps or procedures taken under the Encumbrance, shall affect Tenant's rights under this Lease. If the foregoing condition is met, Tenant shall promptly execute any documents reasonably required by the holder of the Encumbrance to accomplish the purposes of this section. If the Premises are sold as a result of foreclosure of any Encumbrance thereon, or otherwise transferred by Landlord or any successor, Tenant shall attorn to the purchaser or transferee.

20. MISCELLANEOUS PROVISIONS.

20.1 Quiet Possession. Upon payment by Tenant of the Rent for the Premises and the performance of all of the covenants, conditions and provisions on Tenant's part to be observed and performed under this Lease, Tenant shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. Lessor warrants that Lessor has full right and sufficient title to lease the Premises for the term and upon the terms and conditions set forth herein and agrees to indemnify Lessee for and against any and all loss and damage that may result to Lessee on account of any failure of, or defect in, Lessor's title or right to make and execute this Lease.

20.2 Liens. Neither Landlord or Tenant shall permit any liens to be placed against the Premises, including, without limitation, any judgment lien, lien for payment of real property taxes, or construction or materialman's lien for any work done, materials furnished, or for the performance of any other construction work for which each such respective party is responsible; provided, however, that the responsible party may contest the validity of any such lien to the extent such contest does not unreasonably jeopardize the other party's interest in the Premises, and upon a final determination of the validity of the contested lien, shall cause the same to be satisfied and released of record.

20.3 Landlord's Access. Landlord and its agents shall have access in and about the Premises including, without limitation, the right to enter the Premises on reasonable notice (except in the case of emergency) to examine the Premises, to exhibit the Premises to others, or for the purpose of performing any obligation of Landlord under this Lease or exercising any right or remedy reserved to Landlord in this Lease. Landlord shall exercise its rights under this section at such times and in such a manner as to minimize interference with Tenant and its operations on the Premises.

20.4 Time of Essence. Time is of the essence with respect to the performance of all obligations to be performed or observed by the parties under this Lease.

20.5 Attorneys Fees. In the event either Landlord or Tenant shall institute any action or proceeding against the other relating to any of the terms, covenants, conditions or provisions of this Lease, or any default herein, the unsuccessful party in such action or proceeding shall reimburse the successful party for reasonable attorney's fees and other costs and expenses incurred therein by the successful party, including fees, costs and expenses incurred in any appellate proceeding.

20.6 Notices. Any notice or demand from Landlord to Tenant or from Tenant to Landlord shall be in writing and shall be deemed duly served if mailed by registered or certified mail, return receipt requested, or by overnight courier, addressed to the address of each party set forth herein, or to such other address as either party shall have last designated by notice in writing to the other party.

20.7 Estoppel Certificates. Each of the parties agrees that it will, at any time and from time to time, within ten (10) business days following written notice by the other party hereto (or any lender of such party) specifying that it is given pursuant to this section, execute, acknowledge and deliver to the party who gave such notice a statement in writing certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating the modifications), and the dates to which the Rent and any other payments due hereunder from Tenant have been paid in advance, if any, and stating whether or not, to the best of knowledge of the signer of such certificate, the other party is in default in performance of any covenant, agreement or condition contained in this Lease, and, if so, specifying each such default of which the signer may have knowledge.

20.8 Applicable Law and Construction. The laws of the state of Oregon shall govern the validity, performance and enforcement of this Lease. The invalidity or unenforceability of any provision of this Lease shall not affect or impair any other provision All negotiations, considerations, representations and understandings between the parties are incorporated in this Lease. The headings of the several articles and sections contained herein are for convenience only and do not define, limit or construe the contents of such articles or sections. Whenever

herein the singular number is used, the same shall include the plural, and the neuter gender shall include the masculine and feminine genders. This Lease has been negotiated at arms length and shall not be construed for or against any party by reason of the authorship or alleged authorship of any provision hereof.

20.9 Relationship of the Parties. Nothing contained herein shall be deemed or construed by the parties hereto, or by any third party, as creating the relationship of principal and agent or partnership or joint venture between the parties hereto, it being understood and agreed that no provisions herein, nor any acts of the parties hereto, hall be deemed to create any relationship between the parties hereto other than the relationship of landlord and tenant.

20.10 Binding Effect of Lease. The covenants, agreements and obligations herein contained, except as herein otherwise specifically provided, shall extend to, bind and inure to the benefit of the parties hereto and their respective personal representatives, heirs, successors and permitted assigns. Each covenant, agreement, obligation or other provision herein contained shall be deemed and construed as a separate and independent covenant of the party bound by, undertaking or making the same, not dependent on any other provision of this Lease unless otherwise expressly provided. At the request of either party, a memorandum of this Lease and the right of first refusal contained herein will be executed by both parties and may be recorded in the public records of the county in which the Premises is located.

20.11 Effect of Unavoidable Delays. The provisions of this section shall be applicable if there shall occur, during the Term, or prior to the commencement thereof, any (i) strike(s), lockout(s) or labor dispute(s); (ii) inability to obtain labor or materials, or reasonable substitutes therefor; or
(iii) acts of God, governmental restrictions, regulations or controls, enemy or hostile governmental action, civil commotion, fire or other casualty, or (iv) other conditions similar or dissimilar to those enumerated in this Section beyond the reasonable control of the party obligated to perform. If Landlord or Tenant shall, as the result of any of the above-described events, fail punctually to perform any obligation on its part to be performed under this Lease, then such failure shall be excused and not be a breach of this Lease by the party in question, but only to the extent occasioned by such event. If any right or option of either party to take any action under or with respect to this Lease is conditioned upon the same being exercised within any prescribed period of time or at or before a named date, then such prescribed period of time and such named date shall be deemed to be extended or delayed, as the case may be, for a period equal to the period of delay occasioned by any above-described event.

20.12 No Oral Changes. Neither this Lease nor any provision hereof may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought.

20.13 Executed Counterparts of Lease. This Lease may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same Lease.

20.14 Invalid Provisions. If any provision of this Lease is held unlawful or invalid, then this Lease shall continue in full force and effect but such unlawful or invalid provision shall be deemed omitted. If any portion of the Rent shall at any time be held to be higher than the amount which the Landlord may lawfully reserve, then the amount thereof shall be reduced to the highest lawful amount.

20.15 Entire Agreement. This Lease is the final and complete expression of Landlord and Tenant relating in any manner to the leasing, use and occupancy of the Premises and other matters set forth in this Lease. No prior agreement or understanding pertaining to the same shall be valid or of any force or effect.

Landlord and Tenant have executed this Lease as of the day and year set forth at the beginning of this Lease.

LANDLORD

BRUCE PROPERTIES, LLC

By:_____
Gerald E. Bruce, Manager

TENANT

LITHIA REAL ESTATE, INC.

By:_____
Its:_____

EXHIBIT A
TO LEASE AGREEMENT

DESCRIPTION OF PREMISES

That certain real property situated in Douglas County, Oregon, legally described as follows:

GUARANTY

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in consideration for, and as an inducement to Landlord to make the foregoing lease with Tenant, the undersigned absolutely and unconditionally guarantees, to Landlord and its successors, the full payment and performance and observation of all of the terms, covenants, conditions, provisions and agreements therein provided to be performed or observed by Tenant, without requiring any notice of nonpayment, non-performance or non-observance, or proof, or notice, or demand, all of which the undersigned expressly waives. The undersigned expressly agrees that the validity of this guaranty and the obligations of the undersigned as guarantor hereunder will in no way be terminated, affected or impaired by reason of the assertion by Landlord against Tenant of any of the rights or remedies reserved to Landlord pursuant to the provisions of the lease. Landlord may grant extensions of time and other indulgences and may modify, amend and waive any of the terms, covenants, conditions, provisions or agreements of the lease, and discharge or release any party or parties to the lease, all without notice to the undersigned and without in any way impairing, releasing or affecting the liability or obligation of the undersigned. The undersigned agrees that Landlord may proceed directly against the undersigned without taking any action under the lease and without exhausting Landlord's remedies against Tenant; and no discharge of Tenant in bankruptcy or in any other insolvency proceedings will in any way or to any extent discharge or release the undersigned from any liability or obligation under this guaranty. The undersigned further covenants and agrees that this guaranty will remain and continue in full force and effect as to any renewal, modification or extension of the lease, and that no subletting and no assignment of the lease, with or without Landlord's consent, will release or discharge the undersigned. As a further inducement to Landlord to make the lease and in consideration of the lease, Landlord and the undersigned covenant and agree that in any action or proceeding brought by either Landlord or the undersigned against the other on any matter whatsoever arising out of, under, or by virtue of any of the terms, covenants, conditions, provisions or agreements of the lease or of this guaranty, Landlord and the undersigned will and do hereby waive trial by jury. The undersigned agrees to pay, in addition to any damages which a court of competent jurisdiction may award, such amount or amounts as the court may determine to be reasonable attorneys' fees and costs incurred by Landlord or its successors or assigns in the enforcement of this guaranty. In the event Landlord or the undersigned institute any action or proceeding against the other relating to this guaranty, the unsuccessful party in such action or proceeding shall reimburse the successful party for reasonable attorneys' fees and other costs and expenses incurred therein by the successful party. All rights under this guaranty will inure to the benefit of any successors or assigns of Landlord.

Dated as of the 30th day of August, 1999.

GUARANTOR:

LITHIA MOTORS, INC.

By: _____
Bryan B. DeBoer, Vice President

Address:
360 E. Jackson St.

Medford, Oregon 97501

EXHIBIT 10.41

LEASE AGREEMENT

This Lease Agreement ("Lease") dated as of the date stated in the Summary of Terms by and between CAPITAL AUTOMOTIVE L.P., a Delaware limited partnership ("Landlord"), having its principal office at 1420 Springhill Road, Suite 525, McLean, Virginia 22102 and the person or entity stated in the Summary of Terms ("Tenant").

RECITALS

WHEREAS, Tenant or an Affiliate (as hereafter defined) has conveyed or will convey to Landlord certain parcels of real estate and improvements thereon upon which Tenant engages in motor vehicle retail and/or motor vehicle related businesses (the "Business"), which parcels of real estate and improvements thereon are described on Schedule A attached hereto and incorporated herein by reference (each hereinafter a "Leased Property" or collectively, the "Leased Properties"), and Landlord and Tenant desire to provide for the lease by Landlord to Tenant of the Leased Properties; and

WHEREAS, Landlord and Tenant desire that each of the Leased Properties shall be the subject of this Lease and be used by Tenant in its operation of the Business; and

WHEREAS, this Lease provides that additional real estate and improvements thereon may be made subject to the operation and effect of this Lease, upon execution by Landlord and Tenant of a Lease Supplement designating each such additional property as a Leased Property hereunder.

NOW, THEREFORE, in consideration of the foregoing premises and of their respective agreements and undertakings herein, and of other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant agree as follows:

I. LEASE AGREEMENT. LEASED PROPERTY AND TERM

1.01 Lease Agreement. Landlord does hereby let and lease unto Tenant, and Tenant does hereby take and hire from Landlord, the Leased Properties, which shall respectively consist of:

(a) The parcels of land described and located at the addresses listed in Schedule A hereto, as more particularly described therein, together with any additional parcels of real estate and improvements thereon subsequently designated as a Leased Property by the parties pursuant to a Lease Supplement as provided for herein, together with all fights, titles, appurtenant interests, covenants, licenses, privileges and benefits thereto belonging, and any easements, fights-of-way, rights of ingress or egress or other interests in, on, or to any land, highway, street, road or avenue, open or proposed, in, on, across, in front of, abutting or adjoining such real property including, without limitation, any strips and gores adjacent

to or lying between such real estate and any adjacent real estate (the "Land");

(b) All buildings, improvements, structures and Fixtures (as hereinafter defined) now located or to be located or to be constructed on the Land, including, without limitation, sidewalks, landscaping, parking lots and structures, roads, drainage and all above ground and underground utility structures and conduits (on-site or off-site), equipment systems and other so-called "infrastructure" improvements (the "Improvements");

(c) All equipment, machinery, fixtures, and other items of real and/or personal property, including all components thereof, located in, on or used in -connection with, and permanently affixe4 to or incorporated into, the Improvements, including, without limitation, all furnaces, boilers, heaters, electrical equipment, heating, plumbing, lighting, ventilating, refrigerating incineration, air and water pollution control, waste disposal, air-cooling and air-conditioning systems and apparatus, sprinkler systems and fire and theft protection equipment, and similar systems, all of which, to the greatest extent permitted by law, are hereby deemed to constitute real estate, together with all replacements, modifications, alterations and additions thereto (collectively the "Fixtures"); and

(d) All easements, rights and appurtenances relating to the Land and the Improvements.

SUBJECT, HOWEVER, to the liens, encumbrances, restrictions, agreements, and other title matters listed or specifically referred to in Schedule B ("Permitted Exceptions").

The Leased Properties shall however exclude all furniture, equipment, inventory and items of moveable personal property attached to the Land or Improvements that relate to the business being conducted on the Leased Property which items may readily be removed without material damage to the Land and Improvements whether or not such items might legally be considered to be "fixtures" (all of which are owned by Tenant and shall hereinafter be defined as the "Excluded Personal Property").

1.02 Contingent Upon Acquisition of the Leased Property. In the event this Lease is executed prior to the conveyance of the Leased Property by Tenant, or an Affiliate, to Landlord, the parties acknowledge that the effectiveness of this Lease in respect of such Leased Property is contingent upon the closing of such conveyance. The commencement date of this Lease shall be the date of the closing of such conveyance (the "Commencement Date").

1.03 Term. The initial term of this Lease (the "Term") shall be for a fixed term of One Hundred and Eighty (180) months commencing on the Commencement Date. The initial term for any Leased Property designated in a Lease Supplement shall begin on the date of such Lease Supplement and expire at the end of the Term or then current Extension Term (as hereafter

defined), as the case may be. Tenant shall have the right to extend this Lease for the Leased Properties as a group, at Tenant's option, for one Sixty (60) month renewal term from the expiration of the Term (the "First Extension Term"), provided that no Event of Default (as defined in Section 9.01 hereof) shall exist and be continuing. In addition, Tenant shall have the right to extend this Lease for the Leased Properties as a group at Tenant's option: (i) for a second Sixty (60) month renewal term from the expiration of the First Extension Term (the "Second Extension Term") provided that no Event of Default (as defined in
Section 9.01 hereof) shall exist and be continuing and (iii) for a third Sixty
(60) month renewal term from the expiration of the Second Extension Term (the "Third Extension"; along with the First Extension Term and the Second Extension Term, each an "Extension Term," and collectively the "Extension Terms") provided that no Event of Default (as defined in Section 9.01 hereof) shall exist and be continuing. Tenant shall exercise its right to extend this Lease pursuant to the respective Extension Terms by giving written notice to Landlord no later than twelve (12) months prior to the end of the then current Term. Notwithstanding anything else to the contrary in this Agreement, the Base Annual Rent for the Second and Third Extension Terms shall be the Fair Market Rent (as hereafter defined) for the Leased Property. Fair Market Rent shall be determined as soon as possible after receipt by Landlord of Tenant's notice of exercise of an option for the Second Extension Term or Third Extension Term on the basis of appraisals of independent appraisers selected in accordance with the provisions of Section 16.01. Tenant shall have the right, in its sole discretion, to rescind the exercise of Tenants option to extend the Lease for the Second Extension Term or the Third Extension Term during a period of five (5) business days after the determination of the Fair Market Rent. If Tenant shall fail to exercise the right to rescind within such five (5) day period, the election to extend shall be irrevocable and the Fair Market Rent so determined shall be the Base Annual Rent during the Second Extension Term or the Third Extension Term, as applicable, notwithstanding any changes in the market rental rates, whether upward or downward, which may occur after such determination. However, notwithstanding anything else in this Agreement, Fair Market Rent shall become the Base Annual Rent (as defined hereafter) and shall be subject to Base Annual Rent Adjustments as set forth in Section 2.04.

1.04 Holding Over. Should Tenant, without the express consent of Landlord, continue to hold and occupy any Leased Property after the expiration or earlier termination of the Term or any Extension Term, as the case may be, such holding over beyond the Term and the acceptance or collection of Rent (as defined hereinafter) by Landlord shall operate and be construed as creating a tenancy from month-to-month and not for any other term whatsoever. During any such holdover period Tenant shall pay to Landlord for each month (or portion thereof) Tenant remains in such Leased Property, in lieu of the Base Annual Rent (as defined hereafter) for such Leased Property, an amount equal to the sum of one-twelfth (1/12) of (i) one hundred fifty percent (150%) of such Base Annual Rent (the "Holdover Rate"), and (ii) as applicable, one hundred percent (100%) of the Additional Rent (as defined hereinafter) for such Leased Property, each as in effect on the expiration date. Said month-to-month tenancy may be terminated by Landlord by giving Tenant thirty (30) days written notice, and at any time thereafter Landlord may re-enter and take possession of such Leased Property.

1.05 Surrender. Except as a result of (a) Tenant Improvements and Capital Additions

(as defined hereinafter); (b) normal and reasonable wear and tear (subject to the obligation of Tenant to maintain each Leased Property in good order and repair during the Term); and (c) casualty, taking or other damage and destruction not required to be repaired by Tenant, Tenant shall surrender and deliver up each Leased Property at the expiration or termination of the Term or the Extension Term therefor, as the case may be, broom clean, in good order and repair, free of the Excluded Personal Property and any additional items of Tenant's personal property (together with the Excluded Personal Property, the "Tenant's Personal Property"), all of which Tenant shall remove prior to such surrender and delivery, and in as good order and condition as of the Commencement Date.

1.06 Deliveries at Commencement. On the Commencement Date, Tenant shall deliver to Landlord:

(a) A binding insurance certificate stating that Capital Automotive L.P. is an additional named insured under the Tenant's insurance policy;

(b) A certified copy of the Tenant's organizational documents; as amended and in existence on that date; and

(c) A certificate of good standing from the jurisdiction in which Tenant is organized, and if Tenant is organized in a jurisdiction other than the situs of the Leased Property, a certificate of good standing and foreign qualification from the jurisdiction in which the Leased Property is located;

(d) A consent or resolutions of the Tenant authorizing the Tenant to enter into this Lease.

II. RENT

2.01 Base Rent. Tenant shall pay Landlord annual base rent (the "Base Annual Rent") as to the Leased Property for each year during the Term or the Extension Term (each such year a "Lease Year"), which Base Annual Rent shall be subject to upward adjustment pursuant to Section 2.04. In the first Lease Year, Base Annual Rent shall be in the amount set forth in the Summary of Terms (the "Initial Base Annual Rent"), paid to Landlord in twelve equal monthly installments.

2.02. Additional Rent. As to each Leased Property, in addition to the Base Annual Rent, Tenant shall pay all other amounts, liabilities, obligations and Impositions (as defined in Section 3.02 hereto) which Tenant assumes or agrees to pay under this Lease and any fine, penalty, interest, charge and cost which may be added for nonpayment or late payment of such items (collectively, the "Additional Rent"). The Base Annual Rent and Additional Rent are hereinafter referred to as "Rent."

2.03 Base Annual Rent Adjustment.

(a) he Base Annual Rent shall be adjusted during the Lease Term or the Extension Terms under the procedures set forth in the Summary of Terms (the "Base Annual Rent Adjustment").

(b) As used herein and in the Summary of Terms, "CPI" shall mean the CPI- published by the United States Department of Labor, Bureau of Labor Statistics Consumer Price Index for All Urban Consumers, U.S. City Average. If at any time during the Term or the Extension Term, as the case may be, the CPI shall be discontinued, Landlord shall select a substitute index, being an existing official index published by the Bureau of Labor Statistics or its successor or another, similar governmental agency, which index is most nearly equivalent to the CPI.

2.04 Security Deposit. Prior to the Commencement Date, Tenant shall deliver to Landlord the amount stated in the Summary of Terms, which amount shall be held by Landlord as security (the "Security Deposit") for the performance of Tenants payment and other obligations under this Lease. Upon an Event of Default and the continuance thereof, Landlord shall have the right, but not the obligation, to apply the Security Deposit as set forth in Section 9.08. Landlord shall return the Security Deposit, without interest, after expiration of this Lease, if Tenant has fully and faithfully carried out all of the terms, covenants and conditions hereof. If at or on the second Cash Flow Measurement Date, Tenant and Guarantor have failed to maintain the Cash Flow Coverage Ration provided in Section 12.10 hereto, the Landlord shall have the right to collect as an additional security deposit (the "Additional Security Deposit") amount equal to two months of the then current Base Annual Rent. Amount collected by the Landlord as the Additional Security Deposit shall be refunded to Tenant upon
(i) Landlord's waiver of the Cash Flow Coverage Ratio requirement or (ii) upon subsequent notification to Landlord that Tenant and Guarantor have met the Cash Flow Coverage Ratio at or on the immediately subsequent Cash Flow Measurement Date.

2.05 Place of Payment of Rent: Direct Payment of Additional Rent. Landlord shall have all legal, equitable and contractual rights, powers and remedies provided in this Lease or by statute or otherwise in the case of nonpayment of the Rent for each Leased Property. Tenant shall pay the Base Annual Rent without notice, demand, set-off or counterclaim in advance, in lawful money of the United States of America and payable in consecutive monthly installments commencing on the Commencement Date and thereafter on the first day of each month during the Term. Unless Landlord shall direct otherwise, Tenant shall make all payments of Base Annual Rent to Landlord by direct deposit of immediately available funds to the bank account specified in Exhibit 2.05 (which account Landlord may change from time to time upon Notice to Tenant). At the direction of the Landlord, Tenant shall make payments of Additional Rent directly to the person or persons to whom such amount is owing at the time and times when such payments are due, and Tenant shall give to Landlord such evidence of such direct payments as Landlord shall reasonably request.

2.06 Net Lease. This Lease shall be deemed and construed to be an "absolute net

lease" or "triple net lease," (i.e. that Tenant shall pay all costs and expenses related to the ownership and operations of each Leased Property, thereby leaving all Rent as an absolutely net return to Landlord) and as to each Leased Property, Tenant shall pay all Rent, Impositions, and other charges and expenses in connection with such Leased Property throughout the Term and any Extension Term, without abatement, deduction or set-off.

2.07 No Termination, Abatement, Etc. Except as otherwise specifically provided herein, Tenant shall remain bound by this Lease in accordance with its terms. Except as otherwise specifically provided herein, Tenant shall not, without the prior written consent of Landlord, modify, surrender or terminate this Lease as to any Leased Property, nor seek nor be entitled to any abatement, deduction, deferment or reduction of Rent, or set-off against the Rent as to any Leased Property for any reason whatsoever. Except as specifically provided herein, the obligations of Landlord and Tenant shall not be affected by reason of: (a) the lawful or unlawful prohibition of, or restriction upon, Tenant's use of any Leased Property, or any part thereof, the interference with such use by any person, corporation, partnership or other entity, or by reason of eviction by paramount title; (b) any claim which Tenant has or might have against Landlord or by reason of any default or breach of any warranty by Landlord under this Lease or any other agreement between Landlord and Tenant, or to which Landlord and Tenant are parties; (c) any bankruptcy, insolvency, reorganization, composition, readjustment, liquidation, dissolution, winding up or other proceeding affecting Landlord or any assignee or transferee of Landlord; (d) any damage to, or destruction of, any Leased Property or any portion thereof for whatever cause, or any taking of the Leased Property or any portion thereof; or
(e) any other cause, whether similar or dissimilar to any of the foregoing, other than a discharge of Tenant from any such obligations as a matter of law. Except as otherwise specifically provided herein, and to the maximum extent permitted by law, Tenant hereby specifically waives all rights, including but not limited to any rights under any statute relating to rights of tenants in the jurisdictions where the Leased Properties are located, which may now be conferred upon it by law, relating to: (a) the modification, surrender or termination of this Lease, or the quitting or surrender of any Leased Property or any portion thereof; (b) any abatement, reduction, suspension or deferment of the Rent or other sums payable by Tenant hereunder; (c) any rights of redemption and (d) any right to demand or notice of termination or eviction. As to each Leased Property, the obligations of Landlord and Tenant hereunder shall be separate and the Rent and all other sums shall continue to be payable in all events unless the obligations to pay the same shall be terminated pursuant to the express provisions of this Lease or by termination of this Lease other than by reason of an Event of Default.

III. IMPOSITIONS AND UTILITIES

3.01 Payment of Impositions. The Landlord and Tenant intend that Landlord shall bear none of the costs of the ownership and operation of the Leased Property except for payment of the federal, state or local income taxes, and that Tenant shall pay all costs in every respect of the ownership and operation of the Leased Property except for Landlord's payment of federal, state or local income taxes. By way of example and in no means by way of limitation, the Tenant shall pay as follows: subject to the adjustments set forth herein, Tenant shall pay, in the manner set

forth in Section 3.04, as Additional Rent, to the Landlord an amount equal to the amount necessary to pay all Impositions that may be levied or become a lien on any Leased Property or any part thereof at any time (whether prior to or during the Term), without regard to prior ownership of said Leased Property, before the same becomes delinquent. Tenant's obligation to pay such Impositions shall be deemed absolutely fixed upon the date such Impositions become a lien upon any Leased Property or any part thereof Tenant, at its expense, shall prepare and file all tax returns and reports in respect of any Imposition as may be required by governmental authorities, provided, however, that Tenant shall provide to Landlord copies of all filings of such tax returns or reports in respect of any real or personal property owned by Landlord. Tenant shall be entitled to any refund due in respect of such Impositions from any taxing authority if no Event of Default shall have occurred hereunder and be continuing. Any refunds in respect of such Impositions retained by Landlord due to an Event of Default shall be applied as provided in Section 9.08. Landlord and Tenant shall, upon request of the other, provide such data as is maintained by the party to whom the request is made with respect to a Leased Property as may be necessary to prepare any required tax returns and reports. In the event governmental authorities classify any property covered by this Lease as personal property, Landlord and Tenant shall file all personal property tax returns in such jurisdictions where it may legally so file with respect to their respective owned personal property. Landlord, to the extent it possesses the same, and Tenant, to the extent it possesses the same, will provide the other party, upon request, with cost and depreciation records necessary for filing such returns or reports for any property so classified as personal property. To the extent that Landlord is legally required to file personal property tax returns, Tenant will be provided with copies of assessment notices indicating a value in excess of the reported value in sufficient time for Tenant to file a protest. Tenant may, upon notice to Landlord, at Tenant's option and at Tenant's sole cost and expense, protest, appeal, or institute such other proceedings as Tenant may deem appropriate to effect a reduction of real estate or personal property assessments and Landlord, at Tenant's expense as aforesaid, shall fully cooperate with Tenant in such protest, appeal, or other action. Tenant shall provide Landlord copies of all materials filed or presented in connection with any such proceeding. Tenant shall promptly reimburse Landlord for all taxes paid by Landlord, which were not paid with deposits received from Tenant, upon receipt of billings accompanied by copies of a bill therefor and payments thereof which identify the property with respect to which such payments are made. Impositions imposed with respect to the tax-fiscal period during which the Term commences and terminates as to each Leased Property shall be adjusted and prorated between Landlord and Tenant on a per diem basis, with Tenant being obligated to pay its pro rata share from and including the Commencement Date to and including the expiration or termination date of the Term or Extension Term, as the case may be, whether or not such Imposition is imposed before or after such commencement or termination, and Tenant's obligation to pay its prorated share thereof shall survive such termination. Tenant shall also pay to Landlord a sum equal to the amount which Landlord may be caused to pay of any privilege tax, sales tax, gross receipts tax, rent tax, occupancy tax or like tax (excluding any tax based on net income), hereinafter levied, assessed, or imposed by any federal, state, city, county or municipal or other local governmental authority, or any subdivision thereof, upon or measured by rent or other consideration required to be paid by Tenant under this Lease.

3.02 Definition of Impositions. "Impositions" means, collectively: (a) taxes (including without limitation, all real estate and personal property ad valorem (whether assessed as part of the real estate or separately assessed as unsecured personal property), sales and use, business or occupation, single business, gross receipts, transaction, privilege, rent or similar taxes, but not including income or franchise or excise taxes payable with respect to Landlord's receipt of Rent); (b) assessments, whether in the nature of a special assessment or otherwise (including, without limitation, all assessments for public improvements or benefits, whether or not commenced or completed prior to the date hereof and whether or not to be completed within the Term or any Extension Term, as the case may be); (c) ground rents, water, sewer or other rents and charges, excises, tax levies, and fees (including, without limitation, license, permit, inspection, authorization and similar fees); (d) to the extent they may become a lien on a Leased Property, all taxes imposed on Tenant's operations of such Leased Property including without limitation, employee withholding taxes, income taxes and intangible taxes; and (e) all other governmental charges, in each case whether general or special, ordinary or extraordinary, or foreseen or unforeseen, of every character in respect of each Leased Property or any part thereof, the Business conducted by Tenant thereon, and/or the Rent (including all interest and penalties thereon due to any failure in payment by Tenant), which at any time prior to, during or in respect of the Term or any Extension Term, as the case may be, hereof may be assessed or imposed on or in respect of or be a lien upon (i) Landlord or Landlord's interest in any Leased Property or any part thereof; (ii) any Leased Property or any part thereof or any rent therefrom or any estate, right, title or interest therein; or (iii) any occupancy, operation, use or possession of, or sales from, or activity conducted on, or in connection with any Leased Property or the leasing or use of any Leased Property or any part thereof. Tenant shall not, however, be required to pay: (x) any tax based on net income (whether denominated as a franchise or capital stock or other tax) imposed on Landlord or (y) except as provided in
Section 13.01, any tax imposed with respect to the sale, exchange or other disposition by Landlord of a Leased Property or the proceeds thereof; provided, however, that if any tax, assessment, tax levy or charge which Tenant is obligated to pay pursuant to the first sentence of this definition and which is in effect at any time during the Term hereof is totally or partially repealed, and a tax, assessment, tax levy or charge set forth in clause (x) or (y) immediately above is levied, assessed or imposed expressly in lieu thereof Tenant shall then pay such tax, levy, or charge set forth in said clause (x) or (y).

3.03 Utilities. Tenant shall contract for, in its own name, and will pay, as Additional Rent all taxes, assessments, charges/deposits, and bills for utilities, including without limitation charges for water, gas, oil, sanitary and storm sewer, electricity, telephone service, trash collection, and all other utilities which may be charged against the occupant of the Improvements during the Term. Tenant shall at all times maintain that amount of heat necessary to ensure against the freezing of water lines. Tenant hereby agrees to indemnify and hold Landlord harmless from and against any liability or damages to the utility systems of each Leased Property that may result from Tenant's failure to maintain sufficient heat in the Improvements therefor.

3.04 Escrow of Impositions. During the existence of any material default of the terms of this Lease by the Tenant, unless waived by written notice from Landlord to Tenant, Tenant shall thereafter deposit with Landlord on the first day of each month during the Term hereof

and any Extension Term, as the case may be, a sum equal to one-twelfth (1/12th) of the Impositions assessed against such Leased Property which sums shall be used by Landlord toward payment of such Impositions. If; at the end of any applicable tax year, any such funds held by Landlord are insufficient to make full payment of taxes or other Impositions for which such funds are the Tenant, on demand, shall pay to Landlord any additional funds necessary to pay and discharge in full the obligations of Tenant pursuant to the provisions of this Section. If, however, at the end of any applicable tax year, such funds held by Landlord are in excess of the total payment required to satisfy taxes or other Impositions for which such funds are held, Landlord shall apply such excess amounts to a tax and Imposition escrow fund for the next tax year. With respect to each Leased Property, if any such excess exists following the expiration or earlier termination of this Lease, and subject to Section 8.08 below, Landlord shall promptly refund such excess amounts to Tenant. The receipt by Landlord of the payment of such Impositions by and from Tenant shall only be as an accommodation to Tenant and the taxing authorities, and shall not be construed as rent or income to Landlord, Landlord serving, if at all, only as a conduit for delivery purposes.

3.05 Discontinuance of Utilities. Landlord will not be liable for damages to person or property or for injury to, or interruption of; business for any discontinuance of utilities at any Leased Property nor will such discontinuance in any way be construed as an eviction of Tenant from such Leased Property or cause an abatement of Rent as to such Leased Property or operate to release Tenant from any of Tenant's obligations as to such Leased Property under this Lease. Notwithstanding the forgoing, however, Landlord shall be liable for damages to person or property or for injury to, or interruption of business, for .any discontinuance of utilities at any Leased Property, in the event and to the extent, such damages or injury are caused by the willful misconduct of the Landlord.

3.06 Liens. Subject to Section 17.19 relating to contests, Tenant shall not directly or indirectly create or allow to remain, and will promptly discharge at its expense, any lien, encumbrance, attachment, title retention agreement or claim upon any Leased Property or any attachment, levy, claim or encumbrance in respect of any Rent provided under this Lease, not including, however: (a) this Lease; (b) utility easements and road rights-of-way in the customary 3 form (i) provided the same do not adversely affect the intended use of the Leased Properties (including the Improvements) and do not create a material adverse effect on the value of the Leased Properties or (ii) which result solely from the action or inaction of Landlord; (c) zoning and building laws or ordinances, provided they do not prohibit the use of the Leased Properties for the Business and so long as the Leased Properties are in compliance with same; (d) such encumbrances as are subsequently consented to in writing by Landlord, but excluding liens in respect of Impositions required to be paid under Section 3.01; (e) liens for Impositions so long as (i) the same are not yet payable or are payable without the addition of any fine or (f) other en penalty or (ii) such liens are being contested as permitted under Section 17.19; and cumbrances, easements, rights of way or liens (i) provided the same do not adversely affect the intended use of the Leased Properties (including the Improvements) and do not create a material adverse effect on the value of the Leased properties, or (ii) which result solely from the action or inaction of Landlord.

3.07 Impositions Statements. Tenant shall immediately after the Commencement Date notify the appropriate taxing authorities, utility providers, and other entities that would send invoices for Impositions in the jurisdiction in which the Leased Properties are situated that all tax statements, assessments and bills for Impositions shall be delivered directly to Tenant for payment. Tenant shall deliver to Landlord copies of all statements of taxes, special assessments or other Impositions within ten (10) days of Tenant's receipt thereof.

IV. INSURANCE

4.01 Insurance. Tenant shall, at Tenant's expense, keep the Improvements, Fixtures, and other components of each Leased Property insured against the following risks:

(a) Loss or damage by fire with extended coverage (including windstorm and subsidence), vandalism and malicious mischief, sprinkler leakage and all other physical loss perils commonly covered by "All Risk" insurance in an amount not less than one hundred percent (100%) of the then full replacement cost thereof (as hereinafter defined). Such policy shall include an agreed amount endorsement if available at a reasonable cost. Such policy shall also include endorsements for contingent liability for operation of building laws, demolition costs, and increased cost of construction.

(b) Loss or damage by explosion of steam boilers, pressure vessels, or similar apparatus, now or hereafter installed on any Leased Property, in commercially reasonable amounts acceptable to Landlord.

(c) Loss of rent under a rental value or Business interruption insurance policy covering risk of loss during the first twelve (12) months of reconstruction necessitated by the occurrence of any hazards described in Sections 4.01(a) or 4.01(b), above, and which causes an abatement of Rent as provided in Article X hereof; in an amount sufficient to prevent Landlord or Tenant from becoming a co-insurer, containing endorsements for extended period of indemnity and premium adjustment, and written with an agreed amount clause, if the insurance provided for in this clause (c) is available.

(d) If the Land or any portion thereof related to a Leased Property is located in whole or in part within a designated flood plain area, loss or damage caused by flood in commercially reasonable amounts acceptable to Landlord.

(e) Loss or damage commonly covered by blanket crime insurance including employee dishonesty, loss of money orders or paper currency, depositor's forgery, and loss of property accepted by Tenant for safekeeping, in commercially reasonable amounts acceptable to Landlord.

(f) Workers' compensation insurance as required by statute in respect of any work or other operations on or about each Leased Property.

(g) Comprehensive liability insurance as to each Leased Property in amounts equal to the greater of (i) One Million Dollars ($1,000,000) for each occurrence and Two Million Dollars ($2,000,000) in the aggregate, or (ii) the limits of liability generally required under the franchise agreements or other agreements pursuant to which Tenant operates the Businesses conducted on or about each Leased Property.

(h) Commercial comprehensive catastrophic liability insurance with limits of liability of not less than the greater of (i) Five Million ($5,000,000) and (ii) the limits of liability generally required under the franchise agreements or other agreements pursuant to which Tenant operates the Businesses conducted on or about each Leased Property.

(i) upon Landlord's request, earthquake insurance in an amount not less than the full insurable value of each Leased Property.

(j) During the period when any addition, alteration, construction, installation or demolition is being made or performed to any part of the Leased Property, contingent liability, public liability, completed value, builder's risk (non reporting form) workers compensation and other insurance as is deemed prudent by Landlord.

4.02 Insurance Limits. Deductible provisions for the insurance required under Section 4.01(a) shall not exceed Twenty-Five Thousand Dollars ($25,000) per location per occurrence and One Hundred Thousand Dollars ($100,000) aggregate per occurrence; under clause (d), Twenty-Five Thousand Dollars ($25,000) per occurrence, except that if federal flood insurance is available then such deductible shall not be greater than the lowest deductible available with respect to such federal flood insurance; under clause (g), Twenty-Five Thousand Dollars ($25,000) per occurrence; under clause (h), Twenty-Five Thousand Dollars ($25,000) per occurrence; and under clause (j), Twenty-Five Thousand Dollars ($25,000) per occurrence.

4.03 Insurance Requirements. The following provisions shall apply to all insurance coverages required hereunder:

(a) The carriers of all policies shall have a Best's Rating of "A-" or better and a Best's Financial Category of XII or larger and shall be authorized to do insurance business in the jurisdiction in which the Leased Property is located.

(b) Tenant shall be the "named insured" and Landlord and any mortgagee of Landlord shall be an "additional named insured" on each policy, except the insurance required by Section 4.0 1(f) hereto.

(c) Tenant shall deliver to Landlord certificates or policies showing the required coverages and endorsements. Each policy or certificate ~6f insurance shall provide that such policy or certificate (i) may not be canceled, (ii) may not lapse for failure to renew, and (iii) no material change or reduction in coverage may be made, without Landlord's approval after at least thirty (30) days' prior written notice to Landlord.

(d) The policies shall contain a severability of interest and/or cross-liability endorsement, provide that the acts or omissions of Tenant will not invalidate Landlord's coverage, and provide that Landlord shall not be responsible for payment of premiums.

(e) All loss adjustment shall require the written consent of Landlord and Tenant, as their interests may appear.

(f) At least (30) thirty days prior to the expiration of each policy, Tenant shall deliver to Landlord a certificate showing renewal of such policy and payment of the annual premium therefor. Landlord shall have the right to review the insurance coverages required hereunder with Tenant from time to time, to obtain the input of third party professional insurance advisors (at Landlord's expense) with respect to such insurance coverages, and to consult with Tenant in Tenant's annual review and renewal of such insurance coverages. All insurance coverages hereunder shall be in such form, substance and amounts as are customary or standard in Tenant's industry, but at a minimum shall comply with the requirements set forth herein.

4.04 Replacement Cost. The term "full replacement cost" means the actual replacement cost of the Improvements from time to time including increased cost of construction, with no reductions or deductions. Tenant shall, not later than thirty (30) days after the anniversary of each policy of insurance, increase the amount of the replacement cost endorsement for the Improvements to the extent necessary to reflect increased costs of construction. If Tenant makes any Permitted Alterations (as hereinafter defined) to any Leased Property, Landlord may have such full replacement cost redetermined at any time after such Permitted Alterations are made, regardless of when the full replacement cost was last determined.

4.05 Blanket Policy. Tenant may carry the insurance required by this Article under a blanket policy of insurance, provided that the coverage afforded Tenant will not be reduced or diminished or otherwise be different from that which would exist under a separate policy meeting all of the requirements of this Lease and the Landlord approves the form of the policy.

4.06 No Separate Insurance. Tenant shall not take out separate insurance concurrent

in form or contributing in the event of loss with that required in this Article, or increase the amounts of any then existing insurance by securing an additional policy or additional policies, unless all parties having an insurable interest in the subject matter of the insurance, including Landlord and any mortgagees, are included therein as additional named insureds or loss payees, the loss is payable under said insurance in the same manner as losses are payable under this Lease, and such additional insurance is not prohibited by the existing policies of insurance required pursuant to this Article. Tenant shall immediately notify Landlord of the taking out of such separate insurance or the increasing of any of the amounts of the existing insurance by securing an additional policy or additional policies. The term "mortgages" as used in this Lease includes, but is not limited to, Deeds of Trust and the term "mortgagees" includes, but is not limited to, trustees and beneficiaries under a Deed of Trust.

4.07 Waiver of Subrogation. Each party hereto hereby waives any and every claim which arises or may arise in its favor and against the other party hereto during the Term or any Extension Term or renewal thereof, for any and all loss of, or damage to, any of its property located within or upon, or constituting a part of, any Leased Property, which loss or damage is covered by valid and collectible insurance policies, to the extent that such loss or damage is recoverable in full under such policies. Said mutual waiver shall be in addition to, and not in limitation or derogation of, any other waiver or release contained in this Lease with respect to any loss or damage to property of the parties hereto. Inasmuch as the said waivers will preclude the assignment of any aforesaid claim by way of subrogation (or otherwise) to an insurance company (or any other person), each party hereto agrees immediately to give each insurance company which has issued to it policies of insurance, written notice of the terms of said mutual waivers, and to have such insurance policies properly endorsed, if necessary, to prevent the invalidation of said insurance coverage by reason of said waivers, so long as such endorsement is available at a reasonable cost.

4.08 Mortgages. The following provisions shall apply if Landlord now or hereafter places a mortgage on any Leased Property or any part thereof: (a) Tenant shall obtain a standard form of mortgage clause insuring the interest of the mortgagee; (b) Tenant shall deliver evidence of insurance to such mortgagee;
(c) loss adjustment shall require the consent of the mortgagee but such consent shall not be unreasonably withheld and may not include any requirement that the funds be paid to mortgagee in lieu of reconstruction; and (d) Tenant shall obtain such other coverages and provide such other information and documents as may be reasonably required by the mortgagee.

4.09 Other Insurance Requirements. Notwithstanding anything in this Lease to the contrary and not by way of limitation, in addition to the types and amounts of insurance required to be carried by Tenant herein, Tenant covenants to insure and continue in effect such types and amounts of insurance as the Tenant shall be required to carry pursuant to any contract, agreement, instrument, statute, law, rule or regulation relating to the use of the Leased Property and the operations of any Business or other activities thereon, including noncancellable written notice to mortgagee.

V. INDEMNITY; SUBSTANCES OF CONCERN

5.01 Tenant's Indemnification. Subject to Section 4.07, Tenant hereby agrees to indemnify and hold harmless Landlord, its agents, and employees from and against any and all demands, claims, causes of action, fines, penalties, damages (including punitive and consequential damages), losses, liabilities (including strict liability), judgments, costs and expenses (including, without limitation, attorneys' fees, court costs, and the costs set forth in Section 9.06) (the "Claims") incurred in connection with or arising from: (a) the use, condition, operation or occupancy of the Leased Properties (whether such use, condition, operation or occupancy occurred or arose prior to or after the Commencement of this Lease); (b) any activity, work, or thing done, or permitted or suffered by Tenant in, on or about the Leased Properties; (c) any acts, omissions, or negligence of Tenant or any person claiming under Tenant, or the contractors, agents, employees, invitees, or visitors of Tenant or any such person; (d) any breach, violation, or nonperformance by Tenant or any person claiming under Tenant or the employees, agents, contractors, invitees, or visitors of Tenant or of any such person, of any term, representation, warranty, covenant, or provision of this Lease or any law, ordinance, or governmental requirement of any kind; (e) any injury or damage to the person, property or Business of Tenant, its employees, agents, contractors, invitees, visitors, or any other person entering upon any Leased Property; (f) any accident, injury to or death of persons or loss or damage to any item of property occurring on or about any Leased Property; (g) any Environmental Law or any pollution or other threat to human health or the environment at, arising out of or relating to any Leased Property as set forth in Section 5.05, and (h) any brokers' or agents' fees and commissions. If any action or proceeding is brought against Landlord, its employees, or agents by reason of any such demand, claim, or cause of action, Tenant, upon notice from Landlord, will defend the same at Tenant's expense with counsel reasonably satisfactory to Landlord. In the event Landlord reasonably determines that its interests and the interests of Tenant in any such action or proceeding are not substantially the same and that Tenant's counsel cannot adequately represent the interests of Landlord therein, Landlord shall have the right to hire separate counsel in any such action or proceeding and the reasonable costs thereof shall be paid for by Tenant. Tenant's indemnification obligations with respect to a Claim shall survive the expiration or earlier termination of this Lease until the later of(i) two (2) years from the date hereof, or (ii) the expiration of the period ninety (90) days after the date on which Landlord has actual knowledge of the existence of such Claim, provided, however, that Tenant's indemnification obligations shall survive the expiration or earlier termination of this Lease until ninety (90) days after the expiration of the applicable statute of limitations for Claims incurred in connection with, arising out of, or related to (i) Section 5.0 1(g) or (ii) the failure to pay, as provided for in this Agreement, any Imposition.

5.02 Substances of Concern.

(a) For purposes of this Section 5:

(i) "Substances of Concern" means, without limitation, chemicals, pollutants, contaminants, wastes, toxic substances, radioactive

materials or genetically modified organisms, which are, have been or become regulated by any federal, state or local government authority including, without limitation, (1) petroleum or any fraction thereof, (2) asbestos, (3) any substance or material defined as a "hazardous substance" pursuant toss.101 of the Comprehensive Environmental Response Compensation and Liability Act (42 U.S C.ss.9601), or (4) any substance or material defined as a "hazardous chemical" pursuant to the federal Hazard Communication Standard (29 C.F.R.ss. 1910.1200).

(ii) "Environmental Laws" means all federal, state, local, and foreign laws and regulations relating to pollution or protection of human health or the environment (including, without limitation, ambient air, surface water, ground water, wetlands, land surface, subsurface strata, and indoor and outdoor workplace), including, without limitation, (1) laws and regulations relating to emissions, discharges, releases, or threatened releases of Substances of Concern, and (2) common law principles of tort liability.

(b) Tenant shall not, either with or without negligence, injure, overload, deface, damage or otherwise harm any Leased Property or any part or component thereof; commit any nuisance; permit the emission of any Substances of Concern; allow the release or other escape of any biologically or chemically actives substances or materials or other Substances of Concern so as to impregnate, impair or in any manner affect, even temporarily, any element or part of any Leased Property or neighboring property, or allow the storage or use of such substances or materials in any manner not sanctioned by law and by reasonable standards prevailing in the automobile retail and related industries for the storage and use of such substances or materials; nor shall Tenant permit the occurrence of objectionable noise or odors; or make, allow or suffer any waste whatsoever to any Leased Property. Landlord may inspect each Leased Property from time to time, and Tenant will cooperate with such inspections.

(c) Notwithstanding the foregoing, Tenant anticipates using, storing and disposing of certain Substances of Concern in connection with operation of its Business. Such Substances of Concern include, but are not limited to, the following: motor oil, waste motor oil and filters, transmission fluid, antifreeze, refrigerants, waste paint and lacquer thinner, batteries, solvents, lubricants, degreasing agents, gasoline and diesel fuels. Tenant shall ascertain and comply fully with all applicable Environmental Laws and environmental standards and requirements set by federal, state or local laws, rules, regulations or governmental directives related to the Leased Properties or Tenant's use or occupancy of the Leased

Property ("Environmental Standards"), including but not limited to any laws or standards (a) regulating the use, storage, generation or disposal of Substances of Concern, (b) regulating the monitoring or use of any underground or aboveground storage tanks at the Leased Properties, or (c) establishing any permitting, notification or reporting requirements. As promptly as practicable after the Commencement Date (but in no event later than 120 days thereafter), Tenant shall establish and implement a program of compliance with all applicable Environmental Laws and Environmental Standards ("Environmental Compliance Program"). Tenant shall update such Environmental Compliance Program every three (3) years during the Term. Tenant shall submit its Environmental Compliance Program and each update thereto to Landlord; provided, however, such submittal shall not relieve Tenant of its obligations pursuant to this Section 5. Tenants Environmental Compliance Program shall include a program for monitoring Tenants' compliance with Environmental Laws and Environmental Standards and a plan for correcting immediately any incident of noncompliance. Tenant shall comply with its Environmental Compliance Program.

(d) In the event of any noncompliance with any Environmental Laws or Environmental Standards or any spill, release or discharge of Substances of Concern in a reportable quantity under federal, state or local law, Tenant shall:

(i) give Landlord immediate notice of the incident by telephone or facsimile, providing as much detail as possible. Such notice shall be provided to Landlord's National Dealership Real Estate Manager or to such other person as Landlord shall designate in accordance with Section 16.01 below;

(ii) as soon as possible, but no later than seventy-two (72) hours, after discovery of an incident of noncompliance, submit a written report to Landlord, identifying the source or case of the noncompliance or spill, release or discharge (including the names and quantities of any Substances of Concern involved) and the method or action required to correct the problem; and

(iii) cooperate with Landlord or its designated agents or contractors with respect to the investigation and correction of such problem.

Tenant shall also be solely responsible for providing any notice to any federal, state or local governmental authority required by applicable laws and regulations as a result of such incident.

5.03 Audits. Landlord shall have the right to conduct, at its expense, periodic audits of Tenant's compliance with the Environmental Compliance Program and management of Substances of Concern at the Leased Properties and/or periodic tests of air, soil, surface water or groundwater at or near the Leased Properties. Landlord shall not be obligated to provide Tenant with the results of any audit or tests unless such results are the basis for a claim by Landlord that Tenant has breached its obligations under this Lease or a demand by Landlord that Tenant modify its Environmental Compliance Program or operations or remediate or remove a spill, release or discharge of Substances of Concern in accordance with Section 5.06 below. Tenant agrees promptly to modify its Environmental Compliance Program or the conduct of its operations in accordance with Landlord's reasonable recommendations directed at improvement of Tenant's handling, use and disposal of Substances of Concern in, on or from any Leased Property. If, as a result of an environmental audit performed by Landlord with respect to any Leased Property, Landlord reasonably determines in its judgment that alterations or improvements of equipment or buildings located on the Leased Property are necessary, Tenant shall perform such alterations or improvements as are reasonable under the circumstances and pay all costs and expenses relating thereto. If Tenant shall fail to pay any such costs or expenses, Tenant shall deposit with Landlord the full amount necessary to pay such costs in full within ten (10) days of Landlord's demand. Nothing contained herein shall be construed to obligate or require Landlord to perform any audits, tests, inquiry or investigation. Should Landlord elect or be required to disclose to Tenant the results of any audit or tests, Landlord shall not be liable in any way for the truth or accuracy of such information.

5.04 Landlord's Option Re: Compliance. If Tenant, after notice from Landlord, fails to comply with or perform any of its obligations pursuant to this Article 5, including, but not limited to, obligations to clean up spills, releases or discharges, Landlord may, but shall not be obligated to, perform such obligations and Tenant shall pay Landlord within ten (10) days of demand Landlord's costs therefor, including any overhead and administrative costs.

5.05 Environmental Indemnification. Tenant shall indemnify and hold harmless Landlord from and against all demands, claims, causes of action, fines, penalties, damages (including punitive and consequential damages), losses, liabilities (including strict liability), judgments, and expenses 3 (including, without limitation, attorneys' fees, court costs, and the costs set forth in
Section 9.06) imposed upon or asserted against Tenant, Landlord or any Leased Property on account of any Environmental Law (irrespective of whether there has occurred any violation of any Environmental Law) relating to any Leased Property, including (a) response costs and costs of removal and remedial action incurred by the United States Government or any state or local governmental unit to any other person or entity, or damages from injury to or destruction or loss of natural resources, including the reasonable costs of assessing such injury, destruction or loss, incurred pursuant to any Environmental Law, (b) costs and expenses of abatement, investigation, removal, remediation, correction or cleanup, fines, damages, response costs or penalties which arise from the provisions of any Environmental Law, (c) liability for personal injury or property damage arising under any statutory or common-law tort theory, including damages assessed for the maintenance of a public or private nuisance or for carrying on of a dangerous activity, (d) liability by reason of a breach of an environmental representation

or warranty by Tenant, and (e) failure of Tenant to complete in a timely manner alterations or improvements of equipment or buildings located on the Leased Property deemed necessary or advisable by Landlord pursuant to Section 5.03 in a manner acceptable to Landlord.

5.06 Tenant's Cleanup Obligation. If any spill, release or discharge of Substances of Concern occurs on, at or from the Leased Properties during the Term, Tenant shall promptly take all actions, at its sole expense, as are necessary to remove or remediate such spill, release or discharge and to return the Leased Property to the condition existing prior to the introduction of any such Substances of Concern to the Leased Property, provided that Landlord's approval of such action shall first be obtained, which approval shall not be unreasonably withheld so long as such actions would not potentially have any material adverse effect on the Leased Property.

5.07 Existing Environmental Conditions. Tenant acknowledges that it has had the opportunity to review the Environmental Reports identified in Exhibit 5.07 hereto. Tenant hereby represents that it has reviewed and is aware of the matters disclosed in the Environmental Reports.

As a material consideration for Landlord's willingness to enter into this Lease, Tenant, for itself and its Affiliates, and each of their shareholders, directors, officers, employees, agents, contractors, representatives, insurers, successors and assigns hereby waives and releases Landlord and its Affiliates and each of their shareholders, directors, officers, employees, representatives, agents, contractors, representatives, insurers, successors and assigns from any and all claims, demands, liabilities, costs, expenses, causes of action and rights of action whatsoever, past, present or future, known or unknown, suspected or unsuspected, which arise out of or relate in any way to the violation of Environmental Laws or the use, storage, treatment, disposal, presence, spill, release, or discharge of Substances of Concern at, on or from the Leased Properties before the Commencement Date (collectively, the "Released Claims").

In the event that Landlord is ordered by a governmental agency, or determines that it is in its best interest, to remedy any violation of Environmental Laws or to remove or remediate any Substances of Concern present on, under or about the Leased Properties on the Commencement 3 Date, or spilled, released or discharged on, at or from the Leased Properties before the Commencement Date, Tenant shall immediately upon notice from Landlord take all actions, at Tenant's sole expense, to promptly complete such removal or remediation.

5.08 Survival of Tenant's Obligations. Tenant's obligations under this
Section 5 shall survive the expiration or earlier termination of this Lease. During any period of time employed by Tenant after the termination of this Lease to complete the removal from the Leased Property of any Substances of Concern, if the premises are not rentable for uses contemplated under this Lease, Tenant shall continue to pay the full amount of Rent due under this Lease, which Rent shall be prorated daily for the final month of such period of time.

VI. USE AND ACCEPTANCE OF PREMISES

6.01 Use of Leased Properties. For so long as this Lease is in effect (including following any sublease or assignment thereof), Tenant shall use and occupy each Leased Property exclusively for the purpose of conducting the Business or for any other legal purpose for which such Leased Property is being used as of the Commencement Date, and for no other purpose without the prior written consent of Landlord. Tenant shall obtain and maintain all approvals, licenses, and consents needed to use and operate the Leased Properties for such purposes. Tenant shall promptly deliver to Landlord complete copies of surveys, examinations, certification and licensure inspections, compliance certificates, and other similar reports issued to Tenant by any governmental agency.

6.02 Acceptance of Leased Properties. Except as otherwise specifically provided in this Lease, Tenant acknowledges (i) Tenant and its agents have had an opportunity to inspect each Leased Property; (ii) Tenant has found each Leased Property fit for Tenant's use; (iii) delivery of each Leased Property to Tenant is in an "as-is" condition; (iv) Landlord is not obligated to make any improvements or repairs to any Leased Property; and (v) the roof, walls, foundation, heating, ventilating, air conditioning, telephone, sewer, electrical, mechanical, utility, plumbing, and other portions of each Leased Property are in good working order. Tenant waives any claim or action `against Landlord with respect to the condition of any Leased Property. LANDLORD MAKES NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, TN RESPECT OF THE LEASED PROPERTIES OR ANY PART THEREOF, EITHER AS TO ITS FITNESS FOR USE, DESIGN OR CONDITION OR ANY PARTICULAR USE OR PURPOSE OR OTHERWISE, AS TO QUALITY OR THE MATERIAL OR WORKMANSHIP THEREIN, LATENT OR PATENT, IT BEING AGREED THAT ALL SUCH RISKS ARE TO BE BORNE BY TENANT.

6.03 Conditions of Use and Occupancy. Tenant agrees that during the Term it shall use and keep each Leased Property in a careful, safe and proper manner; not commit or suffer waste thereon; not use or occupy any Leased Property for any unlawful purposes; not use or occupy any Leased Property or permit the same to be used or occupied, for any purpose or business deemed extra hazardous on account of fire or otherwise; keep each Leased Property in such repair and condition as may be required by the local board of health, or other city, state or federal authorities, free of all cost to Landlord; not permit any acts to be done which will cause the cancellation, invalidation, or suspension of any insurance policy; and permit Landlord and its agents to enter upon each Leased Property at all reasonable times after notice to Tenant to examine the condition thereof. In addition, at any time and from time to time upon not less than fifteen (15) days prior written notice, Tenant shall permit Landlord and any mortgagee or lender and their authorized representatives, to inspect the Leased Properties during normal Business hours, provided that such inspections shall not unreasonably interfere with Business of Tenant.

6.04 Financial Statements and Other Information. Tenant shall provide Landlord and any mortgagee or lender regularly (or more often as may be reasonably requested by Landlord in writing), the following financial information: (a) as to each Leased Property within thirty (30) days after each fiscal quarter during the Term or any Extension Term, as the case may be, (except the fourth quarter), Tenant-prepared financial statements prepared in accordance with

generally accepted accounting principles ("GAAP") consistently applied; and (b) as to each Leased Property, itself, and Guarantor, Tenant shall use its best efforts to provide Landlord within ninety (90) days after the end of each fiscal year of Tenant, and Guarantor, respectively, during the Term or any Extension Term, as the case may be, and in no event later than one hundred and twenty (120) days after the end of each fiscal year of Tenant or Guarantor, respectively, during the Term or any Extension Term, as the case may be, financial statements, audited, reviewed or compiled by a certified public accountant (the "Annual Financial Statements"). Tenant shall also deliver to Landlord such additional financial information as Landlord may reasonably request, provided the same is of a type normally maintained by Tenant or can be obtained without undue cost or burden on Tenant's personnel and does not constitute information which Tenant reasonably determines to be proprietary or confidential. Additionally, upon Landlord's request, Tenant shall provide Landlord with copies of Tenant's annual capital expenditure budgets for each Leased Property and any reports generated by Tenant regarding maintenance and repairs of each Leased Property.

VII. REPAIRS. COMPLIANCE WITH LAWS. AND MECHANICS' LIENS

7.01 Maintenance. Tenant shall maintain each Leased Property in good order, repair and appearance, and repair each Leased Property, including without limitation, all interior and exterior, structural and nonstructural repairs and replacements to the roof, foundations, exterior walls, building systems, HVAC systems, parking areas, sidewalks, water, sewer and gas connections, pipes, and mains. Tenant shall pay as Additional Rent the full cost of such maintenance, repairs, and replacements. Tenant shall maintain all drives, sidewalks, parking areas, and lawns on or about each Leased Property in a clean and orderly condition, free of accumulations of dirt, rubbish, snow and ice. Tenant shall permit Landlord to inspect each Leased Property at all reasonable times, and shall implement all reasonable suggestions of Landlord as to the maintenance and repair of each Leased Property.

7.02 Compliance with Laws. Tenant shall comply with all laws, ordinances, orders, rules, regulations, and other governmental requirements relating to the use, condition, or occupancy of each Leased Property, whether now or hereafter enacted and in force including without limitation: (a) licensure requirements for operation of the Business; (b) requirements of any board of casualty insurance underwriters or insurance service office for any other similar body having jurisdiction over any Leased Property; (c) all zoning and building codes; and (d) Environmental Laws. At Landlord's request, from time to time, Tenant shall deliver to Landlord copies of certificates or permits evidencing compliance with such laws, including without limitation, copies of any applicable licenses, certificates of occupancy and building permits. Tenant shall provide Landlord with copies of any notice from any governmental authority alleging any non-compliance by Tenant or any Leased Property with any of the foregoing requirements and such evidence as Landlord may reasonably require of Tenants remediation thereof Tenant hereby agrees to defend, indemnify and hold Landlord, its agents, and employees from and against any and all demands, claims, causes of action, fines, penalties, damages (including punitive and consequential damages), losses, liabilities (including strict liability), judgments, costs and expenses (including, without limitation, attorneys' fees, court costs, and the

costs set forth in Section 9.06) resulting from any failure by Tenant to comply with any laws, ordinances, rules, regulations, and other governmental requirements.

7.03 Required Alterations. Tenant shall, at Tenant's sole cost and expense, make any additions, changes, improvements or alterations to each Leased Property, including structural alterations, which may be required by any governmental authorities, including those required to continue to satisfy any licensure requirements related to the operation of the Business, whether such changes are required by Tenant's use, changes in the law, ordinances, or governmental regulations, defects existing as of the date of this Lease, or any other cause whatsoever. Tenant shall provide thirty (30) days prior written notice to Landlord of any changes to a Leased Property pursuant to this Section 7.03 which involve changes to the structural integrity thereof or materially affect the operational capabilities thereof All such additions, changes, improvements or alterations shall be deemed to be a Tenant Improvement and shall comply with all laws relating to such alterations and with the provisions of Section 8.01.

7.04 Mechanics' Liens. Tenant shall have no authority to permit or create a lien against Landlord's interest in any Leased Property, and Tenant shall post notices or file such documents as may be required to protect Landlords interest in each Leased Property against liens. Tenant hereby agrees to defend, indemnify, and hold Landlord harmless from and against any mechanics' liens against any Leased Property by reason of work, labor services or materials supplied or claimed to have been supplied on or to such Leased Property. Tenant shall immediately remove, bond-off, or otherwise obtain the release of any mechanics' lien filed against any Leased Property. Tenant shall pay all expenses in connection therewith, including without limitation, damages, interest, court costs and reasonable attorneys fees.

7.05 Replacements of Fixtures. Tenant shall not remove Fixtures from any Leased Property except to replace such Fixtures with other items used for similar or analogous purposes, which replacement items are of equal or greater quality and value. Items being replaced by Tenant may be removed and shall become the property of Tenant and items replacing the same shall be and remain the property of Landlord. Tenant shall execute, upon written request from Landlord, any and all documents necessary to evidence Landlord's ownership of the Fixtures and replacements therefor. Tenant may not finance replacements by security agreement or equipment lease unless: (a) Landlord has consented to the terms and conditions of the equipment lease or security agreement; (b) the equipment lessor or lender has entered into a non-disturbance agreement with Landlord upon terms and conditions acceptable to Landlord, including without limitation (i) Landlord shall have the right (but not the obligation) to assume such security agreement or equipment lease upon the occurrence of an Event of Default by Tenant hereunder; (ii) the equipment lessor or lender shall promptly notify Landlord of any default by Tenant under the equipment lease or security agreement and give Landlord a reasonable opportunity to cure such default; and
(iii) Landlord shall have the right to assign its rights under the equipment lease, security agreement, or non-disturbance agreement; (c) the equipment lessor or lender shall subordinate its security interest to the security interest of any of Landlord's lessors, mortgagors or lenders, whether now created or hereafter existing, and (d) Tenant shall, within ten (10) days after receipt of an invoice from Landlord, reimburse Landlord for all costs and expenses incurred

in reviewing and approving the equipment lease, security agreement, and non-disturbance agreement, including without limitation, reasonable attorneys' fees and costs.

7.06 Encroachments: Restrictions. If any of the Improvements shall, at any time, encroach upon any property, street or right-of-way adjacent to a Leased Property, or shall violate the agreements or conditions contained in any restrictive covenant or other agreement affecting a Leased Property, other than one which is created or consented to by Landlord without Tenant's consent, or shall impair the rights of others under an easement or right-of-way to which a Leased Property is subject, other than one which is created or consented to by Landlord without Tenant's consent, then promptly upon the request of Landlord or at the request of any person affected by any such encroachment, violation or impairment, Tenant shall, at its expense, subject to its right to contest the existence of any encroachment, violation or impairment and in such case, in the event of an adverse final determination, either (a) obtain valid and effective waivers or settlements of all claims, liabilities and damages resulting from each such encroachment, violation or impairment, whether the same shall affect Landlord or Tenant or (b) make such changes in the Improvements and take such other actions as shall be necessary to remove such encroachment and to end such violation or impairment, including, if necessary, the alteration of improvements Any such alteration shall be made in conformity with the requirements of Article VIII.

VIII. ALTERATIONS AND SIGNS: TENANT'S PROPERTY: CAPITAL ADDITIONS TO THE LEASED PROPERTIES

8.01 Tenant's Right to Construct. As to each Leased Property, during the Term of this Lease or any Extension Term, as the case may be, so long as no Event of Default shall have occurred and be continuing as to such Leased Property, Tenant may make Capital Additions (as defined herein), or other alterations, additions, changes and/or improvements to such Leased Property as deemed necessary or useful to operate such Leased Property for Tenants Business (individually, a "Tenant Improvement," or collectively, the "Tenant Improvements"). "Capital Additions" shall mean the construction of one or more new buildings or one or more additional structures annexed to any portion of any of the Improvements on a Leased Property, which are constructed on any parcel or portion of the Land comprising a Leased Property, including the construction of a new floor, or the repair, replacement, restoration, remodeling or rebuilding of the Improvements or any portion thereof on a Leased Property which are not normal, ordinary or recurring to maintain such Leased Property. Except as otherwise agreed to by Landlord herein or otherwise in writing, any such Tenant Improvement or Capital Addition shall be made at Tenant's sole expense and shall become the property of Landlord upon termination of this Lease. Unless made on an emergency basis to prevent injury to person or property, as to each Leased Property, Tenant must obtain Landlord's prior written approval, such approval not to be unreasonably withheld or delayed, for any Capital Addition or for any Tenant Improvement which is not a Capital Addition and which has a cost of more than One Hundred Thousand Dollars ($100,000) or a cost which, when aggregated with the costs of all such Tenant Improvements on such Leased Property in a given Lease Year, would cause the total costs of all such Tenant Improvements on such Leased Property to exceed Two Hundred Fifty Thousand

Dollars ($250,000). Additionally, in connection with any Tenant Improvement, including any Capital Addition, Tenant shall provide Landlord with copies of any plans and specification therefor, Tenant's budget relating thereto, any required governmental permits or approvals, any construction contracts or agreements relating thereto, and any other information relating to such Tenant Improvement as Landlord shall reasonably request.

8.02 Scope of Right. Subject to Section 8.01 herein and Section 7.03 concerning required alterations, at Tenant's cost and expense, Tenant shall have the right to:

(a) seek any governmental approvals, including building permits, licenses, conditional use permits and any certificates of need that Tenant requires to construct any Tenant Improvement;

(b) erect upon each Leased Property such Tenant Improvements as Tenant deems desirable;

(c) make additions, alterations, changes and improvements in any Tenant Improvement so erected; and

(d) engage in any other lawful activities that Tenant determines are necessary or desirable for the development of each Leased Property in accordance with the Tenant's Business;

provided, however, Tenant shall not make any Tenant Improvement which would, in Landlord's reasonable judgment, impair the value of the Leased Property or the Tenant's Business without Landlord's prior written consent and provided, further that Tenant shall not be permitted to create a mortgage, lien or any other encumbrance on any Leased Property without Landlord's prior written consent.

8.03 Cooperation of Landlord. Landlord shall cooperate with Tenant and take such actions, including the execution and delivery to Tenant of any applications or other documents, reasonably requested by Tenant in order to obtain any governmental permits, licenses or approvals sought by Tenant to construct any Tenant Improvement within fifteen (15) business days following the later of: (a) the date Landlord receives Tenant's request or (b) the date of delivery of any such application or document to Landlord; provided, the taking of such action by Landlord, including the execution of said applications or documents, shall be without cost to Landlord (or if there is a cost to Landlord, such cost shall be reimbursed by Tenant), shall not cause Landlord to be in violation of any law, ordinance or regulation, and shall not be deemed a waiver by Landlord of any of its rights or of any of Tenant's obligations, including but not limited to indemnification.

8.04 Commencement of Construction. Tenant agrees that:

(a) Tenant shall diligently seek all governmental approvals relating to the

construction of any Tenant Improvement;

(b) Once Tenant begins the construction of any Tenant Improvement, Tenant shall diligently oversee any such construction to completion in accordance with applicable insurance requirements and the laws, rules and regulations of all governmental bodies or agencies having jurisdiction over the subject Leased Property;

(c) Landlord shall have the right at any time and from time to time to post and maintain upon each Leased Property such notices as may be necessary to protect Landlord's interest from mechanics' liens, materialmen's liens or liens of a similar nature;

(d) Tenant shall not suffer or permit any mechanics' liens or any other claims or demands arising from the work of construction of any Tenant Improvement to be enforced against any Leased Property or any part thereof and Tenant agrees to hold Landlord, its agents and employees and said Leased Property free and harmless from all demands, claims, causes of action, fines, penalties, damages (including punitive and consequential damages), losses, liabilities (including strict liability), judgments, costs and expenses (including, without limitation, attorneys' fees, court costs, and the costs set forth in Section 9.06) incurred in connection with or arising therefrom;

(e) All work shall be performed in a satisfactory and workmanlike manner consistent with standards in the industry; and

(f) Subject to Section 8.08 in the case of Capital Additions, Tenant shall not secure any construction or other financing for the Tenant Improvements which is secured by a portion of any Leased Property without Landlord's prior written consent, and any such financing (i) shall not exceed the cost of the Tenant Improvements, (ii) shall be subordinate to any mortgage or encumbrance now existing or hereinafter created with respect to such Leased Property, and (iii) shall be limited solely to Tenant's interest in the subject Leased Property.

8.05 Rights in Tenant Improvements. Notwithstanding anything to the contrary in this Lease, all Tenant Improvements existing on the Leased Property or constructed upon each Leased Property pursuant to Section 8.01, any and all subsequent additions thereto and alterations and replacements thereof shall be the sole and absolute property of Tenant during the Term and any Extension Term, as the case may be, of this Lease (in respect of such Leased Property). Upon the expiration or early termination of this Lease

in respect of a Leased Property, all such Tenant Improvements located thereon shall become the property of Landlord. Without limiting the generality of the foregoing, prior to the expiration or early termination of this Lease in respect of a Leased Property, Tenant shall be entitled to all federal and state income tax benefits associated with all Tenant Improvements located on such Leased Property.

8.06 Personal Property. Tenant shall install, place, and use on each Leased Property such fixtures, furniture, equipment, inventory and other personal property in addition to the Fixtures as may be required or as Tenant may, from time to time, deem necessary or useful to operate such Leased Property in the operation of the Business.

8.07 Requirements for the Tenant's Personal Property. Tenant shall comply with all of the following requirements in connection with the Tenant's Personal Property:

(a) The Tenant's Personal Property shall be installed in a good and workmanlike manner, in compliance with all governmental laws, ordinances, rules, and regulations and all insurance requirements, and be installed free and clear of any mechanics' liens.

(b) Tenant shall, at Tenant's sole cost and expense, maintain, repair, and replace the Tenant's Personal Property.

(c) Tenant shall, at Tenant's sole cost and expense, keep the Tenant's Personal Property insured against loss or damage by fire, vandalism and malicious mischief, sprinkler leakage, and other physical loss perils commonly covered by fire and extended coverage, boiler and machinery, and difference in conditions insurance (which insurance shall meet the requirements of Section 4.03 hereof) in an amount not less than the full replacement cost thereof or such other amount as appears on a schedule submitted by Tenant to Landlord, which schedule shall be subject to Landlord's approval, and Tenant shall use the proceeds from any such policy for the repair and replacement of such items of Tenant's Personal Property; provided, however, that if Landlord fails to object to the schedule so submitted by Tenant within five (5) business days of Landlord's receipt of such schedule, Landlord's approval of such schedule shall be deemed given.

(d) Tenant shall pay all Impositions and other taxes applicable to Tenant's Personal Property.

(e) If Tenant's Personal Property is damaged or destroyed by fire or otherwise, Tenant shall promptly repair or replace Tenant's Personal Property unless Tenant is entitled to and elects to terminate the Lease pursuant to Section 10.05.

(f) As to each Leased Property, unless an Event of Default (or any event which, with the giving of notice or lapse of time, or both, would constitute

an Event of Default) has occurred and remains uncured beyond any applicable grace period, Tenant may remove Tenant's Personal Property from such Leased Property from time to time provided that: (i) the items removed are not required or necessary to operate the Business on such Leased Property (unless such items are being replaced by Tenant) and (ii) Tenant promptly repairs any damage to such Leased Property resulting from the removal of Tenant's Personal Property.

(g) As to each Leased Property, Tenant shall remove all of Tenant's Personal Property upon the termination or expiration of the Lease and shall promptly repair any damage to such Leased Property resulting from the removal thereof to the reasonable satisfaction of Landlord; provided, however, if Tenant fails to remove Tenants Personal Property from such Leased Property within thirty (30) days after the termination or expiration of this Lease with respect thereto, then Tenant shall be deemed to have abandoned such items of Tenant's Personal Property, all of which shall become the property of Landlord, and Landlord may remove, store and dispose of such property and Tenant shall have no claim or right against Landlord for such property or the value thereof regardless of the disposition thereof by Landlord. Tenant shall pay Landlord, upon demand, all expenses incurred by Landlord in removing, storing, and disposing of such items of Tenant's Personal Property and repairing any damage caused by such removal. Tenant's obligations hereunder shall survive the termination or expiration of this Lease as to such Leased Property.

(h) Tenant shall perform its obligations under any equipment lease or security agreement for Tenant's Personal Property.

8.08 Financings of Capital Additions to a Leased Property. Landlord may, but shall be under no obligation to, provide or arrange construction; permanent or other financing for any Capital Addition proposed to be made to a Leased Property by Tenant. Any financing so provided by Landlord shall be made in accordance with, and subject to, a written Addendum to this Lease.

IX. DEFAULTS AND REMEDIES

9.01 Events of Default. The occurrence of any one or more of the following shall be an event of default ("Event of Default") hereunder:

(a) Tenant fails to pay in full any installment of Rent, or any other monetary obligation payable by Tenant to Landlord hereunder, within ten (10) days after the due date thereof and after written notice thereof and an opportunity to cure within a ten (10) day period after such notice is given to Tenant by Landlord. In the event of Tenant's failure to make timely

payment of such obligations one (1) time during any twelve (12) month period, each subsequent such failure within the twelve (12) months immediately following such failure shall immediately constitute an Event of Default, and Landlord shall not be required to provide notice thereof, nor shall Tenant have any further opportunity to cure such failure;

(b) Tenant fails to observe and perform any covenant (other than the covenant in respect of insurance set forth in Article IV), condition or agreement hereunder to be performed by Tenant (except those described in Section 9.01(a) of this Lease) and such failure continues for a period of twenty (20) days after written notice thereof is given to Tenant by Landlord;

(c) If Tenant: (i) admits in writing its inability to pay its debts generally as they become due; (ii) files a petition in bankruptcy or a petition to take advantage of any insolvency act; (iii) makes an assignment for the benefit of its creditors; (iv) is unable to pay its debts as they mature; (v) consents to the appointment of a receiver of itself or of the whole or any substantial part of its property; or (vi) files a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof;

(d) If Tenant, on insolvency proceedings or on a petition in bankruptcy filed against it, is adjudicated as bankrupt or a court of competent jurisdiction enters an order or decree appointing, without the consent of Tenant, a receiver of Tenant of the whole or substantially all of its property, or approving a petition filed against it seeking reorganization or arrangement of Tenant under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof, and such judgment, order or decree is not vacated, dismissed or set aside within sixty (60) days from the date of the entry thereof;

(e) If the estate or interest of Tenant in a Leased Property or any part thereof is levied upon or attached in any proceeding and the same is not vacated or discharged within fifteen (15) days after commencement thereof (unless Tenant is contesting such lien or attachment in accordance with this Lease) or if such estate or interest of Tenant is assigned, conveyed or involuntarily transferred in violation of this Lease;

(f) Any representation, warranty or covenant made by Tenant on behalf of itself or an Affiliate in this Lease or in any certificate, demand or request made pursuant hereto proves to be incorrect, in any material respect, as of the date of issuance or making thereof;

(g) Conviction of Tenant or an Affiliate of a crime or offense constituting a

felony in the jurisdiction in which committed or under federal law which conviction results in the termination of the franchise.

(h) Termination or relinquishment of the franchise or license pursuant to which Tenant or an Affiliate conducts business on or from any Leased Property, provided that such event shall not constitute an Event of Default if (i) no other Event of Default enumerated in this Section 9.01 shall occur and be continuing, and (ii) at a date no later than twenty-four (24) months following such date of termination or relinquishment, Tenant or an Affiliate has entered into written new or amended franchises or licenses for operation of motor vehicle retail or motor vehicle related businesses at such Leased Property satisfactory to Landlord in its discretion applying commercially reasonable standards;

(i) Default under any franchise or license pursuant to which Tenant or an Affiliate conducts business at a Leased Property, if in the Landlord's judgment such default in light of commercially reasonable standards and industry practice would have a material adverse effect on the Leased Property;

(j) A final, non-appealable judgment or judgments for the payment of money not fully covered (excluding deductibles) by insurance is rendered against Tenant and the same remains undischarged, unvacated, unbonded, unappealed or unstayed for a period of thirty (30) consecutive days;

(k) Tenant shall fail to observe the covenant in respect to insurance under Article IV provided Landlord shall have provided notice of such failure to Tenant and Tenant shall have failed to cure such failure within three (3) business days of such notice; or

(l) Except after the effective date of a permitted assignment meeting the requirements of Article XIII, if Tenant is liquidated or dissolved, or begins proceedings toward liquidation or dissolution, or in any manner permits the sale or divestiture of substantially all of its assets.

9.02 Remedies. To the extent an Event of Default is applicable only to a specific Leased Property or specific Leased Properties (in accordance with
Section 9.01 above), the remedies set forth herein shall be exercisable solely with respect to such Leased Property or Leased Properties, and shall not be exercisable with respect to any other Leased Property. To the extent an Event of Default constitutes an Event of Default as to all of the Leased Properties (in accordance with Section 9.01 above), the remedies set forth herein shall be exercisable with respect to all of the Leased Properties. Subject to the foregoing provisions, Landlord may exercise any one or more of the following remedies upon the occurrence of an Event of Default:

(a) Landlord may terminate this Lease, exclude Tenant from possession of the subject Leased Property and use reasonable efforts to lease the subject Leased Property to others. If this Lease is terminated pursuant to the provisions of this subparagraph (a) with respect to one or more, but less than all, of the Leased Properties identified on Schedule A hereto, Tenant will remain liable to Landlord for the Rent for all of the Leased Properties identified on Schedule A and other sums then due and for the balance of the Term as if the Lease had not been terminated with respect to the subject Leased Property, less the net proceeds, if any, of any re-letting of the subject Leased Property by Landlord subsequent to such termination, after deducting all Landlord's expenses in connection with such re-letting, including without limitation, the expenses set forth in Section 9.02(b)(ii) below. Notwithstanding the termination of this Lease with respect to a subject Leased Property, Tenant shall pay to Landlord all amounts due as Rent, and such other amounts then due, under this Lease on the days that such Rent and such other amounts become due and payable as required by this Lease.

(b) Without demand or notice, Landlord may re-enter and take possession of the subject Leased Property or any part thereof and repossess such Leased Property as of Landlord's former estate; and expel Tenant and those claiming through or under Tenant from such Leased Property; and, remove the effects of both or either, without being deemed guilty of any manner of trespass and without prejudice to any remedies for arrears of Rent or preceding breach of covenants or conditions. If Landlord elects to re-enter, as provided in this paragraph (b) or if Landlord takes possession of such Leased Property pursuant to legal proceedings or pursuant to any notice provided by law, Landlord may, from time to time, without terminating any portion of this Lease, re-let such Leased Property or any part of such Leased Property, either alone or in conjunction with other portions of the Improvements of which such Leased Property are a part, in Landlord's name but for the account of Tenant, for such term or terms (which may be greater or less than the period which would otherwise have constituted the balance of the Term of this Lease) and on such terms and conditions (which may include concessions of free rent, and the alteration and repair of such Leased Property) as Landlord, in its sole and unreviewable discretion, may determine. Landlord may collect and receive the Rents for such Leased Property. Landlord will not be responsible or liable for any failure to re-let such Leased Property, or any part of such Leased Property, or for any failure to collect any Rent due upon such re-letting. No such re-entry or taking possession of such Leased Property by Landlord will be construed as an election on Landlord's part to terminate this Lease unless a written notice of such intention is given to Tenant. No notice from Landlord under this Lease or under a forcible entry

and detainer statute or similar law will constitute an election by Landlord to terminate this Lease unless such notice specifically says so. Landlord reserves the right following any such re-entry or re-letting, or both, to exercise its right to terminate this Lease by giving Tenant such written notice, and, in that event such Lease will terminate as specified in such notice.

(c) If Landlord elects to take possession of a Leased Property according to subparagraph (b) of this Section 9.02 without terminating this Lease, Tenant will pay Landlord (A) the Rent and other sums which would be payable under this Lease with respect to such Leased Property if such repossession had not occurred, less (B) the net proceeds, if any, of any re-letting of such Leased Property after deducting all of Landlord's expenses incurred in connection with such re-letting, including without limitation, all repossession costs, brokerage commissions, legal expense, attorneys' fees, expense of employees, alteration, remodeling, repair costs, and expense of preparation for such re-letting. If, in connection with any re-letting, any resulting lease term for the subject Leased Property extends beyond the existing Term or Extension Term, as the case may be, or such Leased Property covered by such re-letting includes areas which are not part of such Leased Property, a fair apportionment of the Rent received from such re-letting and the expenses incurred in connection with such re-letting will be made in determining the net proceeds received from such re-letting. In addition, in determining the net proceeds from such re-letting, any rent concessions will be apportioned over the term of the new lease. Tenant will pay such amounts to Landlord monthly on the days on which the Rent and all other amounts owing under this Lease would have been payable if possession had not been retaken, and Landlord will be entitled to receive the rent and other amounts from Tenant on each such day. Notwithstanding anything herein to the contrary, Landlord, at its option, may collect and apply any Rent received from such re-letting in accordance herewith and in such case shall remit any balance thereof to Tenant. Landlord shall incur no liability or obligation to Tenant arising out of the collection or application of Rent by Landlord hereunder.

(d) Landlord may re-enter the applicable Leased Property and have, repossess and enjoy such Leased Property as if this Lease had not been made, and in such event, Tenant and its successors and assigns shall remain liable for any contingent or unliquidated obligations or sums owing at the time of such repossession.

(e) Landlord may take whatever action at law or in equity as may appear necessary or desirable to collect the Rent and other amounts payable hereunder with respect to the subject Leased Property then due

and thereafter to become due, or to enforce performance and observance of any obligations, agreements or covenants of Tenant under this Lease.

9.03 Right of Set-Off. Landlord may, and is hereby authorized by Tenant, at any time and from time to time, after advance notice to Tenant, to set-off and apply any and all sums held by Landlord in respect of a Leased Property, including all sums held in any escrow for Impositions, any indebtedness of Landlord to Tenant, and any claims by Tenant against Landlord, against any obligations of Tenant under this Lease in respect of such Leased Property and against any claims by Landlord against Tenant, whether or not Landlord has exercised any other remedies hereunder. Landlord shall set-off and apply such sums first, to delinquent real estate taxes, unless such taxes are being protested in good faith and no lien has attached to any Leased Property with respect thereto, second, to currently due and owing real estate taxes, and next, to other Tenant's-obligations in the order which Landlord may determine. The rights of Landlord under this Section are in addition to any other rights and remedies Landlord may have against Tenant.

9.04 Performance of Tenant's Covenants. Landlord may, without waiving or releasing any obligation of Tenant, and without waiving or releasing any obligation or default, perform any obligation of Tenant which Tenant has failed to perform within five (5) business days after Landlord has sent a written notice to Tenant informing it of its specific failure (provided no such notice shall be required if Landlord has previously notified Tenant of such failure under the provisions of Section 9.01). In the event Landlord deems, in its discretion, that Tenant's failure to perform such obligation has given rise to an emergency situation, Landlord may perform such obligation without waiving or releasing any obligation of Tenant, and without waiving or releasing any obligation or default; provided, however, that Landlord shall notify Tenant of such performance as soon as it is reasonably practicable to do so. Tenant shall reimburse Landlord on demand, as Additional Rent, for any expenditures thus incurred by Landlord and shall pay interest thereon at the New York Prime Rate.

9.05 Late Charge. Any payment not made by Tenant for more than five (5) business days after the due date shall be subject to a late charge payable by Tenant as Rent of four percent (4%) of the amount of such overdue payment. If any payment is not made by Tenant for more than five (5) business days after the due date for a second time during any twelve (12) month period, any overdue payments made subsequent to such second failure within the twelve months immediately following such second overdue payment shall be subject to a late charge payable by Tenant as Rent of seven percent (7%) of the amount of such overdue payment and shall constitute an Event of Default under the Lease.

9.06 Litigation: Attorneys' Fees. Within ten (10) days after Tenant has knowledge of any litigation or other proceeding related to or arising out of this Agreement or the Leased Property in which claims are asserted in an amount in excess of $50,000, that (1) may be instituted against Tenant, (2) may be instituted against any Leased Property to secure or recover possession thereof, or (3) may affect the title to or the interest of Landlord in any Leased Property, Tenant shall give written notice thereof to Landlord. In the event that Landlord

determines that Tenant has failed to give adequate cooperation or information with respect to any such litigation, investigation, receivership, administrative, bankruptcy, insolvency or other similar proceeding, Landlord may, after notice to Tenant, undertake such investigation or proceeding and Tenant shall pay all reasonable costs and expenses (the "Costs") related thereto that are incurred by Landlord, whether or not Landlord has received notice from Tenant of such investigation or proceeding, and whether or not an Event of Default has actually occurred or has been declared and thereafter cured, which Costs shall include, without limitation: (a) the fees, expenses, and costs of any litigation, investigation, receivership, administrative, bankruptcy, insolvency or other similar proceeding; (b) reasonable attorney, paralegal, consulting and witness fees and disbursements; and (c) the expenses, including, without limitation, lodging, meals, and transportation, of Landlord and its employees, agents, attorneys, and witnesses in investigating or preparing for litigation, administrative, bankruptcy, insolvency or other similar proceedings and attendance at hearings, depositions, and trials in connection therewith. Within ten (10) days of Landlord's presentation of an invoice of Costs incurred by Landlord pursuant to the preceding sentence or otherwise incurred by Landlord in enforcing or preserving Landlords rights under this Lease, whether or not an Event of Default has actually occurred or has been declared and thereafter cured, Tenant shall pay all such Costs. All such Costs as incurred shall be deemed to be Additional Rent under this Lease.

9.07 Remedies Cumulative. The remedies of Landlord herein are cumulative to and not in lieu of any other remedies available to Landlord at law or in equity. The use of, or failure to use, any one remedy shall not be taken to exclude or waive the right to use any other remedy.

9.08 Escrows and Application of Payments. As security for the performance of its obligations hereunder, Tenant hereby assigns to Landlord all its right, title and interest in and to all monies escrowed with Landlord under this Lease and all deposits with utility companies, taxing authorities, and insurance companies; provided, however, that Landlord shall not exercise its rights hereunder with respect to any Leased Property until an Event of Default has occurred in respect of such Leased Property. Any payments received by Landlord under any provisions of this Lease during the existence, or continuance of an Event of Default shall be applied to Tenant's obligations, first, to delinquent real estate taxes, unless such taxes are being protested in good faith and no lien has attached to any Leased Property with respect thereto, second, to currently due and owing real estate taxes, and next, to other Tenant's obligations in the order which Landlord may determine.

9.09 Power of Attorney. Tenant hereby irrevocably and unconditionally appoints Landlord, or Landlord's authorized officer, agent, employee or designee, as Tenant's true and lawful attorney-in-fact, to act, after an Event of Default, for Tenant in Tenant's name, place, and stead, and for Tenant's and Landlord's use and benefit, to execute, deliver and file all applications and any and all other necessary documents or things, to effect a transfer, reinstatement, renewal and/or extension of any and all licenses and other governmental authorizations issued to Tenant in connection with Tenant's operation of the Leased Properties, and to do any and all other acts incidental to any of the foregoing. Tenant irrevocably and unconditionally grants to Landlord as its attorney-in-fact full power and authority to do and

perform, after an Event of Default, every act necessary and proper to be done in the exercise of any of the foregoing powers as fully as Tenant might or could do if personally present or acting, with full power of substitution, hereby ratifying and confirming all that said attorney shall lawfully do or cause to be done by virtue hereof. This power of attorney is coupled with an interest and is irrevocable prior to the full performance of Tenant's obligations hereunder.

X. DAMAGE AND DESTRUCTION

10.01 General. Tenant shall notify Landlord if any Leased Property is damaged or destroyed by reason of fire or any other cause. Tenant shall promptly repair, rebuild, or restore such Leased Property, at Tenant's expense, so as to make such Leased Property at least equal in value to such Leased Property existing immediately prior to such occurrence and as nearly similar to it in character as is practicable and reasonable. Before beginning such repairs or rebuilding, or executing any contracts in connection with such repairs or rebuilding, Tenant will submit for Landlord's approval, which approval Landlord will not unreasonably withhold or delay, complete and detailed plans and specifications for such repairs or rebuilding. Promptly after receiving Landlord's approval of the plans and specifications, Tenant will begin such repairs or rebuilding and will prosecute the repairs and rebuilding to completion with diligence, subject, however, to strikes, lockouts, acts of God, embargoes, governmental restrictions, and other causes beyond Tenants reasonable control. Landlord will make available to Tenant the net proceeds of any fire or other casualty insurance paid to Landlord for such repair or rebuilding as the same progresses, after deduction of any costs of collection, including attorneys' fees. Payment will be made against properly certified vouchers of a competent architect in charge of the work and approved by Landlord. Prior to commencing the repairing or rebuilding, Tenant shall deliver to Landlord for Landlord's approval a schedule setting forth the estimated monthly draws for such work. Landlord will contribute to such payments out of the insurance proceeds an amount equal to the proportion that the total net amount received by Landlord from insurers bears to the total estimated cost of the rebuilding or repairing, multiplied by the payment by Tenant on account of such work. Landlord may, however, withhold ten percent (10%) from each such payment and shall disburse such amount after: (a) the work of repairing or rebuilding is completed and proof has been furnished to Landlord that no lien or liability has attached or will attach to such Leased Property or to Landlord in connection with such repairing or rebuilding and (b) Tenant has obtained a certificate of use and occupancy (or its functional equivalent) for the portion of such Leased Property being repaired or rebuilt. Upon the completion of rebuilding or repairing and the furnishing of such proof, the balance of the net proceeds of such insurance payable to Tenant on account of such repairs or rebuilding will be paid to Tenant. Tenant will obtain and deliver to Landlord a temporary or final certificate of occupancy before such Leased Property is reoccupied for any purpose. Tenant shall complete such repairs or rebuilding free and clear of mechanic's or other liens, and in accordance with the building codes and all applicable laws, ordinances, regulations, or orders of any state, municipal, or other public authority affecting the repairs or rebuilding, and also in accordance with all requirements of the insurance rating organization, or similar body. Any remaining proceeds of insurance after such restoration will be Tenant's property.

10.02 Landlord's Inspection. During the progress of such repairs or rebuilding, Landlord and its architects and engineers may, from time to time, inspect the subject Leased Property and will be furnished, if required by them, with copies of all plans, shop drawings, and specifications relating to such repairs or rebuilding. Tenant will keep all plans, shop drawings, and specifications available, and Landlord and its architects and engineers may examine them at all reasonable times. If, during such repairs or rebuilding, Landlord and its architects and engineers determine that the repairs or rebuilding are not being done in accordance with the approved plans and specifications, Landlord will give prompt notice in writing to Tenant, specifying in detail the particular deficiency, omission, or other respect in which Landlord claims such repairs or rebuilding do not accord with the approved plans and specifications. Upon the receipt of any such notice, Tenant will cause corrections to be made to any deficiencies, omissions, or such other respect. Tenant's obligations to supply insurance, according to Article IV, will be applicable to any repairs or rebuilding under this Section 10.02.

10.03 Landlord's Costs. Tenant shall, within fifteen (15) days after receipt of an invoice from Landlord, pay the reasonable costs, expenses, and fees of any architect or engineer employed by Landlord to review any plans and specifications and to supervise and approve any construction, or for any services rendered by such architect or engineer to Landlord as contemplated by any of the provisions of this Lease, or for any services performed by Landlord's attorneys in connection therewith.

10.04 Rent Abatement. In the event that the provisions of Section 10.01 above shall become applicable as to any Leased Property, and subject to the last sentence of this Section 10.04, the applicable Base Annual Rent shall be abated or reduced proportionately during any period in which, by reason of such damage or destruction, there is substantial interference with the operation of the Business of Tenant in such Leased Property, having regard to the extent to which Tenant may be required to discontinue any Business on such Leased Property, and such abatement or reduction shall continue for the period commencing with such destruction or damage and ending with the substantial completion by Tenant of such work or repair and/or reconstruction. In the event that only a portion of any Leased Property is rendered untenantable or incapable of such use, the Base Annual Rent payable hereunder in respect thereof shall be reduced proportionately considering the extent to which the Tenant is unable to practicably use the Leased Property for Business. Tenant shall use reasonably diligent efforts to make the Leased Property tenantable and capable of such use. Notwithstanding any other provision hereof, such rental abatement shall be limited to the amount of any rental or Business interruption insurance proceeds actually received by Landlord under Article IV.

10.05 Substantial Damage During Lease Term. Notwithstanding Section 10.01 and provided that Tenant has fully complied with Section 4.01 hereof (including actually maintaining in effect rental value insurance or Business interruption insurance provided for in clause (c) thereof), if, at any time during the Term or any Extension Term of this Lease, any Leased Property is damaged by fire or otherwise to such a magnitude that the improvements thereon cannot be rebuilt or repaired through diligent prosecution of such repairs and rebuilding so as to allow Tenant to conduct a substantial part of its Business (as determined by a reasonable dealer

in the trade, in light of standard trade practices) within one calendar year, then Tenant may, within thirty (30) days after such damage, give notice of its election to terminate this Lease with respect to such Leased Property and, subject to the further provisions of this Section, this Lease will cease with respect to such Leased Property on the thirtieth (30th) day after the delivery of such notice, unless Landlord disagrees with Tenant's contention as to the magnitude of the damage and the length of time necessary to repair or rebuild the Leased Property and has requested Arbitration pursuant to Article XIV during this thirty (30) day period, in which case this Lease shall continue in full force and effect unless and until the Arbitration proceeding shall result in a final award upholding the Tenant's position. If the Lease is terminated pursuant to Tenant's election under this Section 10.05, (a) Tenant will have no obligation to repair, rebuild or replace such Leased Property, and the entire insurance proceeds will belong to Landlord, and (b) Tenant will pay (or cause to be paid) to Landlord, an amount equal to the difference between the book value of the damaged property as shown in Landlord's financial statements as of the date of such termination and the amount of the insurance proceeds received by Landlord. If the Lease is not terminated pursuant to this Section 10.05, Tenant shall rebuild such Leased Property in accordance with Section 10.01.

10.06 Damage Near End of Term. Notwithstanding any provisions of Sections 10.01 or 10.05 to the contrary, if damage to or destruction of any Leased Property occurs during the last twelve (12) months of the Term, and if such damage or destruction renders the Leased Property completely destroyed or partially destroyed, either party shall have the right to terminate this Lease as to such Leased Property by giving notice to the other within ten (10) days after the date of damage or destruction, in which event Landlord shall be entitled to retain the insurance proceeds and Tenant shall pay to Landlord on demand the amount of any deductible or uninsured loss arising in connection therewith; provided, however, that any such notice given by Landlord shall be void and of no force and effect if Tenant exercises an available option for an Extension Term with respect to such Leased Property pursuant to provisions of this Lease within ten (10) business days following receipt of such termination notice.

10.07 Risk of Loss. Notwithstanding anything herein to the contrary, during the Term or any Extension Term, as the case may be, the risk of loss of or decrease in the enjoyment and beneficial use of the Leased Properties in consequence of the damage or destruction thereof by fire, the elements, casualties, thefts, riots, wars or otherwise is assumed by Tenant, and Landlord shall in no event be answerable or accountable therefor except in the case of gross negligence, willful misconduct or breach of this Lease by Landlord resulting in such damage or destruction. In addition, all risk of loss or decrease in enjoyment and beneficial use in consequence of foreclosures, attachments, levies or executions is assumed by Tenant except for foreclosure due to Landlord's indebtedness.

XI. CONDEMNATION

11.01 Total Taking. If at any time during the Term or any Extension Term, as the case may be, any Leased Property is totally and permanently taken by right of eminent domain or by conveyance made in response to the threat of the exercise of such right ("Condemnation"), this Lease

shall terminate as to such Leased Property on the Date of Taking (which shall mean the date the condemning authority has the right to possession of the property being condemned), and Tenant shall promptly pay all outstanding applicable Rent and other charges through the date of termination, provided, however, this Lease shall not so terminate if the Condemnation occurred due to the failure of Tenant to maintain such Leased Property as required by Article VII hereof or other applicable provisions hereof; whether or not such failure on the part of Tenant constituted an Event of Default hereunder at the time of the Condemnation.

11.02 Partial Taking. If a portion of a Leased Property is taken by Condemnation, this Lease shall remain in effect as to such Leased Property if such Leased Property is not thereby rendered Unsuitable for the continuation of Tenant's Business on that Leased Property (which shall mean that such Leased Property is in such a state or condition such that in the good faith judgment of Tenant, reasonably exercised, it cannot be used on a commercially practicable basis in the operation of the Business), but if such Leased Property is thereby rendered Unsuitable for the continuation of Tenant's Business on that Leased Property, this Lease shall terminate as to such Leased Property on the Date of Taking, provided such Condemnation was not as a result of Tenant's failure to maintain such Leased Property as provided for in Section 11.01.

11.03 Restoration. If there is a partial taking of any Leased Property and this Lease remains in full force and effect pursuant to Section 11.02, Landlord shall retain the amount of any Landlord Award (as hereafter defined) received by Landlord, Landlord shall apply such Landlord Award to accomplish all necessary restoration to the Leased Property, and any excess after such application shall be retained by Landlord. If there is a partial taking of any Leased Property and this Lease remains in full force and effect pursuant to Section 11.02, Tenant shall retain the amount of any Tenant Award (as hereafter defined) received by Tenant, Tenant shall apply such Tenant Award to accomplish all necessary restoration of Tenant's property, and any excess after such application shall be retained by Tenant. Notwithstanding anything in this Section to the contrary, in the event that there is a partial taking of any Leased Property and this Lease remains in full force and effect pursuant to Section 11.02, and there is a single Award with respect to such partial taking, then the Landlord and Tenant shall use their good faith efforts to determine the proper apportionment of such Award (as hereafter defined) to restoration of Landlord's and Tenant's respective properties. In the event that the parties are unable to agree on such apportionment within thirty (30) days, the parties shall submit to arbitration of an apportionment subject to the arbitration provisions set forth in Article XIV.

11.04 Landlord's Inspection. During the progress of such restoration, Landlord and its architects and engineers may, from time to time, inspect the subject Leased Property and will be furnished, if required by them, with copies of all plans, shop drawings, and specifications relating to such restoration. Tenant will keep all plans, shop drawings, and specifications available, and Landlord and its architects and engineers may examine them at all reasonable times. If, during such restoration, Landlord and its architects and engineers determine that the restoration is not being done in accordance with the approved plans and specifications, Landlord will give prompt notice in writing to Tenant, specifying in detail the particular deficiency, omission, or other respect in which Landlord claims such restoration does not accord with the

approved plans and specifications. Upon the receipt of any such notice, Tenant will cause corrections to be made to any deficiencies, omissions, or such other respect. Tenant's obligations to supply insurance, according to Article IV, will be applicable to any restoration under this Section.

11.05 Award Distribution. The entire compensation, sums or anything of value awarded, paid or received on a total or partial Condemnation of a Leased Property that is awarded to Landlord shall belong to Landlord (the "Landlord Award"). The entire compensation, sums or anything of value awarded, paid or received on a total or partial Condemnation of a Leased Property that is awarded to Tenant shall belong to Tenant (the "Tenant Award", collectively with the Landlord Award, the "Awards", and each, individually, an "Award"). Notwithstanding anything in this Section to the contrary, in the event that there is a total or partial Condemnation of a Leased Property and there is a single Award with respect to such Condemnation, then the Landlord and Tenant shall use their good faith efforts to determine the proper apportionment of such Award to Landlord's and Tenant's respective properties. In the event that the parties are unable to agree on such apportionment within thirty (30) days, the parties shall submit to arbitration of an apportionment subject to the arbitration provisions set forth in Article XIV.

11.06 Temporary Taking. The taking of any Leased Property, or any part thereof; by military or other public authority shall constitute a taking by Condemnation only when the use and occupancy by the taking authority has continued for longer than twenty four (24) months. During any such twenty-four
(24) month period, which shall be a temporary taking, all the provisions of this Lease shall remain in full force and effect as to such Leased Property with no abatement of rent payable by Tenant hereunder. In the event of any such temporary taking, the entire amount of any such Award made for such temporary taking allocable to the Term hereof, whether paid by way of damages, Rent or otherwise, shall be paid to Tenant.

XII. ADDITIONAL REPRESENTATIONS. WARRANTIES AND FINANCIAL COVENANTS

Tenant hereby represents, warrants and covenants to Landlord as follows:

12.01 Organization and Qualification.

(a) Tenant is duly organized, validly existing and in good standing under the laws of its state of incorporation or organization, with all power and authority, corporate or otherwise, necessary to: (i) enter into and perform this Lease and (ii) own and lease its assets and properties, and conduct its Business, as it is now being conducted or proposed to be conducted. Tenant is duly qualified as a foreign corporation or other entity, as the case may be, to conduct its Business and own and lease its assets and properties, and is in good standing, in each jurisdiction where the character of its assets and properties owned or held under lease or the nature of its Business makes such qualification necessary or advisable,

and is duly qualified and licensed under all laws, regulations, ordinances or orders of public or governmental authorities, or otherwise to carry on its Business and own or lease its assets and properties in the places and in the manner in which they are owned, leased or conducted or proposed to be owned, leased or conducted, except where the failure to be so organized, qualified and in good standing or to have such authority, qualification or licensing could not result in a Material Adverse Change. Complete and correct copies of Tenant's Charter, as in effect on the date hereof; and Tenant's by-laws, also as in effect on the date hereof; have been delivered to Landlord.

(b) Each Affiliate that conducts operations or business on or from any Leased Property, whether now or at any time in the future, is duly organized, validly existing and in good standing under the laws of its organization, with all power and authority, corporate or otherwise, necessary to own and lease its assets and properties, and conduct its business, as it is now being conducted or proposed to be conducted. Each Affiliate is duly qualified as a foreign corporation or other entity, as the case may be, to do business and own and lease its assets and properties, and is in good standing, in each jurisdiction where the character of its assets and properties owned or held under lease or the nature of its activities or business makes such qualification necessary or advisable, and is duly qualified and licensed under all laws, regulations, ordinances or orders or public or governmental authorities or otherwise to carry on its business and own or lease its assets and properties in the places and in the manner in which they are owned, leased or is conducted or proposed to be owned, leased or conducted, except where the failure to be so organized, qualified and in good standing or to have such authority, qualification or licensing could not result in a Material Adverse Change.

"Material Adverse Change" since a particular specified date, or a date which may be specified from the circumstances existing immediately prior to the happening of a specified event or occurrence, or, if no date or event is specified, with reference to the most recent Annual Financial Statements delivered pursuant to this Lease, means a material adverse change in the Business, assets, properties, franchises, financial condition or income of Tenant or the operations, business, assets, properties, franchises, financial condition, income or prospects of any Affiliate, whether or not such event or occurrence is an Event of Default.

"Affiliate" means with respect to any Person, (i) any Person that holds direct or indirect beneficial ownership (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of voting securities or other voting interests representing at least five percent (5%) of the outstanding voting power of a Person or equity securities or other equity interests representing at least five percent (5%) of the outstanding equity securities or interests in a Person, or (ii) any Person that directly, or indirectly through one or more intermediaries,

controls, or is controlled by, or is under common control with such Person.

A "Person" shall mean and include natural persons, corporations, limited partnerships, general partnerships, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts, Indian tribes or other organizations, whether or not legal entities, and governments and agencies and political subdivisions thereof.

12.02 Material Agreements. Schedule 12.02 is a complete list of all agreements to which Tenant is a party that are material to the ownership and use of the Leased Property or the operation of Tenant's Business, and Tenant has delivered to Landlord a copy of each of these agreements (including all exhibits, schedules and amendments thereto).

12.03 Changes in Condition. Since the date of the latest Annual Financial Statements, no Material Adverse Change has occurred between such date and the date hereof; and neither Tenant nor any Affiliate has entered into any material transaction outside the ordinary course of its or their operations or business, including the Business, except as set forth in Schedule 12.03 and the matters contemplated by this Lease.

12.04 Franchises. Licenses. etc. Tenant and its subsidiaries own, or have sufficient interests in, all franchises, trademarks, trademark rights, trade names, trade name rights, copyrights, licenses, permits, authorizations and other rights as are necessary for the conduct of Tenant's Business and its subsidiaries' businesses as now conducted or proposed to be conducted by Tenant or any Affiliate, as well as rights under any agreement under which Tenant or its subsidiaries has access to confidential information used by Tenant or its subsidiaries in Tenants' Business or the businesses of its subsidiaries, as the case may be (collectively, the "Intellectual Property"). All Intellectual Property is in full force and effect in all material respects, and Tenant and its subsidiaries are in substantial compliance with the foregoing without any conflict with the valid rights of others, which has resulted, or could be reasonably likely to result in any Material Adverse Change. Neither Tenant nor any Affiliate has violated, or received any communication that by conducting its Business or any Affiliate's businesses, it or any Affiliate would violate any franchises, licenses, patents, trademarks, service marks, trade names, copyrights, trade secrets, proprietary rights or processes of any other Person (as hereafter defined) nor is Tenant or any Affiliate aware of any such violations. No event has occurred which permits, or after notice or lapse of time or both would permit, the revocation or termination of any such license, franchise or other right or affect the rights of Tenant or any Affiliate so as to result in or reasonably be likely to result in any Material Adverse Change. There is no litigation or other proceeding or dispute or, to the knowledge of Tenant or any Affiliate, threat thereof with respect to the validity or, where applicable, the extension or renewal, of any of the foregoing which has resulted, or could result, in any Material Adverse Change.

12.05 Litigation. No litigation, at law or in equity, or any proceeding before any court, board or other governmental or administrative agency or any arbitrator or other forum of alternative dispute resolution is pending or, to the knowledge of Tenant or any Affiliate, threatened which involves any risk of any final judgment, order or liability which, after giving

effect to any applicable insurance, has resulted, or could result, in any Material Adverse Change or which seeks to enjoin the execution and consummation of this Lease and the performance of Tenant's obligations hereunder. No judgment, decree or order of any court, board or other governmental or administrative agency or any arbitrator has been issued against or binds Tenant or any Affiliate, which has resulted, or could result, in any Material Adverse Change.

12.06 Authorization and Enforceability. Tenant has taken all corporate or other action required to execute, deliver and perform this Lease. This Lease constitutes the legal, valid and binding obligation of Tenant and is enforceable against Tenant in accordance with its terms.

12.07 No Legal Obstacle to Lease. Neither the execution and delivery of this Lease nor the performance of any obligation hereunder has constituted or resulted in or will constitute or result in:

(a) any breach, violation of; conflict with, default under or termination of any agreement, contract, mortgage, instrument, deed or lease to which Tenant or any Affiliate is a party or by which it or they are bound;

(b) the violation of or conflict with any law, statute, ordinance, judgment, decree, order, rule or regulation applicable to Tenant, any Affiliate, any Improvements or any Leased Property; or

(c) any violation of or conflict with Tenant's or any Affiliate's Charter or By-Laws or other organizational documents, as the case may be.

No approval, authorization or other action by, or declaration to or filing with, any governmental or administrative authority or any other Person is required to be obtained or made by Tenant in connection with the execution, delivery and performance of this Lease.

12.08 Certain Business Representations:

(a) Labor Relations. No dispute or controversy between Tenant or any Affiliate and its or their employees has resulted in, or is reasonably likely to result in, any Material Adverse Change, and neither Tenant nor any Affiliate anticipates that its relationships with its unions or employees will result, or are reasonably likely to result, in any Material Adverse Change. Tenant and each Affiliate is in compliance in all material respects with all federal and state laws relating to employees and labor relations, including, but not limited to, laws relating to health and safety in the workplace, non-discrimination in employment and the payment of wages.

(b) Antitrust. Tenant and each Affiliate is in compliance in all material respects with all federal and state antitrust laws relating to Tenant's Business and the subsidiaries' businesses and the geographic

concentration thereof.

(c) Consumer Protection. Neither Tenant nor any Affiliate is in violation of any rule, regulation, order, or interpretation of any rule, regulation or order of the Federal Trade Commission (including truth-in-lending) or other federal, state or local public or governmental authority or agency, with which the failure to comply, in the aggregate, has resulted in, could result in, a Material Adverse Change.

(d) Future Expenditures. Neither Tenant nor any Affiliate, anticipates that further expenditures, if any, by Tenant or any Affiliate needed to meet the provisions of any federal, state or foreign governmental statutes, orders, rules or regulation could result in any Material Adverse Change. 20 (e)Benefit Liabilities. Neither Tenant nor any ERISA Affiliate maintains, contributes to, or is obligated to contribute to, nor has Tenant or any ERISA Affiliate maintained, contributed to, been obligated to contribute to, or had any direct, indirect, or contingent liability with respect to, any Title IV Plan (as hereafter defined). Each Tenant Benefit Plan has been maintained in compliance with its terms and with applicable laws (including specifically the Code and the Employee Retirement Income Security Act of 1974 ("ERISA"). "Tenant Benefit Plan" means any plan, find, or other similar program described in Section 3(2) of ERISA and established or maintained or with respect to which Tenant and/or any ERISA Affiliate has an obligation to contribute for the benefit of its employees (or for which Tenant could be directly or contingently liable). "Title IV Plan" means an "employee benefit plan" (as defined in Section 3(3) of ERISA) that is subject to Title IV of ERISA and is or has been established or maintained, by Tenant or any ERISA Affiliate, or to which contributions are, have been, or should have been made. "ERISA Affiliate" means any trade or business, whether or not incorporated, that, together with Tenant, is or has been under common control, within the meaning of Section 414(b), (c), (m) or (o) of the Code or Section 4001 of ERISA.

12.09 Certain Financial Covenants. Tenant or an Affiliate, as applicable, is in compliance in all material respects with all financial covenants required to be maintained pursuant to any franchise or other agreement pursuant to which Tenant or such Affiliate operates its business, except in such respects as shall not result in any franchisor under any franchise or operating agreement to which Tenant is a party taking any action that could result in a Material Adverse Change.

12.10 Cash Flow Coverage Ratio Covenant. On the date of this Lease and measured at a date that is twelve (12) months following such date (each a "Cash Flow Measurement Date"), and on each anniversary date that is twelve (12) months following a prior Cash Flow

Measurement Date, Guarantor and Tenant collectively shall have maintained a Cash Flow Coverage Ratio of not less than 1.5 to 1.0 based on the Annual Financial Statements to be delivered to Landlord in accordance with Section 6.04 hereof. "Cash Flow Coverage Ratio" means the aggregate of net income before taxes plus mortgage interest, rent expense, depreciation, compensation of principals of the Business, management fees plus the annual LIFO adjustment and other non-cash expenses, less recurring capital expenditures and gain (loss) on sale of real estate, dividends and/or profits taken out of Tenant and Guarantor divided by the aggregate of the Tenant's and Guarantor's obligations under this Lease. Notwithstanding anything herein to the contrary, in the event that Tenant and Guarantor shall not be in compliance with this covenant at a Cash Flow Measurement Date or Tenant and Guarantor shall have knowledge of such non-compliance prior to any Cash Flow Measurement Date, Tenant and Guarantor shall have the right to cure such breach through any reasonable commercial means, including, but not limited to, providing guarantees acceptable to Landlord, increasing capital, or cross collateralizing with any other property of Tenant or Guarantor or an Affiliate of either party, provided that such breach is cured within one hundred and eighty (180) days after Notice by Landlord to Tenant of the existence of such breach.

12.11 Disclosure. This Lease does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make any statement contained herein not misleading in light of the circumstances under which it was made. To Tenant's knowledge, there is no event, fact or occurrence that has resulted, or in the future (so far as Tenant can reasonably foresee) could result, in any Material Adverse Change, except to the extent that present or future general and sector-specific economic conditions may result in a Material Adverse Change.

12.12 Covenant Not to Acquire. Tenant covenants and agrees that during the Term and any Extension Term, as the case may be, Tenant and its controlling shareholders or its or their Affiliates will not acquire, directly or indirectly, more that 9.90% of the outstanding common shares of beneficial interest of Capital Automotive REIT. Tenant covenants and agrees that it will divest itself of such shares of Capital Automotive REIT as may be necessary to satisfy the limitations of this Section 12.12.

XIII. ASSIGNMENT AND SUBLE'FVNG: ATTORNMENT

13.01 Prohibition Against Subletting and Assignment.

(a) Subject to Section 13.03, Tenant shall not, without the prior written consent of Landlord, or upon compliance with any conditions established by Landlord, in its sole discretion, assign, mortgage, pledge, hypothecate, encumber or otherwise transfer (except to an Affiliate) this Lease or any interest herein, or all or any part of any Leased Property, or suffer or permit this Lease or the leasehold estate created hereby or any other rights arising hereunder to be assigned, transferred, mortgaged, pledged, hypothecated or encumbered, in whole or in part, whether voluntarily, involuntarily or by operation of law. For purposes of this Section 13.01,

an assignment of this Lease shall be deemed to include any Change of Control of Tenant, as if such Change of Control were an assignment of the Lease. In the event that (i) Landlord shall withhold any consent to any assignment or transfer of this Lease or any interest herein, and (ii) such assignee or transferee is approved by the relevant manufacturer for continuation as a franchisee, there shall be a presumption that such assignment or transfer was reasonable and Landlord shall have the burden of rebutting such presumption and of proving that such consent was in fact reasonably withheld (or that such conditions were reasonable). No assignment shall in any way impair the continuing primary liability of the assigning Tenant hereunder for a period of two years after the effective date of such assignment. Notwithstanding the foregoing, to the extent that any such assignment from Tenant is to a Person that (i) engages in the Business and (ii) at the time of such assignment is a lessee under any lease agreement with Landlord that is similar to this Lease (a "Company Lessee"), and such Company Lessee is not in a state of material default of any such lease agreement and satisfies the Cash Flow Coverage Ratio provided in Section 12.10 above, the assigning Tenant shall be released from continuing primary liability hereunder as of the effective date of such assignment.

(b) The parties hereto agree that Tenant may enter into sublease agreements with Roundtree Chevrolet, Inc. and Roundtree Lincoln-Mercury, Inc. without the prior written consent of Landlord, provided that the terms of such subleases are commercially reasonable and made available to Landlord prior to execution of such subleases for the Landlord's review and comment.

(c) Tenant shall pay any and all costs incurred by Landlord in connection with any requested consent by Tenant to assign or transfer any portion of the Leased Property and any and all costs incurred by Landlord in connection with any resulting assignment or transfer or any portion of the Leased Property by Tenant.

13.02 Changes of Control. A Change of Control requiring the consent of Landlord shall mean:

(a) the issuance and/or sale by Tenant or the sale by any shareholder or equity holder of Tenant of a Controlling (which shall mean, as applied to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise) interest in Tenant to a Person other than an Affiliate of Tenant, other than in either case a distribution to the public pursuant to an

effective registration statement under the Securities Act of 1933, as amended (a "Registered Offering");

(b) the sale, conveyance or other transfer of all or substantially all of the assets of Tenant (whether by operation of law or otherwise) provided, however, that no Change of Control shall be deemed to have occurred in the event of the transfer of assets as a result of the death of a person involved in the Business, so long as the transferee is approved by the manufacturer for the continuation of the Business; or

(c) any transaction pursuant to which Tenant is merged with or consolidated into another entity (other than an entity owned and Controlled by an Affiliate), and Tenant is not the surviving entity.

13.03 Operating/Service Agreements.

(a) Permitted Agreements. Tenant shall, without Landlord's prior approval, be permitted to enter into such operating/service agreements for portions of each Leased Property to various licensees in connection with Tenant's Business as are customarily associated with or incidental to the operation of such Leased Property, which agreements may be in the nature of a sublease agreement.

(b) Terms of Agreements. Each operating/service agreement concerning a Leased Property shall be subject and subordinate to the provisions hereof No agreement made as permitted by Section 13.03(a) shall affect or reduce any of the obligations of Tenant hereunder, and all such obligations shall continue in full force and effect as if no agreement had been made. No agreement shall impose any additional obligations on Landlord hereunder.

(c) Copies. Tenant shall, within ten (10) days after the execution and delivery of any operating/service agreement permitted by Section 13.03(a), deliver a duplicate original thereof to Landlord.

(d) Assignment of Rights in Agreements. As security for performance of its obligations hereunder, Tenant hereby grants, conveys and assigns to Landlord all right, title and interest of Tenant in and to all operating/service agreements now in existence or hereinafter entered into for each Leased Property, and all extensions, modifications and renewals thereof and all rents, issues and profits therefrom, to the extent the same are assignable by Tenant. Landlord hereby grants to Tenant a license to collect and enjoy all rents and other sums of money payable under any such agreement; provided, however, that Landlord shall have the absolute right at any time after the occurrence and continuance of an Event of

Default upon notice to Tenant and any vendors or licensees to revoke said license and to collect such rents and sums of money and to retain the same. Tenant shall not (i) after the occurrence and continuance of an Event of Default, consent to, cause, or allow, any material modification or alteration of any of the terms, conditions or covenants of any of the agreements or the termination thereof, without the prior written approval of Landlord nor (ii) accept any rents (other than customary security deposits) more than thirty (30) days in advance of the accrual thereof nor permit anything to be done, the doing of which, nor omit or refrain from doing anything, the omission of which, will or could be a breach of or default in the terms of any of the agreements.

(e) Licenses. Etc. For purposes of Section 13.03, the operating/service agreements shall mean any licenses, concession arrangements, or other arrangements relating to the possession or use of all or any part of any Leased Property.

13.04 Assignment. If Landlord shall withhold its consent to any assignment or if Landlord shall have established conditions to approval of any assignment but such conditions shall not have been complied with, to the satisfaction of Landlord, such assignment shall not in any way impair the continuing primary liability of Tenant hereunder. No consent to any assignment in a particular instance shall be deemed to be a general waiver of the prohibition set forth in Article XIII. Any assignment shall be solely of Tenant's entire interest in this Lease with respect to the subject Leased Property or Leased Properties and shall not relieve Tenant of its obligations hereunder. Any assignment or other transfer of all or any portion of Tenant's interest in this Lease in contravention of Article XIII shall be voidable at Landlord's option.

13.05 REIT Limitations.

(a) Anything contained herein to the contrary notwithstanding, Tenant shall not: (a) sublet or assign a Leased Property or this Lease on any basis such that the rental or other amounts to be paid by the sublessee or assignee thereunder would be based, in whole or in part, on the income or profits derived by the business activities of the sublessee or assignee; (b) sublet or assign a Leased Property or this Lease to any Person that, under Section 856(d)(2)(B) of the Internal Revenue Code of 1986, as amended (the "Code"), Landlord or its general partner owns, directly or indirectly (by applying constructive ownership rules set forth in
Section 856(d) (5) of the Code, a ten percent (10%) or greater interest; or (c) sublet or assign a Leased Property or this Lease in any other manner or otherwise derive any income which could cause any portion of the amounts received by Landlord pursuant hereto or any sublease to fail to qualify as "rents from real property" within the meaning of Section 856(d) of the Code, or which could cause any other income received by Landlord to fail to qualify as

income described in Section 856(c) (2) of the Code. The requirements of this Section 13.05 shall likewise apply to any further subleasing by any subtenant.

(b) Tenant acknowledges that Capital Automotive REIT, a Maryland real estate investment trust and the general partner of Landlord (the "Company"), intends to elect to be taxed as a real estate investment trust (a "REIT") under the Code. Tenant shall not do anything which would adversely affect the Company's status as a REIT. Tenant hereby agrees to modifications of this Lease which do not materially adversely affect Tenant's rights and liabilities if such modifications are required to retain or clarify the Company's status as a REIT.

13.06 Attornment. Tenant shall insert in each sublease permitted under
Section 13.03(a) provisions to the effect that: (a) such sublease is subject and subordinate to all of the terms and provisions of this Lease and to the rights of Landlord hereunder; (b) in the event this Lease shall terminate before the expiration of such sublease, the sublessee thereunder will, at Landlords' option, attorn to Landlord and waive any right the sublessee may have to terminate the sublease or to surrender possession thereunder, as a result of the termination hereof; and (c) in the event the sublessee receives a written notice from Landlord or Landlord's assignees, if any, stating that Tenant is in default under this Lease, the sublessee shall thereafter be obligated to pay all rentals accruing under said sublease directly to the party giving such notice, or as such party may direct. All rentals received from the sublessee by Landlord or Landlord's assignees in respect of a Leased Property, if any, as the case may be, shall be credit against the amounts owing by Tenant hereunder with respect to such Leased Property.

XIV. ARBITRATION

14.01 Controversies. Except with respect to the payment of Rent hereunder, which shall be subject to the provisions of Section 9.02, in the event a controversy arises between the parties as to any of the requirements of this Lease or the performance hereunder, which the parties are unable to resolve, the parties agree to waive the remedy of litigation (except for extraordinary relief in an emergency situation)and agree that such controversy or controversies shall be determined by arbitration as hereafter provided in this Article.

14.02 Appointment of Arbitrators. The party or parties requesting arbitration shall serve upon the other a demand therefor, in writing, specifying in detail the controversy and matter(s) to be submitted to arbitration before the American Arbitration Association. The selection of arbitrators shall be conducted pursuant to the rules for resolution of commercial disputes promulgated by the American Arbitration Association. The party or parties giving notice shall request a listing of available arbitrators from the American Arbitration Association, and each party shall respond in the selection process within fifteen (15) days after each receipt of such listings until a panel of three (3) arbitrators has been designated. If either party fails to respond within fifteen (15) days, it is agreed that the American Arbitration Association may make such

selections as are necessary to complete the panel of three (3) arbitrators.

14.03 Arbitration Procedure. Within five (5) business days after the selection of the arbitration panel, the arbitrators shall give written notice to each party as to the time and the place of each meeting, which shall be held in Washington, D.C., at which the parties may appear and be heard, which shall be no later than fifteen (15) days after certification of the arbitration panel. The parties specifically waive discovery, and further waive the applicability of rules of evidence or rules of procedure in the proceedings. The applicable rules shall be those in effect at the time for the resolution of commercial disputes promulgated by the American Arbitration Association. The arbitrators shall take such testimony and make such examination and investigations as the arbitrators reasonably deem necessary. The decision of the arbitrators shall be in writing signed by a majority of the panel which decision shall be final and binding upon the parties to the controversy. Provided, however, in rendering their decisions and making awards, the arbitrators shall not add to, subtract from or otherwise modify the provisions of this Lease.

14.04 Expenses. The expenses of the arbitration shall be assessed by the arbitrators and specified in the written decision. In the absence of a determination or assessment of expenses of the arbitration procedure in the award, all of the expenses of such arbitration shall be divided equally between Landlord and Tenant. Each party in interest shall be responsible for and pay the fees, costs and expenses of its own counsel, unless the arbitration award provides for an assessment of reasonable attorneys' fees and costs.

14.05 Enforcement of the Arbitration Award. There shall be no appeal from the decision of the arbitrators, and upon the rendering of an award, any party thereto may file the arbitrators decision in the United States District Court for the Eastern District of Virginia for enforcement as provided by applicable law.

XV. QUIET ENJOYMENT. SUBORDINATION. ATTORNMENT. ESTOPPEL CERTIFICATES

15.01 Quiet Enjoyment. So long as Tenant performs all of its obligations under this Lease, Tenant's possession of the Leased Properties will not be disturbed by or through Landlord.

15.02 Landlord Mortgages: Subordination. Subject to Section 15.03, without the consent of Tenant, Landlord may, from time to time, directly or indirectly, create or otherwise cause to exist any liens, encumbrances, security interests or title retention agreements on any Leased Property, or any portion thereof or any interest therein, whether to secure any borrowing or other means of financing or refinancing. Tenant shall execute, acknowledge and deliver to Landlord, at any time and from time to time upon demand by Landlord or any mortgagee or any holder of any mortgage or other instrument described in this Section, without cost to Landlord, a Subordination and Non-Disturbance Agreement in the form attached hereto as Exhibit 15.02. which provides that (i) Tenant's rights hereunder are subordinate to any ground lease or underlying lease, first mortgage, first deed of trust, or other first lien against any Leased Property, together with any

renewal, consolidation, extension, modification, or replacement thereof, which now or at any subsequent time affects any Leased Property or any interest of Landlord in any Leased Property, except to the extent that any such instrument expressly provides that this Lease is superior; and (ii) in the event such party succeeds to Landlord's interest under the Lease and provided that no Event of Default by Tenant exists, such party will not disturb Tenant's possession, use or occupancy of the subject Leased Property. If Tenant fails or refuses to execute, acknowledge and deliver such Subordination and Non-Disturbance Agreement within ten (10) days after such second written demand, then Landlord or such successor in interest may execute, acknowledge and deliver such Subordination and Non- Disturbance Agreement on behalf of Tenant as Tenant's attorney-in-fact. Tenant hereby constitutes and irrevocably appoints Landlord, its successors and assigns, as Tenant's attorney-in-fact to execute, acknowledge, and deliver on behalf of Tenant the Subordination and Non-Disturbance Agreement. This power of attorney is coupled with an interest and is irrevocable.

15.03 Attornment. If any holder of any mortgage, indenture, deed of trust, or other similar instrument described in Section 15.02 succeeds to Landlord's interest in any Leased Property, Tenant will pay to such holder all Rent subsequently payable hereunder as to such Leased Property. Tenant shall, upon request of anyone succeeding to the interest of Landlord, automatically become the tenant of, and attorn to, such successor in interest without changing this Lease. The successor in interest will not be bound by: (a) any payment of Rent for more than one (1) month in advance; (b) any amendment or modification hereof made without its written consent; (c) any claim against Landlord arising prior to the date on which the successor succeeded to Landlord's interest; or (d) any claim or offset of Rent against Landlord.

15.04 Estoppel Certificates. At the request of Landlord or any mortgagee or purchaser of a Leased Property, Tenant shall execute, acknowledge, and deliver an estoppel certificate substantially in the form attached hereto as Exhibit
15.04. in favor of Landlord or any mortgagee or purchaser of any Leased Property certifying the following as to such Leased Property: (a) that this Lease is unmodified and in full force and effect, or if there have been modifications that the same is in full force and effect as modified and stating the modifications; (b) the date to which Rent and other charges have been paid; (c) that neither Tenant nor Landlord is in default nor is there any fact or condition which, with notice or lapse of time, or both, would constitute a default, if that be the case, or specifying any existing default; (d) that Tenant has accepted and occupies such Leased Property; (e) that Tenant has no defenses, set-offs, deductions, credits, or counterclaims against Landlord, if that be the case, or specifying such that exist; (f) that Landlord has no outstanding construction or repair obligations; and (g) such other information as may reasonably be requested by Landlord or any mortgagee or purchaser. Any purchaser or mortgagee may rely on this estoppel certificate. If Tenant fails to deliver the estoppel certificates to Landlord within ten (10) days after such request by Landlord, then Tenant shall be deemed to have certified that: (a) this Lease is in full force and effect and has not been modified, or that this Lease has been modified as set forth in the certificate delivered to Tenant; (b) Tenant has not prepaid any Rent or other charges except for the current month;
(c) Tenant has accepted and occupies such Leased Property; (d) neither Tenant nor Landlord is in default nor is there any fact or condition which, with notice or lapse of time, or both, would constitute a default; (e) Landlord

has no outstanding construction or repair obligation; and (f) Tenant has no defenses, set-offs, deductions, credits, or counterclaims against Landlord. Tenant hereby irrevocably appoints Landlord as Tenant's attorney-in-fact to execute, acknowledge and deliver on Tenant's behalf any estoppel certificate which Tenant does not object to within ten (10) days after Landlord sends the certificate to Tenant. This power of attorney is coupled with an 1 interest and is irrevocable.

15.05 Waiver of Landlord's Lien. Landlord agrees to and does hereby waive its Landlord's lien and any other rights that it may have with respect to property or assets representing the security or collateral under Tenant's "floor-plan" or similar financing arrangements, during the Term or any Extension Term. Landlord shall, upon request by any such lender, execute an acknowledgment of such waiver.

XVI. APPRAISAL METHOD

16.01 Appraisal Method. When an appraisal is required under this Lease, the Appraised Value of the Leased Property shall be determined by (1) an independent appraiser, who is a member of the Appraisal Institute, and will be selected by Landlord, (the "Landlord MAI Appraiser"), (2) a second appraiser, who is a member of the Appraisal Institute, and will be selected by the Tenant (the "Tenant MAI Appraiser"), and (3) a third MAI Appraiser selected by agreement of the Landlord MAI Appraiser and the Tenant MAI Appraiser (the "Third MAI Appraiser") (each an "Appraiser" and, collectively, the "Appraisers"). Landlord and Tenant shall, as promptly as possible, but in no event later than ten (10) days following the date an appraisal is required, select its respective Appraiser. The Third MM Appraiser shall be selected no later than five (5) days after the selection of the other Appraisers. The costs of the Appraisers' appraisals shall be shared equally by the parties. As promptly as possible but in no event later than fifteen (15) days after selection of the Third Appraiser, each Appraiser shall deliver his or her written report of the Appraisers' determination of the fair market value of the Leased Property, which determination shall be based, for each Leased Property, upon the highest and best use of such Leased Property, taking into consideration the location of such Leased Property and other properties comparable thereto. The "Appraised Value" of the Real Property shall be equal to the arithmetic mean of the two (2) fair market value determinations of the Appraisers that are closest in value. In the event that the values of (i) the difference between the highest appraisal value and the next lower appraisal value, and (ii) the difference between the lowest appraisal value and the next higher appraisal value, are equal, then the "Appraised Value" shall be equal to the arithmetic mean of the fair market value determinations of all Appraisers.

XVII. MISCELLANEOUS

17.01 Notices. Landlord and Tenant hereby agree that all notices, demands, requests, and consents (hereinafter "Notices") required to be given pursuant to the terms of this Lease shall be in writing and shall be addressed as follows:

If to Tenant, then to the address given in the Summary of Terms.

If to Landlord:

Capital Automotive REIT
1420 Springhill Road
Suite 525
McLean, Virginia 22102
Attn: Portfolio Manager

With a copy to:

Wilmer, Cutler & Pickering
2445 M Street, N.W.
Washington, D.C. 20037
Attn: George P. Stamas, Esq. and John B. Watkins, Esq.

and shall be served by: (a) personal delivery; (b) certified mail, return receipt requested, postage prepaid; or (c) nationally recognized overnight courier. All notices shall be deemed to be given upon the earlier of actual receipt or three (3) days after mailing, or one (1) business day after deposit with the overnight courier. Any Notices meeting the requirements of this Section shall be effective, regardless of whether or not actually received. Landlord or Tenant may change its notice address at any time by giving the other party Notice of such change. Any such Notice of change of address shall be effective five (5) days after delivery.

17.02 Advertisement of a Leased Property. In the event the parties hereto have not executed a renewal lease, or agreed to the Extension Term, as to the Leased Property within twelve (12) months prior to the expiration of the Term or an Extension Term, as the case may be, then Landlord or its agent shall have the right to enter such Leased Property at all reasonable times for the purpose of exhibiting such Leased Property to others and to place upon such Leased Property for and during the period commencing twelve (12) months prior to the expiration of the Term or an Extension Term, as the case may be, "for sale" or "for rent" notices or signs.

17.03 Landlord's Access. Landlord, or its designated agents or contractors, shall have the right to enter upon each Leased Property, upon reasonable prior notice to Tenant, for purposes of inspecting the same and assuring Tenant's compliance with this Lease provided, any such entry by Landlord shall be subject to all rules, guidelines and procedures prescribed by Tenant in connection therewith. Landlord shall not be allowed entry to a Leased Property unless accompanied by such of Tenant's personnel as Tenant shall require and which Tenant shall promptly provide.

17.04 Entire Agreement. This Lease contains the entire agreement between Landlord and Tenant with respect to the subject matter hereof No representations, warranties, and agreements have been made by Landlord or Tenant except as set forth in this Lease.

17.05 Severability. If any term or provision of this Lease is held by Landlord to be invalid or unenforceable as to a Leased Property, such holding shall not affect the remainder of this Lease as to such Leased Property, or the validity or enforceability of this Lease as to any other Leased Property, and the same shall remain in full force and effect, unless such holding substantially deprives Tenant of the use of such Leased Property or Landlord of the Rents therefor, in which case this Lease shall forthwith terminate as to such Leased Property as if by expiration of the Term or an Extension Term, as the case may be, but shall remain in full force and effect with respect to each other Leased Property.

17.06 Captions and Headings. The captions and headings are inserted only as a matter of convenience and for reference and in no way define, limit or describe the scope of this Lease or the intent of any provision hereof.

17.07 Governing Law. This Lease shall be construed under the laws of the State of Virginia (without application of choice of law provisions).

17.08 Memorandum of Lease or Certain Rights Under the Lease. Landlord and Tenant agree that a record of this Lease or of certain rights under this Lease may be recorded by either party in a memorandum of lease approved by Landlord and Tenant with respect to each Leased Property. The party recording such memorandum must bear all costs of such recording.

17.09 Waiver. No waiver by Landlord of any condition or covenant herein contained, or of any breach of any such condition or covenant, shall be held or taken to be a waiver of any subsequent breach of such covenant or condition, or to permit or excuse its continuance or any future breach thereof or of any condition or covenant, nor shall the acceptance of Rent by Landlord at any time when Tenant is in default in the performance or observance of any condition or covenant herein be construed as a waiver of such default, or of Landlord's right to terminate this Lease or exercise any other remedy granted herein on account of such default.

17.10 Assignment: Binding Effect. Except as otherwise set forth herein, this Lease shall not be assignable by Tenant, without the prior written consent of Landlord. This Lease will be binding upon and inure to the benefit of the heirs, successors, personal representatives, and permitted assigns of Landlord and Tenant.

17.11 Consents and Approvals. In each instance in this Lease where the Landlord is required or permitted to give a consent or approval, or to make a determination, the Landlord's decision and any conditions thereon must be reasonable under the circumstances. Except as provided in Sections 8.07(d) and 13.01, there shall be a presumption that each such decision and any conditions thereon by Landlord was in fact reasonable, and Tenant shall have the burden of proof in any attempt to rebut that presumption. With respect to Sections 8.07(d) and 13.01, there shall be a presumption that each such decision and any conditions thereon by Landlord was in fact - unreasonable, and Landlord shall have the burden of proof in any attempt to rebut that presumption.

17.12 Single Property. Throughout the form of this Lease there are references to "Leased Properties". If, in fact, there is only one Leased Property being leased hereunder, all such references shall, without further action, be deemed amended to refer solely to such Leased Property and all provisions relating to Leased Properties, including remedies applicable to only one Leased Property, shall likewise be amended to the extent necessary, but only to the extent necessary, to give effect to the fact that there is only one Leased Property.

17.13 Modification. This Lease may only be modified by a writing signed by both Landlord and Tenant.

17.14 Incorporation by Reference. All schedules and exhibits referred to in this Lease are incorporated herein by reference.

17.15 No Merger. As to each Leased Property, the surrender of this Lease by Tenant or the cancellation of this Lease by agreement of Tenant and Landlord or the termination of this Lease on account of Tenant's default will not work a merger, and will, at Landlord's option, terminate any subleases or operate as an assignment to Landlord of any subleases. Landlord's option under this paragraph will be exercised by notice to Tenant and all known subtenants of such Leased Property.

17.16 Force Majeure. Landlord, its agents and employees, will not be liable for any loss, injury, death, or damage (including consequential damages) to persons, property, or Tenant's Business occasioned by theft, act of God, public enemy, injunction, riot, strike, insurrection, war, court order, requisition, order of governmental body or authority, fire, explosion, falling objects, steam, water, rain or snow, leak or flow of water (including water from the elevator system), rain or snow from any Leased Property or into any Leased Property or from the roof, street, subsurface or from any other place, or by dampness or from the breakage, leakage, obstruction, or other defects of the pipes, sprinklers, wires, appliances, plumbing, air conditioning, or lighting fixtures of any Leased Property, or from construction, repair, or alteration of any Leased Property or from any acts or omissions of any other occupant or visitor of any Leased Property, or from the release, emission, discharge, presence or disposal of any hazardous substance or material on or from any Leased Property, or from any other cause beyond Landlord's control.

17.17 Laches. No delay or omission by either party hereto to exercise any right or power accruing upon any noncompliance or default by the other party with respect to any of the terms hereof shall impair any such right or power or be construed to be a waiver thereof.

17.18 Waiver of Jury Trial. To the extent that there is any claim by one party against the other that is not to be settled by arbitration as provided in Article XIV hereof; Landlord and Tenant waive trial by jury in any action, proceeding or counterclaim brought by either of them against the other on all matters arising out of this Lease or the use and occupancy of any Leased Property (except claims for personal injury or property damage). If Landlord commences any summary proceeding for nonpayment of Rent, Tenant will not interpose, and waives the right to

interpose, any counterclaim in any such proceeding.

17.19 Permitted Contests. Tenant, on its own or on Landlord's behalf (or in Landlord's name), but at Tenant's expense, may contest, by appropriate legal proceedings conducted in good faith and with due diligence, the amount or validity or application, in whole or in part, of any Imposition or any legal requirement or insurance requirement or any lien, attachment, levy, encumbrance, charge or claim provided that: (a) in the case of an unpaid Imposition, lien, attachment, levy, encumbrance, charge or claim, the commencement and continuation of such proceedings shall suspend the collection thereof from Landlord and from the subject Leased Property; (b) neither the subject Leased Property nor any Rent therefrom nor any part thereof or interest therein would be in any immediate danger of being sold, forfeited, attached or lost; (c) in the case of a legal requirement, Landlord would not be in any immediate danger of civil or criminal liability for failure to comply therewith pending the outcome of such proceedings; (d) in the event that any such contest shall involve a sum of money or potential loss in excess of Twenty Five Thousand Dollars ($25,000), Tenant shall deliver to Landlord and its counsel an opinion of Tenant's counsel to the effect set forth in clauses (a), (b) and (c), to the extent applicable; (e) in the case of a legal requirement and/or an Imposition, lien, encumbrance, or charge, Tenant shall give such reasonable security as may be demanded by Landlord to insure ultimate payment of the same and to prevent any sale or forfeiture of a subject Leased Property or the Rent in respect thereof by reason of such nonpayment or noncompliance; provided, however, the provisions of this Section shall not be construed to permit Tenant to contest the payment of Rent (except as to contests concerning the method of computation or the basis of levy of any Imposition or the basis for the assertion of any other claim) or any other sums payable by Tenant to Landlord hereunder; (f) in the case of an insurance requirement, the coverage required by Article IV shall be maintained; and (g) if such contest be finally resolved against Landlord or Tenant, Tenant shall, as Additional Rent due hereunder, promptly pay the amount required to be paid, together with all interest and penalties accrued thereon, or comply with the applicable legal requirement or insurance requirement. Landlord, at Tenant's expense, shall execute and deliver to Tenant such authorizations and other documents as may be reasonably required in any such contest, and, if reasonably requested by Tenant or if Landlord so desires, Landlord shall join as a party therein. Tenant hereby agrees to indemnify and hold harmless Landlord, its officers, trustees, employees, shareholders, affiliates and agents from and against any and all demands, claims, causes of action, fines, penalties, damages (including punitive and consequential damages), losses, liabilities (including strict liability), judgments, costs and expenses (including, without limitation, attorneys' fees, court costs, and the costs set forth in Section 9.06) that may be incurred in connection with or arise from any such contest.

17.20 Construction of Lease. This Lease has been reviewed by Landlord and Tenant and their respective professional advisors. Landlord and Tenant believe that this Lease is the product of all their efforts, that they express their agreement, and agree that they shall not be interpreted in favor of either Landlord or Tenant or against either Landlord or Tenant merely because of any party's efforts in preparing such documents.

17.21 Counterparts. This Lease maybe executed in duplicate counterparts, each of which

shall be deemed an original hereof or thereof.

17.22 Relationship of Landlord and Tenant. The relationship of Landlord and Tenant is the relationship of lessor and lessee. Landlord and Tenant are not partners, joint venturers, or associates.

{remainder of this page left intentionally blank}

EXHIBIT 10.41.1

After recording return to:

Foster Pepper & Shefelman LLP
Attn: Susan Alterman
101 SW Main Street, Suite 1542
Portland, OR 97204

ASSIGNMENT OF LEASE

THIS ASSIGNMENT OF LEASE (the "Assignment") is made this 13th day of December 1999 between:

ASSIGNOR:	Roundtree of Idaho, Inc., an Idaho corporation 9411 West Fairview Boise, Idaho 83707
ASSIGNEE:	Lithia Real Estate, Inc., an Oregon corporation 360 East Jackson Street Medford, Oregon 97501

RECITALS

A. CARS-DB4, L.P., a Maryland limited partnership ("Landlord") owns real property and improvements at 9411 West Fairview, Boise, Idaho, more particularly described on the attached Exhibit A (the "Property").

B. Landlord and Assignor as tenant entered into a lease of the Property dated April 7, 1998 (the "Lease").

C. Assignor has agreed to assign its rights as tenant under the Lease to Assignee on the terms and conditions set forth in this Agreement. Landlord has consented to the assignment in a separate document.

NOW THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Assignment and Assumption. Assignor assigns to Assignee as of December 13, 1999 (the "Lease Assignment Date") all of Assignor's right, title and interest in and to the Lease. Assignee assumes the obligations of tenant under the Lease, as of the Lease Assignment Date, and will perform the covenants and conditions in the Lease to be performed by the Assignor.

Notwithstanding anything in this Assignment or the Lease to the contrary,
(a) Assignee shall not be required to satisfy any obligation or liability of Assignor under the Lease or relating to the Property that was to have been observed or performed by Assignor, or is based on

Assignor's acts or omissions, before the Lease Assignment Date, and (b) Assignee's peaceful and quiet enjoyment and possession of the Property shall not be disturbed, nor shall the rights and entitlements of Assignee under the Lease be affected in any manner, as a result of any default by Assignor on any obligation or liability under the Lease or relating to the Property.

2. Landlord's Consent. Assignor represents and warrants to Assignee that Landlord has consented to the assignment of the Lease to the Assignee and Assignor will deliver to Assignee a Consent signed by Landlord within a reasonable time after the Lease Assignment Date.

3. Indemnification. Assignor will defend, indemnify and hold Assignee harmless from any cost, liability and expense arising or resulting from any failure of Assignor to pay or perform any liability under the Lease or relating to the Property that was to have been paid or performed by Assignor on or before the Lease Assignment Date, or is based on the Assignor's acts or omissions.

4. Representations and Warranties. Assignor covenants, represents and warrants to Assignee as follows:

(i) The copy of the Lease attached hereto as Exhibit B is a true, correct and complete copy of the Lease, including all amendments and modifications thereto, and the Lease is in full force and effect.

(ii) The tenant's interest in the Lease is vested in Assignor, subject only to the title exceptions described in Exhibit C attached hereto.

(iii) Except for the assignment contained in this Assignment, Assignor has not assigned, sublet or transferred all or any portion of its interest under the Lease.

(iv) To the best of Assignor's knowledge, neither Assignor nor Landlord is in default under the Lease or Lease, nor has any event or circumstance occurred which, with the giving of notice or passage of time, would constitute a default by Assignor or Landlord.

(v) Any alterations or improvements to the Property performed or to have been performed by Assignor have been completed in a good and workmanlike manner and are in a good state of condition and repair. To the best of Assignor's knowledge, the Property is provided with all necessary services and utilities. Assignor has performed and observed all improvements, alterations, maintenance, repairs and other obligations to be performed by the Assignor under the Lease on or before the Lease Assignment Date.

(vi) To the best of Assignor's knowledge, there exists no state of facts or circumstances with respect to the Lease or the Property, that would indicate that the Property is not suitable for the use presently conducted by Assignor.

5. Guaranty. As partial consideration for the assignment of the Lease to Assignee, Assignee will deliver to Assignor the guaranty by Assignee's affiliate, Lithia Motors, Inc. of Assignees' obligations under the Lease (the "Guaranty"). The Guaranty is attached hereto as Exhibit D.

6. Nondisturbance and Attornment Agreement. Landlord is the Grantor under the following Leasehold Deeds of Trust and Assignment of Leases and Rents recorded in the real property records of Ada County, Idaho in favor of German American Capital Corporation, a Maryland corporation, ("Lender"):

$35,430,000 Deed of Trust Recorded December 1, 1998 as Instrument No. 98115292

$114,570,000 Junior Deed of Trust Recorded December 1, 1998 as Instrument No. 98115295

$85,00,000 Third Deed of Trust Recorded October 28, 1999 as Instrument No. 99105435

Assignor will use its best efforts to obtain from Lender and deliver to Assignee simultaneously with the execution of this Assignment the Nondisturbance and Attornment Agreement attached hereto as Exhibit E.

7. Miscellaneous.

(a) Applicable Law. This Assignment is governed and enforced by the substantive law of the State of Idaho, without giving effect to its conflict of laws provisions.

(b) Binding Effect. The covenants, agreement and obligations herein contained, except as herein otherwise specifically provided, shall extend to, bind and inure to the benefit of the parties hereto and their respective successors and assigns.

(c) Memorandum of Assignment of Lease. This Assignment shall be executed, in recordable form, by the parties and recorded by Assignee, at Assignee's expense.

(d) Counterparts. This Assignment may be signed in any number of counterparts, each of which shall be deemed an original and all of which shall constitute one and the same document when executed by all parties.

(e) Attorney Fees. If an action is instituted to enforce or interpret this Assignment, the prevailing party shall recover from the losing party its costs and reasonable attorney fees incurred both at and in preparation for such action, including any appeal or review.

(f) This provision extends to all proceedings in bankruptcy court, including all matters unique to bankruptcy law.

IN WITNESS WHEREOF, the parties have signed this Assignment as of the date first written above.

ASSIGNOR:	ROUNDTREE OF IDAHO, INC., an Idaho corporation By: _____ Name: _____ Title: _____
ASSIGNEE	LITHIA REAL ESTATE, INC., an Oregon corporation By:_____ Bryan DeBoer, Vice President

[Notary acknowledgements on following pages]

STATE OF IDAHO)
) ss.
County of _____)

This instrument was acknowledged before me on the _____ day of December 1999 by _____, as _____ of Roundtree of Idaho, Inc.

NOTARY PUBLIC in and for the state of Idaho, residing at _____, therein.

My Commission Expires:_____

STATE OF IDAHO)
) ss.
County of _____)

This instrument was acknowledged before me on the _____ day of December 1999 by Bryan DeBoer as Vice President of Lithia Real Estate, Inc.

NOTARY PUBLIC in and for the state of Idaho, residing at _____, therein.

My Commission Expires:_____

Attachments:
Exhibit A - Legal Description
Exhibit B - Lease
Exhibit C - Title Exceptions
Exhibit D - Guaranty
Exhibit E - Nondisturbance and Attornment Agreement

EXHIBIT A

Legal Description

[See attached]

EXHIBIT B

Lease

[See attached]

EXHIBIT C

Title Exceptions

[See attached]

EXHIBIT D

Guaranty

[See attached]

EXHIBIT E

Nondisturbance and Attornment Agreement

[See attached]

EXHIBIT 21

LIST OF SUBSIDIARIES

NAME OF ENTITY	STATE OF ORIGIN	ASSUMED BUSINESS NAME(S) (if different than entity name)
Lithia Financial Corporation	Oregon	
Lithia Rentals, Inc.	Oregon	Avis Rent-A-Car
Lithia Real Estate, Inc.	Oregon	
Lithia MTLM, Inc. (owns Lithia TLM, LLC which owns the franchise rights)	Oregon	Lithia Lincoln Mercury Lithia Toyota
LGPAC, Inc. (owns Lithia Grants Pass Auto Center, LLC, which owns the franchise rights)	Oregon	Lithia Grants Pass Auto Center
Lithia DM, Inc. (owns Lithia Dodge, LLC which owns the franchise rights)	Oregon	Lithia Dodge Lithia Mazda
Saturn of Southwest Oregon, Inc.	Oregon	Saturn of Southwest Oregon
Lithia HPI, Inc.	Oregon	Lithia Honda Lithia Isuzu Lithia Suzuki Lithia Volkswagen
Lithia DE, Inc.	Oregon	Lithia Dodge of Eugene
Lithia Chrysler Plymouth Jeep Eagle, Inc.	Oregon	Lithia Chrysler Plymouth Jeep
Lithia BNM, Inc.	Oregon	Lithia Nissan Lithia BMW
Hutchins Imported Motors, Inc.	Oregon	Lithia Toyota of Springfield
Hutchins Eugene Nissan, Inc.	Oregon	Lithia Nissan of Eugene
Lithia Klamath, Inc.	Oregon	Lithia Dodge Chrysler Plymouth Jeep of Klamath Falls Lithia Toyota of Klamath Falls
Lithia Nissan of Roseburg, Inc.	Oregon	Lithia Nissan of Roseburg
Lithia of Roseburg, Inc.	Oregon	Lithia Dodge Chrysler Plymouth Jeep of Roseburg
Lithia Rose-FT, Inc.	Oregon	Lithia Ford Lincoln Mercury of Roseburg
Lithia AB, Inc.	California	Acura of Bakersfield
Lithia BB, Inc.	California	BMW of Bakersfield
Lithia CIMR, Inc.	California	Lithia Chevrolet of Redding Lithia Mazda of Redding
Lithia DC, Inc.	California	Lithia Dodge of Concord
Lithia FMF, Inc.	California	Lithia Ford of Fresno
Lithia FN, Inc.	California	Lithia Ford Lincoln Mercury of Napa
Lithia FVHC, Inc.	California	Lithia Ford of Concord

Lithia JEB, Inc.	California	Lithia Jeep of Bakersfield
Lithia JEF, Inc.	California	Lithia Jeep of Fresno Lithia Hyundai of Fresno
Lithia Lan-Hon, Inc.	California	
Lithia MMF, Inc.	California	Lithia Mazda of Fresno Lithia Suzuki of Fresno
Lithia NB, Inc.	California	Lithia Nissan of Bakersfield
Lithia NF, Inc.	California	Lithia Nissan of Fresno
Lithia Nissan of Antelope Valley, Inc.	California	
Lithia of Antelope Valley, Inc.	California	
Lithia of Lancaster, Inc.	California	
Lithia TKV, Inc.	California	Lithia Toyota of Vacaville
Lithia TR, Inc.	California	Lithia Toyota of Redding
Lithia VWC, Inc.	California	Lithia Sun Valley Volkswagen Lithia Sun Valley Isuzu
Lithia Centennial Chrysler Plymouth Jeep, Inc.	Colorado	Lithia Centennial Chrysler Plymouth Jeep
Lithia Cherry Creek Dodge, Inc.	Colorado	Lithia Cherry Creek Dodge
Lithia Colorado Chrysler Plymouth, Inc.	Colorado	Lithia Colorado Chrysler Plymouth

		Lithia Colorado Kia
Lithia Colorado Jeep, Inc.	Colorado	Lithia Colorado Jeep
Lithia Colorado Springs Jeep Chrysler Plymouth, Inc.	Colorado	Lithia Colorado Springs Jeep Chrysler Plymouth
Lithia Foothills Chrysler, Inc.	Colorado	Lithia Foothills Chrysler Lithia Foothills Hyundai Lithia Foothills Suzuki
Camp Automotive, Inc.	Delaware	Camp BMW Camp Chevrolet Camp Subaru
Roundtree Isuzu, Inc. (owned by Lithia/Roundtree Holding Company, Inc. which is owned by Lithia Motors Inc.)	Idaho	Roundtree Isuzu
Roundtree Chevrolet, Inc. (owned by Lithia/Roundtree Holding Company, Inc. which is owned by Lithia Motors Inc.)	Idaho	Roundtree Chevrolet
Roundtree Lincoln-Mercury, Inc. (owned by Lithia/Roundtree Holding Company, Inc. which is owned by Lithia Motors Inc.)	Idaho	Roundtree Lincoln-Mercury
Roundtree DW, Inc. (owned by Lithia/Roundtree Holding Company, Inc. which is owned by Lithia Motors Inc.)	Idaho	Roundtree Daewoo Daewoo of Twin Falls

Lithia Ford of Boise, Inc.	Idaho	Lithia Ford of Boise
Lithia Chrysler Plymouth of Boise, Inc.	Idaho	Lithia Chrysler of Boise
Lithia SALMIR, Inc.	Nevada	Lithia Audi of Reno Lithia Volkswagen of Reno Lithia Isuzu of Reno Lithia Lincoln Mercury of Reno Lithia Suzuki of Sparks
Lithia Reno Sub-Hyun, Inc.	Nevada	Lithia Reno Hyundai Lithia Reno Subaru
Lithia VS, LLC (owned by Camp Automotive, Inc.)	Washington	Camp Volvo
Lithia Dodge of Tri-Cities, Inc.	Washington	Lithia Dodge of Tri-Cities

All entities are owned directly by Lithia Motors, Inc. unless specifically noted to the contrary.

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, 333-69169, 333-69225 and 333-80459) on Form S-8 of Lithia Motors, Inc. of our report dated February 14, 2000, relating to the consolidated balance sheets of Lithia Motors, Inc. and Subsidiaries as of December 31, 1999 and 1998, 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, 1999, which report appears in the December 31, 1999 annual report on Form 10-K of Lithia Motors, Inc.

KPMG LLP

Portland, Oregon,
March 29, 2000

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1999
PERIOD START	JAN 01 1999
PERIOD END	DEC 31 1999
CASH	30,364
SECURITIES	0
RECEIVABLES	33,232
ALLOWANCES	677
INVENTORY	268,281
CURRENT ASSETS	334,644
PP&E	58,051
DEPRECIATION	5,683
TOTAL ASSETS	506,433
CURRENT LIABILITIES	259,645
BONDS	289,446
PREFERRED MANDATORY	0
PREFERRED	6,216
COMMON	102,841
OTHER SE	46,581
TOTAL LIABILITY AND EQUITY	506,433
SALES	1,048,901
TOTAL REVENUES	1,242,659
CGS	948,558
TOTAL COSTS	1,043,373
OTHER EXPENSES	151,954
LOSS PROVISION	504
INTEREST EXPENSE	15,355
INCOME PRETAX	32,051
INCOME TAX	12,877
INCOME CONTINUING	19,174
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	19,174
EPS BASIC	1.72
EPS DILUTED	1.60

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 applicant and the applicant's performance with those dealerships. Most major manufacturers have now established limitations on:

- the total number of such manufacturers' dealerships that may be acquired by a single dealer;
- 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 another brand; and
- the frequency of acquisitions

Lithia currently owns more Chrysler product stores than the maximum limitation specified by Chrysler. However, Chrysler has continued to approve, on multiple occasions, new 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.

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 manufactures have relied upon when awarding such franchises. The loss of either of those individuals could have a material adverse affect on 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 45 as of March 2000. 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 mangers 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 that are materially below 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."