

# LITHIA MOTORS INC

## **FORM 10-K** (Annual Report)

Filed 03/29/01 for the Period Ending 12/31/00

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

# LITHIA MOTORS INC

## FORM 10-K (Annual Report)

Filed 3/29/2001 For Period Ending 12/31/2000

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

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549  
FORM 10-K

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

For the Fiscal Year Ended: December 31, 2000

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)  
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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 was \$46,385,756 as of February 28, 2001 based upon the last sales price (\$13.23) as reported by the New York Stock Exchange for the Company's Class A Common Stock.

The number of shares outstanding of the Registrant's Common Stock as of February 28, 2001 was: Class A: 8,448,213 shares and Class B: 4,087,000 shares.

The number of shares outstanding of the Registrant's Preferred Stock as of February 28, 2001 was: Series M 2002: 10,360 shares and Series M 2003: 4,499 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 2001 Annual Meeting of Shareholders.

LITHIA MOTORS, INC.  
2000 FORM 10-K ANNUAL REPORT  
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PART I

Item 1. BUSINESS  
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## 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:

- o The cyclical nature of automobile sales;
- o Lithia's ability to negotiate profitable, accretive acquisitions;
- o Lithia's ability to secure manufacturer approvals for acquisitions; and
- o 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 of automotive franchises and retailer of new and used vehicles and services. As of March 1, 2001, we offered 26 brands of new vehicles, through 114 franchises in 56 locations in the western United States and over the Internet. We currently operate 15 stores in Oregon, 14 in California, 7 in Washington, 6 in Colorado, 6 in Idaho, 5 in Nevada, 2 in South Dakota and 1 in Alaska. 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 more than 30 years. Management has developed and implemented its acquisition and operating strategies, which have enabled Lithia to successfully identify, acquire and integrate stores, achieving financial performance superior to industry averages. Lithia has achieved compounded annual growth rates over the last four years of 85% per year for annual revenues, 75% per year for net income and 36% per year for earnings per share. Since December 1996, when we completed our initial public offering, we have acquired or opened 51 stores and are actively pursuing additional acquisitions.

According to industry data, the number of franchised automobile stores has declined from more than 36,000 stores in 1960 to under 22,000 in 2000. As of the end of 1999, the largest 100 dealer groups generated 12.3% of total industry sales. Based on our current annual revenue run rate of over \$1.7 billion, we believe that we are one of the 10 largest automobile retailers in the country.

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

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

## GROWTH STRATEGY

Lithia has become a leading acquirer and operator of automobile stores in the western and inter-mountain United States. We target acquisitions in markets

where we have the opportunity to acquire or build a significant market presence. Our preference is either to make a strategic acquisition in a new territory and acquire one or two stores at a time to establish that market presence (via "Fill-ins"), or to acquire an entire group at one time (a "Platform"). 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 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 profitable store groups in each new area.

Since our initial public offering in December 1996, we have completed the purchase of 47 stores with the following revenues at the time of acquisition:

Year	Number of stores acquired	Revenues (in millions)
1996	2	\$ 60
1997	10	300
1998	11	310
1999	13	585
2000	8	254
2001	3	85
Total	47	\$1,594

#### OPERATING STRATEGY

After acquiring a new store, Lithia implements its 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 views the manufacturer/franchisee relationship as a valuable partnership. The manufacturers are 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, brand realignment 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 2000, Lithia arranged financing for 73% of its new vehicle sales and 72% of its used vehicle sales, compared to 49% and 59%, respectively, for the average automobile store in the United States (2000 data).

Employ Professional Management Techniques Each store 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 store 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. A significant portion of the compensation of the general managers and department managers is based on the profitability of their stores and departments, respectively. Senior management monitors each store'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 commits to provide:

- o A complimentary credit check;
- o A complimentary vehicle appraisal;
- o A 60-day/3,000 mile warranty on all used vehicles sold; and
- o A community donation for every vehicle sold.

We believe that "Priority You" helps differentiate us from other automotive retail stores.

We believe the application of this operating strategy provides us with a competitive advantage over many stores 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; Ford's Blue Oval Certificate; Toyota's President's Cup; Honda's President's Award; 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.

STORE OPERATIONS

Lithia's stores, brands sold and the approximate percentage of current annual revenues are as follows:

Oregon Stores (15)	Franchises (41)	22%
Lithia Honda (Medford)	Honda	
Lithia Volkswagen Isuzu (Medford)	Volkswagen, Isuzu	
Lithia Lincoln Mercury Mazda Suzuki (Medford)	Lincoln/Mercury, Mazda, Suzuki	
Lithia Toyota of Medford	Toyota	
Lithia Dodge Chrysler Plymouth Jeep (Medford)	Dodge, Dodge Truck, Chrysler/Plymouth, Jeep	
Saturn of Southwest Oregon (Medford)	Saturn	
Lithia Nissan BMW (Medford)	Nissan, BMW	
Lithia's Grants Pass Auto Center	Dodge, Dodge Truck, Chrysler/Plymouth, Jeep	

Saturn of Eugene*	Saturn
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

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California Stores (14)

Franchises (19)

21%

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 Ford of Fresno	Ford
Lithia Mazda Suzuki of Fresno	Mazda, Suzuki
Lithia Nissan of Fresno	Nissan
Lithia Hyundai of Fresno	Hyundai

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Colorado Stores (6)

Franchises (18)

20%

Lithia Centennial Chrysler Plymouth Jeep (Denver)	Chrysler/Plymouth, Jeep
Lithia Cherry Creek Dodge (Denver)	Dodge, Dodge Truck
Lithia Colorado Chrysler Plymouth Kia (Denver)	Chrysler/Plymouth, Kia
Lithia Foothills Chrysler Hyundai (Fort Collins)	Dodge, Dodge Truck, Chrysler/Plymouth, Hyundai, Jeep
Lithia Colorado Jeep (Denver)	Jeep
Lithia Colorado Springs Jeep Chrysler Plymouth	Jeep, Chrysler/Plymouth

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Washington Stores (7)

Franchises (12)

12%

Lithia Camp Chevrolet (Spokane)	Chevrolet
Lithia Camp Imports (Spokane)	Subaru, BMW, Volvo
Lithia Dodge of Tri-Cities	Dodge, Dodge Truck
Lithia Ford of Tri-Cities*	Ford
Honda of Tri-Cities*	Honda
Lithia Dodge of Renton*	Dodge, Dodge Truck
Lithia Chrysler Jeep of Renton*	Chrysler, Jeep

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Idaho Stores (6)

Franchises (12)

12%

Pocatello Dodge Chrysler Honda Hyundai*	Dodge, Dodge Truck, Chrysler, Honda, Hyundai
Roundtree Chevrolet (Boise)	Chevrolet
Roundtree Lincoln-Mercury Isuzu (Boise)	Lincoln/Mercury, Isuzu
Roundtree Daewoo of Boise	Daewoo
Lithia Ford Chrysler of Boise*	Ford, Chrysler

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Nevada Stores (5)

Franchises (8)

7%

Lithia Reno	Suzuki, Audi, Lincoln/Mercury, Isuzu
Lithia Volkswagen of Reno	Volkswagen
Lithia Sparks (satellite of Lithia Reno)	Suzuki, Lincoln/Mercury, Isuzu



South Dakota Stores (2)	Franchises (2)	4%
Chevrolet of Sioux Falls*	Chevrolet	
Lithia Subaru of Sioux Falls*	Subaru	
Alaska Store (1)	Franchises (2)	2%
Lithia Chrysler Jeep of Anchorage*	Chrysler, Jeep	
56 Stores	114 Franchises - 26 Brands	100%

\*Store acquired in 2000 or 2001.

In 2000 and 2001 the following changes were made to our franchises:

- o Two shared franchises in Reno, Nevada were split, creating two separate stores; Lithia Reno Subaru and Lithia Reno Hyundai;
- o The Daewoo franchise that was located in Twin Falls, Idaho, was closed in October 2000;
- o The Jeep franchise at our Lithia Jeep/Hyundai store in Fresno, California was exchanged in July 2000 for Dodge and Chrysler/Jeep franchises that remain to be opened in other markets;
- o The Lithia Jeep of Bakersfield store and franchise was exchanged in September 2000 for two new store locations for Chrysler/Dodge/Jeep and Dodge that remain to be opened in other markets;
- o The Suzuki franchise at our Lithia Foothills Auto Plaza in Colorado was sold, leaving Chrysler/Plymouth, Dodge, Dodge Truck, Jeep and Hyundai brands;
- o The Jeep, Mitsubishi and Kia franchises in Sioux Falls, South Dakota were sold, leaving a Chevrolet store and a Subaru store; and
- o The Lithia Toyota Lincoln Mercury franchise in Medford, Oregon was split with Toyota moving to its own new facility.

NEW VEHICLE SALES. In 2000, Lithia sold 26 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 2000.

Manufacturer	New Vehicle Sales as a Percentage of Total Sales	Percentage of New Vehicle Dollar Sales in 2000
DaimlerChrysler (Chrysler, Plymouth, Dodge, Jeep, Dodge Trucks)	21.4%	39.5%
Ford (Ford, Lincoln, Mercury)	9.0	16.7
General Motors (Chevrolet, Saturn)	6.0	11.0
Toyota	4.8	8.8

Volkswagen, Audi	3.1	5.8
Nissan	2.3	4.3
Subaru	1.8	3.3
Honda (Acura, Honda)	1.5	2.7
Isuzu	1.2	2.2
BMW	1.1	2.1
Hyundai	0.8	1.5
Mazda	0.4	0.7
Suzuki	0.3	0.6
Volvo	0.2	0.3
Daewoo	0.1	0.2
Kia	0.1	0.2
Mitsubishi	0.0	0.1
	-----	-----
	54.1%	100.0%
	=====	=====

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

(dollars in thousands)	1996	1997	1998	1999	2000
-----	-----	-----	-----	-----	-----
New units	3,274	7,493	17,708	28,645	37,230
New vehicle sales	\$65,092	\$161,294	\$388,431	\$673,339	\$898,016

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Lithia purchases substantially all of its new car inventory directly from manufacturers who allocate new vehicles to stores based on the amount of vehicles sold by the store and by the store'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 stores, 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:

(dollars in thousands)	1996	1997	1998	1999	2000
-----	-----	-----	-----	-----	-----
Retail used units	4,156	7,148	13,645	23,840	30,896

Retail used sales	\$ 48,697	\$88,571	\$174,223	\$313,449	\$406,244
Wholesale used units	2,348	4,990	9,532	13,424	16,751
Wholesale used sales	\$ 9,914	\$ 24,528	\$46,321	\$62,113	\$74,602
Total used units	6,504	12,138	23,177	37,264	47,647
Total used sales	\$ 58,611	\$113,099	\$220,544	\$375,562	\$480,846

VEHICLE FINANCING AND LEASING. Lithia believes that the availability of financing at its stores 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 finance and insurance ("F&I") products, Lithia seeks to arrange financing for every vehicle it sells. We have arranged financing for a larger percentage of our transactions than the industry average. During 2000, Lithia financed or arranged financing for over 73% of its new vehicle sales and 72% of its used vehicle sales, compared to an industry average of 49% and 59%, respectively (latest 2000 data).

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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, we bear the risk of default. Historically, Lithia has directly financed only a limited number of vehicle sales.

SERVICE, BODY AND PARTS. We consider our auto service, body, paint and parts operations to be an integral part of our 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 stores but may also service other vehicles. In 2000, Lithia's service, body and parts operations generated \$164.0 million in revenues, or 9.9% 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. Additionally, Lithia offers a lifetime lube, oil and filter service, which is purchased by 30% of its new and used vehicle buyers. This service helps retain customers, and provides opportunities for incremental parts and service business.

The service, body and parts business provides an important recurring revenue stream to the stores. Lithia markets its parts and service products by notifying the owners of vehicles purchased at its stores 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 ten collision repair centers, two in Oregon, two in Idaho and one each in California, Washington, Colorado, Nevada, South Dakota and Alaska.

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.

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

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#### SALES AND MARKETING

We believe that our "Priority You" program described earlier helps differentiate us from many other stores, 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 stores sponsor price discounts or other promotions designed to attract customers. By owning a cluster of stores 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 and 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](http://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:

- o View new and used vehicle inventory;
- o Schedule service appointments;
- o View Kelley Blue Book values;
- o View the NADA Value Guide;
- o Visit our investor relations site; and
- o View employment opportunities

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:

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

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Each store's general manager can also 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 store 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 store.

#### RELATIONSHIPS WITH AUTOMOBILE MANUFACTURERS

Lithia, through its subsidiaries, has 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 stores 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:

- o the showroom;
- o service facilities and equipment;
- o inventories of vehicles and parts;
- o minimum working capital;
- o training of personnel; and
- o performance standards regarding sales volume and customer satisfaction.

Each manufacturer closely monitors compliance with these requirements and

requires each store 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. Each franchise agreement authorizes at least one person to manage the store's operations. The typical franchise agreement provides for early termination or non-renewal by the manufacturer if there is:

- o a change of management or ownership without manufacturer consent;
- o insolvency or bankruptcy of the store;
- o death or incapacity of the dealer manager;
- o conviction of a dealer manager or owner of certain crimes;
- o misrepresentation of certain information by the store, dealer manager or owner to the manufacturer;
- o failure to adequately operate the store;
- o failure to maintain any license, permit or authorization required for the conduct of business; or
- o poor sales performance or low customer satisfaction index.

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However, state franchise laws significantly limit the ability of manufactures to cancel or terminate automotive dealership franchises.

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 store 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 store 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 stores, 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 store and a manufacturer is governed by various federal and state laws established to protect stores from the generally unequal bargaining power between the parties. A manufacturer may not:

- o terminate or fail to renew a franchise without good cause; or
- o prevent any reasonable changes in the capital structure or the manner in which a store 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:

- o the vehicle does not conform to the manufacturer's express warranties; and
- o 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.

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, 2000, we employed approximately 3,400 persons on a full-time equivalent basis. The service department employees at Lithia Dodge and Lithia Ford of Concord and Lithia Volkswagen and Isuzu of Concord are bound by collective bargaining agreements. The Company believes it has a good relationship with its employees.

#### Item 2. PROPERTIES

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Lithia's stores and other facilities consist primarily of automobile showrooms, display lots, service facilities, ten 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

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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  
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No matters were submitted to a vote of Lithia's shareholders during the quarter ended December 31, 2000.

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PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS  
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Lithia's Class A Common Stock began trading on the New York Stock Exchange on January 22, 1999 under the symbol LAD. From the time of the Company's initial public offering in December 1996 until the move to the New York Stock Exchange, 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, 1999 through December 31, 2000 were as follows:

1999	High	Low
-----	-----	-----
Quarter 1	\$ 20.50	\$ 15.00
Quarter 2	20.50	15.13
Quarter 3	23.56	17.75
Quarter 4	22.94	15.75
2000		
-----		
Quarter 1	\$ 18.19	\$ 13.00
Quarter 2	17.13	11.63
Quarter 3	13.50	11.75
Quarter 4	14.13	11.38

The number of shareholders of record and approximate number of beneficial holders of Class A Common Stock at February 28, 2001 was 1,693 and 2,025 respectively. All shares of Lithia's Class B Common Stock are held by Lithia Holding Company LLC.

DIVIDENDS

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,				
(In thousands, except per share amounts)	1996 (1)	1997	1998	1999	2000
<b>CONSOLIDATED STATEMENT OF OPERATIONS DATA:</b>					
<b>Revenues:</b>					
New vehicles	\$ 65,092	\$ 161,294	\$388,431	\$ 673,339	\$898,016
Used vehicles	58,611	113,099	220,544	375,562	480,846
Service, body and parts	13,197	29,828	72,216	120,722	164,002
Other revenues	5,944	15,574	33,549	73,036	115,747
Total revenues	142,844	319,795	714,740	1,242,659	1,658,611
Cost of sales	117,025	265,049	599,379	1,043,373	1,391,042
Gross profit	25,819	54,746	115,361	199,286	267,569
Selling, general and administrative	19,830	40,625	85,188	146,381	195,500
Depreciation and amortization	1,756	2,483	3,469	5,573	7,605
Income from operations	4,233	11,638	26,704	47,332	64,464
Floorplan interest expense	(697)	(2,179)	(7,108)	(11,105)	(17,728)
Other interest expense	(656)	(824)	(2,735)	(4,250)	(7,917)
Other income, net	1,349	862	921	74	716
Income before minority interest and income taxes	4,229	9,497	17,782	32,051	39,535
Minority interest	(687)	-	-	-	-
Income before income taxes (1)	3,542	9,497	17,782	32,051	39,535
Income tax (expense) benefit	813	(3,538)	(6,993)	(12,877)	(15,222)
Net income	\$ 4,355	\$ 5,959	\$ 10,789	\$19,174	\$ 24,313
<b>PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS DATA:</b>					
Income before taxes and minority interest, as reported	\$ 4,229				
Pro forma provision for taxes (2)	(1,623)				
Pro forma net income	\$ 2,606				
Basic net income per share (3)	\$ 0.56	\$ 0.85	\$ 1.18	\$ 1.72	\$ 1.95
Shares used in basic net income per share	4,657	6,988	9,147	11,137	12,447
Diluted net income per share (3)	\$ 0.52	\$ 0.82	\$ 1.14	\$ 1.60	\$ 1.76
Shares used in diluted net income					

per share	4,973	7,303	9,470	11,998	13,804
	=====	=====	=====	=====	=====

As of December 31,

(In thousands)	1996 (1)	1997	1998	1999	2000
-----					
CONSOLIDATED BALANCE SHEET DATA:					
Working capital	\$ 25,431	\$ 23,870	\$ 53,553	\$ 74,999	\$ 98,917
Total assets	68,964	166,526	294,398	506,433	628,003
Short-term debt	22,000	85,385	132,310	215,535	260,479
Long-term debt, less current maturities	6,160	26,558	41,420	73,911	131,586
Total shareholders' equity	27,914	37,877	91,511	155,638	181,775

- (1) Effective January 1, 1997, the Company converted from the LIFO method of accounting for inventories to the FIFO method. Accordingly, the 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 1996. 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 1996.
- (3) The per share amounts are pro forma for 1996 and actual for 1997, 1998, 1999 and 2000.

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

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GENERAL

In 2000, 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):

	2000	1999	% Increase
-----			
Revenues	\$1,658,611	\$1,242,659	33.5%
EBITDA	\$72,785	\$52,979	37.4%
Cash flow from operations	\$36,287	\$22,381	62.1%
Net income	\$24,313	\$19,174	26.8%
Unit sales:			
New	37,230	28,645	30.0%
Retail used	30,896	23,840	29.6%

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

Average U.S. Store

Year Ended December 31,

Statement of Operations Data:	2000	1999
Revenues:		
New vehicles	60.0 %	59.9 %
Used vehicles	28.6	28.9
Parts and service, other	11.4	11.2
	100.0 %	100.0 %
Total sales		
Gross profit	12.7	12.6
Total store expense	11.2	10.8
Income before taxes	1.6 %	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,		
	2000	1999	1998
Revenues:			
New vehicles	54.1%	54.2%	54.3%
Used vehicles	29.0%	30.2%	30.9%
Service, body and parts	9.9%	9.7%	10.1%
Other	7.0%	5.9%	4.7%
Total revenues	100.0%	100.0%	100.0%
Gross profit	16.1%	16.0%	16.1%
Selling, general and administrative expenses	11.8%	11.8%	11.9%
Depreciation and amortization	0.5%	0.4%	0.5%
Income from operations	3.9%	3.8%	3.7%
Floorplan interest expense	1.1%	0.9%	1.0%
Other interest expense	0.5%	0.3%	0.4%
Other, net	0.0%	0.0%	0.1%
Income before tax	2.4%	2.6%	2.5%
Income tax expense	0.9%	1.0%	1.0%
Net income	1.5%	1.5%	1.5%

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#### RESULTS OF OPERATIONS - 2000 COMPARED TO 1999

	Year Ended December 31,		Increase	% Increase
	2000	1999	(Decrease)	(Decrease)
Revenues:				
New vehicle sales	\$898,016	\$673,339	\$224,677	33.4%
Used vehicle sales	480,846	375,562	105,284	28.0
Service, body and parts	164,002	120,722	43,280	35.9
Other revenues	115,747	73,036	42,711	58.5
Total revenues	1,658,611	1,242,659	415,952	33.5

Cost of sales	1,391,042	1,043,373	347,669	33.3
Gross profit	267,569	199,286	68,283	34.3
Selling, general and administrative	195,500	146,381	49,119	33.6
Depreciation and amortization	7,605	5,573	2,032	36.5
Income from operations	64,464	47,332	17,132	36.2
Floorplan interest expense	(17,728)	(11,105)	6,623	59.6
Other interest expense	(7,917)	(4,250)	3,667	86.3
Other, net	716	74	642	867.6
Income before income taxes	39,535	32,051	7,484	23.4
Income tax expense	(15,222)	(12,877)	2,345	18.2
Net income	\$24,313	\$19,174	\$ 5,139	26.8%
New units sold	37,230	28,645	8,585	30.0%
Average selling price	\$24,121	\$23,506	\$615	2.6%
Used units sold - retail	30,896	23,840	7,056	29.6%
Average selling price	\$13,149	\$13,148	\$1	-
Used units sold - wholesale	16,751	13,424	3,327	24.8%
Average selling price	\$4,454	\$4,627	\$(173)	(3.7)%

REVENUES. Same store retail sales increased 1.1% in 2000 compared to 1999. The increases in units sold and revenue from all sources are a result of acquisitions and internal growth.

GROSS PROFIT. Gross profit increased primarily due to increased total revenues and increased other revenues as a percentage of total revenues. Gross profit margins achieved in 2000 and 1999 were as follows:

	2000 Industry Average	Lithia 2000	Lithia 1999	Lithia Margin Change
New vehicles	6.1%	9.0%	8.7%	+30 bp*
Retail used vehicles	10.9%	13.6%	12.8%	+80 bp
Service and parts	n/a	44.9%	44.8%	+10 bp
Overall	12.7%	16.1%	16.0%	+10 bp

\*bp stands for basis point (ten basis points equals one-tenth of one percent)

The increases in the gross profit margins are primarily a result of operational improvements at its newly acquired stores, as the Lithia model was implemented.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. Selling, general and administrative expense increased due primarily to increased selling, or variable, expense related to the increase in revenues and the number of total locations. Selling, general and administrative expense, as a percentage of revenue, remain constant in 2000 compared to 1999.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense increased primarily as a result of increased property and equipment and goodwill related to acquisitions in 1999 and 2000.

INCOME FROM OPERATIONS. Operating margins improved ten basis points, or one tenth of one percent, in 2000 compared to 1999. 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. Seventy-five percent of the increase in floorplan interest expense is due to additional flooring notes payable as a result of new inventory from acquisitions. Twenty-five percent of the increase is due to an overall rise in borrowing rates during 2000.

OTHER INTEREST EXPENSE. Eighty percent of the increase in interest expense is due to higher debt levels as a result of acquisitions. Twenty percent of the increase is due to an overall rise in borrowing rates during 2000.

INCOME TAX EXPENSE. Lithia's effective tax rate declined to 38.5 percent in 2000 from 40.2 percent in 1999 as a result of an increasing mix of asset acquisitions compared to corporate acquisitions and the increased weighting of deductible goodwill, as well as an increase in the mix of states with lower or no state income taxes.

NET INCOME. Net income increased primarily as a result of increased revenues as discussed above.

#### RESULTS OF OPERATIONS - 1999 COMPARED TO 1998

	Year Ended December 31,		Increase (Decrease)	%
	1999	1998		
Revenues:				
New vehicle sales	\$673,339	\$388,431	\$284,908	73.3%
Used vehicle sales	375,562	220,544	155,018	70.3
Service, body and parts	120,722	72,216	48,506	67.2
Other revenues	73,036	33,549	39,487	117.7
Total revenues	1,242,659	714,740	527,919	73.9
Cost of sales	1,043,373	599,379	443,994	74.1
Gross profit	199,286	115,361	83,925	72.8
Selling, general and administrative	146,381	85,188	61,193	71.8
Depreciation and amortization	5,573	3,469	2,104	60.7
Income from operations	47,332	26,704	20,628	77.2
Floorplan interest expense	(11,105)	(7,108)	3,997	56.2
Other interest expense	(4,250)	(2,735)	1,515	55.4
Other, net	74	921	(847)	(92.0)
Income before income taxes	32,051	17,782	14,269	80.2
Income tax expense	(12,877)	(6,993)	5,884	84.1
Net income	\$19,174	\$10,789	\$ 8,385	77.7%
New units sold	28,645	17,708	10,937	61.8%
Average selling price	\$23,506	\$21,935	\$1,571	7.2%
Used units sold	23,840	13,645	10,195	74.7%
Average selling price	\$13,148	\$12,768	\$380	3.0%
Used units sold - wholesale	13,424	9,532	3,892	40.8%
Average selling price	\$4,627	\$4,860	\$(233)	(4.8)%

REVENUES. 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.

GROSS PROFIT. Gross profit increased 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 Margin Change
New vehicles	6.4%	8.7%	8.9%	-20 bp*
Retail used vehicles	10.7%	12.8%	12.7%	+10 bp
Service and parts	n/a	44.8%	45.5%	-70 bp
Overall	12.6%	16.0%	16.1%	-10 bp

\*bp stands for basis point (ten basis points equals one-tenth of one percent)

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.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. Selling, general and administrative expense ("SG&A") increased 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 primarily as a result of increased property and equipment and goodwill related to acquisitions in 1999 and 1998.

INCOME FROM OPERATIONS. 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 as a result of increased flooring notes payable related to increased inventories as a result of the increase in stores owned and vehicles sold. Lithia was able to reduce its floorplan interest expense as a percentage of total revenues by successfully managing inventory levels.

NET INCOME. Net income increased 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, as well as for working capital. Lithia has relied primarily upon internally generated cash flows from operations, borrowings under its credit facilities and the proceeds from public equity offerings to finance its operations and expansion.

In June 2000, Lithia's Board of Directors authorized the repurchase of up to 1,000,000 shares of Lithia's Class A Common Stock. Lithia has purchased shares under this program and may continue to do so from time to time in the future as conditions warrant.

In December 2000, Lithia's existing credit facility with Ford Credit was increased by \$130 million to a total of \$580 million and the expiration date was extended to November 2003 with interest due monthly. The facility includes \$250 million for new and program vehicle flooring, \$150 million for used vehicle flooring, \$130 million for franchise acquisitions and \$50 million in mortgage financing. Lithia also has the option to convert the acquisition line into a five-year term loan.

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 stores.

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, 2000.

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.

In addition, U.S. Bank N.A. has extended a \$27.5 million revolving line of credit for leased vehicles and equipment purchases.

Interest rates on all of the above facilities ranged from 7.90% to 9.15% at December 31, 2000. Amounts outstanding on the lines at December 31, 2000 were as follows (in thousands):

New and Program Vehicle Lines	\$255,137
Used Vehicle Line	59,000
Acquisition Line	8,000
Equipment and Leased Vehicle Line	27,500
	-----
	\$349,637
	=====

The \$9.0 million related party payable at December 31, 1999 was related to the 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 accrued for the issuance of \$4.5 million of its Class A Common Stock and \$4.5 million redemption value 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.

million for the construction of six new store facilities, of which \$14.2 million is anticipated to be incurred through the end of 2001 and the balance in 2002. Approximately \$2.7 million has already been paid out of existing cash balances. Lithia expects to pay for the construction out of existing cash balances until completion of the projects, at which time Lithia anticipates securing long-term financing and general borrowings for 85% to 100% of the amounts from third party lenders.

#### 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.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities-an amendment of FASB Statement No. 133" ("SFAS 138"). 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 and 138 establish accounting and reporting standards for all derivative instruments. SFAS 137 and 138 are effective for fiscal years beginning after June 15, 2000. The adoption of SFAS 137 and 138 in January 2001 resulted in the recognition of a liability of \$1.5 million and a corresponding charge to accumulated other comprehensive income for the fair value of rate swapping agreements.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"). SAB 101 summarized certain areas of the Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. In June 2000, SAB 101B was issued which defers the implementation date of SAB 101 until October 1, 2000. The implementation of SAB 101 did not have a significant impact on the Company's financial condition or results of operations.

#### Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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Lithia has variable rate floor plan notes payable and other credit line borrowings that subject it to market risk exposure. At December 31, 2000 Lithia had \$349.6 million outstanding under such facilities at interest rates ranging from 7.9% to 9.2% per annum. An increase or decrease in the interest rates would affect interest expense for the period accordingly.

In order to reduce the variability of interest payments, Lithia has fixed a portion of its interest expense by utilizing interest rate swaps as follows:

- o Effective September 1, 2000, Lithia entered into a five year, \$25 million interest rate swap with U.S. Bank Dealer Commercial Services at a fixed rate of 6.88% per annum.



- o Effective November 1, 2000 Lithia entered into a three year, \$25 million interest rate swap with U.S. Bank Dealer Commercial Services at a fixed rate of 6.47% per annum.

Lithia earns interest on both of the \$25 million interest rate swaps at the one month LIBOR rate adjusted on the first and sixteenth of every month and is obligated to pay interest at the fixed rate set for each swap (6.88% or 6.47% per annum) on the same amount. The difference between interest earned and the interest obligation accrued is received or paid each month and is recorded in the statement of operations as interest income or interest expense. The one month LIBOR rate at December 31, 2000 was 6.56% per annum.

The fair value of interest rate swap agreements and the amount of hedging losses deferred on interest rate swaps was \$1,542 at December 31, 2000. As of December 31, 2000, approximately 76% of Lithia's total debt outstanding was subject to un-hedged variable rates of interest. As a result, recent interest rate declines have resulted in a net reduction of Lithia's interest expense. The Company intends to continue to gradually hedge its interest rate exposure if market rates continue to decline.

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, 2000 is as follows:

In thousands, except per share data	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
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
2000				
Total revenues	\$ 395,603	\$ 417,851	443,066	\$ 402,091
Gross profit	62,864	67,184	70,920	66,601
Income before income taxes	8,415	10,500	11,806	8,814
Income taxes	3,451	4,306	4,283	3,182
Net income	4,964	6,194	7,523	5,632
Basic net income per share	0.40	0.50	0.60	0.45
Diluted net income per share	0.37	0.45	0.55	0.41

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 2001 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 2001 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT  
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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 2001 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS  
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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  
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(a) FINANCIAL STATEMENTS AND SCHEDULES

The Consolidated Financial Statements, together with the report thereon of KPMG LLP, are included on the pages indicated below:

	Page
Independent Auditors' Report	----- F-1

Consolidated Balance Sheets as of December 31, 2000 and 1999	F-2
Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998	F-3
Consolidated Statements of Changes in Shareholders' Equity - December 31, 2000, 1999 and 1998	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998	F-5
Notes to Consolidated Financial Statements	F-6

There are no schedules required to be filed herewith.

(b) REPORTS ON FORM 8-K

The Company filed one report on Form 8-K during the quarter ended December 31, 2000 under Item 9. Regulation FD Disclosure, dated October 23, 2000, relating to Lithia's third quarter 2000 press release and conference call.

(c) EXHIBITS

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

Exhibit	Description
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3.1	(a) Restated Articles of Incorporation of Lithia Motors, Inc., as amended May 13, 1999.
3.2	(b) Bylaws of Lithia Motors, Inc.
4	(b) Specimen Common Stock certificate
10.1	(c) 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. (1)
10.2	(b) 1996 Stock Incentive Plan
10.2.1	(d) Amendment No. 1 to the Lithia Motors, Inc. 1996 Stock Incentive Plan
10.3	(b) Form of Incentive Stock Option Agreement
10.4	(b) Form of Non-Qualified Stock Option Agreement
10.5	(e) 1997 Non-Discretionary Stock Option Plan for Non-Employee Directors
10.6	(f) Employee Stock Purchase Plan
10.7	(a) Chrysler Corporation Sales and Service Agreement General Provisions
10.7.1	(a) 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 10.7) (2)
10.8	(b) Mercury Sales and Service Agreement General Provisions

- 10.8.1 (f)Supplemental Terms and Conditions agreement between Ford Motor Company and Lithia Motors, Inc. dated June 12, 1997.
- 10.8.2 (f)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 10.8) (3)
- 10.9 (f)Volkswagen Dealer Agreement Standard Provisions
- 10.9.1 (a)Volkswagen Dealer Agreement dated September 17, 1998, between Volkswagen of America, Inc. and Lithia HPI, Inc. dba Lithia Volkswagen. (standard provisions are in Exhibit 10.9) (4)
- 10.10 (b)General Motors Dealer Sales and Service Agreement Standard Provisions
- 10.10.1 (a)Supplemental Agreement to General Motors Corporation Dealer Sales and Service Agreement dated January 16, 1998.
- 10.10.2 (g)Chevrolet Dealer Sales and Service Agreement dated October 13, 1998 between General Motors Corporation, Chevrolet Motor Division and Camp Automotive, Inc. (5)

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- | Exhibit | Description  |
|---------|--|
| -----   | -----  |
| 10.11   | (b)Toyota Dealer Agreement Standard Provisions   |
| 10.11.1 | (a)Toyota Dealer Agreement, between Toyota Motor Sales, USA, Inc. and Lithia Motors, Inc., dba Lithia Toyota, dated February 15, 1996. (6)   |
| 10.12   | (f)Nissan Standard Provisions  |
| 10.12.1 | (a)Nissan Public Ownership Addendum dated August 30, 1999 (identical documents executed by each Nissan store).   |
| 10.12.2 | (f)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 10.12) (7) |
| 10.13   | (g)Credit Agreement dated November 23, 1998 between Ford Motor Credit Company and Lithia Motors, Inc. (Acquisition Revolving Line of Credit).  |
| 10.13.1 | (a)Amendment to Credit Agreement dated November 23, 1998 between Ford Motor Credit Company and Lithia Motors, Inc. (Acquisition Revolving Line of Credit), effective December 1, 1999.   |
| 10.13.2 | Second Amendment to Credit Agreement dated November 23, 1998 between Ford Motor Credit Company and Lithia Motors, Inc. (Acquisition Revolving Line of Credit), effective December 1, 2000.                                       |
| 10.14   | (g)Credit Agreement dated November 23, 1998 between Ford Motor Credit Company and Lithia Motors, Inc. (Used Vehicle Revolving Line of Credit).   |

- 10.14.1 (a)Amendment to Credit Agreement dated November 23, 1998 between Ford Motor Credit Company and Lithia Motors, Inc. (Used Vehicle Revolving Line of Credit), effective December 1, 1999.
- 10.14.2 Second Amendment to Credit Agreement dated November 23, 1998 between Ford Motor Credit Company and Lithia Motors, Inc. (Used Vehicle Revolving Line of Credit), effective December 1, 2000.
- 10.15 (h)\$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.
- 10.15.1 Amendment No. 1 dated March 6, 2000 to Loan Agreement dated September 20, 1999 between Lithia Financial Corporation, Lithia Motors, Inc., Lithia SALMIR, Inc. and Lithia Aircraft, Inc. and U.S. Bank National Association.
- 10.15.2 (i)Amendment No. 2 dated July 26, 2000 to Loan Agreement dated September 20, 1999 between Lithia Financial Corporation, Lithia Motors, Inc., Lithia SALMIR, Inc. and Lithia Aircraft, Inc. and U.S. Bank National Association.
- 10.15.3 Amendment No. 3 dated November 9, 2000 to Loan Agreement dated September 20, 1999 between Lithia Financial Corporation, Lithia Motors, Inc., Lithia SALMIR, Inc. and Lithia Aircraft, Inc. and U.S. Bank National Association.
- 10.16 (a)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. (8)
- 10.17 (a)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. (9)

Exhibit	Description
-----	-----
10.18	(a)Lease Agreement between CAR LIT, L.L.C. and Lithia Real Estate, Inc. relating to properties in Medford, OR. (10)
21	Subsidiaries of Lithia Motors, Inc.
23	Consent of KPMG LLP
99	Risk Factors
(a)	Incorporated by reference from the Company's Form 10-K for the year ended December 31, 1999 as filed with the Securities and Exchange Commission on March 30, 2000.
(b)	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.

- (c) 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.
- (d) 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.
- (e) 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.
- (f) 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.
- (g) 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.
- (h) Incorporated by reference from the Company's Form 10-Q for the quarter ended March 31, 2000 as filed with the Securities and Exchange Commission on May 11, 2000.
- (i) Incorporated by reference from the Company's Form 10-Q for the quarter ended September 30, 2000 as filed with the Securities and Exchange Commission on November 14, 2000.
- (1) Substantially similar agreements of the same date exist between Lithia Motors, Inc. and the six other corporations controlled by W. Douglas Moreland and acquired in the Moreland acquisition.
- (2) Substantially identical agreements exist between Chrysler Corporation and those other subsidiaries operating Dodge, Chrysler, Plymouth or Jeep dealerships.
- (3) Substantially identical agreements exist for its Ford and Lincoln-Mercury lines between Ford Motor Company and those other subsidiaries operating Ford or Lincoln-Mercury dealerships.
- (4) Substantially identical agreements exist between Volkswagen of America, Inc. and those subsidiaries operating Volkswagen dealerships.
- (5) Substantially identical agreements exist between Chevrolet Motor Division, GM Corporation and those other subsidiaries operating General Motors dealerships.
- (6) Substantially identical agreements exist (except the terms are all 2 years) between Toyota Motor Sales, USA, Inc. and those other subsidiaries operating Toyota dealerships.
- (7) Substantially identical agreements exist between Nissan Motor Corporation and those other subsidiaries operating Nissan dealerships.
- (8) Substantially identical leases of the same date exist between: between Lithia Real Estate, Inc. and various entities controlled by W. Douglas Moreland relating to certain owned properties associated with the Moreland acquisition.
- (9) Substantially identical subleases of the same date exist between Lithia Real Estate, Inc. and various entities controlled by W. Douglas Moreland relating to certain leased properties associated with the Moreland acquisition.
- (10) Lithia Real Estate, Inc. leases all the property in Medford, Oregon

sold to CAR LIT, LLC under substantially identical leases covering six separate blocks of property.

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SIGNATURES

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

Date: March 20, 2001

LITHIA MOTORS, INC.

By: /s/ Sidney B. DeBoer

-----  
Sidney B. DeBoer  
Chairman of the Board and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 20, 2001:

Signature

Title

-----

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/s/ Sidney B. DeBoer

Chairman of the Board and  
Chief Executive Officer  
(Principal Executive Officer)

-----  
Sidney B. DeBoer

/s/ Jeffrey B. DeBoer

Senior Vice President  
and Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

-----  
Jeffrey B. DeBoer

/s/ M.L. Dick Heimann

Director, President and  
Chief Operating Officer

-----  
M. L. Dick Heimann

/s/ R. Bradford Gray

Director and  
Executive Vice President

-----  
R. Bradford Gray

/s/ Thomas Becker

Director

-----  
Thomas Becker

/s/ W. Douglas Moreland

Director

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W. Douglas Moreland

/s/ Gerald F. Taylor Director

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Gerald F. Taylor

/s/ William J. Young Director

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William J. Young

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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, 2000 and 1999, 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, 2000. 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 auditing standards generally accepted in the United States of America. 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, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Portland, Oregon  
February 9, 2001

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(in thousands)

	December 31,	
	2000	1999
Assets		
Current Assets:		
Cash and cash equivalents	\$ 38,789	\$ 30,364
Trade receivables, net of allowance for doubtful accounts of \$346 and \$851	32,273	25,683
Notes receivable, current portion, net of allowance for doubtful accounts of \$988 and \$677	1,933	2,777
Inventories, net	314,290	268,281
Vehicles leased to others, current portion	4,961	3,000
Prepaid expenses and other	4,276	3,815
Deferred income taxes	-	724
Total Current Assets	396,522	334,644
Land and buildings, net of accumulated depreciation of \$1,261 and \$646	60,788	31,301
Equipment and other, net of accumulated depreciation of \$7,173 and \$5,037	29,452	21,067
Notes Receivable, less current portion	1,485	4,095
Vehicles Leased to Others, less current portion	2,962	2,808
Goodwill, net of accumulated amortization of \$6,219 and \$3,073	133,871	110,677
Other Non-Current Assets, net of accumulated amortization of \$182 and \$143	2,923	1,841
Total Assets	\$ 628,003	\$ 506,433
Liabilities and Shareholders' Equity		
Current Liabilities:		
Flooring notes payable	\$ 255,137	\$ 208,403
Current maturities of long-term debt	5,257	7,039
Current portion of capital leases	85	93
Trade payables	13,651	11,873
Payable to related party	-	9,000
Accrued liabilities	22,086	23,237
Deferred income taxes	1,389	-
Total Current Liabilities	297,605	259,645
Used Vehicle Flooring Facility	59,000	35,500
Real Estate Debt, less current maturities	28,898	18,963
Other Long-Term Debt, less current maturities	43,566	19,252
Long-Term Capital Lease Obligation, less current maturities	122	196
Deferred Revenue	1,993	2,262
Other Long-Term Liabilities	6,900	5,456
Deferred Income Taxes	8,144	9,521
Total Liabilities	446,228	350,795
Shareholders' Equity:		
Preferred stock - no par value; authorized 15,000 shares; 15 shares designated Series M Preferred; issued and outstanding 14.9 and 10.4	8,915	6,216
Class A common stock - no par value;		

authorized 100,000 shares; issued and outstanding 8,412 and 7,824	108,565	102,333
Class B common stock authorized 25,000 shares; issued and outstanding 4,087	508	508
Additional paid-in capital	306	7,428
Unrealized gain on investments	15	-
Retained earnings	63,466	39,153
	-----	-----
Total Shareholders' Equity	181,775	155,638
	-----	-----
Total Liabilities and Shareholders' Equity	\$628,003	\$ 506,433
	=====	=====

See accompanying notes to consolidated financial statements.

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LITHIA MOTORS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998  
(in thousands)

	Year Ended December 31,		
	2000	1999	1998
	-----	-----	-----
Revenues:			
New vehicle sales	\$ 898,016	\$ 673,339	\$ 388,431
Used vehicle sales	480,846	375,562	220,544
Service, body and parts	164,002	120,722	72,216
Other revenues	115,747	73,036	33,549
	-----	-----	-----
Total revenues	1,658,611	1,242,659	714,740
Cost of sales	1,391,042	1,043,373	599,379
	-----	-----	-----
Gross profit	267,569	199,286	115,361
Selling, general and administrative	195,500	146,381	85,188
Depreciation - buildings	994	366	410
Depreciation - equipment and other	3,425	3,274	2,132
Amortization	3,186	1,933	927
	-----	-----	-----
Income from operations	64,464	47,332	26,704
Other income (expense):			
Floorplan interest expense	(17,728)	(11,105)	(7,108)
Other interest expense	(7,917)	(4,250)	(2,735)
Other income, net	716	74	921
	-----	-----	-----
	(24,929)	(15,281)	(8,922)
	-----	-----	-----
Income before income taxes	39,535	32,051	17,782
Income tax expense	(15,222)	(12,877)	(6,993)
	-----	-----	-----
Net income	\$ 24,313	\$ 19,174	\$ 10,789
	=====	=====	=====
Basic net income per share	\$ 1.95	\$ 1.72	\$ 1.18
	=====	=====	=====
Shares used in basic net income per share	12,447	11,137	9,147
	=====	=====	=====



See accompanying notes to consolidated financial statements.

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LITHIA MOTORS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998  
(in thousands)

	Year Ended December 31,		
	2000	1999	1998
<b>Cash flows from operating activities:</b>			
Net income	\$ 24,313	\$ 19,174	\$ 10,78
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,605	5,573	3,46
Compensation related to stock option issuances	78	78	7
(Gain) loss on sale of assets	55	(4)	3
Loss on sale of vehicles leased to others	13	253	3
Deferred income taxes	196	(1,673)	56
Equity in income of affiliate	(30)	(61)	(
(Increase) decrease, net of effect of acquisitions:			
Trade and installment contract receivables, net	(3,701)	2,940	(6,71
Inventories	1,814	(20,094)	(17,61
Prepaid expenses and other	(391)	845	(1,61
Other noncurrent assets	(1,426)	(378)	20
Increase (decrease), net of effect of acquisitions:			
Floorplan notes payable	7,083	16,012	21,42
Trade payables	814	(13,570)	(2,75
Accrued liabilities	(1,368)	4,492	2,50
Other liabilities	1,232	8,794	(1,03
Net cash provided by operating activities	36,287	22,381	9,34
<b>Cash flows from investing activities:</b>			
Notes receivable issued	(734)	(806)	(63
Principal payments received on notes receivable	4,197	6,977	3,45
Capital expenditures:			
Maintenance	(3,599)	(1,812)	(79
Financeable real estate and other	(22,384)	(12,774)	(3,13
Proceeds from sale of assets	1,140	1,779	22
Proceeds from sale of vehicles leased to others	6,597	7,805	8,48
Expenditures for vehicles leased to others	(9,701)	(8,102)	(9,32
Cash paid for acquisitions, net of cash acquired	(56,660)	(35,020)	(36,53
Cash from sale of franchises	1,287	-	
Distribution from affiliate	380	1,268	
Net cash used in investing activities	(79,477)	(40,685)	(38,26
<b>Cash flows from financing activities:</b>			
Net borrowings (repayments) on lines of credit	54,120	31,380	(15,50
Payments on capital lease obligations	(107)	(1,018)	
Principal payments on long-term debt	(13,560)	(13,175)	(39,08
Proceeds from issuance of long-term debt	9,430	9,781	43,28
Repurchase of common stock	(481)	-	

Proceeds from issuance of common stock	2,213	821	42,64
	-----	-----	-----
Net cash provided by financing activities	51,615	27,789	31,34
	-----	-----	-----
Increase in cash and cash equivalents	8,425	9,485	2,42
Cash and cash equivalents:			
Beginning of period	30,364	20,879	18,45
	-----	-----	-----
End of period	\$ 38,789	\$ 30,364	\$ 20,87
	=====	=====	=====
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ 25,580	\$ 15,330	\$ 9,72
Cash paid during the period for income taxes	15,266	11,469	6,48
Supplemental schedule of noncash investing and financing activities:			
Stock issued in connection with acquisitions	\$ -	\$ 44,053	\$ 12
Debt assumed/issued in connection with acquisitions	5,978	5,657	16,61
Termination of capital lease	-	2,431	

See accompanying notes to consolidated financial statements.

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LITHIA MOTORS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2000, 1999 and 1998

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

-----

Lithia is a leading operator of automotive franchises and retailer of new and used vehicles and services through a well developed franchise system with its automotive manufacturer partners. As of December 31, 2000, we offered 26 brands of new vehicles, through 111 franchises in 52 locations in the western United States and over the Internet. At December 31, 2000, we operated 14 dealerships in California, 14 in Oregon, 7 in Washington, 6 in Colorado, 5 in Nevada, 4 in Idaho and 2 in South Dakota. 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.

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 are being depreciated over their estimated useful lives, principally on the straight-line basis. The range of estimated useful lives is 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.

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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 shorter of the useful life or 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 \$131 and \$481 at December 31, 2000 and 1999, 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.

#### Income Taxes

-----

Income taxes are accounted for under the asset and liability method as prescribed by Statement of Financial Accounting Standards No. 109 "Accounting

for Income Taxes." Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

#### Computation of Per Share Amounts

-----

Basic earnings per share (EPS) and diluted EPS are computed using the methods prescribed by Statement of Financial Accounting Standards No. 128, Earnings per Share (SFAS 128). Following is a reconciliation of basic EPS and diluted EPS:

Year Ended December 31,	2000			1999			1998	
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Share
BASIC EPS								
Income available to Common Shareholders	\$24,313	12,447	\$1.95 =====	\$19,174	11,137	\$1.72 =====	\$10,789	9,147
EFFECT OF DILUTIVE SECURITIES								
Stock Options	-	152		-	364		-	323
Contingent issuances	-	-		-	128		-	-
Series M Preferred Stock	-	1,205		-	369		-	-
DILUTED EPS								
Income available to Common Shareholders	\$24,313	13,804	\$1.76 =====	\$19,174	11,998	\$1.60 =====	\$10,789	9,4

683,34 and 108 shares issuable pursuant to stock options have not been included in the above calculations for 2000, 1999 and 1998, respectively, since they would have been antidilutive, or "not in the money."

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#### Advertising

-----

The Company expenses production and other costs of advertising as incurred. Advertising expense was \$15,332, \$11,189 and \$5,749 for the years ended December 31, 2000, 1999 and 1998, 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. Receivables from all manufacturers accounted for 36.4% of total accounts receivable at December 31, 2000. Included in the 36.4% are two manufacturers who accounted for 12.5% and 10.3%, respectively, of the total accounts receivable balance at December 31, 2000.

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.

#### Financial Instruments and Market Risks

-----

The carrying amount of cash equivalents, trade receivables, trade payables, accrued liabilities and short term borrowings approximates 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.

Lithia has variable rate floor plan notes payable and other credit line borrowings that subject it to market risk exposure. At December 31, 2000 Lithia had \$349,637 outstanding under such facilities at interest rates ranging from 7.90% to 9.15% per annum. An increase or decrease in the interest rates would affect interest expense for the period accordingly.

Lithia also subjects itself to credit risk and market risk by entering into interest rate swaps. See Note 5. The Company minimizes the credit or repayment risk in derivative instruments by entering into transactions with high quality institutions, whose credit rating is higher than Aa.

#### Derivative Financial Instruments

-----

Lithia enters into interest rate swap agreements to reduce its exposure to market risks from changing interest rates. The difference between interest paid and interest received, which may change as market interest rates change, is accrued and recognized as interest expense or interest income. If a swap is terminated prior to its maturity, the gain or loss is recognized over the remaining original life of the swap if the item hedged remains outstanding, or immediately if the item hedged does not remain outstanding. If the swap is not terminated prior to maturity, but the underlying hedged item is no longer outstanding, the interest rate swap is marked to market, and any unrealized gain or loss is recognized immediately.



Hedging Activities-an amendment of FASB Statement No. 133" ("SFAS 138"). 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 and 138 establish accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value. SFAS 137 and 138 require that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. SFAS 137 and 138 are effective for fiscal years beginning after June 15, 2000. The adoption of SFAS 137 and 138 in January 2001 resulted in the recognition of a liability of \$1,542 and a corresponding charge to accumulated other comprehensive income for the fair value of rate swapping agreements.

#### 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 provide the 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,			
	2000		1999	
	Inventory Cost	Notes Payable	Inventory Cost	Notes Payable
New and program vehicles	\$ 239,185	\$ 255,137	\$ 198,812	\$ 208,403
Used vehicles	58,136	59,000	56,292	35,500
Parts and accessories	16,969	-	13,177	-
Total inventories	\$ 314,290	\$ 314,137	\$ 268,281	\$ 243,903

The inventory balance is generally reduced by manufacturer's purchase discounts. Such reductions are 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 new vehicle floor plan notes are due when the related vehicle is sold. As such, these floor plan notes payable are shown as a

current liability in the accompanying consolidated balance sheets.

Used vehicles are pledged to collateralize a \$150,000 line of credit. The line of credit is due in 2003.

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(3) PROPERTY, PLANT AND EQUIPMENT

December 31,	2000	1999
-----	-----	-----
Buildings and improvements	28,365	\$ 15,427
Service equipment	8,522	6,953
Furniture, signs and fixtures	24,857	19,151
	-----	-----
	61,744	41,531
Less accumulated depreciation	(8,434)	(5,683)
	-----	-----
	53,310	35,848
Land	28,659	12,872
Construction in progress, buildings	5,025	3,648
Construction in progress, other	3,246	-
	-----	-----
	90,240	\$ 52,368
	=====	=====

(4) VEHICLES LEASED TO OTHERS AND RELATED LEASE RECEIVABLES

December 31,	2000	1999
-----	-----	-----
Vehicles leased to others	\$ 8,684	\$ 6,696
Less accumulated depreciation	(761)	(888)
	-----	-----
	7,923	5,808
Less current portion	(4,961)	(3,000)
	-----	-----
	\$ 2,962	\$ 2,808
	=====	=====

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) DERIVATIVE FINANCIAL INSTRUMENTS

In order to reduce the variability of interest payments, Lithia has fixed a portion of its interest expense by utilizing interest rate swaps as follows:

- o Effective September 1, 2000, Lithia entered into a five year, \$25,000 interest rate swap with U.S. Bank Dealer Commercial Services at a fixed rate of 6.88% per annum.
- o Effective November 1, 2000 Lithia entered into a three year, \$25,000 interest rate swap U.S. Bank Dealer Commercial

Services at a fixed rate of 6.47% per annum.

Lithia earns interest on both of the \$25 million interest rate swaps at the one month LIBOR rate adjusted on the first and sixteenth of every month and is obligated to pay interest at the fixed rate set for each swap (6.88% or 6.47% per annum) on the same amount. The difference between interest earned and the interest obligation accrued is received or paid each month and is recorded in the statement of operations as interest income or interest expense. The one month LIBOR rate at December 31, 2000 was 6.56% per annum.

The fair value of interest rate swap agreements and the amount of hedging losses deferred on interest rate swaps was \$1,542 at December 31, 2000. Lithia did not have any hedging contracts at December 31, 1999. As of December 31, 2000, approximately 76% of Lithia's total debt outstanding was subject to un-hedged variable rates of interest. As a result, recent interest rate declines have resulted in a net reduction of Lithia's interest expense. The Company intends to continue to gradually hedge its interest rate exposure if market rates continue to decline.

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(6) 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,	2000	1999
Total minimum lease payments to be received	\$ 3,681	\$ 7,376
Allowance for uncollectible notes and repossession losses	(599)	(209)
	3,082	7,167
Unearned interest income	(405)	(1,039)
	\$ 2,677	\$ 6,128

Future minimum lease payments to be received on the notes receivable after December 31, 2000 are as follows:

Year ending December 31,

2001	\$ 1,485
2002	906
2003	222
2004	64
	-----
Total	\$ 2,677

(7) LINES OF CREDIT AND LONG-TERM DEBT

In December 2000, Lithia's existing credit facility with Ford Credit was increased by \$130,000 to a total of \$580,000 and the expiration date was extended to November 2003 with interest due monthly. The facility includes

\$250,000 for new and program vehicle flooring, \$150,000 for used vehicle flooring, \$130,000 for franchise acquisitions and \$50,000 in mortgage financing. Lithia also has the option to convert the acquisition line into a five-year term loan.

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 stores.

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, 2000.

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.

In addition, U.S. Bank N.A. has extended a \$27,500 revolving line of credit for leased vehicles and equipment purchases.

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The above facilities have variable interest rates, which ranged from 7.90% to 9.15% at December 31, 2000. Amounts outstanding on the lines at December 31, 2000 were as follows (in thousands):

New and Program Vehicle Lines	\$255,137
Used Vehicle Line	59,000
Acquisition Line	8,000
Equipment & Leased Vehicle Line	27,500
	-----
	\$349,637
	=====

Long-term debt consists of the following:

December 31,	2000	1999
-----	-----	-----
Equipment & lease vehicle line of credit	\$ 27,500	\$ 4,880
Acquisition line of credit	8,000	0
Used vehicle flooring line of credit	59,000	35,500
Mortgages payable in monthly installments of \$287, including interest between 7.00% and 9.50%, maturing fully December 2019;		
secured by land and buildings	30,571	19,893
Notes payable in monthly installments of \$144 plus interest calculated daily at LIBOR plus 2.20%, refinanced during 2000 as part of the equipment and lease vehicle line of credit	0	6,605
Notes payable in monthly installments of \$80 plus interest between 6.96% and 9.50%, maturing at various dates through 2004; secured by vehicles leased to others	1,819	4,514
Notes payable related to acquisitions, with		

interest rates between 5.50% and 9.50%,  
maturing at various dates between April

2001 and December 2010	9,831	9,342
Note payable in monthly installments of \$3, including interest at 10.25%, maturing fully August 2000	0	20
	-----	-----
	136,721	80,754
Less current maturities	(5,257)	(7,039)
	-----	-----
	\$ 131,464	\$ 73,715
	=====	=====

The schedule of future principal payments on long-term debt after December 31, 2000 is as follows:

Year ending December 31,	
-----	
2001	\$ 5,257
2002	36,059
2003	71,837
2004	1,531
2005	6,588
Thereafter	15,449
	-----
Total principal payments	\$ 136,721
	=====

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(8) 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.

Holdings 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 into Class A Common Stock at the option of the Company at any time and at the option of the holder under limited circumstances. The Series M Preferred Stock is redeemable at the option of the Company. 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 first quarter of 2000, the Company issued 304 shares of Class A Common Stock and 4.5 shares of Series M Preferred Stock in order to satisfy contingent payout requirements related to the Moreland acquisition.

(9) INCOME TAXES

Income tax expense for 2000, 1999 and 1998 was as follows:

Year Ended December 31,	2000	1999	1998
Current:			
Federal	\$ 12,705	\$ 10,382	\$ 5,387
State	2,194	1,979	1,041
	14,899	12,361	6,428
Deferred:			
Federal	328	411	436
State	(5)	105	129
	323	516	565
Total	\$ 15,222	\$ 12,877	\$ 6,993

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

December 31,	2000	1999
Deferred tax assets:		
Allowance and accruals	\$ 2,164	\$ 2,457
Deferred revenue	2,786	2,931
Total deferred tax assets	4,950	5,388
Deferred tax liabilities:		
LIFO recapture and acquired LIFO inventories differences	(7,555)	(8,657)
Employee benefit plans	(1,084)	(625)
Goodwill	(4,544)	(2,797)
Property and equipment, principally due to differences in depreciation	(1,300)	(2,106)
Total deferred tax liabilities	(14,483)	(14,185)
Total	\$ (9,533)	\$ (8,797)

=====

The reconciliation between amounts computed using the federal income tax rate of 35% and the Company's income tax expense for 2000, 1999 and 1998 is shown in the following tabulation.

For the Year Ended December 31,	2000	1999	1998
-----	-----	-----	-----
Computed "expected" tax expense	\$ 13,837	\$ 11,218	\$ 6,224
State taxes, net of federal income tax benefit	1,464	1,311	751
Nondeductible goodwill	443	261	-
Other	(522)	87	18
Income tax expense	\$ 15,222	\$ 12,877	\$ 6,993
	=====	=====	=====

(10) COMMITMENTS AND CONTINGENCIES

Recourse Paper

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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, 2000 and 1999 was approximately \$907 and \$3,421, 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 \$540 and \$668 is reflected in the Company's consolidated balance sheets as of December 31, 2000 and 1999, respectively. The reserves were established as a purchase price adjustment as the result of several acquisitions.

Leases

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Substantially all of the Company's operations are conducted in leased facilities under noncancelable operating leases. These leases expire at various dates through 2020. 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 Items for all Urban Consumers" published by the U.S. Department of Labor. The Company also leases certain equipment under capital leases.

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The minimum lease payments under the operating and capital leases after December 31, 2000 are as follows:

Year ending December 31,	Operating	Capital
-----	-----	-----
2001	\$ 12,618	\$ 99
2002	12,039	76
2003	11,230	54
2004	10,897	0
2005	10,495	0



Thereafter	48,947	0
	-----	-----
Total minimum lease payments	\$ 106,226	229
	=====	
Less amounts representing interest		(22)
		-----
Present value of future minimum lease payments		\$ 207
		=====

Rental expense for all operating leases was \$13,757, \$9,639 and \$5,659 for the years ended December 31, 2000, 1999 and 1998, respectively.

#### Capital Commitments

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At December 31, 2000, the Company had capital commitments of approximately \$14,900 for the construction of six new dealership facilities, of which \$14,200 is anticipated to be incurred through the end of 2001 and the balance in 2002. Approximately \$2,700 has already been paid out of existing cash balances. The Company expects to pay for the construction out of existing cash balances until completion of the projects, at which time it anticipates securing long-term financing for 90% to 100% of the amounts from third party lenders.

#### Litigation

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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.

#### (11) 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 the Company. Contributions of \$166, \$591 and \$285 were recognized for the years ended December 31, 2000, 1999 and 1998, respectively. Employees may contribute to the plan under certain circumstances.

#### (12) 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. The plans are 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 and at exercise prices as determined by the Board. At December 31, 2000, 1,433 shares of Class A Common Stock were reserved for issuance under the plans, of which 227 shares were available for future grant.

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Activity under the plans is as follows:

Shares Available for Grant	Shares Subject to Options	Weighted Average Exercise Price
----------------------------	---------------------------	---------------------------------

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	9	(9)	15.89
Options exercised	-	(35)	3.98
Balances, December 31, 1999	862	761	9.84
Options granted	(708)	708	13.27
Options canceled	73	(73)	14.05
Options exercised	-	(190)	3.20
Balances, December 31, 2000	227	1,206	\$12.65

The Board of Directors approved the issuance of non-qualified options during 2000 to certain members of senior management at an exercise price of \$1.00 per share. These options were issued with five-year cliff vesting as a means to encourage long-term employment from certain members of the senior management group. Compensation expense, which is equal to the difference between the market price and the exercise price, is recognized ratably in accordance with the vesting schedules.

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. In 2000, the shareholders approved an increase in the total number of shares of Class A Common Stock reserved for issuance under the Purchase Plan to 500 shares. 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 invest 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 134, 50 and 9 shares of the Company's Class A Common Stock were issued under the Purchase Plan during 2000, 1999 and 1998, respectively, and 307 remained available for issuance at December 31, 2000.

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").

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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,	2000	1999	1998
Risk-free interest rate	6.50%	5.50%	5.50%
Expected dividend yield	0.00%	0.00%	0.00%
Expected lives	7.0 years	7.0 years	6.7 years
Expected volatility	47.47%	49.91%	53.41%

Using the Black-Scholes methodology, the total value of options granted during 2000, 1999 and 1998 was \$6,486, \$2,910 and \$1,119, 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 2000, 1999 and 1998 was \$7.79, \$9.17 and \$8.61 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,	2000		1999		1998	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Net income	\$24,313	\$22,028	\$19,174	\$17,965	\$10,789	\$10,227
Basic net income per share	\$1.95	\$1.77	\$1.72	\$1.61	\$1.18	\$1.12
Diluted net income per share	\$1.76	\$1.66	\$1.60	\$1.52	\$1.14	\$1.09

The following table summarizes stock options outstanding at December 31, 2000:

Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding at 12/31/00	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Shares Exercisable at 12/31/00	Weighted Average Exercise Price
\$ 1.00	93	8.9	\$ 1.00	18	\$1.00
3.02	150	3.3	3.02	103	3.02
10.75 - 11.82	257	9.5	11.72	30	11.40
12.68 - 14.32	49	7.8	13.46	18	13.21
14.68 - 16.50	293	6.8	15.71	83	15.74
16.75 - 18.43	273	8.1	16.99	13	16.81
18.94 - 20.83	91	7.0	19.66	28	19.76
\$1.00 - 20.83	1,206	7.5	\$12.65	293	\$10.17

At December 31, 1999 and 1998, 296 and 239 shares were exercisable at weighted average exercise prices of \$4.60 and \$3.44, respectively.

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 \$19, \$706 and \$1,464 for the years ended December 31, 2000, 1999 and 1998, 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 is being 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 \$1, \$7 and \$12 for the years ended December 31, 2000, 1999 and 1998, respectively.

During 2000, 1999 and 1998, Lithia Real Estate, Inc. paid Mark DeBoer Construction, Inc. \$6,796, \$2,649 and \$314, respectively, for remodeling certain of the Company's facilities. These amounts included \$6,140, \$2,252 and \$281, respectively, paid for subcontractors and materials, \$32, \$171 and \$7, respectively for permits, licenses, travel and various miscellaneous fees, and \$624, \$226 and \$26, respectively, for contractor fees. 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 \$2,848 and \$672 in 2000 and 1999, respectively, to other companies owned by Mr. Moreland for vehicle purchases, recourse paid to a financial lender and management fees. The Company also paid rental expense of \$3,207 and \$1,589 in 2000 and 1999, respectively, to other companies owned by Mr. Moreland.

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 stated value Series M Restricted Preferred Stock with a fair value of \$2,700.

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(14) ACQUISITIONS

The Company acquired eight dealerships during 2000, with total estimated 1999 revenues of approximately \$254,000. None of acquisitions were individually significant and all of them were accounted for as purchase transactions.

Significant acquisitions in 1999 and 1998 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. Based on the Moreland dealerships achieving certain performance targets for 1999, additional consideration totaling \$18,000, including \$9,000 in cash, \$4,500 in Class A Common Stock and \$4,500 in stated value Series M Preferred Stock with a fair value of \$2,700 was paid and recorded as additional purchase price.

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.

Unaudited pro forma results of operations including Camp Automotive, 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.

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EXHIBIT 10.13.2

SECOND AMENDMENT TO CREDIT AGREEMENT  
(Acquisition Revolving Line of Credit)

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated effective as of December 1, 2000, 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 dated November 23, 1998, as amended by that certain Amendment to Credit Agreement dated February 24, 2000 (as amended, the "Agreement"), 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, as amended and restated by that certain Amended & Restated Promissory Note dated February 24, 2000, made by Borrower to the order of Lender in the principal amount of \$115,000,000.00 (the "Original Note"); and

WHEREAS, Borrower has requested an increase in the principal balance of the Original Loan to \$130,000,000.00 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 \$130,000,000.00 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), (iii) the Loan continues to be cross-collateralized and cross-defaulted with other Indebtedness of Borrower and Dealership Guarantors, and (iii) Lithia Real Estate, Inc. executes a security agreement in favor of Lender.

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, 2000.

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

1

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

"(g) "Applicable LIBOR Rate" means the LIBOR Rate plus two and seventy five hundredths (2.75%) per annum."

4. Section 1.1 (x) of the Agreement, entitled "Commercial Paper Rate" is hereby deleted in its entirety and the following is substituted therefore:

"(x) "LIBOR Rate" means, for any given calendar month, the per annum interest rate reported on the first Business Day of the particular calendar month under the Money Rates Column of The Wall Street Journal as the three month London Interbank Offered Rate on the last Business Day of the preceding calendar month, or, if The Wall Street Journal is unavailable for any reason, as published in such other publication as the Lender may designate."

5. 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 lesser of (i) \$130,000,000.00 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."

6. Section 1.1 (aa) of the Agreement, entitled "Consolidated Net Worth" is hereby deleted in its entirety and the following is substituted therefore:

"(aa) "Consolidated Net Worth" means, at a particular date, the amount by which the total consolidated assets (other than amounts for Equipment granted as security to a lender other than Lender, and amounts for real estate mortgaged to a lender other than Lender) of the Borrower and its consolidated Subsidiaries exceeds the total consolidated liabilities (other than liabilities for Equipment and liabilities for real estate mortgaged to a lender other than Lender)."

7. 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 February 24 2000 in the principal amount of \$115,000,000.00, as amended by the Amended & Restated Promissory Note dated as of December 1, 2000, in the principal amount of \$130,000,000.00 as it may be amended, restated or otherwise modified and in effect from time to time."

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

2

"(vvvv) "Termination Date" means the earlier of (a) December 1, 2003 or (b) the date of termination of the Commitment pursuant to either of Section 2.3 or Section 7.1 hereof."

9. Section 2.4 of the Agreement is hereby amended and restated in its entirety as follows:

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

10. Section 2.6 of the Agreement is hereby amended and restated in its entirety as follows:

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

11. Section 2.9 (b) (i) of the Agreement is hereby amended and restated in its entirety as follows:

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

12. 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.

3

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

14. 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.

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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: /s/ B. W. Evans

-----  
B. W. Evans  
National Account Manager

LITHIA MOTORS, INC.,  
an Oregon corporation

By: /s/ M. L. Dick Heimann

-----  
M. L. Dick Heimann  
President

Attest: /s/ Sidney B. DeBoer



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

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated effective as of December 1, 2000, 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 dated November 23, 1998, as amended by that certain Amendment to Credit Agreement dated February 24, 2000 (as amended, the "Agreement"), 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, as amended and restated by that certain Amended & Restated Promissory Note dated February 24, 2000, made by Borrower to the order of Lender in the principal amount of \$85,000,000.00 (the "Original Note"); and

WHEREAS, Borrower has requested an increase in the principal balance of the Original Loan to \$150,000,000.00 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 \$150,000,000.00 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), (iii) the Loan continues to be cross-collateralized and cross-defaulted with other Indebtedness of Borrower and Dealership Guarantors, and (iii) Lithia Real Estate, Inc. executes a security agreement in favor of Lender.

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, 2000.

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

therefore:

"(g) "Applicable LIBOR Rate" means the LIBOR Rate plus two and fifty five hundredths (2.55%)per annum."

4. Section 1.1 (y) of the Agreement, entitled "Commercial Paper Rate" is hereby deleted in its entirety and the following is substituted therefore:

"(x) "LIBOR Rate" means, for any given calendar month, the per annum interest rate reported on the first Business Day of the particular calendar month under the Money Rates Column of The Wall Street Journal as the three month London Interbank Offered Rate on the last Business Day of the preceding calendar month, or, if The Wall Street Journal is unavailable for any reason, as published in such other publication as the Lender may designate."

5. 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) \$150,000,000.00 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."

6. Section 1.1 (bb) of the Agreement, entitled "Consolidated Net Worth" is hereby deleted in its entirety and the following is substituted therefore:

"(aa) "Consolidated Net Worth" means, at a particular date, the amount by which the total consolidated assets (other than amounts for Equipment granted as security to a lender other than Lender, and amounts for real estate mortgaged to a lender other than Lender) of the Borrower and its consolidated Subsidiaries exceeds the total consolidated liabilities (other than liabilities for Equipment and liabilities for real estate mortgaged to a lender other than Lender)."

7. 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 February 24 2000 in the principal amount of \$85,000,000.00, as amended by the Amended & Restated Promissory Note dated [\_\_\_\_\_], 2000, in the principal amount of \$150,000,00.00 as it may be amended, restated or otherwise modified and in effect from time to time."

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

2

"(vvvv) "Termination Date" means the earlier of (a) December 1, 2003 or (b) the date of termination of the Commitment pursuant to either of Section 2.3 or Section 7.1 hereof."

9. Section 2.4 of the Agreement is hereby amended and restated in its entirety as follows:

"2.4 Method of Borrowing. The Borrower shall give the Lender irrevocable notice in substantially the form of Exhibit B hereto (a "Borrowing Notice") not later than 10:00 a.m. (Eastern Standard Time) on the business day preceding the Borrowing Date of each Advance, specifying: (i) the Borrowing Date (which shall be a business day) of such Advance; (ii) the aggregate amount of such Advance; (iii) the use of proceeds of such Advance, and (iv) the account or accounts into which the Advances should be funded. Not later than 2:00 p.m. (Eastern Standard Time) on each Borrowing Date, the Lender shall make available its Advance, in funds immediately available to the Borrower at such account or

accounts as shall have been notified to the Lender. Each Advance shall bear interest from and including the date of the making of such Advance to (but not including) the date of repayment thereof at the Applicable LIBOR Rate, changing when and as the underlying LIBOR Rate changes, which such interest shall be payable in accordance with Section 2.9(B)."

10. Section 2.6 of the Agreement is hereby amended and restated in its entirety as follows:

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

11. Section 2.9 (b) (i) of the Agreement is hereby amended and restated in its entirety as follows:

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

12. 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.

3

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

14. 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.

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4

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: /s/ B. W. Evans

-----  
B. W. Evans  
National Account Manager

LITHIA MOTORS, INC.,  
an Oregon corporation

By: /s/ M. L. Dick Heimann

-----  
M. L. Dick Heimann  
President

Attest: /s/ Sidney B. DeBoer

-----  
Sidney B. DeBoer  
Secretary

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EXHIBIT 10.15.1

ADMENDMENT TO LOAN AGREEMENT

Dated as of: March 6, 2000

Parties: LITHIA FINANCIAL CORPORATION ("LFC")  
LITHIA MOTORS, INC. ("LMI")  
LITHIA SALMIR, INC. ("LSI")

And: U.S. BANK NATIONAL ASSOCIATION ("Lender")

This agreement amends the loan agreement between the parties dated as

of September 20, 1999 ("Loan Agreement").

For valuable consideration, the parties agree as follows:

1. Sections 13.1, 13.2, and 13.10 of the Loan Agreement are amended by deleting "it" at the beginning of each such section and replacing it with "LFC".

2. Section 13.4 of the Loan Agreement is amended (a) by deleting "it" at the beginning thereof and replacing it with "LFC", and (b) by deleting therefrom "except, with respect to LMI, for Permitted Acquisitions".

3. The following is hereby added to the Loan Agreement as Section 10.13 thereof:

Year 2000. Borrower has reviewed and assessed its business operations and computer systems and applications to address the "year 2000 problem" (that is, that computer applications and equipment used by Borrower, directly or indirectly through third parties, may have been or may be unable to properly perform date-sensitive functions before, during and after January 1, 2000). Borrower represents and warrants that the year 2000 problem has not resulted in and will not result in a material adverse change in Borrower's business condition (financial or otherwise), operations, properties or prospects or ability to repay Lender. Borrower agrees that this representation and warranty will be true and correct on and shall be deemed made by Borrower on each date Borrower request any advance under this Agreement or any Note or delivers any information to Lender. Borrower will promptly deliver to Lender such information relating to this representation and warranty as Lender requests from time to time.

4. Capitalized terms used herein without definition shall have the meanings given to such terms in the Loan Agreement.

5. Each Loan Party hereby reaffirms the representations and warranties in each of the existing Loan Documents and agrees that (a) except as amended previously or herein, each Loan Document is and shall remain valid and enforceable in accordance with its terms and (b) such Loan Party has no defenses, setoffs, and counterclaims or claims for recoupment against the indebtedness and obligations represented by the Notes, Guaranty and other Loan Documents.

6. Disclosure.

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

LITHIA FINANCIAL CORPORATION

By: \_\_\_\_\_

Title: \_\_\_\_\_

LITHIA MOTORS, INC.

By: \_\_\_\_\_

Title:

-----  
LITHIA SALMIR, INC.

By:  
-----

Title:  
-----

U.S. BANK NATIONAL ASSOCIATION

By:  
-----

Title:  
-----

EXHIBIT 10.15.3

THIRD AMENDMENT TO LOAN AGREEMENT

Dated as of:  
-----

Parties: LITHIA FINANCIAL CORPORATION ("LFC")

LITHIA MOTORS, INC. ("LMI")

LITHIA SALMIR, INC. ("LSI")

LITHIA AIRCRAFT, INC. ("LAI")

And: U.S. BANK NATIONAL ASSOCIATION ("Lender")

RECITALS

A. The parties hereto have entered into a Loan Agreement dated as of September 20, 1999, as amended by amendments dated as of March 6, 2000 and July 26, 2000 (collectively, "Loan Agreement").

B. The parties hereto have agreed to amend the Loan Agreement as set forth herein.

For valuable consideration, the parties agree as follows:

1. Definitions. The definitions of Maximum Revolving Loan Amount and Revolving Loan Termination Date in Section 1.1 of the Loan Agreement are hereby deleted and replaced with the following:

"Maximum Revolving Loan Amount" means, as of any date of determination, an amount equal to \$27,500,000 minus the then outstanding aggregate principal balance of the Term-Out Notes.

"Revolving Loan Termination Date" means December 31, 2002.

2. Term Out Loans.

2.1 The last sentence of Section 3.4.1 of the Loan Agreement is deleted and replaced with the following:

The sum of the principal balance of the New Revolving Note plus the

aggregate principal balance of all Term-Out Notes shall at no time exceed \$27,500,000.

2.2 The last sentence of Section 3.4.4 of the Loan Agreement is deleted and replaced with the following:

1

Notwithstanding the foregoing, no Term-Out Note shall have a final maturity date which is later than December 31, 2007.

3. Leased Collateral. Sections 8.1.3(b) and 8.1.3(c) were inadvertently deleted from the Loan Agreement by the Second Amendment to Loan Agreement. To correct this error, Sections 8.1.3(b) and 8.1.3(c) are hereby restored to the Loan Agreement in their original form.

4. Financial Covenants. Sections 11.1.5 and 11.1.6 of the Loan Agreement are deleted and replaced with the following:

11.1.5 Minimum Tangible Net Worth. The sum of (a) LFC's Tangible Net Worth plus the principal balance, up to a maximum of \$4,500,000, of loans made by LFC to its affiliates (excluding any amounts owed by such affiliates to LFC under leases between LFC and such affiliates) shall not be less than \$4,500,000.

11.1.6 LFC Fixed Charge Coverage Ratio. LFC shall maintain, as of the last day of each fiscal quarter, an LFC Fixed Charge Coverage Ratio of at least 1.0 to 1.0.

5. Exhibit A. Exhibit A to the Loan Agreement is replaced with the Exhibit A attached hereto and hereby incorporated herein.

6. Defined Terms. Capitalized terms used herein without definition shall have the meanings given to such terms in the Loan Agreement.

7. Reaffirmation. Each Loan Party hereby reaffirms the representations and warranties in each of the existing Loan Documents and agrees that (a) except as amended previously or herein, each Loan Document is and shall remain valid and enforceable in accordance with its terms and (b) such Loan Party has no defenses, setoffs, counterclaims or claims for recoupment against the indebtedness and obligations represented by the Notes, Guaranties and other Loan Documents.

8. Conditions to Effectiveness. The effectiveness of this Agreement is subject to execution of this Agreement and satisfaction of the following conditions:

8.1 Execution and delivery to Lender of a new New Revolving Note and Commercial Security Agreement.

8.2 Receipt by Lender of all documents and information Lender may request relating to the authority for and validity of this Agreement and the other Loan Documents, and to any other related matters, each in form and substance satisfactory to Lender.

8.3 Execution of such documents and satisfaction by each Loan Party of such additional requirements as Lender reasonably requires.

9. Recitals. The Recitals are hereby incorporated herein.

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10. Disclosure.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY

LENDERS AFTER OCTOBER 3, 1989, CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY THE LENDER TO BE ENFORCEABLE.

LITHIA FINANCIAL CORPORATION

By: \_\_\_\_\_

Title: \_\_\_\_\_

LITHIA MOTORS, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

LITHIA SALMIR, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION

By: \_\_\_\_\_

Title: \_\_\_\_\_

LITHIA AIRCRAFT, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

EXHIBIT A

PROMISSORY NOTE

\$27,500,000

Dated as of: \_\_\_\_\_

LITHIA FINANCIAL CORPORATION ("LFC")

LITHIA AIRCRAFT, INC. ("LAI")

U.S. BANK NATIONAL ASSOCIATION ("Lender")



1. Type of Credit. This note is given to evidence LFC'S and LAI's obligation to repay all sums which Lender may from time to time advance to LFC and LAI ("Advances") under a revolving line of credit. No Advances shall be made which create a maximum amount outstanding at any one time which exceeds the maximum amount shown in Section 2. However, Advances hereunder may be borrowed, repaid and reborrowed, and the aggregate Advances loaned hereunder from time to time may exceed such maximum amount.

2. Principal Balance. The unpaid principal balance of all Advances outstanding under this note ("Principal Balance") at one time shall not exceed \$27,500,000 minus the aggregate outstanding principal balance of the Term-Out Notes (as defined in the Loan Agreement between LFC, LAI, Lender and certain other parties, dated as of September 20, 1999, as amended from time to time).

3. Promise to Pay. For value received, LFC and LAI (individually and collectively, "Borrower") jointly and severally promise to pay to Lender or order at PO Box 5308, Portland, OR, 97228 or such other address as Lender may designate, the Principal Balance of this note, with interest thereon at the rate(s) specified in Sections 4 and 11 below.

4. Interest Rate. The interest rate on the Principal Balance outstanding may vary from time to time pursuant to the provisions of this note. Subject to Sections 4(b)(iii), 4(b)(iv) and 11, interest shall accrue on the Principal Balance of this note from time to time at a per annum rate equal to the LIBOR Borrowing Rate.

(a) Definitions. The following terms shall have the following meanings:

"Business Day" means any day other than a Saturday, Sunday, or other day that commercial banks in Portland, Oregon, Minneapolis, Minnesota, Seattle, Washington or New York City are authorized or required by law to close; provided, however that when used in connection with the LIBOR Rate, such term shall also exclude any day on which dealings in U.S. dollar deposits are not carried on in the London interbank market.

"LIBOR Rate" means, for any day, (the "Current Day"), the average offered rate for deposits in United States Dollars (rounded upwards to the

1

nearest 1/16 of 1%) for delivery of such deposits on the Current Day for the one-month period commencing on the Current Day, which appears on Telerate Page 3750 as of 11:00 a.m. London time (or such other time as of which such rate appears) on the day that is two Business Days preceding the Current Day; or the rate for such deposits determined by Lender at such time based on such other published service of general application as shall be selected by Lender for such purpose; provided that in lieu of determining the rate in the foregoing manner, Lender may determine the rate based on the rates offered to Lender for deposits in United States Dollars (rounded upwards to the nearest 1/16 of 1%) in the interbank eurodollar market at such time for delivery on the Current Day for the one-month period commencing on the Current Day; and provided, further, that in any case the LIBOR Rate shall be adjusted to take into account the maximum reserves required to be maintained for Eurocurrency liabilities by banks as specified in Regulation D of the Board of Governors of the Federal Reserve System or any successor regulation. The LIBOR Rate for any day which is not a Business Day shall be the LIBOR Rate in effect on the immediately preceding Business Day. When the LIBOR Rate is applicable, the interest rate hereunder shall be adjusted without notice effective on the day the LIBOR Rate changes, but in no event shall the rate of interest be higher than allowed by law.

"Prime Rate" means the rate of interest which Lender from time to time establishes as its prime or reference rate and is not, for example, the lowest rate of interest which Lender collects from any borrower or class of borrowers. When the Prime Rate is applicable, the interest rate hereunder shall be adjusted without notice effective on the day the Prime Rate changes, but in no event

shall the rate of interest be higher than allowed by law.

"Prime Borrowing Rate" means a variable per annum rate equal to the Prime Rate.

"Telerate Page 3750" means the display designated as such on the Bridge Telerate, Inc. service or any successor service (or such other page as may replace page 3750 on such service for the purpose of displaying London interbank offered rates of major banks for United States Dollar deposits).

(b) The LIBOR Borrowing Rate.

(i) The LIBOR Borrowing Rate is a variable per annum rate equal to the LIBOR Rate plus 1.75%.

(ii) Any request for an Advance shall be made in accordance with the provisions of Section 14.

(iii) If at any time the LIBOR Rate is unascertainable or unavailable to Lender or if LIBOR Rate loans become unlawful, the LIBOR Borrowing Rate shall terminate automatically and immediately, and unless the Default Rate is applicable, the Prime Borrowing Rate automatically shall become effective upon such termination.

(iv) If at any time after the date hereof (A) any revision in or adoption of any applicable law, rule, or regulation or in the interpretation or administration thereof (i) shall subject Lender or its Eurodollar lending office to any tax, duty, or other charge, or change the basis of taxation of payments to Lender with respect to any loans bearing interest based on the LIBOR Rate, or (ii) shall impose or modify any reserve, insurance, special deposit, or similar requirements against assets of, deposits with or for the account of, or credit extended by Lender or its Eurodollar lending office, or impose on Lender or its

2

Eurodollar lending office any other condition affecting any such loans, and (B) the result of any of the foregoing is (i) to increase the cost to Lender of making or maintaining any such loans or (ii) to reduce the amount of any sum receivable under this note by Lender or its Eurodollar lending office, Borrower shall pay Lender within 15 days after demand by Lender such additional amount as will compensate Lender for such increased cost or reduction. The determination hereunder by Lender of such additional amount shall be conclusive in the absence of manifest error. If Lender demands compensation under this Section 4(b)(iv), Borrower may, upon payment of such additional amount, unless the Default Rate is applicable, elect to have the Prime Borrowing Rate apply to the Principal Balance of this note.

(v) If the LIBOR Borrowing Rate is in effect, Borrower shall pay interest based on such rate, plus any other applicable taxes or charges hereunder, even though Lender may have obtained the funds loaned to Borrower from sources other than the London interbank market. Lender's determination of the LIBOR Borrowing Rate and any such taxes or charges shall be conclusive in the absence of manifest error.

5. Computation of Interest. All interest on this note will be computed at the applicable rate based on a 360-day year and applied to the actual number of days elapsed.

6. Payment Schedule

(a) Principal. Principal shall be paid on December 31, 2002.

(b) Interest. Interest shall be paid on the 1st day of each month beginning with the month after the date this note is dated, and at maturity.

7. Prepayment. Prepayments may be made at any time without penalty. Principal prepayments will not postpone the date of or change the amount of any regularly scheduled payment. At the time of any principal prepayment, all accrued interest, fees, costs and expenses shall also be paid.

8. Change in Payment Amount. Each time the interest rate on this note changes the holder of this note may, from time to time, in holder's sole discretion, increase or decrease the amount of each of the installments remaining unpaid at the time of such change in rate to an amount holder in its sole discretion deems necessary to continue amortizing the Principal Balance at the same rate established by the installment amounts specified in Section 6(a), whether or not a "balloon" payment may also be due upon maturity of this note. Holder shall notify the undersigned of each such change in writing. Whether or not the installment amount is increased under this Section 8, Borrower understands that, as a result of increases in the rate of interest the final payment due, whether or not a "balloon" payment, shall include the entire Principal Balance and interest thereon then outstanding, and may be substantially more than the installment specified in Section 6.

9. Alternate Payment Date. Notwithstanding any other term of this note, if in any month there is no day on which a scheduled payment would otherwise be due (e.g. February 31), such payment shall be paid on the last banking day of that month.

10. Payment by Automatic Debit.

Borrower hereby authorizes Lender to automatically deduct the amount of all principal and interest payments from account number 153600740853 with Lender. If there are insufficient funds in the account to pay the automatic deduction in full, Lender may allow the account to become overdrawn, or Lender

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may reverse the automatic deduction. Borrower will pay all the fees on the account which result from the automatic deductions, including any overdraft and non-sufficient funds charges. If for any reason Lender does not charge the account for a payment, or if an automatic payment is reversed, the payment is still due according to this note. If the account is a Money Market Account, the number of withdrawals from that account is limited as set out in the account agreement. Lender may cancel the automatic deduction at any time in its discretion.

Provided, however, if no account number is entered above, Borrower does not want to make payments by automatic debit.

11. Default.

(a) Any Event of Default under the Loan Agreement between Borrower, Lender and Lithia Motors, Inc. dated September 20, 1999, and any amendments, modifications, supplements, renewals, substitutions and replacements thereof or therefor, shall be an event of default hereunder.

(b) Without prejudice to any right of Lender to require payment on demand, upon the occurrence of an event of default, Lender may terminate all commitments to lend, cease making Advances and declare the entire unpaid Principal Balance on this note and all accrued unpaid interest immediately due and payable, without notice; provided, however, that if any proceeding under any bankruptcy or insolvency laws is commenced by or against Borrower, all commitments to lend shall be immediately terminated without notice and the entire Principal Balance and all accrued, unpaid interest shall, without notice, become immediately due and payable. Upon default, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, increase the interest rate on this note by 2% per annum ("Default Rate"). The interest rate will not exceed the maximum rate permitted by applicable law. In addition, if any payment of principal or interest is 19 or more days past due, Borrower will

be charged a late charge of 5% of the delinquent payment.

12. Evidence of Principal Balance; Payment on Demand. Holder's records shall, at any time, be conclusive evidence of the unpaid Principal Balance and interest owing on this note. Notwithstanding any other provisions of this note, in the event holder makes Advances hereunder which result in an unpaid Principal Balance on this note which at any time exceeds the maximum amount specified in Section 2, Borrower agrees that all such Advances, with interest, shall be payable on demand.

13. Demand Note. If this note is payable on demand, Borrower acknowledges and agrees that (a) Lender is entitled to demand Borrower's immediate payment in full of all amounts owing hereunder and (b) neither anything to the contrary contained herein or in any other loan documents (including but not limited to, provisions relating to defaults, rights of cure, default rate of interest, installment payments, late charges, periodic review of Borrower's financial condition, and covenants) nor any act of Lender pursuant to any such provisions shall limit or impair Lender's right or ability to require Borrower's payment in full of all amounts owing hereunder immediately upon Lender's demand.

14. Requests for Advances.

(a) Any Advance may be made upon the request of Borrower (if an individual), any of the undersigned (if Borrower consists of more than one individual), any person or persons authorized in subsection (b) of this Section 14, and any person or persons otherwise authorized to execute and deliver promissory notes to Lender on behalf of Borrower.

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(b) Borrower hereby authorizes any one of the following individuals to request Advances:

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(c) All Advances shall be disbursed by deposit directly to Borrower's account number 153600740853 with Lender, by cashier's check issued to Borrower, or by payment to any Seller.

(d) Borrower agrees that Lender shall have no obligation to verify the identity of any person making any request pursuant to this Section 14, and Borrower assumes all risks of the validity and authorization of such requests. In consideration of Lender agreeing, at its sole discretion, to make Advances upon such requests, Borrower promises to pay holder, in accordance with the provisions of this note, the Principal Balance together with interest thereon and other sums due hereunder, although any Advances may have been requested by a person or persons not authorized to do so.

15. Periodic Review. Lender will review Borrower's credit accommodations periodically. At the time of the review, Borrower will furnish Lender with any additional information regarding Borrower's financial condition and business operations that Lender requests. This information may include but is not limited to, financial statements, tax returns, lists of assets and liabilities, agings of receivables and payables, inventory schedules, budgets and forecasts. If upon review, Lender, in its sole discretion, determines that there has been a material adverse change in Borrower's financial condition, Borrower will be in default. Upon default, Lender shall have all rights specified herein.

16. Notices. Any notice hereunder may be given by ordinary mail, postage paid and addressed to Borrower at the last known address of Borrower as shown on holder's records. If Borrower consists of more than one person, notification of any of said persons shall be complete notification of all.

17. Attorney Fees. Whether or not litigation or arbitration is commenced, Borrower promises to pay all costs of collecting overdue amounts. Without limiting the foregoing, in the event that holder consults an attorney regarding the enforcement of any of its rights under this note or any document securing the same, or if this note is placed in the hands of an attorney for collection or if suit or litigation is brought to enforce this note or any document securing the same, Borrower promises to pay all costs thereof including such additional sums as the court or arbitrator(s) may adjudge reasonable as attorney fees, including without limitation, costs and attorney fees incurred in any appellate court, in any proceeding under the bankruptcy code, or in any receivership and post-judgment attorney fees incurred in enforcing any judgment.

18. Waivers; Consent. Each party hereto, whether maker, co-maker, guarantor or otherwise, waives diligence, demand, presentment for payment, notice of non-payment, protest and notice of protest and waives all defenses based on suretyship or impairment of collateral. Without notice to Borrower and without diminishing or affecting Lender's rights or Borrower's obligations hereunder, Lender may deal in any manner with any person who at any time is liable for, or provides any real or personal property collateral for, any indebtedness of Borrower to Lender, including the indebtedness evidenced by this note. Without

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limiting the foregoing, Lender may, in its sole discretion: (a) make secured or unsecured loans to Borrower and agree to any number of waivers, modifications, extensions and renewals of any length of such loans, including the loan evidenced by this note; (b) impair, release (with or without substitution of new collateral), fail to perfect a security interest in, fail to preserve the value of, fail to dispose of in accordance with applicable law, any collateral provided by any person; (c) sue, fail to sue, agree not to sue, release, and settle or compromise with, any person.

19. Joint and Several Liability. All undertakings of the undersigned Borrowers are joint and several and are binding upon any marital community of which any of the undersigned are members. Holder's rights and remedies under this note shall be cumulative.

20. Governing Law. This note shall be governed by and construed and enforced in accordance with the laws of the State of Oregon without regard to conflicts of law principles; provided, however, that to the extent that Lender has greater rights or remedies under Federal law, this provision shall not be deemed to deprive Lender of such rights and remedies as may be available under Federal law.

21. Renewal Note. This note renews, increases the amount of and modifies the terms of the promissory note executed by Borrower dated July 26, 2000 in the principal amount of \$20,000,000, but shall not be deemed to be a replacement for or to constitute a novation of such note.

22. Disclosure.

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

THE UNDERSIGNED HEREBY ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS DOCUMENT.

LITHIA FINANCIAL CORPORATION

By:

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Title:  
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LITHIA AIRCRAFT, INC.

By:  
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Title:  
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LIST OF SUBSIDIARIES

EXHIBIT 21

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 Motors Support Services, Inc.	Oregon	
Lithia TLM, LLC)	Oregon	Lithia Toyota
Lithia Grants Pass Auto Center, LLC (owned by Lithia Motors, Inc. and LGPAC, Inc., a wholly owned subsidiary of Lithia Motors)	Oregon	Lithia Grants Pass Auto Center
Lithia Dodge, LLC(owned by Lithia Motors, Inc. and Lithia DM, Inc., a wholly owned subsidiary of Lithia Motors)	Oregon	Lithia Dodge
Saturn of Southwest Oregon, Inc.	Oregon	Saturn of Southwest Oregon
SOE, LLC (owned 100% by Lithia SH, LLC a wholly owned subsidiary of Lithia Motors, Inc.)	Oregon	Saturn of Eugene
Lithia HPI, Inc.	Oregon	Lithia Isuzu 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 Medford LM, Inc.	Oregon	Lithia Lincoln Mercury Lithia Suzuki Lithia Mazda

Lithia Medford Hon, Inc.  
Lithia AB, Inc.  
Lithia BB, Inc.

Oregon  
California  
California

Lithia Honda  
Acura of Bakersfield  
BMW of Bakersfield

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Name of Entity	State of origin	ASSUMED BUSINESS NAME(S) (if different than entity name)
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 JEF, Inc.	California	Lithia Hyundai of Fresno
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 TKV, Inc.	California	Lithia Toyota of Vacaville
Lithia TR, Inc.	California	Lithia Toyota of Redding
Lithia VVC, 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

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Name of Entity	State of origin	ASSUMED BUSINESS NAME(S) (if different than entity name)
Lithia Foothills Chrysler, Inc.	Colorado	Lithia Foothills Chrysler Lithia Foothills Hyundai
Camp Automotive, Inc.	Delaware	Camp BMW Camp Chevrolet Camp Subaru
Roundtree Isuzu, Inc. (owned by Lithia/Roundtree Holding Company, Inc. a wholly owned subsidiary of Lithia Motors Inc.)	Idaho	Roundtree Isuzu
Roundtree Chevrolet, Inc. (owned by Lithia/Roundtree Holding Company, Inc. a wholly owned subsidiary of Lithia Motors Inc.)	Idaho	Roundtree Chevrolet
Roundtree Lincoln-Mercury, Inc. (owned by Lithia/Roundtree Holding Company, Inc a wholly owned subsidiary of Lithia Motors Inc.)	Idaho	Roundtree Lincoln-Mercury
Roundtree DW, Inc. (owned by Lithia/Roundtree	Idaho	Roundtree Daewoo

<p>           Holding Company, Inc. a wholly owned subsidiary            of Lithia Motors Inc.)            Lithia Ford of Boise, Inc.            Lithia Chrysler Plymouth of Boise, Inc.            Lithia of Pocatello, Inc.         </p>	<p>           Idaho            Idaho            Idaho         </p>	<p>           Lithia Ford of Boise            Lithia Chrysler of Boise            Lithia Chrysler Dodge of            Pocatello            Lithia Hyundai of Pocatello            Honda of Pocatello         </p>
<p>           Lithia Poca-Hon, Inc.            Lithia SALMIR, Inc.         </p>	<p>           Idaho            Nevada         </p>	<p>           Lithia Audi of Reno            Lithia Volkswagen of Reno            Lithia Isuzu of Reno            Lithia Lincoln Mercury of            Reno            Lithia Suzuki of Sparks            Lithia Hyundai of Reno         </p>
<p>           Lithia Reno Sub-Hyun, Inc.            Lithia VS, LLC (owned by Camp Automotive, Inc.)            Lithia Dodge of Tri-Cities, Inc.            Lithia DC of Renton, Inc.         </p>	<p>           Nevada            Washington            Washington            Washington         </p>	<p>           Lithia Reno Subaru            Camp Volvo            Lithia Dodge of Tri-Cities            Lithia Dodge of Renton            Lithia Chrysler Jeep of            Renton         </p>
<p>           Lithia FTC, Inc.            TC Hon, Inc.            Lithia of Sioux Falls, Inc.         </p>	<p>           Washington            Washington            South            Dakota         </p>	<p>           Lithia Ford of Tri-Cities            Honda of Tri-Cities            Lithia Subaru of Sioux Falls         </p>
<p>           Lithia Automotive, Inc.         </p>	<p>           South            Dakota         </p>	<p>           Chevrolet of Sioux Falls         </p>
<p>           Lithia Chrysler Jeep of Anchorage, Inc.         </p>	<p>           Alaska         </p>	<p>           Lithia Chrysler Jeep of            Anchorage         </p>

All entities are owned directly by Lithia Motors, Inc. unless specifically noted to the contrary.

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, 333-80459 and 333-39092) on Form S-8 of Lithia Motors, Inc. of our report dated February 9, 2001, relating to the consolidated balance sheets of Lithia Motors, Inc. and Subsidiaries as of December 31, 2000 and 1999, 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, 2000, which report appears in the December 31, 2000 annual report on Form 10-K of Lithia Motors, Inc.

/s/ KPMG LLP

Portland, Oregon,  
 March 19, 2001



## 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 store. 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 stores 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, under current accounting rules, 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 store 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 stores owned by the applicant and the applicant's performance with those stores. Most major manufacturers have now established limitations or guidelines on:

- o the total number of such manufacturers' stores that may be acquired by a single dealer;
- o the number of stores that may be acquired in any market or region;
- o the percentage of total sales that may be controlled by one dealer group;
- o the ownership of contiguous stores;
- o the dualing of a franchise with another brand; and
- o the frequency of acquisitions

Although Lithia currently owns more Chrysler product stores than provided in its guidelines, Chrysler has continued to approve 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.

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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/or Mr. Heimann are identified in most of Lithia's store franchise agreements as the individuals who control the franchises and upon whose financial resources and management expertise the manufactures have relied upon when awarding, or approving the transfer of, 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 stores for the profitability of such stores. Lithia has increased its number of stores from 7 in December 1996 to 56 as of March 2001. 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 stores 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 STORES IT ACQUIRES.

Lithia sometimes acquires stores 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 store. No assurance can be given that Lithia will be able to improve the profitability of those stores.

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 store, and promptly and profitably integrate the acquired operation into the Company. See "Business Growth Strategy."

