LITHIA MOTORS INC

FORM 10-K
(Annual Report)

Filed 03/31/03 for the Period Ending 12/31/02

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

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

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended: December 31, 2002
OR
[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 000-21789

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

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

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

Securities registered pursuant to Section 12(b) of the Act:
Class A common stock, without par value

Securities registered pursuant to Section 12(g) of the Act: **None**
(Title of Class)

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was $212,850,706, computed by reference to the last sales price ($26.92) as reported by the New York Stock Exchange for the Registrant's Class A common stock, as of the last business day of the Registrant's most recently completed second fiscal quarter (June 28, 2002).

The number of shares outstanding of the Registrant's common stock as of March 20, 2003 was: Class A: 14,359,448 shares and Class B: 3,762,231 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 2003 Annual Meeting of Shareholders.

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PART I

Item 1. Business

Forward Looking Statements and Risk Factors

Some of the statements under the sections entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business” and elsewhere in this Form 10-K constitute forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expect,” “plan,” “intend,” “forecast,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” and “continue” or the negative of these terms or other comparable terminology. The forward-looking statements contained in this Form 10-K involve known and unknown risks, uncertainties and situations that may cause our actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. Some of the important factors that could cause actual results to differ from our expectations are discussed in Exhibit 99.3 to this Form 10-K.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements.

Where You Can Find More Information

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934 as amended (the “Exchange Act”). You can inspect and copy our reports, proxy statements, and other information filed with the SEC at the offices of the SEC’s Public Reference Rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Rooms. The SEC maintains an Internet Web site at http://www.sec.gov/ where you can obtain most of our SEC filings. In addition, you can inspect our reports and other information at the offices of the New York Stock Exchange at 20 Broad Street, New York, NY 10005. We also make available free of charge on our website at www.lithia.com our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after they are filed electronically with the SEC. You can also obtain copies of these reports by contacting Investor Relations at 541-776-6591.

Overview

We are a leading operator of automotive franchises and retailer of new and used vehicles and services. As of March 14, 2003, we offered 24 brands of new vehicles through 132 franchises in 71 stores in the western United States and over the Internet. As of March 14, 2003, we operate 17 stores in Oregon, 12 in California, 10 in Washington, 7 in Texas, 6 in Idaho, 6 in Colorado, 5 in Nevada, 3 in South Dakota, 3 in Alaska and 2 in Nebraska. We sell new and used cars and light trucks; sell replacement parts; provide vehicle maintenance, warranty, paint and repair services; and arrange related financing and insurance for our automotive customers. Over 75% of our stores are located in cities where

our store does not compete directly with any other franchised dealers selling the same brand.

We achieve gross margins above industry averages by selling a higher ratio of retail used vehicles to new vehicles and by arranging finance and extended warranty contracts for a greater percentage of our customers. In 2002, we achieved a gross margin of 15.8%.

We were founded in 1946 and incorporated in 1968. Our two senior executives have managed the company for more than 30 years. Since our initial public offering in 1996, we have grown from 5 to 71 stores, primarily through an aggressive acquisition program, increasing annual revenues from $143 million in 1996 to $2.4 billion in 2002. In addition, since our initial public offering through December 31, 2002, we have achieved average annual growth rates of 66% per year for revenues, 59% per year for net income and 25% per year for earnings per share, together with a 4.4% average annual same store sales increase.

The Industry

At approximately $1.0 trillion in annual sales, automotive retailing is the largest retail trade sector in the United States and comprises roughly 10% of the GDP. The industry is highly fragmented with the 100 largest automotive retailers generating approximately 16% of total industry revenues in 2001. The number of franchised stores has declined significantly since 1960 from more than 36,000 stores to approximately 22,000 in 2001. In the U.S., vehicles can be purchased from approximately 22,000 franchised dealers, 53,000 independent used vehicle dealers, or through casual (person to person) transactions. New vehicles can only be sold through automotive retail stores franchised by auto manufacturers. These franchise stores have designated trade territories under state franchise law protection, which limits the number of new stores that can be opened in any given area.

Consolidation is expected to continue as many smaller automotive retailers are now considering selling or joining forces with larger retailer groups, given the large capital requirements necessary to operate in today's retail environment. With many owners reaching retirement age, often without clear succession plans, larger, well-capitalized automotive retailers provide an attractive exit strategy. We believe these factors, in conjunction with an uncertain economy, provide an attractive environment for continuing consolidation.

Unlike other retailing segments, automotive manufacturers provide unparalleled support to the automotive retailer. Manufacturers often bear the burden of markdown risks on slow-moving inventory as they provide aggressive dealer and customer incentives to clear aged inventory in order to free the inventory pipeline for new purchases. In addition, an automotive retailer's cash investment in inventory is relatively small, given floorplan financing from manufacturers. Furthermore, manufacturers provide low-cost financing for working capital and acquisitions and credit to consumers to finance vehicle purchases, as well as pay retail prices to their dealers for servicing vehicles under manufacturers' warranties.

Sales in the automotive sector are affected by general economic conditions including rates of employment, income growth, interest rates and general consumer sentiment.

New vehicle sales usually decline during a weak economy; however, the higher margin service and parts business typically benefits in the same environment because consumers tend to keep their vehicles longer. Strong sales of new vehicles in recent years have provided a population of vehicles for future service and parts revenues. Automotive retailers benefit from their designation as an exclusive warranty and recall service provider of a manufacturer. For the typical manufacturer's warranty, this provides an automotive retailer with a period of at least 3 years of repeat business for service covered by warranty. Extended warranties can add two or more years to this repeat servicing period.

Automotive retailers' profitability varies widely and depends in part on product mix, effective management of inventory, marketing, quality control and responsiveness to customers. Historically, new vehicles account for an estimated 60% of industry revenues, but only 35% of gross profits. The remaining 40% of revenues are derived from used vehicles sales (26%), service and parts (10%) and finance and insurance (4%), which combine to contribute 65% of the sector's gross profits. Gross margins on new vehicles typically average approximately 8.5%, versus 11.3% for retail used vehicles. The difference is primarily a function of the non-comparability among used vehicles and lack of standardized pricing.

Automotive retailers have much lower fixed overhead costs than automobile manufacturers and parts suppliers. Variable and discretionary costs, such as sales commissions and personnel, advertising and inventory finance expenses, can be adjusted to match new vehicle sales. Variable and discretionary costs account for an estimated 60-65% of the industry's total expenses. Moreover, an automotive retailer can enhance its profitability from sales of higher margin products and services. Gross margins for the parts and service business are significantly higher at approximately 48%, given the labor-intensive nature of the product category. Gross margins for finance and insurance are virtually 100% as they are fee driven income items. These supplemental, high margin products and services provide substantial incremental revenue and net income, decreasing the reliance on the highly competitive new vehicle sales.

Store Operations

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 for improving performance, we make available to each store a team of specialists in new vehicle sales, used vehicle sales, finance and insurance, service and parts, and back-office administration.

The following tables set forth information about our stores:

State	Number of Stores	Number of Franchises	Percent of Total Revenue in 2002
Oregon	17	36	19%
California	12	20	18
Washington	10	18	16
Colorado	6	14	12
Texas	7	15	12
Idaho	6	10	8
Nevada	5	8	5
South Dakota	3	3	4
Alaska	3	5	3
Nebraska	2	2	3
Total	71	132	100%

Location	Store	Franchises	Year Opened/ Acquired
CALIFORNIA			
Concord	Lithia Dodge of Concord	Dodge, Dodge Truck	1997
	Lithia Ford of Concord	Ford	1997
	Lithia Volkswagen of Concord	Volkswagen	1997
Fresno	Lithia Ford of Fresno	Ford	1997
	Lithia Nissan Hyundai of Fresno	Nissan, Hyundai	1998
	Lithia Mazda Suzuki of Fresno	Mazda, Suzuki	1997
Napa	Lithia Ford Lincoln Mercury of Napa	Ford, Lincoln, Mercury	1997
Redding	Lithia Chevrolet of Redding	Chevrolet	1998
	Lithia Toyota of Redding	Toyota	1998
Vacaville	Lithia Toyota of Vacaville	Toyota	1996
Burlingame	Lithia Chrysler Jeep Dodge of Burlingame	Chrysler, Dodge, Dodge Truck, Jeep	2002
Salinas	Chevrolet of Salinas	Chevrolet	2003
OREGON			
Eugene	Lithia Dodge of Eugene	Dodge, Dodge Truck	1996
	Lithia Nissan of Eugene	Nissan	1998
	Saturn of Eugene	Saturn	2000
Grants Pass	Lithia's Grants Pass Auto Center	Dodge, Dodge Truck, Chrysler, Jeep	Pre-IPO
Klamath Falls	Lithia Klamath Falls Auto Center	Toyota, Dodge, Dodge Truck, Chrysler, Jeep	1999
Medford	Lithia Chrysler Jeep Dodge	Dodge, Dodge Truck, Chrysler, Jeep	Pre-IPO
	Lithia Honda	Honda	Pre-IPO
	Lithia Lincoln Mercury Suzuki Mazda	Lincoln, Mercury, Mazda, Suzuki	Pre-IPO
	Lithia Nissan	Nissan	1998
	Medford BMW	BMW	1998
	Lithia Toyota	Toyota	Pre-IPO
	Lithia Volkswagen	Volkswagen	Pre-IPO
	Saturn of Southwest Oregon	Saturn	Pre-IPO
Oregon City (Portland)	Lithia Subaru of Oregon City	Subaru	2002
Roseburg	Lithia Ford Lincoln Mercury of Roseburg	Ford, Lincoln, Mercury	1999
	Lithia Chrysler Jeep Dodge of Roseburg	Dodge, Dodge Truck, Chrysler, Jeep	1999
Springfield (Eugene)	Lithia Dodge of Springfield	Toyota	1998
COLORADO			
Aurora (Denver)	Lithia Dodge of Cherry Creek	Dodge, Dodge Truck	1999
	Lithia Colorado Chrysler Jeep	Chrysler, Jeep	1999
Colorado Springs	Lithia Colorado Springs Jeep Chrysler	Jeep, Chrysler	1999
Englewood (Denver)	Lithia Centennial Chrysler Jeep	Chrysler, Jeep	1999
Fort Collins	Lithia Foothills Chrysler Hyundai	Dodge, Dodge Truck, Chrysler, Hyundai, Jeep	1999

Location	Store	Franchises	Year Opened/ Acquired
WASHINGTON			
Bellevue (Seattle)	Chevrolet Hummer of Bellevue	Chevrolet	2001
		Hummer	2002
Issaquah (Seattle)	Chevrolet of Issaquah	Chevrolet	2001
Kennewick	Honda of Tri-Cities	Honda	2000
	Lithia Dodge of Tri-Cities	Dodge, Dodge Truck	1999
Renton	Lithia Chrysler Jeep Dodge of Renton	Chrysler, Jeep, Dodge, Dodge Truck	2000
	Lithia Hyundai of Renton	Hyundai	2002
Richland	Lithia Ford of Tri-Cities	Ford	2000
Seattle	BMW Seattle	BMW	2001
Spokane	Lithia Camp Chevrolet	Chevrolet, Cadillac	1998
	Lithia Camp Imports	Subaru, BMW, Volvo	1998
IDAHO			
Boise	Lithia Ford of Boise	Ford	2000
	Chevrolet of Boise	Chevrolet	1999
	Lithia Lincoln-Mercury Isuzu of Boise	Lincoln, Mercury, Isuzu	1999
Caldwell	Chevrolet of Caldwell	Chevrolet	2001
Pocatello	Honda of Pocatello	Honda	2001
	Lithia Chrysler Dodge Hyundai of Pocatello	Chrysler, Dodge, Dodge Truck, Hyundai	2001
NEVADA			
Reno	Lithia L/M/Audi Isuzu of Reno	Audi, Lincoln, Mercury, Isuzu	1997
	Lithia Reno Hyundai	Hyundai	1997
	Lithia Reno Subaru	Subaru	1999
	Lithia Volkswagen of Reno	Volkswagen	1998
Sparks	Lithia Sparks (satellite of Lithia Reno)	Suzuki, Lincoln, Mercury, Isuzu	1997
SOUTH DAKOTA			
Sioux Falls	Chevrolet of Sioux Falls	Chevrolet	2000
	Lithia Dodge of Sioux Falls	Dodge	2001
	Lithia Subaru of Sioux Falls	Subaru	2000
ALASKA			
Anchorage	Lithia Chrysler Jeep of Anchorage	Chrysler, Jeep	2001
	Lithia Dodge of South Anchorage	Dodge, Dodge Truck	2001
	Lithia Hyundai of Anchorage	Hyundai	2003
TEXAS			
San Angelo	All American Chrysler Jeep Dodge of San Angelo	Dodge, Dodge Truck, Jeep, Chrysler	2002
	Honda of San Angelo	Honda	2002
	All American Chevrolet of San Angelo	Chevrolet	2002
Odessa	All American Chrysler Jeep Dodge of Odessa	Dodge, Dodge Truck, Jeep, Chrysler	2002
	All American Chevrolet of Odessa	Chevrolet	2002
Midland	All American Dodge-Hyundai of Midland	Dodge, Dodge Truck, Hyundai	2002
	All American Chevrolet of Midland	Chevrolet	2002
NEBRASKA			
Omaha	Lithia Ford of Omaha	Ford	2002
	Mercedes-Benz of Omaha	Mercedes	2002

New Vehicle Sales

In 2002, we sold 24 domestic and imported brands ranging from economy to luxury cars, sport utility vehicles, minivans and light trucks.

Manufacturer	Percent of Total Revenue	Percent of New Vehicle Sales in 2002
DaimlerChrysler (Chrysler, Dodge, Jeep, Dodge Trucks)	18.8%	35.1%
General Motors (Chevrolet, Saturn)	11.6	21.4
Ford (Ford, Lincoln, Mercury)	7.2	13.4
Toyota	4.5	8.3
BMW	2.4	4.4
Volkswagen, Audi	2.2	4.0
Subaru	1.7	3.1
Honda	1.5	2.8
Hyundai	1.4	2.6
Nissan	1.2	2.3
Mazda	0.5	1.0
Suzuki	0.3	0.5
Mercedes	0.3	0.5
Isuzu	0.2	0.3
Kia	0.1	0.2
Volvo	0.1	0.1
	54.0%	100.0%

Our unit and dollar sales of new vehicles were as follows:

	Year Ended December 31,				
	1998	1999	2000	2001	2002
New vehicle units	17,708	28,645	37,230	39,875	49,504
New vehicle sales (in thousands)	$388,933	$674,453	$899,659	$993,635	$1,284,657
Average selling price	$ 21,964	$ 23,545	$ 24,165	$ 24,919	$ 25,951

We purchase our new car inventory directly from manufacturers, who allocate new vehicles to stores based on the number of vehicles sold by the store on a monthly basis and by the store's market area. We attempt to exchange vehicles with other automotive retailers to accommodate customer demand and to balance inventory.

We post the manufacturer's suggested retail price (MSRP) on every vehicle, as required by law. We negotiate the final sales price of a new vehicle individually with the customer, selling many vehicles at a special marketing offered price called "Promo Price," which is less than MSRP.

Used Vehicle Sales

At each new vehicle store, we also sell used vehicles. We employ a used vehicle manager at each location.

Retail used vehicle sales are an important part of our overall profitability. In 2002, retail used vehicle sales generated a gross margin of 12.5% compared with a gross margin of 8.5% for new vehicle sales.

Our used vehicle operation gives us an opportunity to:

- generate sales to customers financially unable or unwilling to purchase a new vehicle;
- increase new and used vehicle sales by aggressively pursuing customer trade-ins; and
- increase service contract sales and provide financing to used vehicle purchasers.

We currently sell approximately 0.85 retail used vehicles for every new vehicle sold, compared to the 2001 industry average ratio of approximately 0.77 to 1.

In addition to selling late model used cars, as do other new vehicle dealers, our stores emphasize sales of used vehicles three to ten years old. These vehicles sell for lower prices, but generate greater margins. We believe that selling a larger number of used vehicles makes us less susceptible to the effects of changes in the volume of new vehicle sales that result from economic conditions.

We acquire most of our used vehicles through customer trade-ins, but we also buy them at “closed” auctions, attended only by new vehicle automotive retailers with franchises for the brands offered. These auctions offer off-lease, rental and fleet vehicles. We also buy used vehicles at “open” auctions of repossessed vehicles and vehicles being sold by other automotive retailers.

In addition to selling used vehicles to retail customers, we sell vehicles in poor condition and vehicles that have not sold promptly to other automotive retailers and to wholesalers.

Our used vehicle sales are as follows:

	Year Ended December 31,				
	1998	1999	2000	2001	2002
Retail used units	13,645	23,840	30,896	36,960	41,974
Retail used unit sales (in thousands)	$174,661	$314,300	$407,607	$497,428	$611,955
Average selling price	$ 12,800	$ 13,184	$ 13,193	$ 13,459	$ 14,579
Wholesale used units	9,532	13,424	16,751	18,918	25,307
Wholesale used unit sales (in thousands)	$ 46,321	$ 62,107	$ 74,602	$ 87,987	$126,194
Average selling price	$ 4,860	$ 4,627	$ 4,454	$ 4,651	$ 4,987
Total used units	23,177	37,264	47,647	55,878	67,281
Total used units sales (in thousands)	$220,982	$376,407	$482,209	$585,415	$738,149

Vehicle Financing, Extended Warranty and Insurance

We believe that arranging financing is critical to our ability to sell vehicles and related products and services. We provide a variety of financing and leasing alternatives to meet customer needs. Offering customer financing on a “same day” basis gives us an advantage, particularly over smaller competitors who do not generate enough sales to attract our breadth of financing sources.

Because of greater profit margins from sales of finance and insurance products, we try to arrange financing for every vehicle we sell. Our finance and insurance managers possess extensive knowledge of available financing alternatives and receive training in determining each customer’s financing needs so that the customer can purchase or lease a vehicle. The finance and insurance managers work closely with financing sources to quickly determine a

customer's credit status and to confirm the type and amount of financing available to each customer.

In 2002, we arranged financing for 77% of our new vehicle sales and 73% of our retail used vehicle sales, compared to the 2001 industry averages of 55% and 59%, respectively. Our average finance and insurance revenue per vehicle totaled $886 in 2002 compared to the 2001 industry average of $438.

We receive a portion of the financing charge as fee income for each sale we finance. In 2002 and 2003, many automobile manufacturers have offered zero percent financing as sales incentives to new vehicle purchasers. Zero percent financing reduces, but does not eliminate, our per unit fee income from arranging financing, as we receive a fixed payment from the manufacturers in connection with such financing. Many customers do not qualify for zero percent financing, either because of their credit standing or because they require longer financing terms than offered for zero percent financing. Incentive financing programs, including zero percent programs, usually offer cash rebates as an alternative to reduced interest rates. A majority of eligible customers elect to receive cash rebates instead of incentive financing, usually using the cash rebate as a down payment to complete the purchase of a new vehicle with little or no cash out of pocket. We have been able to increase finance and insurance revenue per vehicle despite zero percent financing due to higher penetration of other finance and insurance products.

We usually arrange financing for customers from outside sources on a non-recourse basis to avoid the risk of default. During 2002, we directly financed less than 0.01% of our vehicle sales.

Our finance and insurance managers also market third-party extended warranty contracts and insurance contracts to our new and used vehicle buyers. These products and services yield higher profit margins than vehicle sales and contribute significantly to our profitability. Extended warranty contracts provide additional coverage for new vehicles beyond the duration or scope of the manufacturer's warranty. The service contracts we sell to used vehicle buyers provide coverage for certain major repairs.

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

Service, Body and Parts

Our automotive service, body and parts operations are an integral part of establishing customer loyalty and contribute significantly to our overall revenue and profits. We provide parts and service primarily for the new vehicle brands sold by our stores, but we also service other vehicles. In 2002, our service, body and parts operations generated $230.0 million in revenues, or 9.7% of total revenues. We set prices to reflect the difficulty of the types of repair and the cost and availability of parts.

The service, body and parts businesses provide important repeat revenues to the stores. We market our parts and service products by notifying the owners of vehicles purchased at our stores when their vehicles are due for periodic service. This encourages preventive maintenance rather than post-breakdown repairs. We offer a lifetime oil and filter service,

which in 2002 was purchased by 31% of our new and used vehicle buyers. This service helps us retain customers, and provides opportunities for repeat parts and service business. Revenues from the service, body and parts departments are important during economic downturns as owners tend to repair their existing used vehicles rather than buy new vehicles during such periods. This limits the effects of a drop in new vehicle sales.

We operate eighteen collision repair centers: three each in Oregon, Idaho and Texas; two each in South Dakota and California; and one each in Washington, Colorado, Nevada, Alaska and Nebraska. We work closely with the automobile insurance companies to provide collision repair services on claims at preferred rates based on the high volume of business. At our Medford, Oregon body shop, we provide office space to casualty insurers to process automobile claims. This helps generate further repair business.

Marketing

We market ourselves as “America’s Car & Truck Store.” We use most types of advertising, including television, newspaper, radio, direct mail, and an Internet web site. Advertising expense, net of manufacturer credits, was $17.8 million during 2002, with 46% of the total amount used for print media, 21% for television, 18% for radio and 15% for direct mail, Internet and other. We advertise to develop our image as a reputable automotive retailer, offering quality service, affordable automobiles and financing for all buyers. The automobile manufacturers pay for many of our advertising and marketing expenditures. The manufacturers also provide us with market research, which assists us in developing our own advertising and marketing campaigns. In addition, our stores advertise discounts or other promotions to attract customers. By owning a cluster of stores in a particular market, we save money from volume discounts and other media concessions. We also participate as a member of advertising cooperatives and associations, whose members pool their resources and expertise with manufacturers to develop advertising campaigns.

We maintain a web site (www.lithia.com) that generates leads and provides information for our customers. We use the Internet site as a marketing tool to familiarize customers with us, our stores and the products we sell, rather than to complete purchases. Although many customers use the Internet to research information about new vehicles, nearly all ultimately visit a store to complete the sale and take delivery of the vehicle. Our web site enables a customer to:

- locate our stores and identify the new vehicle brands sold at each store;
- view new and used vehicle inventory;
- schedule service appointments;
- view Kelley Blue Book values;
- visit our investor relations site; and
- view employment opportunities.

We emphasize customer satisfaction and strive to develop a reputation for quality and fairness. We train our sales personnel to identify an appropriate vehicle for each of our customers at an affordable price.

We believe that our “Driving America” customer-oriented plan differentiates us from other automotive retail stores. “Driving America” commits us to provide:

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

Management Information System

We consolidate, process and maintain financial information, operational and accounting data, and other related statistical information on centralized computers at our headquarters. We have a fully operational intranet with each store directly connected to headquarters. Our systems are based on an ADP platform for the main database, and information is processed and analyzed utilizing customized financial reporting software from Hyperion Solutions. Senior management can access detailed information from all of our locations regarding:

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

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

Our management information system is particularly important to successfully operating new stores. Following each acquisition, we immediately install our management information system at each location. This quickly makes financial, accounting and other operational data easily available throughout the company. With this information, we can more efficiently execute our operating strategy at the new store.

Franchise Agreements

Each of our store subsidiaries signs a franchise or dealer sales and service agreement 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 store 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 at the discretion of the manufacturer. Franchise agreements do not guarantee exclusivity within a specified territory, but do have some protection under state laws.

A franchise agreement may impose requirements on the store with respect to:

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

Each manufacturer closely monitors compliance with these requirements and requires each store to submit monthly and annual financial statements. Franchise agreements also grant a store the right to use and display manufacturers' trademarks, service marks and designs in the manner approved by each manufacturer.

Most franchise agreements are generally renewed after one to five years, and, in practice, have indefinite lives. Some franchise agreements, including those with DaimlerChrysler, have no termination date. Historically, all of our agreements have been renewed and we expect that manufacturers will continue to renew them in the future. In addition, state franchise laws limit the ability of manufacturers to terminate or fail to renew automotive franchises. 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 upon:

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

We sign master framework agreements with most manufacturers that impose additional requirements on our stores. See Exhibit 99.3 "Risk Factors" for further details.

Competition

The retail automotive business is highly competitive, consisting of a large number of independent operators, many of whom are individuals, families and small retail groups. We compete primarily with other automotive retailers, both publicly and privately-held, near our store locations. In addition, regional and national car rental companies operate retail used car lots to dispose of their used rental cars.

We are larger and have more financial resources than most private automotive retailers with which we currently compete in most of our regional markets. We compete directly with retailers like ourselves in our metropolitan markets like Denver, Colorado, Seattle, Washington and Concord, California. As we enter other markets, we may face competitors that are larger or have access to greater financial resources. We do not have any cost

advantage in purchasing new vehicles from manufacturers. We rely on advertising and merchandising, sales expertise, service reputation and location of our stores to sell new vehicles.

In addition to competition for the sale of vehicles, we expect increased competition for the acquisition of other stores. We have faced only limited competition with respect to our acquisitions to date, primarily from privately-held automotive retailers. Other publicly-owned automotive retailers with significant capital resources may enter our current and targeted market areas in the future.

Regulation

Our business is subject to extensive regulation, supervision and licensing under federal, state and local laws, ordinances and regulations. State and federal regulatory agencies, such as the Department of Motor Vehicles, the Occupational Safety and Health Administration, the EEOC (Equal Employment Opportunity Commission) and the U.S. Environmental Protection Agency, have jurisdiction over the operation of our stores, service centers, collision repair shops and other operations. They regulate matters such as consumer protection, workers' safety and air and water quality.

Laws also protect franchised automotive retailers from the unequal bargaining power held by the manufacturers. Under those laws, a manufacturer may not:

- terminate or fail to renew a franchise without good cause; or
- prevent any reasonable changes in the capital structure or financing of a store.

Manufacturers may object to a sale of a store or change of management based on character, financial ability or business experience of the proposed new operator.

Automotive retailers and manufacturers are also subject to laws to protect consumers, including so-called "Lemon Laws." A manufacturer must replace a new vehicle or accept it for a full refund within one year after initial purchase if:

- the vehicle does not conform to the manufacturer's express warranties; and
- the automotive retailer 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. Financing and insurance activities are subject to credit reporting, debt collection, and insurance industry regulation.

Our business, particularly parts, service and collision repair operations, involves hazardous or toxic substances or wastes, such as motor oil, waste motor oil and filters, transmission fluid, antifreeze, Freon, waste paint and lacquer thinner, batteries, solvents, lubricants, degreasing agents, gasoline and diesel fuels. Federal, state and local authorities establishing health and environmental quality standards regulate the handling, storage, treatment, recycling and disposal of hazardous substances and wastes and remediation of contaminated sites, both at our facilities and at sites to which we send hazardous or toxic substances or wastes for treatment, recycling or disposal. We are aware of contamination at certain of our current and former facilities, and we are in the process of conducting

investigations and/or remediation at some of these properties. Based on our current information, any costs or liabilities relating to such contamination, other environmental matters or compliance with environmental regulations are not expected to have a material adverse effect on our results of operations or financial condition. There can be no assurances, however, that (i) additional environmental matters will not arise or that new conditions or facts will not develop in the future at our current or formerly owned or operated facilities, or at sites that we may acquire in the future, or that (ii) these matters, conditions or facts will not result in a material adverse effect on our results of operations or financial condition.

Employees

As of December 31, 2002, we employed approximately 4,880 persons on a full-time equivalent basis. Employees in the service and parts departments at our Dodge, Ford and Volkswagen stores in Concord, California are represented by union collective bargaining agreements. We believe we have good relationships with our employees.

Item 2. Properties

Our stores and other facilities consist primarily of automobile showrooms, display lots, service facilities, eighteen 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. We own some of our properties, but also lease many properties, providing future flexibility to relocate our retail stores as demographics change. Most leases give us the option to renew the lease for one or more lease extension periods. We also hold some undeveloped land for future expansion.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of our shareholders during the quarter ended December 31, 2002.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Our Class A common stock trades on the New York Stock Exchange under the symbol LAD. The following table presents the high and low sale prices for our Class A common stock, as reported on the New York Stock Exchange Composite Tape for each of the quarters in 2001 and 2002:

	High	Low
2001		
Quarter 1	$15.05	$12.06
Quarter 2	21.38	14.00
Quarter 3	19.06	12.50
Quarter 4	20.70	11.85
2002		
Quarter 1	$25.99	$17.40
Quarter 2	31.20	22.27
Quarter 3	26.60	16.42
Quarter 4	18.49	14.55

The number of shareholders of record and approximate number of beneficial holders of Class A common stock at March 20, 2003 was 1,472 and 3,500, respectively. All shares of Lithia's Class B common stock are held by Lithia Holding Company LLC.

We have never declared or paid any cash dividends on our common stock and we have no definite plans to pay a dividend at any time in the future. We intend to retain future earnings for acquisitions and operations. The payment of any dividends is subject to the discretion of our Board of Directors.

Item 6. Selected Financial Data

	Year Ended December 31,				
(In thousands, except per share amounts)	1998	1999	2000	2001	2002
Consolidated Statement of Operations Data:					
Revenues:					
New vehicles	$388,933	$ 674,453	$ 899,659	$ 993,635	$1,284,657
Used vehicles	220,982	376,407	482,209	585,415	738,149
Service, body and parts	72,216	120,722	164,002	187,725	229,970
Finance and insurance	24,796	44,463	55,019	65,815	81,068
Fleet and other	7,813	26,614	57,722	40,598	43,116
Total revenues	714,740	1,242,659	1,658,611	1,873,188	2,376,960
Cost of sales	599,379	1,043,373	1,391,042	1,566,713	2,002,157
Gross profit	115,361	199,286	267,569	306,475	374,803
Selling, general and administrative	85,188	146,381	195,500	239,042	296,137
Depreciation and amortization	3,469	5,573	7,605	9,275	7,813
Income from operations	26,704	47,332	64,464	58,158	70,853
Floorplan interest expense	(7,108)	(11,105)	(17,728)	(14,497)	(11,289)
Other interest expense	(2,735)	(4,250)	(7,917)	(7,822)	(6,115)
Other income (expense), net	921	74	716	(410)	(683)
Income before income taxes	17,782	32,051	39,535	35,429	52,766
Income tax expense	(6,993)	(12,877)	(15,222)	(13,675)	(20,450)
Net income	$ 10,789	$ 19,174	$ 24,313	$ 21,754	$ 32,316
Basic net income per share	$ 1.18	$ 1.67	$ 1.78	$ 1.63	$ 1.88
Shares used in basic net income per share	9,147	11,506	13,652	13,371	17,233
Diluted net income per share	$ 1.14	$ 1.60	$ 1.76	$ 1.60	$ 1.84

Shares used in diluted net income per share	9,470	11,998	13,804	13,612	17,598

(In thousands)	As of December 31, 1998	1999	2000	2001	2002
Consolidated Balance Sheet Data:					
Working capital	$ 53,553	$ 74,999	$ 98,917	$104,834	$126,308
Inventories	157,455	268,281	314,290	275,398	445,908
Total assets	294,398	506,433	628,003	662,944	942,049
Flooring notes payable	129,167	243,903	314,137	280,947	427,635
Current maturities of long-term debt	8,143	7,132	5,342	10,203	4,466
Long-term debt, less current maturities	36,420	38,411	72,586	95,830	104,712
Total stockholders' equity	91,511	155,638	181,775	203,497	319,993

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

Overview

We are a leading operator of automotive franchises and retailer of new and used vehicles and services. As of March 14, 2003, we offered 24 brands of new vehicles through 132 franchises in 71 stores in the western United States and over the Internet. As of March 14, 2003, we operate 17 stores in Oregon, 12 in California, 10 in Washington, 7 in Texas, 6 in Idaho, 6 in Colorado, 5 in Nevada, 3 in South Dakota, 3 in Alaska and 2 in Nebraska. We sell new and used cars and light trucks; sell replacement parts; provide vehicle maintenance, warranty, paint and repair services; and arrange related financing and insurance for our automotive customers.

During an economic downturn, customers tend to shift towards the purchase of more reasonably priced new vehicle models or used vehicles. Many customers decide to delay purchasing a new vehicle and instead repair existing vehicles. In addition, manufacturers typically offer increased dealer and customer incentives during an economic downturn in order to support new vehicle sales volume. These factors lead to less volatility in earnings for automobile retailers than for automobile manufacturers or auto parts suppliers.

Historically, new vehicle sales have accounted for approximately 50% to 55% of our total revenues but less than 30% of total gross profit. We emphasize sales of higher margin products, which generate over 70% of our gross profits.

Our revenues and gross profit by product line were as follows for 2002 and 2001:

2002	Percent of Total Revenues	Gross Margin	Percent of Total Gross Profit
New vehicles	54.0%	8.5%	29.0%
Retail used vehicles [1]	25.7	12.5	20.4
Service, body and parts	9.7	48.0	29.5
Finance and insurance [2]	3.4	99.4	21.5
Fleet and other	1.8	2.1	0.2

(1) Excludes wholesale used vehicle sales, representing 5.4% of total revenues, and a reduction in gross margin of 0.7%.

(2) Reported net of administration fees and anticipated cancellations.

2001	Percent of Total Revenues	Gross Margin	Percent of Total Gross Profit
New vehicles	53.0%	9.0%	29.2%
Retail used vehicles [1]	26.6	13.2	21.4
Service, body and parts	10.0	46.5	28.5
Finance and insurance [2]	3.5	98.9	21.2
Fleet and other	2.2	2.8	0.4

(1) Excludes wholesale used vehicle sales, representing 4.7% of total revenues, and a reduction in gross margin of 0.7%.

(1) Reported net of administration fees and anticipated cancellations.

In 2002, we reclassified documentation fees from finance and insurance income to new and used vehicle revenue, as appropriate, in order to bring our reporting in line with industry practice. The resulting effect was a reduction of approximately $100 per vehicle of finance and insurance income and an increase in new and retail used vehicle gross margins of between 20 and 50 basis points. Accordingly, the finance and insurance sales per retail unit, revenue by product line and gross margin percentage disclosures have been recalculated for prior periods to be consistent with the 2002 presentation. Net income was not affected by this reclassification.

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. [1]	Year Ended December 31,		
	2000	2001	2002
Revenues:			
New vehicles	54.2%	53.0%	54.0%
Used vehicles	29.1	31.3	31.1
Service, body and parts	9.9	10.0	9.7
Finance and insurance	3.3	3.5	3.4
Fleet and other	3.5	2.2	1.8
Total revenues	100.0%	100.0%	100.0%
Gross profit	16.1	16.4	15.8
Selling, general and administrative expenses	11.8	12.8	12.5
Depreciation and amortization	0.5	0.5	0.3
Income from operations	3.9	3.1	3.0
Floorplan interest expense	1.1	0.8	0.5
Other interest expense	0.5	0.4	0.3
Other income, net	0.0	0.0	0.0
Income before income tax	2.4	1.9	2.2
Income tax expense	0.9	0.7	0.9
Net income	1.5	1.2	1.4

(1) The percentages may not add due to rounding.

Results of Operations – 2002 Compared to 2001

	Year Ended December 31,		Increase (Decrease)	% Increase (Decrease)
	2001	2002		
Revenues:				
New vehicle sales	$ 993,635	$1,284,657	$291,022	29.3%
Used vehicle sales	585,415	738,149	152,734	26.1
Service, body and parts	187,725	229,970	42,245	22.5
Finance and insurance	65,815	81,068	15,253	23.2
Fleet and other	40,598	43,116	2,518	6.2
Total revenues	1,873,188	2,376,960	503,772	26.9
Cost of sales	1,566,713	2,002,157	435,444	27.8
Gross profit	306,475	374,803	68,328	22.3
Selling, general and administrative	239,042	296,137	57,095	23.9
Depreciation and amortization	9,275	7,813	(1,462)	(15.8)
Income from operations	58,158	70,853	12,695	21.8
Floorplan interest expense	(14,497)	(11,289)	(3,208)	(22.1)
Other interest expense	(7,822)	(6,115)	(1,707)	(21.8)
Other expense, net	(410)	(683)	273	66.6
Income before income taxes	35,429	52,766	17,337	48.9
Income tax expense	(13,675)	(20,450)	6,775	49.5
Net income	$ 21,754	$ 32,316	$ 10,562	48.6%

	Year Ended December 31,		Increase (Decrease)	% Increase (Decrease)
	2001	2002		
New units sold	39,875	49,504	9,629	24.1%
Average selling price per new vehicle	$24,919	$25,951	$1,032	4.1%
Used units sold – retail	36,960	41,974	5,014	13.6%
Average selling price per retail used vehicle	$13,459	$14,579	$1,120	8.3%
Used units sold – wholesale	18,918	25,307	6,389	33.8%
Average selling price per wholesale used vehicle	$ 4,651	$ 4,987	$ 336	7.2%

Revenues. Total revenues increased 26.9% to record levels for 2002 compared to 2001 due to acquisitions and 1.1% same store retail sales growth. We achieved same store new vehicle sales growth of 5.7% in 2002 compared to 2001. This compares favorably to industry decreases in new vehicle sales of 2.2% for the same period. These results were achieved through an aggressive company-wide marketing campaign based on the "Driving America" theme aimed at increasing market share in order to secure a long-term customer base for all business lines. The increase in new vehicle same store sales was augmented by same store increases in finance and insurance sales and were partially offset by decreases in same store used vehicle and service and parts sales. The used vehicle business was weaker due to the strong new vehicle incentive environment. The service and pats business has been negatively impacted in the past couple of years by substantial improvements in the quality of domestic vehicles, resulting in less warranty work.

During 2002, manufacturers offered, and are continuing to offer, incentives, including low interest rates and rebates, in order to attract new vehicle buyers. The availability of cash rebates and zero percent and low interest rate financing has also enhanced our ability to sell finance, warranty and insurance products and services. Our finance and insurance sales per retail unit increased 3.4% to $886 per retail vehicle in 2002 compared to 2001.

Gross profit. Gross profit increased due to increased total revenues, offset in part by a lower overall gross profit percentage. Certain incentives and rebates received from manufacturers, including floorplan interest credits, are recorded as a reduction to cost of goods sold at the time of vehicle sale.

Gross profit margins achieved were as follows:

	Year Ended December 31,		Lithia Margin Change*
	2001	2002	
New vehicles	9.0%	8.5%	(50)bp
Retail used vehicles	13.2	12.5	(70)
Service and parts	46.5	48.0	150
Overall	16.4	15.8	(60)

* "bp" stands for basis points (one hundred basis points equals one percent).

The decrease in the overall gross profit margin in 2002 compared to 2001 is primarily a result of four factors:

- A significant shift towards our lowest margin new vehicle business with the strong incentive environment;
- Lower floorplan interest credits from the manufacturers on new vehicles due to lower market rates;
- Aggressive pricing of new vehicles in order to gain market share, which resulted in lower new vehicle margins; and

- A mix shift in used vehicle sales to the lower margin one to three-year old vehicles, which have lower margins than the older used vehicles.

These factors were partially offset by an increase in the gross margin achieved in our parts and service business in 2002 compared to 2001.

Selling, general and administrative expense. Selling, general and administrative expense includes salaries and related personnel expenses, facility lease expense, advertising, legal, accounting, professional services and general corporate expenses. Selling, general and administrative expense increased due to increased selling, or variable, expenses related to the increase in revenues and the number of locations. As a percentage of revenue, selling, general and administrative expense decreased 30 basis points in 2002 compared to 2001 due to expense leverage on higher sales.

Depreciation and amortization. Depreciation and amortization expense decreased primarily as a result of the adoption of SFAS No. 142 "Goodwill and Other Intangible Assets" in the first quarter of 2002. SFAS No. 142 requires that goodwill and other intangibles with indefinite useful lives no longer be amortized. Goodwill and other intangibles amortization expense totaled $3.7 million in 2001.

Income from operations. Operating margins decreased 10 basis points in 2002 compared to 2001 due to the decrease in the overall gross margin percentage, offset in part by lower operating expenses as a percentage of revenue.

Floorplan interest expense. The decrease in floorplan interest expense in 2002 compared to 2001 is primarily due to approximately $8.4 million in savings as a result of decreases in the effective interest rates on the floating rate credit lines, offset in part by a $4.1 million increase in expense as a result of an overall average increase in the outstanding balances of our floorplan facilities, mainly due to acquisitions. In addition to the interest expense on our flooring lines of credit, floorplan interest expense includes the interest expense related to our interest rate swaps.

Other interest expense. Other interest expense includes interest on debt incurred related to acquisitions, real estate mortgages, our used vehicle line of credit and equipment related notes. The decrease in other interest expense resulted from $3.2 million of savings due to lower interest rates in 2002 compared to 2001 and approximately $3.0 million in savings due to the pay-down of $78.0 million on our lines of credit in March 2002, following our equity offering. These decreases were offset in part by less capitalized interest on construction projects in progress in 2002 compared to 2001 and by an increase in the outstanding balances due to acquisitions and the financing of previously unfinanced real estate during 2002. The lower interest rates in 2002 are due in part to the refinancing of $15.2 million of fixed interest rate mortgage loans since November 2001, utilizing floating rate loans with Toyota Motor Credit and Ford Motor Credit.

Income tax expense. Our effective tax rate was 38.8 percent in 2002 compared to 38.6 percent in 2001. Our effective tax rate may be affected in the future by the mix of asset acquisitions compared to corporate acquisitions, as well as by the mix of states where our stores are located.

Net income. Net income as a percentage of revenue increased 20 basis points in 2002 compared to 2001 as a result of increased revenues and lower operating expenses and interest expense, offset by a lower gross margin percentage.

Results of Operations – 2001 Compared to 2000

	Year Ended December 31,			
	2000	2001	Increase (Decrease)	% Increase (Decrease)
Revenues:				
New vehicle sales	$ 899,659	$ 993,635	$ 93,976	10.4%
Used vehicle sales	482,209	585,415	103,206	21.4
Service, body and parts	164,002	187,725	23,723	14.5
Finance and insurance	55,019	65,815	10,796	19.6
Fleet and other	57,722	40,598	(17,124)	(29.7)
Total revenues	1,658,611	1,873,188	214,577	12.9
Cost of sales	1,391,042	1,566,713	175,671	12.6
Gross profit	267,569	306,475	38,906	14.5
Selling, general and administrative	195,500	239,042	43,542	22.3
Depreciation and amortization	7,605	9,275	1,670	22.0
Income from operations	64,464	58,158	(6,306)	(9.8)
Floorplan interest expense	(17,728)	(14,497)	(3,231)	(18.2)
Other interest expense	(7,917)	(7,822)	(95)	(1.2)
Other income (expense), net	716	(410)	(1,126)	(157.3)
Income before income taxes	39,535	35,429	(4,106)	(10.4)
Income tax expense	(15,222)	(13,675)	(1,547)	(10.2)
Net income	$ 24,313	$ 21,754	$ (2,559)	(10.5)%
New units sold	37,230	39,875	2,645	7.1%
Average selling price per new vehicle	$ 24,165	$ 24,919	$ 754	3.1%
Used units sold – retail	30,896	36,960	6,064	19.6%
Average selling price per retail used vehicle	$ 13,193	$ 13,459	$ 266	2.0%
Used units sold – wholesale	16,751	18,918	2,167	12.9%
Average selling price per wholesale used vehicle	$ 4,454	$ 4,651	$ 197	4.4%

Revenues. Total revenues increased 12.9% to record levels for 2001 compared to 2000 due to acquisitions, which were partially offset by same store retail sales decreasing 0.9%. The decrease in same store retail sales was due to a slower new vehicle sales environment in the first three quarters of 2001, offset in part by same store increases in used vehicle and finance and insurance sales. During the fourth quarter of 2001, manufacturers offered, and continued to offer in the first quarter of 2002, incentives, including low interest rates and rebates, in order to attract new vehicle buyers. These incentives, along with improvements in our core operations, contributed to same store sales growth of 11.4% in the fourth quarter of 2001 compared to the fourth quarter of 2000. The availability of cash rebates and zero percent and low interest rate financing have also enhanced our ability to sell finance, warranty and insurance products and services.

Gross profit. Gross profit increased primarily due to increased total revenues and increased used vehicle and service, body and parts revenues as a percentage of total revenues. Incentives and rebates, including floorplan interest credits, received from manufacturers are recorded as a reduction to cost of goods sold. Gross margin expansion is common in the

automotive retailing industry as new vehicle sales slow and higher margin product lines become a larger percentage of total revenues.

Gross profit margins achieved in 2000 and 2001 were as follows:

	Year Ended December 31,		
	2000	2001	Lithia Margin Change*
New vehicles	9.2%	9.0%	(20)bp
Retail used vehicles	13.8	13.2	(60)
Service and parts	44.9	46.5	160
Overall	16.1	16.4	30

* "bp" stands for basis points (one hundred basis points equals one percent).

The increase in the overall gross profit margin is primarily a result of a shift in mix to the more profitable used vehicle, service, body and parts and finance and insurance product lines.

Selling, general and administrative expense. Selling, general and administrative expense includes salaries and related personnel expenses, facility lease expense, advertising, legal, accounting, professional services and general corporate expenses. Selling, general and administrative expense increased due to increased selling, or variable, expenses related to the increase in revenues and the number of locations. As a percentage of revenue, selling, general and administrative expense increased in 2001 compared to 2000 due to continued investments in acquisition integration and operational support teams in preparation for continued growth and a shift towards our service and parts business, which has a higher selling, general and administrative component than our other business lines.

Depreciation and amortization. Depreciation and amortization expense increased primarily as a result of increased property and equipment and intangible assets related to acquisitions. As of December 31, 2001, we expect a reduction in annual amortization expense of approximately $3.7 million in 2002 based upon the adoption of SFAS No. 142, which relates to the accounting for goodwill and other intangible assets.

Income from operations. Operating margins decreased 80 basis points, or eight-tenths of one percent, in 2001 compared to 2000 due to the increased operating expenses as a percentage of revenue as discussed above, partially offset by higher gross margins as a percentage of revenue.

Floorplan interest expense. The decrease in floorplan interest expense is primarily due to approximately $4.1 million in savings as a result of recent decreases in the effective interest rates on the floating rate credit lines, offset in part by an approximately $800,000 increase in interest expense as a result of higher average outstanding flooring debt. Floorplan interest expense includes the interest expense related to our current interest rate swaps. We were able to decrease our inventory levels despite the acquisition of several stores during 2001.

Other interest expense. Other interest expense includes interest on debt incurred related to acquisitions, real estate mortgages, our used vehicle line of credit and equipment related notes.

Income tax expense. Our effective tax rate was 38.6 percent in 2001 compared to 38.5 percent in 2000. Our effective tax rate may be affected in the future by the mix of asset acquisitions compared to corporate acquisitions, as well as by the mix of states where our stores are located.

Net income. Net income decreased to $21.8 million, a 10.5% decrease, for 2001 compared to 2000 as a result of the net effect of the changes discussed above.

Selected Consolidated Quarterly Financial Data

The following tables set forth the company's unaudited quarterly financial data for the quarterly periods presented.

	Three Months Ended,			
	March 31	June 30	September 30	December 31
	(in thousands except per share data)			
2001				
Revenues:				
New vehicle sales	$215,386	$239,276	$248,369	$290,604
Used vehicle sales	137,353	142,599	150,709	154,754
Service, body and parts	45,145	45,511	47,884	49,185
Finance and insurance	14,412	16,673	16,782	17,948
Fleet and other	7,855	17,991	7,574	7,178
Total revenues	420,151	462,050	471,318	519,669
Cost of sales	351,254	386,840	391,450	437,169
Gross profit	68,897	75,210	79,868	82,500
Selling, general and administrative	55,038	58,783	59,696	65,525
Depreciation and amortization	2,215	2,226	2,372	2,462
Income from operations	11,644	14,201	17,800	14,513
Flooring interest expense	(4,655)	(3,832)	(3,390)	(2,620)
Other interest expense and other, net	(2,346)	(2,123)	(1,849)	(1,914)
Income before income taxes	4,643	8,246	12,561	9,979
Income taxes	(1,788)	(3,175)	(4,865)	(3,847)
Net income	$ 2,855	$ 5,071	$ 7,696	$ 6,132
Basic net income per share	$ 0.21	$ 0.38	$ 0.57	$ 0.46
Diluted net income per share	$ 0.21	$ 0.37	$ 0.56	$ 0.45

	Three Months Ended,			
	March 31	June 30	September 30	December 31
	(in thousands except per share data)			
2002				
Revenues:				
New vehicle sales	$267,817	$300,605	$390,229	$326,006
Used vehicle sales	183,312	185,660	199,443	169,734
Service, body and parts	52,038	54,995	62,964	59,973
Finance and insurance	17,832	20,247	22,107	20,882
Fleet and other	3,399	22,811	12,902	4,004
Total revenues	524,398	584,318	687,645	580,599
Cost of sales	440,751	491,436	583,039	486,931
Gross profit	83,647	92,882	104,606	93,668
Selling, general and administrative	67,736	73,540	80,209	74,652
Depreciation and amortization	1,668	1,895	2,044	2,206
Income from operations	14,243	17,447	22,353	16,810

Flooring interest expense	(2,337)	(2,882)	(2,943)	(3,127)
Other interest expense and other, net	(1,497)	(1,641)	(1,833)	(1,827)
Income before income taxes	10,409	12,924	17,577	11,856
Income taxes	(4,018)	(4,989)	(6,848)	(4,595)
Net income	$ 6,391	$ 7,935	$ 10,729	$ 7,261
Basic net income per share	$ 0.43	$ 0.44	$ 0.60	$ 0.40
Diluted net income per share	$ 0.42	$ 0.43	$ 0.59	$ 0.40

Seasonality and Quarterly Fluctuations

Historically, our sales have been lower in the first and fourth quarters of each year 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. We believe that interest rates, levels of consumer debt and consumer confidence, as well as general economic conditions, also contribute to fluctuations in sales and operating results. Historically, the timing and frequency of acquisitions has been the largest contributor to fluctuations in our operating results from quarter to quarter.

Liquidity and Capital Resources

Our principal needs for capital resources are to finance acquisitions and capital expenditures, as well as for working capital. We have relied primarily upon internally generated cash flows from operations, borrowings under our credit agreements and the proceeds from public equity offerings to finance operations and expansion. We believe that our available cash, cash equivalents, available lines of credit and cash flows from operations will be sufficient to meet our anticipated operating expenses and capital requirements for at least twelve months from December 31, 2002. In addition, we anticipate that these resources will be sufficient to fund our anticipated acquisitions through 2005.

On May 2, 2002, we redeemed the remaining 4,499 outstanding shares of our Series M Preferred Stock for a total of $4.4 million from our existing cash balances.

In March 2002, we registered and sold 4.5 million newly issued shares of our Class A common stock for total proceeds of approximately $77.2 million, net of offering expenses of approximately $0.6 million. We utilized the proceeds to pay down our lines of credit until such funds are required for acquisitions.

Our inventories increased to $445.9 million at December 31, 2002 from $275.4 million at December 31, 2001 due to acquisitions and higher inventory levels in a slowing sales environment. In addition, our days supply of inventory at December 31, 2001 was 20% to 25% lower than historical year-end levels due to the success of the introduction of zero percent financing in the fourth quarter of 2001. Accordingly, our new and used flooring notes payable increased to $427.6 million at December 31, 2002 from $280.9 million at December 31, 2001.

Our land, buildings and equipment increased to $176.9 million at December 31, 2002 from $122.0 million at December 31, 2001 due to the acquisition of 13 stores during 2002. These acquisitions also resulted in the increase in goodwill and other intangibles, which totaled $206.1 million at December 31, 2002 compared to $156.8 million at December 31, 2001.

In June 2000, our Board of Directors authorized the repurchase of up to 1,000,000 shares of our Class A common stock. Through March 2003, we have purchased 59,400 shares under this program and may continue to do so from time to time in the future as conditions warrant.

In February 2003 we entered into a working capital and acquisition credit facility with DaimlerChrysler Services North America LLC totaling up to $200 million, which expires in February 2006, with interest due monthly.

Our previous facility with Ford Motor Credit Company was terminated and paid off on February 25, 2003. We were in compliance with all covenants under this facility at December 31, 2002.

The credit line with DaimlerChrysler Services is cross-collateralized and secured by cash and cash equivalents, new and used vehicle and parts inventories, accounts receivable, intangible assets and equipment. We pledged to DaimlerChrysler Services the stock of all of our subsidiaries except entities operating BMW, Honda, Nissan or Toyota stores.

The financial covenants in our agreement with DaimlerChrysler Services require us to maintain compliance with, among other things, (i) a specified current ratio; (ii) a specified fixed charge coverage ratio; (iii) a specified interest coverage ratio; (iv) a specified adjusted leverage ratio; and (v) certain working capital levels.

Toyota Motor Credit Corporation, Ford Motor Credit and General Motors Acceptance Corporation have agreed to floor all of our new vehicles for their respective brands with DaimlerChrysler Services serving as the primary lender for substantially all other brands. These new vehicle lines are secured by new vehicle inventory of the relevant brands.

We also have a real estate line of credit with Toyota Motor Credit totaling $40 million, which expires in May 2005. This line of credit is secured by the real estate financed under this line of credit.

In addition, U.S. Bank N.A. has extended a $27.5 million revolving line of credit for leased vehicles and equipment purchases, which expires January 31, 2004.

Interest rates on all of the above facilities ranged from 2.88% to 4.13% at December 31, 2002. Amounts outstanding on the lines at December 31, 2002 together with amounts remaining available under such lines were as follows (in thousands):

	Outstanding at December 31, 2002	Remaining Availability as of December 31, 2002
New and program vehicle lines	$364,635	$ *
Used vehicle line	63,000	87,000
Acquisition line	—	130,000
Real estate line	35,681	4,319
Equipment/leased vehicle line	27,500	—
	$490,816	$ *

* There are no formal limits on the new and program vehicle lines with certain lenders.

At December 31, 2002, our long-term debt and lease commitments were as follows (in thousands):

Year Ending December 31,	Long-term debt	Leases	Total
2003	$ 4,466	$ 18,303	$ 22,769
2004	31,077	16,935	48,012
2005	3,259	16,797	20,056
2006	66,038	16,271	82,309
2007	3,040	15,253	18,293
Thereafter	64,298	58,140	122,438
Total	$172,178	$141,699	$313,877

At December 31, 2002, we had capital commitments of approximately $10.0 million for the construction of three new store facilities, additions to three existing facilities and the remodel of three facilities. The three new facilities will be a Ford store in Boise, Idaho, a body shop in Aurora, Colorado and a body shop in Boise, Idaho. We have already incurred $3.0 million for these commitments and anticipate incurring the remaining $10.0 million during 2003. We expect to pay for the construction out of existing cash balances until completion of the projects, at which time we anticipate securing long-term financing and general borrowings from third party lenders for 70% to 90% of the amounts expended.

Critical Accounting Policies

Service Contract and Lifetime Oil Contract Income Recognition

We receive fees from the sale of vehicle service contracts and lifetime oil contracts to customers. The contracts are sold through an unrelated third party, but we may be charged back for a portion of the fees in the event of early termination of the contracts by customers. We have established a reserve for estimated future charge-backs based on an analysis of historical charge-backs in conjunction with termination provisions of the applicable contracts. At December 31, 2002, this reserve totaled $9.3 million and is included in accrued liabilities and other long-term liabilities on our consolidated balance sheet.

Finance Fee Income Recognition

We receive finance fees from various financial institutions when we arrange financing for our customers on a non-recourse basis. We may be charged back for a portion of the financing fee income when the customer pays off their loan prior to the guidelines agreed to by the various financial institutions. We have established a reserve for potential charge-backs based on historical experience, which typically result if the customer pays off their loan during the 90 to 180 days after receiving financing. At December 31, 2002, this reserve totaled $448,000 and is included in accrued liabilities on our consolidated balance sheet.

Workers' Compensation Insurance Premium Accrual

Insurance premiums are paid for under a retrospective cost policy, whereby premium cost depends on experience. We accrue premiums based on our historical experience rating, although the actual experience can be something greater or less than the anticipated claims experience. We expect that the retrospective cost policy, as opposed to a guaranteed cost with a flat premium, will be the most cost efficient over time.

Intangible Assets

We review our goodwill and other identifiable intangible assets at least annually by applying a fair-value based test using the discounted estimated cash flows for the reporting unit. Discounted future cash flows are prepared by applying a growth rate to historical revenues. Growth rates are calculated individually for each region with data derived from the U.S. Census Bureau on population growth and the U.S. Department of Labor, Bureau of Labor Statistics for historical consumer price index data. The discount rate applied to the future cash flows is derived from a Capital Asset Pricing Model which factors in an equity risk premium and a risk free rate. The review is conducted more frequently than annually if events or circumstances occur that warrant a review of the fair value of a reporting unit. Our other identifiable intangible assets include the franchise value of the business units, which is considered to have an indefinite life and not subject to amortization, but rather is included in the fair-value based testing. Impairment could occur if the operating business unit does not meet the determined fair-value testing. At such point, an impairment loss would be

recognized to the extent that the carrying amount exceeds the assets' fair value. During 2002, we concluded that there was no impairment. Goodwill and other identifiable intangible assets totaled $206.2 million at December 31, 2002.

Used Vehicle Inventory

Used vehicle inventories are stated at cost plus the cost of any equipment added, reconditioning and transportation. We select a sampling of dealerships throughout the year to perform quarterly testing of book values against market valuations utilizing the Kelly Blue Book and NADA guidelines. Used vehicle inventory values are cyclical and could experience impairment when market valuations are significantly below inventory costs. Historically, we have not experienced significant write-downs on our used vehicle inventory.

Recent Accounting Pronouncements

See Note 14 of Notes to Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Variable Rate Debt

We use variable-rate debt to finance our new and program vehicle inventory. The interest rate on the flooring debt is tied to either the one-month LIBOR, the three-month LIBOR or the prime rate. These debt obligations therefore expose us to variability in interest payments due to changes in these rates. The flooring debt is based on open-ended lines of credit tied to each individual store from the various manufacturer finance companies. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases.

Our variable-rate flooring notes payable and other credit line borrowings subject us to market risk exposure. At December 31, 2002, we had $490.8 million outstanding under such agreements at interest rates ranging from 2.88% to 4.13% per annum. A 10% increase in interest rates would increase annual interest expense by approximately $594,000, net of tax, based on amounts outstanding on the lines of credit at December 31, 2002.

Hedging Strategies

We believe it is prudent to limit the variability of a portion of our interest payments. Accordingly, we have entered into interest rate swaps to manage the variability of our interest rate exposure, thus leveling a portion of our interest expense in a rising or falling rate environment. Including all four of the swaps listed below, we currently have hedged approximately 27.4% of our new vehicle flooring debt. Including the four swaps and other fixed rated debt obligations, approximately 23.0% of our total debt has fixed rates.

The interest rate swaps change the variable-rate cash flow exposure on a portion of the flooring debt to fixed rate cash flows by entering into receive-variable, pay-fixed interest rate swaps. Under the interest rate swaps, we receive variable interest rate payments and make fixed interest rate payments, thereby creating fixed rate flooring debt.

We have entered into the following interest rate swaps with U.S. Bank Dealer Commercial Services:

- effective September 1, 2000—a five year, $25 million interest rate swap at a fixed rate of 6.88% per annum;
- effective November 1, 2000—a three year, $25 million interest rate swap at a fixed rate of 6.47% per annum;
- effective January 26, 2003 – a five-year, $25 million interest rate swap at a fixed rate of 3.265%; and
- effective February 18, 2003 – a five-year, $25 million interest rate swap at a fixed rate of 3.30%.

We earn interest on all of the interest rate swaps at the one-month LIBOR rate. The September 1, 2000, the November 1, 2000 and the February 18, 2003 swaps are adjusted on the first and sixteenth of every month and we are obligated to pay interest at the fixed rate set for each swap on the same amount. The January 26, 2003 swap is adjusted once a month on the 26 th of each month and we are obligated to pay interest at the fixed rate set. 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 flooring interest expense. The one-month LIBOR rate at December 31, 2002 was 1.38% per annum.

We do not enter into derivative instruments for any purpose other than to manage interest rate exposure. That is, we do not speculate using derivative instruments.

The fair value of interest rate swap agreements and the amount of hedging losses deferred on interest rate swaps was $4.1 million at December 31, 2002. Changes in the fair value of the interest rate swaps are reported, net of related income taxes, in accumulated other comprehensive income. These amounts are subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the flooring debt affects earnings. Because the critical terms of the interest rate swaps and the underlying debt obligations are the same, there was no ineffectiveness recorded in interest expense.

Incremental interest expense, net of tax, incurred as a result of the interest rate swaps was $1.5 million in 2002. At current interest rates, we estimate that we will incur additional interest expense, net of tax, of approximately $1.5 million related to our interest rate swaps during 2003.

Risk Management Policies

We assess interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities.

We maintain risk management control systems to monitor interest rate cash flow attributable to both our outstanding and our forecasted debt obligations as well as our offsetting hedge positions. The risk management control systems involve the use of analytical techniques, including cash flow sensitivity analysis, to estimate the expected impact of changes in interest rates on our future cash flows.

As of December 31, 2002, prior to entering into the two new swap agreements in 2003, approximately 86.3% of our total debt outstanding was subject to un-hedged variable rates of interest. As a result, interest rate declines during 2002 have resulted in a net reduction of our interest expense for 2002 compared to what it would have been at similar debt levels with no interest rate decline. We intend to continue to gradually hedge our 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 15 of Part IV of this document. Quarterly financial data for each of the eight quarters in the two-year period ended December 31, 2002 is included in Item 7.

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 will be included under the captions *Election of Directors*, *Executive Officers* and *Section 16(a) Beneficial Ownership Reporting Compliance* , respectively, in our Proxy Statement for our 2003 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item will be included under the caption *Executive Compensation* in our Proxy Statement for our 2003 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item will be included under the caption *Security Ownership of Certain Beneficial Owners and Management* and *Equity Compensation Plan Information* in our Proxy Statement for our 2003 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information required by this item will be included under the caption *Certain Relationships and Related Transactions* in our Proxy Statement for our 2003 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 14. Controls and Procedures

Disclosure Controls and Procedures

Within the 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15b under the Securities Exchange Act of 1934. Based on their review of our disclosure controls and procedures, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us that is required to be included in our periodic SEC filings.

Internal Controls and Procedures

There were no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Financial Statements and Schedules

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

There are no schedules required to be filed herewith.

(b) Reports on Form 8-K

The Company filed one report on Form 8-K during the quarter ended December 31, 2002 pursuant to Item 9. Regulation FD Disclosure dated December 20, 2002 regarding a press release lowering 2002 and 2003 earnings guidance.

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(c) Exhibits

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

Exhibit		Description
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	(b)	1996 Stock Incentive Plan
10.2	(c)	Amendment No. 1 to the Lithia Motors, Inc. 1996 Stock Incentive Plan
10.2.1	(b)	Form of Incentive Stock Option Agreement (1)
10.3	(b)	Form of Non-Qualified Stock Option Agreement (1)
10.4	(d)	1997 Non-Discretionary Stock Option Plan for Non-Employee Directors
10.5	(e)	Employee Stock Purchase Plan
10.6	(f)	Lithia Motors, Inc. 2001 Stock Option Plan
10.6.1	(g)	Form of Incentive Stock Option Agreement for 2001 Stock Option Plan
10.6.2	(g)	Form of Non-Qualified Stock Option Agreement for 2001 Stock Option Plan
10.7	(a)	Chrysler Corporation Sales and Service Agreement General Provisions
10.7.1	(h)	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	(e)	Supplemental Terms and Conditions agreement between Ford Motor Company and Lithia Motors, Inc. dated June 12, 1997.
10.8.2	(e)	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	(e)	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	(i)	Chevrolet Dealer Sales and Service Agreement dated October 13, 1998 between General Motors Corporation, Chevrolet Motor Division and Camp Automotive, Inc. (5)
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)

Exhibit		Description
10.12	(e)	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	(e)	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		Credit Agreement dated February 25, 2003 between DaimlerChrysler Services North America LLC, as agent, and Lithia Motors, Inc.
10.14		Amended and Restated Loan Agreement dated December 28, 2001 between Lithia Financial Corporation, Lithia Motors, Inc. and Lithia SALMIR, Inc. and U.S. Bank National Association.
10.14.1		Consent, Waiver and Amendment dated January 31, 2003 to Loan Agreement dated December 28, 2001 between Lithia Financial Corporation, Lithia Motors, Inc., Lithia SALMIR, Inc. and Lithia Aircraft, Inc. and U.S. Bank National Association.
10.15		Amended and Restated Revolving Loan and Security Agreement dated May 10, 2002 between Toyota Motor Credit Corporation and Lithia Real Estate, Inc.
10.16	(a)	Lease Agreement between CAR LIT, L.L.C. and Lithia Real Estate, Inc. relating to properties in Medford, Oregon.(8)
21		Subsidiaries of Lithia Motors, Inc.
23		Consent of KPMG LLP
99.1		Certification of Sidney B. DeBoer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2		Certification of Jeffrey B. DeBoer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.3		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 June 30, 1998 as filed with the Securities and Exchange Commission on August 13, 1998.

(d) 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.

(e) 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.

(f) Incorporated by reference from Appendix B to the Company's Proxy Statement for its 2001 Annual Meeting as filed with the Securities and Exchange Commission on May 8, 2001.

(g) Incorporated by reference from the Company's Form 10-K for the year ended December 31, 2001 as filed with the Securities and Exchange Commission on February 22, 2002.

(h) Incorporated by reference from the Company's Form 10-Q for the quarter ended September 30, 2001 as filed with the Securities and Exchange Commission on November 14, 2001.

(i) 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.

(1) The board of directors adopted the new stock option agreement forms when it adopted the 2001 Stock Option Plan; and, although no longer being used to grant new stock options, these option agreements remain in effect as there are outstanding stock options issued under these stock option agreements.

(2) Substantially identical agreements exist between DaimlerChrysler Motor Company, LLC 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) 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 28, 2003

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 28, 2003:

Signature	Title
/s/ SIDNEY B. DEBOER Sidney B. DeBoer	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ JEFFREY B. DEBOER Jeffrey B. DeBoer	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ M. L. DICK HEIMANN M. L. Dick Heimann	Director, President and Chief Operating Officer
/s/ R. BRADFORD GRAY R. Bradford Gray	Director and Executive Vice President
/s/ THOMAS BECKER Thomas Becker	Director
/s/ GERALD F. TAYLOR Gerald F. Taylor	Director
/s/ WILLIAM J. YOUNG William J. Young	Director

CERTIFICATION PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Sidney B. DeBoer, certify that:

1. I have reviewed this annual report on Form 10-K of Lithia Motors, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

/s/ Sidney B. DeBoer

Sidney B. DeBoer
Chairman of the Board,
Chief Executive Officer and Secretary
Lithia Motors, Inc.

CERTIFICATION PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey B. DeBoer, certify that:

1. I have reviewed this annual report on Form 10-K of Lithia Motors, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

/s/ Jeffrey B. DeBoer

Jeffrey B. DeBoer
Senior Vice President
and Chief Financial Officer
Lithia Motors, Inc.

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, 2002 and 2001, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2002. 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, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, effective January 1, 2001, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities* , as amended. As also discussed in note 1 to the financial statements, effective July 1, 2001, the Company adopted the provisions of SFAS No. 141, *Business Combinations* , and certain provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* , as required for goodwill and intangible assets resulting from business combinations consummated after June 30, 2001. Effective January 1, 2002, the Company adopted the remaining provisions of SFAS No. 142.

KPMG LLP

February 7, 2003, except as to note 15,
which is as of February 25, 2003

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

	December 31, 2002	December 31, 2001
Assets		
Current Assets:		
Cash and cash equivalents	$ 15,932	$ 18,814
Contracts in transit	41,493	41,041
Trade receivables, net of allowance for doubtful accounts of $455 and $504	40,680	33,196
Notes receivable, current portion, net of allowance for doubtful accounts of $247 and $601	167	1,361
Inventories, net	445,908	275,398
Vehicles leased to others, current portion	5,341	5,554
Prepaid expenses and other	5,707	3,759
Deferred income taxes	550	1,286
Total Current Assets	555,778	380,409
Land and buildings, net of accumulated depreciation of $3,618 and $2,098	118,696	84,739
Equipment and other, net of accumulated depreciation of $14,602 and $9,695	58,215	37,238
Notes receivable, less current portion	881	244
Vehicles leased to others, less current portion	19	122
Goodwill, net of accumulated amortization of $9,407 and $9,407	185,212	149,742
Other intangible assets, net of accumulated amortization of $330 and $312	20,985	7,107
Other non-current assets	2,263	3,343
Total Assets	$942,049	$662,944
Liabilities and Stockholders' Equity		
Current Liabilities:		
Flooring notes payable	$364,635	$211,947
Current maturities of long-term debt	4,466	10,203
Trade payables	19,445	16,894
Accrued liabilities	40,924	36,531
Total Current Liabilities	429,470	275,575
Used Vehicle Flooring Facility	63,000	69,000
Real Estate Debt, less current maturities	73,798	40,693
Other Long-Term Debt, less current maturities	30,914	55,137
Deferred Revenue	1,617	1,481
Other Long-Term Liabilities	9,581	8,181
Deferred Income Taxes	13,676	9,380
Total Liabilities	622,056	459,447
Stockholders' Equity:		
Preferred stock - no par value; authorized 15,000 shares; 15 shares designated Series M Preferred; issued and outstanding 0 and 9.7	—	5,806
Class A common stock - no par value; authorized 100,000 shares; issued and outstanding 14,299 and 8,894	203,577	113,553
Class B common stock - no par value authorized 25,000 shares; issued and outstanding 3,762 and 4,040	468	502
Additional paid-in capital	929	507
Accumulated other comprehensive loss	(2,517)	(2,091)
Retained earnings	117,536	85,220
Total Stockholders' Equity	319,993	203,497
Total Liabilities and Stockholders' Equity	$942,049	$662,944

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2002	2001	2000
Revenues:			
New vehicle sales	$1,284,657	$ 993,635	$ 899,659
Used vehicle sales	738,149	585,415	482,209
Service, body and parts	229,970	187,725	164,002
Finance and insurance	81,068	65,815	55,019
Fleet and other	43,116	40,598	57,722
Total revenues	2,376,960	1,873,188	1,658,611
Cost of sales	2,002,157	1,566,713	1,391,042
Gross profit	374,803	306,475	267,569
Selling, general and administrative	296,137	239,042	195,500
Depreciation - buildings	2,405	1,261	994
Depreciation - equipment and other	5,390	4,221	3,425
Amortization	18	3,793	3,186
Income from operations	70,853	58,158	64,464
Other income (expense):			
Floorplan interest expense	(11,289)	(14,497)	(17,728)
Other interest expense	(6,115)	(7,822)	(7,917)
Other income, net	(683)	(410)	716
	(18,087)	(22,729)	(24,929)
Income before income taxes	52,766	35,429	39,535
Income tax expense	(20,450)	(13,675)	(15,222)
Net income	$ 32,316	$ 21,754	$ 24,313
Basic net income per share	$ 1.88	$ 1.63	$ 1.78
Shares used in basic net income per share	17,233	13,371	13,652
Diluted net income per share	$ 1.84	$ 1.60	$ 1.76
Shares used in diluted net income per share	17,598	13,612	13,804

See accompanying notes to consolidated financial statements.

LITHIA MOTORS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income
For the years ended December 31, 2000, 2001 and 2002
(In thousands, except share data)

	Series M Preferred Stock		Common Stock			
			Class A		Class B	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance at December 31, 1999	10,360	$ 6,216	7,824,463	$102,333	4,087,000	$508
Comprehensive income:						
Net income	—	—	—	—	—	—
Unrealized gain on investments	—	—	—	—	—	—
Total comprehensive income						
Issuance of stock in connection with acquisitions	4,499	2,699	303,542	4,500	—	—
Issuance of stock in connection with employee stock plans	—	—	324,082	2,213	—	—
Repurchase of Class A Common Stock	—	—	(40,000)	(481)	—	—
Compensation for stock option issuances	—	—	—	—	—	—
Balance at December 31, 2000	14,859	8,915	8,412,087	108,565	4,087,000	508
Comprehensive income:						
Net income	—	—	—	—	—	—
Unrealized loss on investments,net	—	—	—	—	—	—
Cash flow hedges:						
Cumulative effect of adoption of SFAS 133, net of tax effect of $594	—	—	—	—	—	—
Net derivative losses, net of tax effect of $1,237	—	—	—	—	—	—
Reclassification adjustment, net of tax effect of $(523)	—	—	—	—	—	—
Total comprehensive income						
Issuance of stock in connection with employee stock plans	—	—	169,492	1,873	—	—
Conversion of Series M Preferred Stock	(5,183)	(3,109)	265,247	3,109	—	—
Conversion of Class B Common Stock	—	—	47,281	6	(47,281)	(6)
Compensation for stock option issuances	—	—	—	—	—	—
Balance at December 31, 2001	9,676	5,806	8,894,107	113,553	4,039,719	502
Comprehensive income:						
Net income	—	—	—	—	—	—
Unrealized gain on investments,net	—	—	—	—	—	—
Cash flow hedges:						
Net derivative losses, net of tax effect of $1,234	—	—	—	—	—	—
Reclassification adjustment, net of tax effect of $(963)	—	—	—	—	—	—
Total comprehensive income						
Issuance of stock in connection with public offering	—	—	4,500,000	77,198	—	—
Issuance of stock in connection with acquisition	—	—	25,000	475	—	—
Issuance of stock in connection with employee stock plans	—	—	352,836	5,067	—	—
Conversion and redemption of Series M Preferred Stock	(9,676)	(5,806)	249,311	7,250	—	—
Conversion of Class B Common Stock	—	—	277,488	34	(277,488)	(34)
Compensation for stock option issuances and tax benefits from option exercises	—	—	—	—	—	—
Balance at December 31, 2002	—	$ —	14,298,742	$203,577	3,762,231	$468

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Additional Paid In Capital	Accumulated Other Compre-hensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 1999	$ 7,428	$ —	$ 39,153	$155,638
Comprehensive income:				
Net income	—	—	24,313	24,313
Unrealized gain on investments	—	15	—	15
Total comprehensive income				24,328
Issuance of stock in connection with acquisitions	(7,200)	—	—	(1)
Issuance of stock in connection with employee stock plans	—	—	—	2,213
Repurchase of Class A Common Stock	—	—	—	(481)
Compensation for stock option issuances	78	—	—	78
Balance at December 31, 2000	306	15	63,466	181,775
Comprehensive income:				
Net income	—	—	21,754	21,754
Unrealized loss on investments,net	—	(26)	—	(26)
Cash flow hedges:				
Cumulative effect of adoption of SFAS 133, net of tax effect of $594	—	(948)	—	(948)
Net derivative losses, net of tax effect of $1,237	—	(1,963)	—	(1,963)
Reclassification adjustment, net of tax effect of $(523)	—	831	—	831
Total comprehensive income				19,648
Issuance of stock in connection with employee stock plans	—	—	—	1,873
Conversion of Series M Preferred Stock	(20)	—	—	(20)
Conversion of Class B Common Stock	—	—	—	—
Compensation for stock option issuances	221	—	—	221
Balance at December 31, 2001	507	(2,091)	85,220	203,497
Comprehensive income:				
Net income	—	—	32,316	32,316
Unrealized gain on investments,net	—	3	—	3
Cash flow hedges:				
Net derivative losses, net of tax effect of $1,234	—	(1,948)	—	(1,948)
Reclassification adjustment, net of tax effect of $(963)	—	1,519	—	1,519
Total comprehensive income				31,890
Issuance of stock in connection with public offering	—	—	—	77,198
Issuance of stock in connection with acquisition	—	—	—	475
Issuance of stock in connection with employee stock plans	—	—	—	5,067
Conversion and redemption of Series M Preferred Stock	(11)	—	—	1,433
Conversion of Class B Common Stock	—	—	—	—
Compensation for stock option issuances and tax benefits from option exercises	433	—	—	433
Balance at December 31, 2002	$ 929	$(2,517)	$117,536	$319,993

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2002	2001	2000
Cash flows from operating activities:			
Net income	$ 32,316	$ 21,754	$ 24,313
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,813	9,275	7,605
Compensation related to stock option issuances	169	221	78
(Gain) loss on sale of assets	77	(43)	55
(Gain) loss on sale of vehicles leased to others	58	(20)	13
Gain on sale of franchise	(50)	(352)	—
Deferred income taxes	4,963	(97)	196
Equity in (income) loss of affiliate	(4)	87	(30)
(Increase) decrease, net of effect of acquisitions:			
Trade and installment contract receivables, net	(4,512)	(1,007)	(3,701)
Contracts in transit	1,626	(8,079)	(11,310)
Inventories	(107,126)	64,200	1,814
Prepaid expenses and other	(1,126)	654	(391)
Other non-current assets	1,473	(663)	(1,426)
Increase (decrease), net of effect of acquisitions:			
Floorplan notes payable	106,583	(58,321)	7,083
Trade payables	2,032	3,243	814
Accrued liabilities	2,539	10,958	(1,368)
Other liabilities	835	(630)	1,232
Net cash provided by operating activities	47,666	41,180	24,977
Cash flows from investing activities:			
Notes receivable issued	(178)	(902)	(734)
Principal payments received on notes receivable	1,410	2,715	4,197
Capital expenditures:			
Non-financeable	(5,691)	(4,439)	(3,599)
Financeable	(32,792)	(26,247)	(22,384)
Proceeds from sale of assets	1,672	7,635	1,140
Proceeds from sale of vehicles leased to others	2,219	4,675	6,597
Expenditures for vehicles leased to others	(7,372)	(6,228)	(9,701)
Cash paid for other investments	(384)	—	—
Cash paid for acquisitions, net of cash acquired	(81,698)	(45,496)	(57,657)
Cash from sale of franchises	535	7,060	1,287
Distribution from affiliate	—	—	380
Net cash used in investing activities	(122,279)	(61,227)	(80,474)
Cash flows from financing activities:			
Net borrowings (repayments) on lines of credit	(28,000)	24,000	54,120
Payments on capital lease obligations	(9)	(132)	(107)
Principal payments on long-term debt	(11,214)	(9,776)	(13,560)
Proceeds from issuance of long-term debt	33,055	17,089	9,430
Repurchase of common stock	—	—	(481)
Redemption of Series M Preferred Stock	(4,366)	—	—
Proceeds from issuance of common stock	82,265	1,853	2,213
Net cash provided by financing activities	71,731	33,034	51,615
Increase (decrease) in cash and cash equivalents	(2,882)	12,987	(3,882)
Cash and cash equivalents:			
Beginning of year	18,814	5,827	9,709
End of year	$ 15,932	$ 18,814	$ 5,827
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	$ 17,100	$ 23,282	$ 25,580

Cash paid during the period for income taxes	16,541	12,657	15,266
Supplemental schedule of noncash investing and financing activities:			
Stock issued in connection with acquisitions	$ 475	$ —	$ —
Debt assumed/issued in connection with acquisitions	3,314	—	5,978
Termination of capital lease	—	58	—
Assets acquired with debt	—	6,982	—
Debt extinguished through refinancing	4,360	10,840	—

See accompanying notes to consolidated financial statements.

LITHIA MOTORS, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002, 2001 and 2000

(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. As of December 31, 2002, Lithia offered 24 brands of new vehicles through 130 franchises in 69 stores in the western United States and over the Internet. As of December 31, 2002, Lithia operated 17 stores in Oregon, 11 in California, 10 in Washington, 7 in Texas, 6 in Idaho, 6 in Colorado, 5 in Nevada, 3 in South Dakota, 2 in Alaska and 2 in Nebraska. 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

Cash and cash equivalents are defined as cash on hand and cash in bank accounts

Contracts in Transit

Contracts in transit relate to amounts due from various lenders for the financing of vehicles sold and are typically received within five days of selling a vehicle.

Trade Receivables

Trade receivables include amounts due from customers for vehicles and service and parts business, from manufacturers for factory rebates, dealer incentives and warranty reimbursement, insurance companies, finance companies and other miscellaneous receivables.

Inventories

The Company accounts for inventories at the lower of market value or cost, using the specific identification method for vehicles and the first-in first-out (FIFO) method for parts (collectively, the FIFO method).

Vehicles Leased to Others and Related Leases Receivable

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. Vehicles leased to others are classified as current or non-current based on the remaining lease term.

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:

Buildings 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. In addition, interest on borrowings for major capital projects, significant renewals and betterments is capitalized. Capitalized interest then becomes a part of the cost of the depreciable asset and is depreciated according to the estimated useful lives as previously stated.

When an asset is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to income.

Leased property meeting certain criteria is capitalized and the present value of the related lease payments is recorded as a liability. Amortization of capitalized leased assets is computed on a straight-line basis over the shorter of the useful life or the term of the lease and is included in depreciation expense.

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 such costs increase the value of the property and/or mitigate or prevent contamination from future operations.

Lithia is aware of contamination at certain of its current and former facilities, and is in the process of conducting investigations and/or remediation at some of these properties. Based on its current information, Lithia does not believe that any costs or liabilities relating to such contamination, other environmental matters or compliance with environmental regulations will have a material adverse effect on its cash flows, results of operations or financial condition. There can be no assurances, however, that additional environmental matters will not arise or that new conditions or facts will not develop in the future at Lithia's current or formerly owned or operated facilities, or at sites that it may acquire in the future, that will result in a material adverse effect on its cash flows, results of operations or financial condition.

Income Taxes

Income taxes are accounted for under the asset and liability method as prescribed by Statement of Financial Accounting Standards ("SFAS") 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 SFAS No. 128, "Earnings per Share." Following is a reconciliation of basic EPS and diluted EPS (in thousands, except per share amounts):

Year Ended December 31,	2002			2001			2000		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic EPS									
Income available to common stockholders	$32,316	17,233	$1.88	$21,754	13,371	$1.63	$24,313	13,652	$1.78
Diluted EPS									
Stock options	—	365		—	241		—	152	
Income available to common stockholders	$32,316	17,598	$1.84	$21,754	13,612	$1.60	$24,313	13,804	$1.76

Zero, 451,000 and 683,000 shares issuable pursuant to stock options have not been included in the above calculations for 2002, 2001 and 2000, respectively, since they would have been antidilutive, or "not in the money."

Advertising

The Company expenses production and other costs of advertising as incurred as a component of selling, general and administrative expense. Advertising expense, net of manufacturer credits, was $17.8 million, $15.7 million and $15.3 million for the years ended December 31, 2002, 2001 and 2000, respectively. Advertising credits received from manufacturers are deferred and credited to advertising expense as related vehicles are sold.

Goodwill and Other Identifiable Intangible Assets

Goodwill represents the excess purchase price over fair value of net assets acquired, which is not allocable to separately identifiable intangible assets. Other identifiable intangible assets represent the franchise value of stores acquired since July 1, 2001. Substantially all of the Company's other identifiable intangible assets have indefinite useful lives.

Pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets," which was adopted in the first quarter of 2002, goodwill and other identifiable intangible assets are no longer amortized, but, instead, tested for impairment, at least annually, in accordance with the provisions of SFAS No. 142.

The Company adopted the provisions of SFAS No. 141 "Business Combinations" effective July 1, 2001. As required, upon adoption of SFAS No. 142, SFAS No. 141 required that Lithia evaluate its existing intangible assets and goodwill, that were acquired in prior purchase business combinations, and make any necessary reclassifications in order to conform with the criteria in SFAS No. 141 for recognition apart from goodwill. Lithia did not reclassify any intangibles upon adoption of SFAS No. 142.

Lithia tested its goodwill and other identifiable intangible assets for impairment utilizing the discounted cash flows method in accordance with the provisions of SFAS No. 142 during the first quarter of 2002 and determined that no impairment losses were required to be recognized. Growth rates utilized in the calculation were calculated individually for each region with data derived from the U.S. Census Bureau on population growth and the U.S. Department of Labor, Bureau of Labor Statistics for historical consumer price index data. The discount rate applied to the future cash flows was derived from a Capital Asset Pricing Model, which factors in an equity risk premium and a risk free rate.

The following table discloses what reported net income would have been in all periods presented prior to the adoption of SFAS No. 142 exclusive of amortization expense (including any related tax effects) recognized in those periods related to goodwill and other identifiable intangible assets that are no longer being amortized.

	Year Ended December 31,	
(In thousands, except per share amounts)	2001	2000
Net income as reported	$21,754	$24,313
Add back amortization of goodwill and other intangible assets, net of tax effect of $(1,414) and $(1,211)	2,250	1,935
Adjusted net income	$24,004	$26,248
Basic net income per share as reported	$ 1.63	$ 1.78
Adjustment for add back of amortization expense, net of tax effect	0.17	0.14
Adjusted basic net income per share	$ 1.80	$ 1.92
Diluted net income as reported	$ 1.60	$ 1.76
Adjustment for add back of amortization expense, net of tax effect	0.16	0.14
Adjusted diluted net income per share	$ 1.76	$ 1.90

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 21.5% and 14.9%, respectively, of total accounts receivable at December 31, 2002 and 2001. Included in the 21.5% is one manufacturer who accounted for 8.8% of the total accounts receivable balance at December 31, 2002. Included in the 14.9% is one manufacturer who accounted for 5.6% of the total accounts receivable balance at December 31, 2001.

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, contracts in transit, 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, 2002 Lithia had $490.8 million outstanding under such facilities at interest rates ranging from 2.88% to 4.13% 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 4. 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 on its new vehicle floorplan lines of credit. The difference between interest paid and interest received, which may change as market interest rates change, is accrued and recognized as floorplan interest expense. 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 debt item is no longer outstanding, the interest rate swap is marked to market, and any unrealized gain or loss is recognized immediately.

Effective January 1, 2001, Lithia adopted the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities-an amendment of FASB Statement No. 133" and SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities" (collectively, "the Standards"). The Standards require that all derivative instruments (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, and that changes in the derivatives fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Upon adoption of the Standards, the Company recorded a liability of $1.5 million and a corresponding, net-of-tax cumulative-effect-type adjustment of $948,000 in accumulated other comprehensive income to recognize, at fair value, all derivatives that are designated as cash-flow hedging instruments.

Letters of Credit and Surety Bonds

In the ordinary course of business, the Company is required to post performance and surety bonds and letters of credit as may be required by various states, regulatory bodies, or other third parties. At December 31, 2002, the amount issued totaled $3.3 million, with expiration dates ranging from February 2003 to August 2006.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Estimates are used in the calculation of certain reserves the Company maintains for charge backs on estimated cancellations of service contracts, life, accident and disability insurance policies, and finance fees from financial institutions. The Company also uses estimates in the calculation of various accruals and reserves including anticipated workers compensation premium expenses related to a retrospective cost policy, estimated uncollectible accounts and notes receivable, environmental matters and warranty.

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 possession of the vehicles are shown on a net basis in fleet and other revenue.

Finance fees earned by the Company for notes placed with financial institutions in connection with customer vehicle financing are recognized, net of estimated charge-backs, as finance and insurance revenue upon acceptance of the credit by the financial institution. Insurance income from third party insurance companies for commissions earned on credit life, accident and disability insurance policies sold in connection with the sale of a vehicle are recognized, net of administration fees and anticipated cancellations, as finance and insurance revenue upon execution of the insurance contract.

Commissions from third party service contracts are recognized, net of administration fees and anticipated cancellations, as finance and insurance revenue upon sale of the contracts.

Warranty

The Company offers a 60-day limited warranty on the sale of retail used vehicles. The Company estimates its warranty liability based on the number of vehicles sold and an estimated cost per vehicle based on past experience. The estimated warranty is added to cost of sales upon sale of the related vehicle. At December 31, 2002 and 2001, accrued warranty totaled $525,000 and $456,000, respectively, and is included in other current liabilities on the consolidated balance sheet.

Comprehensive Income

Comprehensive income includes the unrealized gain on investments and the fair value of cash flow hedging instruments that are reflected in stockholders' equity, net of tax, instead of net income.

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 auto makers to all franchised dealers. The Company's overall sales could be impacted by the auto makers' 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 automakers 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

SFAS No. 123, "Accounting for Stock-Based Compensation," which establishes a fair value-based method of accounting for stock-based compensation plans and requires additional disclosures for those companies that elect not to adopt the new method of accounting, was issued in October 1995. The Company has elected to continue to account for stock options under APB Opinion No. 25, "Accounting for Stock Issued to Employees." Entities electing to remain with the accounting in APB No. 25 must make pro forma disclosures of net income and earnings per share, as if the fair value based method of accounting defined in SFAS No. 123 had been adopted. In December 2002, SFAS No. 148

"Accounting for Stock-Based Compensation - Transition and Disclosure" was issued. SFAS No. 148 amends SFAS No. 123 for certain transition provisions for companies electing to adopt the fair value method and amends SFAS No. 123 for certain financial statement disclosures, including interim financial statements. The Company adopted SFAS No. 148 in December 2002. The Company has elected to account for its stock-based compensation plans (which are described in Note 10) under APB No. 25. The Company has computed, for pro forma disclosure purposes, the impact on net income and net income per share if the Company had accounted for its stock-based compensation plans in accordance with SFAS No. 123 as follows:

Year Ended December 31,	2002	2001	2000
Net income, as reported	$32,316	$21,754	$24,313
Add – Stock-based employee compensation expense included in reported net income, net of related tax effects	103	135	48
Deduct - total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(2,016)	(2,473)	(2,333)
Net income, pro forma	$30,403	$19,416	$22,028
Basic net income per share:			
As reported	$ 1.88	$ 1.63	$ 1.78
Pro forma	$ 1.76	$ 1.45	$ 1.61
Diluted net income per share:			
As reported	$ 1.84	$ 1.60	$ 1.76
Pro forma	$ 1.76	$ 1.45	$ 1.61

The Company used the Black-Scholes option pricing model and the following weighted average assumptions in calculating the value of all options granted during the periods presented:

Year Ended December 31,	2002	2001	2000
Risk-free interest rate	4.00%	4.50%	6.50%
Expected dividend yield	0.00%	0.00%	0.00%
Expected lives – 2001 Plan	8.0 years	8.0 years	7.0 years
Purchase Plan	3 months	3 months	3 months
Expected volatility	46.80%	46.72%	47.47%

Using the Black-Scholes methodology, the total value of options granted during 2002, 2001 and 2000 was $4.0 million, $3.9 million and $6.5 million, respectively, which would be amortized on a pro forma basis over the vesting period of the options, typically four to five years for options granted from the 2001 Plan and three months for options granted from the Purchase Plan. The weighted average fair value of options granted during 2002, 2001 and 2000 was $5.78, $8.30 and $7.79 per share, respectively.

Segment Reporting

Based upon definitions contained within SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information," the Company has determined that it operates in one segment, automotive retailing.

Reclassifications

In 2002, the Company reclassified documentation fees from finance and insurance income to new and used vehicle revenue, as appropriate, in order to bring the Company's reporting standards in line with industry standards. The resulting effect was approximately $100 per vehicle less finance and insurance income and a corresponding increase in new and used vehicle gross margins. Accordingly, revenue by product line has been reclassified for prior periods in order to be consistent with the 2002 presentation.

In addition, contracts in transit, previously presented within cash and cash equivalents, were reclassified to a separate line item on the accompanying consolidated balance sheet.

(2) Inventories and Related Notes Payable

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

	December 31,			
	2002		2001	
	Inventory Cost	Notes Payable	Inventory Cost	Notes Payable
New and program vehicles	$340,457	$364,635	$191,598	$211,947
Used vehicles	85,170	63,000	67,018	69,000
Parts and accessories	20,281	—	16,782	—
Total inventories	$445,908	$427,635	$275,398	$280,947

The inventory balance is generally reduced by manufacturer holdbacks and incentives, while the related floor plan liability is reflective of the gross cost of the vehicle. The floor plan liability, as shown in Notes Payable in the above table, will generally also be higher than the inventory cost due to the timing of the sale of a vehicle and payment of the related 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 current liabilities in the accompanying consolidated balance sheets.

At December 31, 2002 and 2001, used vehicles were pledged to collateralize a $150 million line of credit.

(3) Property, Plant and Equipment (in thousands)

December 31,	2002	2001
Buildings and improvements	$ 69,117	$ 34,148
Service equipment	16,925	9,872
Furniture, signs and fixtures	53,277	31,701
	139,319	75,721
Less accumulated depreciation – buildings	(3,618)	(2,098)
Less accumulated depreciation – equipment and other	(14,602)	(9,695)
	121,099	63,928
Land	52,241	41,607
Construction in progress, buildings	956	11,082
Construction in progress, other	2,615	5,360
	$176,911	$121,977

(4) Derivative Financial Instruments

The Company believes it is prudent to limit the variability of a portion of its interest payments. Accordingly, the Company has entered into interest rate swaps to manage the variability of its interest rate exposure, thus leveling a portion of its interest expense in a rising or falling rate environment.

The interest rate swaps change the variable-rate cash flow exposure on a portion of the flooring debt to fixed rate cash flows by entering into receive-variable, pay-fixed interest rate swaps. Under the interest rate swaps, the Company receives variable interest rate payments and makes fixed interest rate payments, thereby creating fixed rate flooring debt.

Through December 31, 2002, the Company has entered into the following interest rate swaps with U.S. Bank Dealer Commercial Services:

- effective September 1, 2000—a five year, $25 million interest rate swap at a fixed rate of 6.88% per annum.
- effective November 1, 2000—a three year, $25 million interest rate swap at a fixed rate of 6.47% per annum.

The Company 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 pays 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 consolidated statements of operations as flooring interest expense. The one-month LIBOR rate at December 31, 2002 was 1.38% per annum.

The Company does not enter into derivative instruments for any purpose other than to manage interest rate exposure. That is, the Company does not speculate using derivative instruments.

The fair value of interest rate swap agreements and the amount of hedging losses deferred on interest rate swaps was $4.1 million and $3.4 million, respectively, at December 31, 2002 and 2001. Changes in the fair value of the interest rate swaps are reported, net of related income taxes, in accumulated other comprehensive income. These amounts are subsequently reclassified into interest expense as a yield adjustment over the remaining lives of the swaps. Because the critical terms of the interest rate swap and the underlying debt obligation are the same, there was no ineffectiveness recorded in interest expense.

Incremental interest expense, net of tax, incurred as a result of the interest rate swaps was $1.5 million and $832,000, respectively, in 2002 and 2001 and was immaterial in 2000. Interest expense savings, net of tax, on un-hedged debt as a result of decreasing interest rates during 2002 was $204,000 and was approximately $3.9 million in 2001.

At current interest rates, the Company estimates that it will incur additional interest expense, net of tax, of approximately $1.5 million related to its interest rate swaps during 2003.

See also Note 15 Subsequent Events for a description of new interest rate swaps.

(5) Lines of Credit and Long-Term Debt

The Company has credit facilities with Ford Motor Credit Company totaling $530 million, which expire December 1, 2003, with interest due monthly. The facilities include $250 million for new and program vehicle flooring, $150 million for used vehicle flooring and $130 million for store acquisitions. The Company has the option to convert the acquisition line into a five-year term loan.

The credit lines with Ford Motor Credit are cross-collateralized and are secured by inventory, accounts receivable, intangible assets and equipment. The Company pledged to Ford Motor Credit the stock of all of its subsidiaries except entities operating BMW, Honda, Nissan or Toyota stores.

The financial covenants in the agreement with Ford Motor Credit require the Company to maintain compliance with, among other things, (1) specified ratios of total debt to tangible base capital; (2) specified ratios of total adjusted debt to tangible base capital; (3) specific current ratio; (4) specific fixed charge coverage ratio; and (5) positive net cash. The Ford Motor Credit agreements also preclude the payment of cash dividends without prior consent. The Company was in compliance with all such covenants at December 31, 2002.

Toyota Financial Services, DaimlerChrysler Financial Corporation and General Motors Acceptance Corporation have agreed to floor all of our new vehicles for their respective brands with Ford Motor Credit serving as the primary lender for all other brands. These new vehicle lines are secured by new vehicle inventory of the relevant brands.

The Company also has a real estate line of credit with Toyota Financial Services totaling $40 million, which expires July 2, 2006. This line of credit is secured by the real estate financed under this line of credit.

In addition, U.S. Bank N.A. has extended a $27.5 million revolving line of credit for leased vehicles and equipment purchases, which expires January 31, 2004.

Interest rates on all of the above facilities ranged from 2.88% to 4.13% at December 31, 2002. Amounts outstanding on the lines at December 31, 2002 together with amounts remaining available under such lines were as follows (in thousands):

	Outstanding at December 31, 2002	Remaining Availability as of December 31, 2002
New and program vehicle lines of credit	$364,635	$ *
Used vehicle line of credit	63,000	87,000
Acquisition line of credit	—	130,000
Real estate line of credit	35,681	4,319
Equipment/leased vehicle line of credit	27,500	—
	$490,816	$ *

* There are no formal limits on the new and program vehicle lines with certain lenders.

Long-term debt consists of the following (in thousands):

December 31,	2002	2001
Equipment and leased vehicle line of credit	$ 27,500	$ 27,500
Acquisition line of credit	—	22,000
Used vehicle flooring line of credit	63,000	69,000
Mortgages payable in monthly installments of $258, including interest between 3.24% and 8.62%, maturing fully December 2019; secured by land and buildings	40,229	35,176
Real estate line of credit payable with monthly payments of interest only at 3.44%, maturing May 2005; secured by land and buildings	35,681	13,740
Notes payable in monthly installments of $9 plus interest between 3.36% and 4.70%, maturing at various dates through 2003; secured by vehicles leased to others	914	1,849
Notes payable related to acquisitions, with interest rates between 4.25% and 8.00%, maturing at various dates through December 2008	4,846	5,751
Capital lease obligations, net of interest of $1 and $1, respectively, with monthly lease payments of $1 and termination dates through 2003	8	17
	172,178	175,033
Less current maturities	(4,466)	(10,203)
	$167,712	$164,830

The schedule of future principal payments on long-term debt after December 31, 2002 is as follows (in thousands):

Year Ending December 31,	
2003	$ 4,466
2004	31,077
2005	3,259
2006	66,038
2007	3,040
Thereafter	64,298
Total principal payments	$172,178

See also Note 15, Subsequent Events.

(6) Stockholders' Equity

Class A and Class B Common Stock

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 stockholders on which the number of shares of Class B common stock outstanding is less than 1% of the total number of shares of common stock outstanding. Shares of Class B common stock may not be transferred to third parties, except for transfers to certain family members and in other limited circumstances.

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

In March 2002, the Company registered and sold 4.5 million newly issued shares of Class A common stock and existing stockholders sold 1.25 million shares. Proceeds to the Company, net of offering expenses, totaled approximately $77.2 million. In connection with the sale of shares by existing stockholders, 121,488 shares of Class B common stock were converted into a like number of shares of Class A common stock.

Series M Redeemable, Convertible Preferred Stock

In 1999, the Company authorized 15,000 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 10,360 shares of Series M Preferred Stock. The Series M Preferred Stock was 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 was redeemable at the option of the Company. The Series M Preferred Stock converted into Class A common stock based on a formula that divided the average Class A common stock price for a certain 15-day period into $1,000 and then multiplied by the number of Series M Preferred Stock being converted. The Series M Preferred Stock had a $1,000 per share liquidation preference.

In the first quarter of 2000, the Company issued 303,542 shares of Class A common stock and 4,499 shares of Series M Preferred Stock in order to satisfy contingent payout requirements related to the Moreland acquisition.

All shares of Series M Preferred Stock have been converted or redeemed and, as of December 31, 2002, no shares of Series M Preferred Stock remain outstanding.

(7) Cost of Sales

Cost of sales categorized by revenue category is as follows (in thousands):

Year Ended December 31,	2002	2001	2000
New vehicle sales	$1,175,982	$ 904,047	$ 817,148
Used vehicle sales	663,989	522,093	426,975
Service, body and parts	119,501	100,411	90,358
Finance and insurance	471	720	820
Fleet and other	42,214	39,442	55,741
	$2,002,157	$1,566,713	$1,391,042

(8) Income Taxes

Income tax expense for 2002, 2001 and 2000 was as follows (in thousands):

Year Ended December 31,	2002	2001	2000
Current:			
Federal	$14,013	$13,074	$12,705
State	1,914	2,040	2,194
	15,927	15,114	14,899
Deferred:			
Federal	4,002	(1,264)	328
State	521	(175)	(5)
	4,523	(1,439)	323
Total	$20,450	$13,675	$15,222

Individually significant components of the deferred tax assets and liabilities are presented below (in thousands):

December 31,	2002	2001
Deferred tax assets:		
Allowance and accruals	$ 5,132	$ 4,006
Deferred revenue and cancellation reserves	4,363	3,383
Total deferred tax assets	9,495	7,389
Deferred tax liabilities:		
LIFO recapture and acquired LIFO inventories differences	(3,356)	(3,773)
Employee benefit plans	(1,282)	(1,724)
Goodwill	(11,392)	(7,193)
Property and equipment, principally due to differences in depreciation	(6,591)	(2,793)
Total deferred tax liabilities	(22,621)	(15,483)
Total	$(13,126)	$ (8,094)

In 2002, 2001 and 2000, income tax benefits attributable to employee stock option transactions of $264,000, $0 and $0, respectively, were allocated to stockholders' equity.

The reconciliation between amounts computed using the federal income tax rate of 35% and the Company's income tax expense for 2002, 2001 and 2000 is shown in the following tabulation (in thousands).

Year Ended December 31,	2002	2001	2000
Computed "expected" tax expense	$18,468	$12,400	$13,837
State taxes, net of federal income tax benefit	1,578	1,174	1,464
Nondeductible goodwill	—	468	443
Other	404	(367)	(522)
Income tax expense	$20,450	$13,675	$15,222

(9) 401(k) Profit Sharing Plan

The Company has a defined contribution 401(k) 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 $0.9 million, $1.1 million and $166,000 were recognized for the years ended December 31, 2002, 2001 and 2000, respectively. Employees may contribute to the plan under certain circumstances.

(10) Stock Incentive Plans

The Company's 2001 Stock Option Plan ('the 2001 Plan"), which was approved by the stockholders of the Company in May 2001 and amended in May 2002, allows for the granting of up to a total of 1.2 million incentive and nonqualified stock options to officers, key employees and consultants of the Company and its subsidiaries. Upon approval of the 2001 Plan, the Company's 1996 Stock Incentive Plan (the "1996 Plan") and its Non-Discretionary Stock Option Plan for Non-Employee Directors (the "Directors' Plan") were terminated. However, options then outstanding under the 1996 Plan and the Directors' Plan remained outstanding and exercisable pursuant to their original terms. Options canceled under the 1996 Plan and the Directors' Plan do not return to the pool of options to be granted again in the future. All of the option plans are administered by the Compensation Committee of the Board and permit 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, 2002, 2,040,868 shares of Class A common stock were reserved for issuance under the plans, of which 544,000 were available for future grant.

Activity under the plans is as follows (in thousands):

	Shares Available for Grant	Shares Subject to Options	Weighted Average Exercise Price
Balances, December 31, 1999	854	769	$ 9.92
Options granted	(668)	668	13.17
Options canceled	58	(58)	13.39
Options exercised	—	(190)	3.20
Balances, December 31, 2000	244	1,189	12.65
Additional shares reserved	600	—	—
Option shares canceled upon approval of the 2001 Plan	(244)	—	—
Options granted	(275)	275	19.24
Options canceled	—	(64)	16.21
Options exercised	—	(27)	8.78
Balances, December 31, 2001	325	1,373	14.02
Additional shares reserved	600	—	—
Options granted	(433)	433	15.80
Options canceled	52	(173)	17.00
Options exercised	—	(136)	12.00
Balances, December 31, 2002	544	1,497	$14.25

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 stockholders approved the implementation of an Employee Stock Purchase Plan (the "Purchase Plan"), and, as amended in May 2000 and 2002, have reserved a total of 1.0 million shares of Class A common stock for issuance thereunder. 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 217,230, 142,433 and 133,762 shares of the Company's Class A common stock were issued under the Purchase Plan during 2002, 2001 and 2000, respectively, and 447,841 remained available for issuance at December 31, 2002.

The following table summarizes stock options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares Outstanding at 12/31/02	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Shares Exercisable at 12/31/02	Weighted Average Exercise Price
$ 1.00	88,865	7.3	$ 1.00	15,865	$ 1.00
3.02	96,499	1.3	3.02	96,499	3.02
10.75	14,000	2.2	10.75	14,000	10.75
10.87- 12.99	196,664	7.4	11.91	70,224	12.01
14.00- 15.13	463,319	8.9	15.06	31,131	14.76
16.50- 18.94	364,321	6.1	16.99	144,691	17.02
19.24- 20.52	273,200	9.0	19.34	27,400	19.24
$ 1.00-$20.52	1,496,868	7.4	$14.25	399,810	$11.88

At December 31, 2001 and 2000, 400,533 and 245,980 shares were exercisable at weighted average exercise prices of $10.39 and $9.01, respectively.

(11) Commitments and Contingencies

Recourse Paper

The Company is contingently liable to banks for recourse paper assumed at the time of acquisition when the Company does a corporate purchase. Following the acquisition, the Company does not enter into further recourse transactions. The contingent liability, net of reserves, at December 31, 2002 and 2001 was approximately $300,000 and $322,000, 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 $443,000 and $573,000 is reflected in the Company's consolidated balance sheets as of December 31, 2002 and 2001, respectively. The reserves were established as a purchase price adjustment as the result of several acquisitions.

Leases

The Company leases certain of its facilities under non-cancelable operating leases. These leases expire at various dates through 2021. 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 minimum lease payments under the operating leases after December 31, 2002 are as follows (in thousands):

Year Ending December 31,	
2003	$ 18,303
2004	16,935
2005	16,797
2006	16,271
2007	15,253
Thereafter	58,140
Total minimum lease payments	$141,699

Rental expense for all operating leases was $18.6 million, $15.9 million and $13.8 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Capital Commitments

At December 31, 2002, the Company had capital commitments of approximately $10.0 million for the construction of three new store facilities, additions to three existing facilities and the remodel of three facilities. The three new facilities will be a Ford store in Boise, Idaho, a body shop in Aurora, Colorado and a body shop in Boise, Idaho. The Company has already incurred $3.0 million for these commitments and anticipates incurring the remaining $10.0 million during 2003. 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 and general borrowings from third party lenders for 70% to 90% of the amounts expended.

Litigation

The Company is involved, and will continue to be involved, in numerous legal proceedings arising in the ordinary course of business. The Company is also involved in various Class Action Law Suits in the ordinary course of practice in its industry, which the Company is not specifically a party, but could be included as a party along with multiple other dealerships. Although no legal proceedings can be predicted with certainty, there are no pending proceedings that, in the opinion of management, could reasonably be expected to have a material adverse effect on our business, financial condition or results of operations.

(12) Related Party Transactions

Mark DeBoer Construction

During 2002, 2001 and 2000, Lithia Real Estate, Inc. paid Mark DeBoer Construction, Inc. $4.3 million, $7.9 million, and $6.8 million, respectively, for remodeling certain of the Company's facilities. Mark DeBoer is the son of Sidney B. DeBoer, the Company's Chairman and Chief Executive Officer. These amounts included $3.5 million, $7.1 million, and $6.1 million, respectively, paid for subcontractors and materials, $183,000, $16,000 and $32,000, respectively for permits, licenses, travel and various miscellaneous fees, and $558,000, $780,000, and $624,000, respectively, for contractor fees. The

Company believes the amounts paid are fair in comparison with fees negotiated with independent third parties and all significant transactions are reviewed and approved by the independent audit committee of the Company.

W. Douglas Moreland

In May 1999, the Company purchased certain dealerships owned by W. Douglas Moreland for total consideration of approximately $66.0 million, at which time, Mr. Moreland became a member of the Company's Board of Directors. During the normal course of business, these dealerships paid $1.1 million, $2.5 million and $2.8 million in 2002, 2001 and 2000, 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 $2.6 million, $3.0 million and $3.2 million in 2002, 2001 and 2000, respectively, to other companies owned by Mr. Moreland. As of October 31, 2002, Mr. Moreland is no longer a member of the Company's Board of Directors.

Lithia Properties, LLC

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). Lithia Properties does not have current operations other than completing its existing insurance contracts related to accident and health insurance polices sold through 1996, which is immaterial. All of the insurance contracts have earned-out or expired by December 31, 2002. Lithia Properties anticipates distributing the remaining capital to the members in 2003.

(13) Acquisitions

The following acquisitions were made in 2002:

- In January 2002, Lithia acquired the Lynn Alexander Auto Group, which is comprised of All American Chrysler/Jeep/Dodge and All American Chevrolet located in San Angelo, Texas and All American Chrysler/Jeep/Dodge in Big Spring, Texas. The stores had anticipated 2002 annual revenues of $115.0 million.
- In January 2002, Lithia acquired Premier Chrysler/Jeep/Dodge in Odessa, Texas, which had anticipated 2002 annual revenues of $33.0 million.
- In February 2002, Lithia acquired Thomason Subaru in Oregon City, Oregon, which had anticipated 2002 annual revenues of $20.0 million. The store has been renamed Lithia Subaru of Oregon City.
- In April 2002, Lithia acquired Village Dodge-Hyundai in Midland, Texas, which had anticipated 2002 annual revenues of $35.0 million.
- In May 2002, Lithia opened a newly awarded Hummer franchise in Bellevue, Washington.
- In June 2002, Lithia acquired Jay Wolfe Ford in Omaha, Nebraska, which had anticipated 2002 annual revenues of $55.0 million.
- In June 2002, Lithia acquired Broncho Chevrolet in Odessa, Texas and Sherman Chevrolet in Midland, Texas. The stores had combined anticipated 2002 revenues of $115.0 million. The stores were renamed Chevrolet of Odessa and Chevrolet of Midland, respectively.
- In July 2002, Lithia acquired Mercedes of Omaha in Omaha, Nebraska, which had anticipated 2002 revenues of $22.0 million.
- In August 2002, Lithia acquired Skyline Volkswagen in a suburb of Denver, Colorado, which had anticipated 2002 revenues of $20.0 million.

- In December 2002, Lithia acquired Les Vogel Chrysler/Dodge/Jeep in Burlingame, California which had anticipated 2002 revenues of $32.0 million.

- In December of 2002, Lithia acquired Sound Hyundai in Renton, Washington which had anticipated 2002 revenues of $8.0 million.

The following acquisitions were made in 2001:

- In January 2001, Lithia acquired the Johnson Chrysler/Jeep store in Anchorage, Alaska, which had estimated 2000 revenues of approximately $35.0 million.

- In February 2001, Lithia acquired two stores in Pocatello, Idaho with the Honda, Dodge/Chrysler and Hyundai brands, which had combined estimated 2000 revenues of approximately $48.0 million.

- In July 2001, Lithia acquired Barton Cadillac in Spokane Washington, which was added to Lithia Camp Chevrolet. Barton Cadillac had estimated 2000 revenues of approximately $18.0 million.

- In August 2001, Lithia acquired the Lanny Berg Chevrolet store in Caldwell, Idaho, which had anticipated 2001 annual revenues of approximately $22.0 million.

- In September 2001, Lithia acquired Ted Tuffy Dodge in Sioux Falls, South Dakota, which had anticipated 2001 annual revenues of approximately $35.0 million.

- In September 2001, Lithia acquired BMW of Seattle in Seattle, Washington, which had anticipated 2001 annual revenues of approximately $60.0 million.

- In November 2001, Lithia acquired Issaquah Chevrolet in Issaquah, Washington, which had anticipated 2001 annual revenues of approximately $50.0 million.

In addition to the above acquisitions, in August 2001, Lithia completed the construction of and opened Lithia Dodge of Anchorage.

The Company acquired eight dealerships during 2000, with total estimated 1999 revenues of approximately $254 million.

The above acquisitions were all accounted for under the purchase method of accounting. Pro forma results of operations assuming all of the above 2002 and 2001 acquisitions occurred at the beginning of the respective periods are as follows (in thousands, except per share amounts). The 2000 acquisitions are not included in the pro forma results of operations since all of the 2000 acquisitions were individually and collectively insignificant.

Year Ended December 31,	2002	2001	2000
Total revenues	$2,532,126	$2,380,348	$2,112,045
Net income	32,474	24,987	26,526
Basic earnings per share	1.88	1.87	1.94
Diluted earnings per share	1.85	1.83	1.92

There are no future contingent payouts related to any of the 2002, 2001 or 2000 acquisitions. The purchase price for the 2002 and 2001 acquisitions was allocated as follows (in thousands):

Year Ended December 31,	2002	2001
Inventory	$ 63,192	$36,163
Other current assets	5,692	219
Property and equipment	24,637	4,452
Goodwill	30,195	22,825
Other intangible assets – franchise value	13,796	7,107
Other non-current assets	100	—
Total assets acquired	137,612	70,766
Flooring notes payable	49,225	25,351
Other current liabilities	1,694	235
Other non-current liabilities	2,548	—
Total liabilities acquired	53,467	25,586
Net assets acquired	$ 84,145	$45,180

We anticipate that approximately 90 percent and 70 percent, respectively, of the goodwill acquired in 2002 and 2001 will be deductible for tax purposes over the period of 15 years.

(14) Recent Accounting Pronouncements

In July 2002, the FASB approved SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities.” SFAS No. 146 addresses the financial accounting and reporting for obligations associated with an exit activity, including restructuring, or with a disposal of long-lived assets. Exit activities include, but are not limited to, eliminating or reducing product lines, terminating employees and contracts and relocating plant facilities or personnel. SFAS No. 146 specifies that a company will record a liability for a cost associated with an exit or disposal activity only when that liability is incurred and can be measured at fair value. Therefore, commitment to an exit plan or a plan of disposal expresses only management’s intended future actions and, therefore, does not meet the requirement for recognizing a liability and the related expense. SFAS No. 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002, with earlier adoption encouraged. The Company does not anticipate that the adoption of SFAS No. 146 will have a material effect on its financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure, an Amendment of FASB Statement No. 123.” SFAS No. 148 amends SFAS No. 123, “Accounting for Stock Based Compensation,” to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in Note 1 under the heading “Stock-Based Compensation.”

(15) Subsequent Events

DaimlerChrysler Agreement

In February 2003 the Company entered into a working capital and acquisition credit facility with DaimlerChrysler Services North America LLC totaling up to $200 million, which expires in February 2006, with interest due monthly.

The credit line with DaimlerChrysler Services is cross-collateralized and secured by cash and cash equivalents, new and used vehicle and parts inventories, accounts receivable, intangible assets and equipment. The Company pledged to DaimlerChrysler Services the stock of all of its subsidiaries except entities operating BMW, Honda, Nissan or Toyota stores.

The financial covenants in the agreement with DaimlerChrysler Services require the Company to maintain compliance with, among other things, (i) a specified current ratio; (ii) a specified fixed charge coverage ratio; (iii) a specified interest coverage ratio; (iv) a specified adjusted leverage ratio; and (v) certain working capital levels.

The Company's previous facility with Ford Motor Credit Company was terminated and paid off on February 25, 2003.

Interest Rate Swaps

The Company entered into the following interest rate swaps in 2003 to date:

- Effective January 26, 2003 – a five-year, $25 million interest rate swap at a fixed rate of 3.265%.
- Effective February 18, 2003 – a five-year, $25 million interest rate swap at a fixed rate of 3.30%

We earn interest on both of the $25 million interest rate swaps at the one-month LIBOR rate. The February 18, 2003 swap is adjusted on the first and sixteenth of every month and the January 26, 2003 swap is adjusted once a month on the 26th of each month. The Company is obligated to pay interest at the fixed rate set for each swap 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 flooring interest expense. The one-month LIBOR rate at February 28, 2003 was 1.3375% per annum.

Acquisitions in 2003 (Unaudited)

The following acquisitions were closed in the first quarter of 2003 to date:

- In February 2003, Lithia acquired Richardson Chevrolet in Salinas, California, which has anticipated 2003 annual revenues of approximately $35.0 million.
- In March 2003, Lithia acquired Pacific Hyundai of Anchorage, Alaska, which has anticipated 2003 revenues of approximately $10.0 million. The store has been renamed Lithia Hyundai of Anchorage.

None of the above acquisitions were individually significant to the Company's financial position or results of operations.

EXHIBIT 10.13

CREDIT AGREEMENT

DATED AS OF FEBRUARY 25, 2003

AMONG

LITHIA MOTORS, INC.,

VARIOUS FINANCIAL INSTITUTIONS

AND

DAIMLERCHRYSLER SERVICES NORTH AMERICA LLC,
AS AGENT

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SCHEDULES

EXHIBITS

CREDIT AGREEMENT

THIS CREDIT AGREEMENT dated as of February 25, 2003 (this "Agreement") is entered into among LITHIA MOTORS, INC. (the "Company"), the financial institutions that are or may from time to time become parties hereto (together with their respective successors and assigns, the "Lenders") and DAIMLERCHRYSLER SERVICES NORTH AMERICA LLC (in its individual capacity, "DCSNA"), as agent for the Lenders.

WHEREAS, the Lenders have agreed to make available to the Company a revolving credit facility and to issue letters of credit for the account of the Company upon the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual agreements herein contained, the parties hereto agree as follows:

DEFINITIONS.

Definitions. When used herein the following terms shall have the following meanings:

Account means, with respect to any Person, any right of such Person to payment for goods sold or leased or for services rendered, whether or not evidenced by an instrument or chattel paper and whether or not yet earned by performance.

Acquisition means an acquisition by the Company or any Collateral Subsidiary of all or substantially all the assets of a business unit or an interest of at least 80% of the capital stock or other ownership interests of an Automobile Dealership, whether through a purchase, merger, consolidation or otherwise.

Acquisition Cost means, as of any date, (x) with respect to any New Motor Vehicle, the wholesale purchase price charged by the Manufacturer thereof as reflected in the invoice in respect of such New Motor Vehicle issued by such Manufacturer to the Company, the applicable Collateral Subsidiary or any other licensed automobile dealer from which such New Motor Vehicle was purchased by the Company or the applicable Collateral Subsidiary less any related deductions set forth on such invoice, and (y) with respect to any Used Motor Vehicle and/or Auction Motor Vehicle, (i) the price paid by the Company or its applicable Collateral Subsidiary to purchase such Used Motor Vehicle or Auction Motor Vehicle minus (ii) any market value adjustments reasonably determined by the Agent for such Used Motor Vehicle or Auction Motor Vehicle.

Adjusted Leverage Ratio means, with respect to any Person at any time, (a) Total Liabilities of such Person and its Subsidiaries at such time divided by
(b) EBITDA of such Person and its Subsidiaries for the most recently completed Computation Period.

Affiliate of any Person means (i) any other Person that, directly or indirectly, controls or is controlled by or is under common control with such Person and (ii) any officer or director of such Person. A Person shall be deemed to be "controlled by" any other Person if such Person

possesses, directly or indirectly, power to vote 5% or more of the securities (on a fully diluted basis) having ordinary voting power for the election of directors or managers or power to direct or cause the direction of the management and policies of such Person whether by contract or otherwise.

Agent means DCSNA in its capacity as agent for the Lenders hereunder and any successor thereto in such capacity.

Agreement - see the Preamble.

Assignee - see Section 13.9.1.

Assignment Agreement - see Section 13.9.1.

Attorney Costs means, with respect to any Person, all reasonable fees and charges of any counsel to such Person, the reasonable allocable cost of internal legal services of such Person, all reasonable disbursements of such internal counsel and all court costs and similar legal expenses.

Auction Motor Vehicles means Motor Vehicles purchased at Manufacturer- or Floor Plan Financing Provider-sponsored dealer-only closed auctions.

Automobile Dealership means a business that operates one or more dealerships for the retail sale, or retail sale and lease, of new and/or used automobiles or trucks and businesses ancillary to the operation of dealerships owned or operated by the Company or its Subsidiaries, including service and parts operations, body shops, the sale of finance, extended warranty and insurance products (including after-market items), the financing of the purchase of new and/or used vehicles, the purchase, sale and servicing of finance contracts for new and/or used vehicles and other related businesses.

Borrowing Base means, at any time, the sum of the following: (a) an amount equal to 100% of the sum of (i) all cash on deposit at such time in deposit accounts of the Company, its Collateral Subsidiaries and Lithia Real Estate in which the Agent has a perfected security interest pursuant to the Collateral Documents, (ii) the amount at such time requested to be funded to the Company and its Collateral Subsidiaries in respect of retail installment contracts with respect to, and retail leases of, Motor Vehicles where the underlying contracts and leases have been submitted in the ordinary course of business to a third party purchaser that is a financial institution and that is not an Affiliate of the Company for which purchase the Company and its Collateral Subsidiaries have not yet been paid plus all other amounts owing at such time to the Company and its Collateral Subsidiaries from purchasers or lessees of such Motor Vehicles in respect of such purchases or leases and (iii) the difference between (x) the Acquisition Cost of that portion of the Inventory of the Company and its Collateral Subsidiaries that consists of New Motor Vehicles and (y) the aggregate amount of Floor Plan Financing of the Company and its Collateral Subsidiaries incurred in connection with such New Motor Vehicles; (b) an amount equal to 65% of the Accounts of the Company and its Collateral Subsidiaries that consist of Factory Receivables or Accounts owing from customers for service and parts; (c) an amount equal to 60% of the Accounts of the Company and its Collateral Subsidiaries that would be listed as "note and lease receivables" on a consolidated balance sheet of the Company and its

Collateral Subsidiaries at such time; (d) an amount equal to 65% of the book value of the Inventory of the Company and its Collateral Subsidiaries that consists of parts and accessories; (e) an amount equal to 80% of the difference between (i) the Acquisition Cost of that portion of the Inventory of the Company and its Collateral Subsidiaries that constitutes Used Motor Vehicles and/or Auction Motor Vehicles (without duplication) and (ii) the aggregate amount of any Floor Plan Financing of the Company and its Collateral Subsidiaries incurred in connection with such Used Motor Vehicles and Auction Motor Vehicles; and (f) an amount equal to 45% of the difference between (i) the book value of the Equipment of the Company and its Collateral Subsidiaries and (ii) the aggregate amount of Debt of the Company and its Collateral Subsidiaries incurred to finance the purchase price of such Equipment. For purposes of greater clarity, service loaners shall not constitute Inventory for purposes of calculating the Borrowing Base.

Borrowing Base Certificate means a certificate in substantially the form set forth in Exhibit H.

Business Day means any day of the year (other than any Saturday or Sunday) that is not a day on which commercial banks are authorized or required by law to close in Detroit, Michigan.

Capital Expenditures means all expenditures for property, plant and equipment that, in accordance with GAAP, would be required to be capitalized and shown on the consolidated balance sheet of the Company, but excluding (i) expenditures made in connection with the replacement, substitution or restoration of assets to the extent financed (x) from insurance proceeds (or other similar recoveries) paid on account of the loss of or damage to the assets being replaced or restored or (y) with awards of compensation arising from the taking by eminent domain or condemnation of the assets being replaced and (ii) expenditures made with net cash proceeds of the sales of assets (other than sales of inventory in the ordinary course of business and sales to Affiliates).

Capital Lease means, with respect to any Person, any lease of (or other agreement conveying the right to use) any real or personal property by such Person that, in conformity with GAAP, is accounted for as a capital lease on the balance sheet of such Person.

Cash Collateralize means to deliver cash collateral to the Agent, to be held as cash collateral for outstanding Letters of Credit, pursuant to documentation reasonably satisfactory to the Agent and the Company. Derivatives of such term have corresponding meanings.

Cash Equivalent Investment means, at any time, (a) any evidence of Debt, maturing not more than one year after such time, issued or guaranteed by the United States Government or any agency thereof, (b) commercial paper, maturing not more than one year from the date of issue, or corporate demand notes, in each case rated at least A-l by Standard & Poor's Ratings Group or P-l by Moody's Investors Service, Inc., (c) any certificate of deposit (or time deposits represented by such certificates of deposit) or banker's acceptance, maturing not more than one year after such time, or overnight Federal Funds transactions that are issued or sold by any Lender or its holding company or by a commercial banking institution that is a member of the Federal Reserve System and has a combined capital and surplus and undivided profits of not less than $500,000,000, (d) any repurchase agreement entered into with DCSNA (or with a

commercial banking institution of the stature referred to in clause (c)) that
(i) is secured by a fully perfected security interest in any obligation of the type described in any of clauses (a) through (c) and (ii) has a market value at the time such repurchase agreement is entered into of not less than 100% of the repurchase obligation of DCSNA (or commercial banking institution) thereunder,
(e) shares of money market mutual funds within the definition of Rule 2a-7 promulgated by the SEC under the Investment Company Act of 1940 and (f) other cash equivalent investments approved by the Agent.

CERCLA - see Section 8.15.

Change in Control means:

(a) Lithia Holding Company, L.L.C. ceases to own, directly or indirectly, more than 51% of the voting power of the Company's capital stock ordinarily having the right to vote at an election of directors or the Principal ceases to control Lithia Holding Company, L.L.C.;

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

(i) who were directors of the Company on the first day of such period, or

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

shall cease to constitute a majority of the board of directors of the Company; or

(c) the Company consolidates with or merges into another Person or conveys, transfers or leases all or substantially all of its property to any Person, or any Person consolidates with or merges into the Company, in either event pursuant to a transaction in which the outstanding capital stock of the Company is reclassified or changed into or exchanged for (i) cash or Cash Equivalent Investments or (ii) securities, and the holders of the capital stock in the Company immediately prior to such transaction do not, as a result of such transaction, own, directly or indirectly, more than 51% of the combined voting power of the Company's capital stock or the capital stock of its successor entity in such transaction.

Closing Date - see Section 10.1.

Code means the Internal Revenue Code of 1986.

Collateral Documents means the Security Agreement, the Pledge Agreement, each Control Agreement and any other agreement or instrument pursuant to which the Company, any Subsidiary or any other Person grants collateral to the Agent for the benefit of the Lenders to secure the obligations hereunder and under the other Loan Documents.

Collateral Subsidiary means each Subsidiary other than an Excluded Subsidiary.

Commitment means, as to any Lender, such Lender's commitment to make Loans, and to issue or participate in Letters of Credit, under this Agreement. The initial amount of each Lender's Pro Rata Share of the Revolving Commitment Amount is set forth on Schedule 2.1.

Company - see the Preamble.

Computation Period means each period of four consecutive Fiscal Quarters ending on the last day of a Fiscal Quarter.

Consolidated Current Assets means, at any date, the aggregate amount of all assets of the Company and its Subsidiaries, as shown on the most recent consolidated balance sheet of the Company and its Subsidiaries, that would be classified as current assets (including cash, marketable securities, accounts receivable, inventory and prepaid expenses) in accordance with GAAP.

Consolidated Current Liabilities means, at any date, the aggregate amount of all liabilities of the Company and its Subsidiaries, as shown on the most recent consolidated balance sheet of the Company and its Subsidiaries, that would be classified as current liabilities in accordance with GAAP.

Consolidated Net Income means, with respect to the Company and its Subsidiaries for any period, the net income (or loss) of the Company and its Subsidiaries for such period.

Control Agreement means an agreement in form and substance satisfactory to the Agent giving the Agent control (within the meaning of Section 8-106 or 9-104 of the Uniform Commercial Code) over a deposit account or securities account of the Company or a Subsidiary.

Controlled Group means all members of a controlled group of corporations and all members of a controlled group of trades or businesses (whether or not incorporated) under common control that, together with the Company, are treated as a single employer under Section 414 of the Code or Section 4001 of ERISA.

DCSNA - see the Preamble.

Dealer Franchise Agreement - see Section 8.22.

Debt of any Person means, without duplication, (a) all indebtedness of such Person for borrowed money, whether or not evidenced by bonds, debentures, notes or similar instruments, (b) all obligations of such Person as lessee under Capital Leases that have been recorded as liabilities on a balance sheet of such Person in accordance with GAAP, (c) all obligations of such Person to pay the deferred purchase price of property or services (excluding trade accounts payable in the ordinary course of business), (d) all indebtedness secured by a Lien on the property of such Person, whether or not such indebtedness shall have been assumed by such Person, (e) all obligations, contingent or otherwise, with respect to the face amount of all letters of credit (whether or not drawn) and banker's acceptances issued for the account of such Person

(including the Letters of Credit), (f) all Hedging Obligations of such Person,
(g) all Suretyship Liabilities of such Person and (h) all Debt of any partnership of which such Person is a general partner.

Debt to be Repaid means Debt listed on Schedule 10.1.

Disposal - see the definition of "Release". Dollar and the sign "$" mean lawful money of the United States of America.

EBITDA means, for any period, on a consolidated basis for the Company and its Subsidiaries, the sum of the amounts for such period, without duplication, of:

(i) Consolidated Net Income, plus

(ii) Interest Expense, to the extent deducted in computing Consolidated Net Income, plus

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

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

(v) amortization expense, including amortization of goodwill, other intangible assets and Transaction Costs, to the extent deducted in computing Consolidated Net Income, plus

(vi) other non-cash charges classified as long-term deferrals in accordance with GAAP, to the extent deducted in computing Consolidated Net Income, minus

(vii) all extraordinary gains (and any nonrecurring unusual gains arising in or outside of the ordinary course of business not included in extraordinary gains determined in accordance with GAAP that have been included in the determination of Consolidated Net Income).

EBITDA shall be calculated for any period by including the actual amount for the applicable period ending on such day, including the EBITDA attributable to Acquisitions permitted under Section 9.10 occurring during such period on a pro forma basis for the period from the first day of the applicable period through the date of the closing of each Acquisition permitted under Section 9.10, utilizing (a) where available or required pursuant to the terms of this Agreement, historical audited and/or reviewed unaudited financial statements obtained from the seller, broken down by fiscal quarter in the Company's reasonable judgment or (b) unaudited financial statements (where no audited or reviewed financial statements are required pursuant to the terms of this Agreement) reviewed internally by the Company, broken down in the Company's reasonable judgment.

EBITDAR means, for any period, EBITDA for such period plus, to the extent deducted in determining Consolidated Net Income for such period, Rental Expense for such period.

Environmental Claims means all claims, however asserted, by any governmental, regulatory or judicial authority or other Person alleging potential liability or responsibility for violation of any Environmental Law, or for release or injury to the environment.

Environmental Laws means all present or future federal, state or local laws, statutes, common law duties, rules, regulations, ordinances and codes, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any governmental authority, in each case relating to Environmental Matters.

Environmental Matters means any matter arising out of or relating to health and safety, or pollution or protection of the environment or workplace, including any of the foregoing relating to the presence, use, production, generation, handling, transport, treatment, storage, disposal, distribution, discharge, release, control or cleanup of any Hazardous Substance.

Equipment has the meaning assigned thereto in the Uniform Commercial Code.

ERISA means the Employee Retirement Income Security Act of 1974.

Event of Default means any of the events described in Section 11.1.

Excluded Subsidiary means each of Lithia Financial and its Subsidiaries and Lithia Real Estate and its Subsidiaries.

Factory Receivables of any Person means all of such Person's rights to receive payment, credit and other compensation (including holdbacks, incentive payments, stock rebates, allowances and additional "factory credits") from any Manufacturer.

Federal Funds Rate means, for any day, the rate set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Federal Reserve Bank of New York (including any such successor publication, "H.15(519)") on the preceding Business Day opposite the caption "Federal Funds (Effective)"; or, if for any relevant day such rate is not so published on any such preceding Business Day, the rate for such day will be the arithmetic mean as determined by the Agent of the rates for the last transaction in overnight Federal funds arranged prior to 9:00 a.m. (New York City time) on that day by each of three leading brokers of Federal funds transactions in New York City selected by the Agent.

Financed Capital Expenditures means any Capital Expenditure that is financed by a Person other than the Company and its Subsidiaries at the time of making the expenditure or, in the case of a Capital Expenditure for the acquisition or improvement of real property, within 270 days of the making thereof; provided, however, that to the extent any Capital Expenditure for the acquisition or improvement of real property is financed at a later time, such Capital Expenditure shall thereafter constitute a Financed Capital Expenditure (but shall not constitute a Financed Capital Expenditure during the time from the expiry of such 270-day period to the date such financing is funded).

Fiscal Quarter means a fiscal quarter of a Fiscal Year.

Fiscal Year means the fiscal year of the Company and its Subsidiaries, which period shall be the 12-month period ending on December 31 of each year. References to a Fiscal Year with a number corresponding to any calendar year (e.g., "Fiscal Year 2003") refer to the Fiscal Year ending on December 31 of such calendar year.

Fixed Charge Coverage Ratio means, for any Computation Period, the ratio of (a) the total for such period of EBITDAR minus Capital Expenditures (other than Financed Capital Expenditures) to (b) the sum of (i) Interest Expense for such period plus (ii) Rental Expense for such period plus (iii) income tax expense for such period of the Company and its Subsidiaries to the extent paid in cash plus (iv) scheduled payments of principal of Debt for such period for the Company and its Subsidiaries.

Floor Plan Financing means a financing undertaken by the Company or any Collateral Subsidiary all of the proceeds of which are used to purchase New Motor Vehicles or Auction Motor Vehicles to be sold and/or leased in the ordinary course of business of the Company and its Collateral Subsidiaries.

Floor Plan Financing Provider means each provider of Floor Plan Financing to the Company and its Collateral Subsidiaries.

Foreign Subsidiary means any Subsidiary of the Company that is not incorporated or organized in the United States or in any State thereof.

FRB means the Board of Governors of the Federal Reserve System or any successor thereto.

GAAP means generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession), which are applicable to the circumstances as of the date of determination.

Guaranty means a guaranty substantially in the form of Exhibit C.

Hazardous Substances - see Section 8.15.

Hedging Agreement means any interest rate, currency or commodity swap agreement, cap agreement or collar agreement, and any other agreement or arrangement designed to protect a Person against fluctuations in interest rates, currency exchange rates or commodity prices.

Hedging Obligation means, with respect to any Person, any liability of such Person under any Hedging Agreement.

Indemnified Liabilities - see Section 13.13.

Interest Coverage Ratio means, for any Computation Period, the ratio of
(a) EBITDA for such Computation Period to (b) Interest Expense for such Computation Period.

Interest Expense means for any period the consolidated interest expense of the Company and its Subsidiaries for such period (including all imputed interest on Capital Leases).

Interest Rate means, for each day, a rate per annum equal to the sum of
(a) (i) in the case of any day from and including the first day of each calendar month through and including the 15th day of such calendar month, the Eurodollar Rate for the first day of such calendar month and (ii) in the case of any day from and including the 16th day of each calendar month through and including the last day of such calendar month, the Eurodollar Rate for the 16th day of such calendar month plus (b) (i) to the extent that the Revolving Outstandings are less than or equal to the Borrowing Base, a margin of two and three-quarters percent (2.75%) per annum and (ii) to the extent that the Revolving Outstandings exceed the Borrowing Base, a margin of three and one-half percent (3.50%) per annum. The foregoing margins may be adjusted at any time in the Agent's sole and absolute discretion upon 90 days' prior written notice from the Agent to the Company; provided that (i) no more than one such adjustment may be made during any period of twelve consecutive months and (ii) no such notice may be delivered until the date which is 90 days prior to the first anniversary of the Closing Date. Notwithstanding the foregoing, (i) at any time an Event of Default exists under Section 11.1.1 or 11.1.4, if requested by the Required Lenders, the applicable margin shall be increased by two percent (2.00%) per annum and (ii) at any time an Event of Default exists other than an Event of Default under
Section 11.1.1 or 11.1.4, if requested by the Required Lenders, the applicable margin shall be increased by one percent (1.00%) per annum. For purposes of this definition, "Eurodollar Rate" means, for any day, the rate of interest (rounded upwards, if necessary, to the next 1/16th of 1%) published in The Wall Street Journal (Midwest Edition) on such day (or if not published on such day, for the immediately preceding day on which it was published) in its "Money Rates" column as the one-month London Interbank Offered Rate for Dollar-denominated deposits (if The Wall Street Journal ceases to publish such a rate or substantially changes the methodology used to determine such rate, then the rate shall be otherwise independently determined by the Agent from an alternate source selected by the Agent in its sole discretion or determined by the Agent on a basis substantially similar to the methodology used by The Wall Street Journal on the date of this Agreement). If the Company fails to deliver any Borrowing Base Certificate required by Section 9.1.6 by the 45th day after any Fiscal Quarter, then, until such Borrowing Base Certificate is delivered, the first $50,000,000 of Revolving Loans shall bear interest at an Interest Rate determined pursuant to clause (b)(ii) above, but subject to the fourth sentence of this definition.

Inventory has the meaning assigned thereto in the Uniform Commercial Code.

Investment means, relative to any Person, any investment in another Person, whether by acquisition of any debt or equity security, by making any loan or advance or by becoming obligated with respect to a Suretyship Liability in respect of obligations of such other Person (other than travel and similar advances to employees in the ordinary course of business). The amount of any Investment shall be deemed to be the amount of cash invested (or, in the case of property invested other than cash, the fair market value of the property invested) less an amount equal to the lesser of the amount of cash received by the investing person as a return on capital

with respect to such Investment and the initial amount of such Investment, in either case, less the cost of disposition of such Investment.

Issuing Lender means DCSNA in its capacity as the issuer of Letters of Credit hereunder and its successors and assigns in such capacity.

L/C Application means, with respect to any request for the issuance of a Letter of Credit, a letter of credit application in the form of Exhibit I.

Lender - see the Preamble. References to the "Lenders" shall include the Issuing Lender; for purposes of clarification only, to the extent that DCSNA (or any successor Issuing Lender) may have any rights or obligations in addition to those of the other Lenders due to its status as Issuing Lender, its status as such will be specifically referenced.

Letter of Credit - see Section 2.1.2.

Lien means, with respect to any Person, any interest granted by such Person in any real or personal property, asset or other right owned or being purchased or acquired by such Person that secures payment or performance of any obligation and shall include any mortgage, lien, encumbrance, charge or other security interest of any kind, whether arising by contract, as a matter of law, by judicial process or otherwise.

Lithia Aircraft means Lithia Aircraft, Inc., an Oregon corporation.

Lithia Financial means Lithia Financial Corporation, an Oregon corporation.

Lithia Real Estate means Lithia Real Estate, Inc., an Oregon corporation.

Loan Documents means this Agreement, the Notes, the Guaranty, the Letters of Credit and the Collateral Documents.

Loan Party means the Company, each Subsidiary party to any Loan Document and each other Person party to any Loan Document.

Loans means Revolving Loans.

Majority Acquisition means any Acquisition of equity interests of an entity, in which the Company is not permitted to hold 100% of such equity interests because of limitations imposed by the relevant Manufacturer's Dealer Franchise Agreement.

Manufacturer means the manufacturer or distributor of a new Motor Vehicle.

Manufacturer/Dealer Statement means a financial statement prepared by the Company or one of its Subsidiaries for a Manufacturer and delivered to such Manufacturer on a monthly basis.

Manufacturer's Certificate means a Manufacturer's Statement of Origin, Manufacturer's Certificate, MSO, Certificate of Origin or other document evidencing the ownership or transfer

of ownership of a New Motor Vehicle from a Manufacturer to the Company or any of its Subsidiaries.

Margin Stock means any "margin stock" as defined in Regulation U.

Material Adverse Effect means (a) a material adverse change in, or a material adverse effect upon, the condition (financial or otherwise), operations, assets, business, properties or prospects of the Company and its Subsidiaries taken as a whole, (b) a material impairment of the ability of the Company or any Subsidiary to perform any of its obligations under any Loan Document or (c) a material adverse effect upon any substantial portion of the collateral under the Collateral Documents or upon the legality, validity, binding effect or enforceability against the Company or any Subsidiary of any Loan Document.

Motor Vehicle means an automobile, truck, van or other motor vehicle, including New Motor Vehicles, Used Motor Vehicles and Auction Motor Vehicles, that constitutes Inventory of the Company and its Collateral Subsidiaries, excluding any motor vehicle not held for sale or lease.

Multiemployer Pension Plan means a multiemployer plan, as defined in
Section 4001(a)(3) of ERISA, to which the Company or any member of the Controlled Group may have any liability.

New Motor Vehicle means any Motor Vehicle purchased by the Company or any of its Collateral Subsidiaries directly from the Manufacturer of such Motor Vehicle or from another licensed automobile dealer that has not been previously owned by any other Person.

Note - see Section 3.1.

Operating Lease means any lease of (or other agreement conveying the right to use) any property by the Company or any Subsidiary, as lessee, other than any Capital Lease.

PBGC means the Pension Benefit Guaranty Corporation and any entity succeeding to any or all of its functions under ERISA.

Pension Plan means a "pension plan", as such term is defined in Section 3(2) of ERISA, which is subject to Title IV of ERISA (other than a Multiemployer Pension Plan), and to which the Company or any member of the Controlled Group may have any liability, including any liability by reason of having been a substantial employer within the meaning of Section 4063 of ERISA at any time during the preceding five years, or by reason of being deemed to be a contributing sponsor under Section 4069 of ERISA.

Permitted Restrictions means restrictions on the ability of any Subsidiary to declare or pay any dividend or make other distributions, or to advance or loan funds, to the Company, or to grant Liens on the assets of such Subsidiary to secure the obligations of the Company hereunder and under the other Loan Documents: (i) as set forth on Schedule 9.18 on the Closing Date, including restrictions imposed by existing Floor Plan Financing arrangements; (ii) pursuant to modifications to any Floor Plan Financing arrangement, provided that such modifications are not

materially more restrictive; (iii) applicable to a Person at the time such Person becomes a Subsidiary and not created in contemplation of such an event;
(iv) resulting from manufacturer-imposed modifications to any franchise agreement; or (v) imposed by applicable law.

Person means any natural person, corporation, partnership, joint venture, trust, limited liability company, association, governmental authority or unit, or any other entity, whether acting in an individual, fiduciary or other capacity.

Pledge Agreement means a pledge agreement in substantially the form of Exhibit E.

Prime Rate means, on any day, the rate of interest per annum published in The Wall Street Journal (Midwest Edition) in its "Money Rates" column as the Prime Rate for such day.

Principal means Sidney B. DeBoer or a successor, or successors, reasonably acceptable to the Agent.

Pro Rata Share means, with respect to any Lender, the percentage which (a) the amount of such Lender's Commitment is of (b) the Commitments of all Lenders; provided that, after the Commitments have been terminated, "Pro Rata Share" shall mean, as to any Lender, the percentage which the sum of the aggregate principal amount of such Lender's Revolving Loans plus the participations of such Lender in all Letters of Credit is of the sum of the aggregate principal amount of all Revolving Loans plus the Stated Amount of all Letters of Credit. The initial Pro Rata Share of each Lender is set forth on Schedule 2.1.

RCRA - see Section 8.15.

Refinancing Debt means Debt that refunds or refinances any Debt, including Debt that refinances other Refinancing Debt; provided that (i) the Refinancing Debt has a maturity no earlier than the maturity of the Debt being refinanced,
(ii) the Refinancing Debt has a weighted average life to maturity no earlier than the weighted average life to maturity of the Debt being refinanced, (iii) the Refinancing Debt is incurred in an aggregate principal amount (or, if issued with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or, if issued with original issue discount, the aggregate accreted value) then outstanding of the Debt being refinanced and
(iv) if the Debt being refinanced is Subordinated Debt, the subordination terms of the Refinancing Debt are at least as favorable to the Lenders as the subordination terms of the Debt being refinanced.

Regulation U means Regulation U of the FRB.

Release has the meaning specified in CERCLA and the term "Disposal" (or "Disposed") has the meaning specified in RCRA; provided that in the event either CERCLA or RCRA is amended so as to broaden the meaning of any term defined thereby, such broader meaning shall apply as of the effective date of such amendment; and provided, further, that to the extent that the laws of a state wherein any affected property lies establish a meaning for "Release" or "Disposal" that is broader than is specified in either CERCLA or RCRA, such broader meaning shall apply.

Rental Expense means, with respect to any period, all payments made or required to be made by the Company and its Subsidiaries, as lessee or sublessee under any Operating Lease, as rental payments or contingent rentals, as calculated in accordance with GAAP.

Required Lenders means Lenders having Pro Rata Shares aggregating more than 65%.

Revolving Commitment Amount means $200,000,000, as reduced from time to time pursuant to Section 6.1.

Revolving Loan - see Section 2.1.1.

Revolving Outstandings means, at any time, the sum of (a) the aggregate principal amount of all Revolving Loans, plus (b) the Stated Amount of all Letters of Credit.

SEC means the Securities and Exchange Commission or any other governmental authority succeeding to any of the principal functions thereof.

Security Agreement means a security agreement in substantially the form of Exhibit D.

Stated Amount means, with respect to any Letter of Credit at any date of determination, (a) the maximum aggregate amount available for drawing thereunder under any and all circumstances plus (b) the aggregate amount of all unreimbursed payments and disbursements under such Letter of Credit.

Subordinated Debt means unsecured Debt of the Company that has subordination terms, covenants, pricing and other terms that have been approved in writing by the Required Lenders.

Subsidiary means, with respect to any Person, a corporation, partnership, limited liability company or other entity of which such Person and/or its other Subsidiaries own, directly or indirectly, such number of outstanding shares or other ownership interests as have more than 50% of the ordinary voting power for the election of directors or other managers of such corporation, partnership, limited liability company or other entity. Unless the context otherwise requires, each reference to Subsidiaries herein shall be a reference to Subsidiaries of the Company.

Suretyship Liability means any agreement, undertaking or arrangement by which any Person guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to or otherwise to invest in a debtor, or otherwise to assure a creditor against loss) any indebtedness, obligation or other liability of any other Person (other than by endorsements of instruments in the course of collection), or guarantees the payment of dividends or other distributions upon the shares of any other Person. The amount of any Person's obligation in respect of any Suretyship Liability shall (subject to any limitation set forth therein) be deemed to be the principal amount of the debt, obligation or other liability supported thereby.

Taxes - see Section 7.6.

Termination Date means the earlier to occur of (a) February __, 2006 (or any later date that may be established as the Termination Date pursuant to
Section 2.6) or (b) such other date on which the Commitments terminate pursuant to Section 6 or 11.

Total Liabilities means, with respect to any Person at any time, the total of the following for such Person and its Subsidiaries at such time (a) all Debt plus all other items which, in accordance with GAAP, would be included as liabilities on the liability side of a consolidated balance sheet of such Person prepared at such time minus (b) all accounts payable incurred on normal trade terms in the ordinary course of business, all accrued expenses incurred in the ordinary course of business, all Debt under Floor Plan Financings, all Subordinated Debt and all Debt secured entirely by real property (or leasehold interests therein) or fixtures that matures more than one year after such time.

Toyota Facility means the credit facility extended to Lithia Real Estate evidenced by the Amended and Restated Revolving Loan and Security Agreement dated May 10, 2002 between Lithia Real Estate and Toyota Motor Credit Corporation.

Transaction Costs means the reasonable fees, costs and expenses payable by the Company in connection with the execution, delivery and performance of the Loan Documents and all documents, instruments and agreements entered into in connection with any Acquisition.

Uniform Commercial Code means the Uniform Commercial Code as in effect from time to time in the State of Michigan.

Unmatured Event of Default means any event that, if it continues uncured, will, with lapse of time or notice or both, constitute an Event of Default.

US Bank Facility means the credit facility extended to Lithia Financial evidenced by the Amended and Restated Loan Agreement, dated as of December 28, 2001, among the Company, Lithia Financial, Lithia Aircraft, Lithia Salmir, Inc. and U.S. Bank, National Association.

Used Motor Vehicle means, at any time, a Motor Vehicle that is not a New Motor Vehicle or an Auction Motor Vehicle.

Wholly-Owned Subsidiary means, as to any Person, another Person all of the shares of capital stock or other ownership interests of which (except directors' qualifying shares) are at the time directly or indirectly owned by such Person and/or another Wholly-Owned Subsidiary of such Person.

1.2 Other Interpretive Provisions. (a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(c) The term "including" is not limiting and means "including without limitation."

(d) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding", and the word "through" means "to and including."

(e) Unless otherwise expressly provided herein, (i) references to agreements (including this Agreement) and other contractual instruments shall be deemed to include all subsequent amendments and other modifications thereto, but only to the extent such amendments and other modifications are not prohibited by the terms of any Loan Document and (ii) references to any statute or regulation shall be construed as including all statutory and regulatory provisions amending, replacing, supplementing or interpreting such statute or regulation.

(f) This Agreement and the other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and each shall be performed in accordance with its terms.

(g) This Agreement and the other Loan Documents are the result of negotiations among and have been reviewed by counsel to the Agent, the Company, the Lenders and the other parties thereto and are the products of all parties. Accordingly, they shall not be construed against the Agent or the Lenders merely because of the Agent's or Lenders' involvement in their preparation.

SECTION 2. COMMITMENTS OF THE LENDERS; BORROWING AND LETTER OF CREDIT PROCEDURES.

2.1 Commitments. On and subject to the terms and conditions of this Agreement, each of the Lenders, severally and for itself alone, agrees to make loans to, and to issue or participate in Letters of Credit for the account of, the Company as follows:

2.1.1 Revolving Loan Commitment. Each Lender agrees to make loans on a revolving basis ("Revolving Loans") to the Company from time to time until the Termination Date in such Lender's Pro Rata Share of such aggregate amounts as the Company may request; provided that (x) the Revolving Outstandings will not, at any time, exceed the Revolving Commitment Amount and (y) the Revolving Outstandings will not, at any time, exceed the Borrowing Base by more than $50,000,000.

2.1.2 L/C Commitment. (a) The Issuing Lender will issue letters of credit, in each case containing such terms and conditions as are permitted by this Agreement and are reasonably satisfactory to the Issuing Lender (each a "Letter of Credit"), at the request of and for the account of the Company from time to time before the date that is 30 days prior to the Termination Date and (b) as more fully set forth in Section 2.3.2, each Lender agrees to purchase a participation in each such Letter of Credit; provided that (i) the aggregate Stated Amount of all Letters of Credit shall not at any time exceed $5,000,000,
(ii) the Revolving Outstandings will not at any time exceed the Revolving Commitment Amount and (iii) the Revolving Outstandings will not, at any time, exceed the Borrowing Base by more than $50,000,000.

2.2 Loan Procedures. The Company shall give written notice or telephonic notice (followed immediately by written confirmation thereof) to the Agent of each proposed borrowing not later than 1:00 p.m., Detroit time, at least two Business Days prior to the proposed date of such borrowing. Each such notice shall be effective upon receipt by the Agent, shall be irrevocable, and shall specify the date and amount of borrowing. Within one Business Day of receipt of such notice, the Agent shall advise each Lender thereof. Not later than 4:00 p.m., Detroit time, on the date of a proposed borrowing, each Lender shall provide the Agent at the office specified by the Agent with immediately available funds covering such Lender's Pro Rata Share of such borrowing and, so long as the Agent has not received written notice that the conditions precedent set forth in Section 10 with respect to such borrowing have not been satisfied, the Agent shall pay over the funds received by the Agent to the Company on the requested borrowing date. Each borrowing shall be on a Business Day.

2.3 Letter of Credit Procedures.

2.3.1 L/C Applications. The Company shall give notice to the Agent and the Issuing Lender of the proposed issuance of each Letter of Credit on a Business Day that is at least three Business Days (or such lesser number of days as the Agent and the Issuing Lender shall agree in any particular instance in their sole discretion) prior to the proposed date of issuance of such Letter of Credit. Each such notice shall be accompanied by an L/C Application, duly executed by the Company and in all respects reasonably satisfactory to the Agent and the Issuing Lender, together with such other documentation as the Agent or the Issuing Lender may reasonably request in support thereof, it being understood that each L/C Application shall specify, among other things, the date on which the proposed Letter of Credit is to be issued, the expiration date of such Letter of Credit (which shall not be later than the earlier to occur of (x) one year after the date of issuance thereof and (y) thirty days prior to the scheduled Termination Date) and whether such Letter of Credit is to be transferable in whole or in part. So long as the Issuing Lender has not received written notice that the conditions precedent set forth in Section 10 with respect to the issuance of such Letter of Credit have not been satisfied, the Issuing Lender shall issue such Letter of Credit on the requested issuance date. The Issuing Lender shall promptly advise the Agent and each Lender of the issuance of each Letter of Credit and of any amendment thereto, extension thereof or event or circumstance changing the amount available for drawing thereunder. In the event of any inconsistency between the terms of any L/C Application and the terms of this Agreement, the terms of this Agreement shall control.

2.3.2 Participations in Letters of Credit. Concurrently with the issuance of each Letter of Credit, the Issuing Lender shall be deemed to have sold and transferred to each other Lender, and each other Lender shall be deemed irrevocably and unconditionally to have purchased and received from the Issuing Lender, without recourse or warranty, an undivided interest and participation, to the extent of such other Lender's Pro Rata Share, in such Letter of Credit and the Company's reimbursement obligations with respect thereto. For the purposes of this Agreement, the unparticipated portion of each Letter of Credit shall be deemed to be the Issuing Lender's "participation" therein. The Issuing Lender hereby agrees, upon request of the Agent or any Lender, to deliver to the Agent or such Lender a list of all outstanding Letters of Credit issued by the Issuing Lender, together with such information related thereto as the Agent or such Lender may reasonably request.

2.3.3 Reimbursement Obligations. The Company hereby unconditionally and irrevocably agrees to reimburse the Issuing Lender for each payment or disbursement made by the Issuing Lender under any Letter of Credit honoring any demand for payment made by the beneficiary thereunder, in each case on the date that such payment or disbursement is made. Any amount not reimbursed on the date of such payment or disbursement shall bear interest from the date of such payment or disbursement to the date that the Issuing Lender is reimbursed by the Company therefor, payable on demand, at a rate per annum equal to the Interest Rate from time to time in effect plus, beginning on the third Business Day after receipt of notice from the Issuing Lender of such payment or disbursement, 2%. The Issuing Lender shall notify the Company and the Agent whenever any demand for payment is made under any Letter of Credit by the beneficiary thereunder; provided that the failure of the Issuing Lender to so notify the Company shall not affect the rights of the Issuing Lender or the Lenders in any manner whatsoever.

2.3.4 Limitation on Obligations of Issuing Lender. In determining whether to pay under any Letter of Credit, the Issuing Lender shall not have any obligation to the Company or any Lender other than to confirm that any documents required to be delivered under such Letter of Credit appear to have been delivered and appear to comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by the Issuing Lender under or in connection with any Letter of Credit, if taken or omitted in the absence of gross negligence and willful misconduct, shall not impose upon the Issuing Lender any liability to the Company or any Lender and shall not reduce or impair the Company's reimbursement obligations set forth in Section 2.3.3 or the obligations of the Lenders pursuant to Section 2.3.5.

2.3.5 Funding by Lenders to Issuing Lender. If the Issuing Lender makes any payment or disbursement under any Letter of Credit and the Company has not reimbursed the Issuing Lender in full for such payment or disbursement by 1:00
p.m., Detroit time, on the date of such payment or disbursement, or if any reimbursement received by the Issuing Lender from the Company is or must be returned or rescinded upon or during any bankruptcy or reorganization of the Company or otherwise, each other Lender shall be obligated to pay to the Agent for the account of the Issuing Lender, in full or partial payment of the purchase price of its participation in such Letter of Credit, its Pro Rata Share of such payment or disbursement (but no such payment shall diminish the obligations of the Company under Section 2.3.3), and, upon notice from the Issuing Lender, the Agent shall promptly notify each other Lender thereof. Each other Lender irrevocably and unconditionally agrees to so pay to the Agent in immediately available funds for the Issuing Lender's account the amount of such other Lender's Pro Rata Share of such payment or disbursement. If and to the extent any Lender shall not have made such amount available to the Agent by 2:00
p.m., Detroit time, on the Business Day following the date on which such Lender receives notice from the Agent of such payment or disbursement, such Lender agrees to pay interest on such amount to the Agent for the Issuing Lender's account forthwith on demand, for each day from the date such amount was to have been delivered to the Agent to the date such amount is paid, at a rate per annum equal to (a) for the first three days after demand, the Federal Funds Rate from time to time in effect and (b) thereafter, the Interest Rate from time to time in effect. Any Lender's failure to make available to the Agent its Pro Rata Share of any such payment or disbursement shall not relieve any other Lender of its obligation hereunder to make available to the Agent such other Lender's Pro Rata Share of such

payment, but no Lender shall be responsible for the failure of any other Lender to make available to the Agent such other Lender's Pro Rata Share of any such payment or disbursement.

2.4 Commitments Several. The failure of any Lender to make a requested Loan on any date shall not relieve any other Lender of its obligation (if any) to make a Loan on such date, but no Lender shall be responsible for the failure of any other Lender to make any Loan to be made by such other Lender.

2.5 Certain Conditions. Notwithstanding any other provision of this Agreement, no Lender shall have an obligation to make any Loan, and the Issuing Lender shall not have any obligation to issue any Letter of Credit, if an Event of Default or Unmatured Event of Default has occurred and is continuing.

2.6 Extension of Termination Date. On each anniversary of the Closing Date, the Termination Date shall be extended for an additional year if the Agent (acting at the request of all of the Lenders) shall notify the Company in writing on or prior to such anniversary that the Termination Date is so extended for an additional year (such notice an "Extension Notice"). If the Agent shall have issued an Extension Notice by the time required above, the Agent shall promptly notify the Company and each Lender of the new Termination Date. If no Extension Notice is received by the Company on or prior to any such anniversary, the Termination Date shall not be extended on any such anniversary.

SECTION 3. NOTES EVIDENCING LOANS.

3.1 Notes. The Loans of each Lender shall be evidenced by a promissory note (each a "Note") substantially in the form set forth in Exhibit A, with appropriate insertions, payable to the order of such Lender in full on the Termination Date.

3.2 Recordkeeping. Each Lender shall record in its records, or at its option on the schedule attached to its Note, the date and amount of each Loan made by such Lender and each repayment thereof. The aggregate unpaid principal amount so recorded shall be rebuttable presumptive evidence of the principal amount owing and unpaid on such Note. The failure to so record any such amount or any error in so recording any such amount shall not, however, limit or otherwise affect the obligations of the Company hereunder or under any Note to repay the principal amount of the Loans evidenced by such Note together with all interest accruing thereon.

SECTION 4. INTEREST.

4.1 Interest Rate. The Company promises to pay interest on the unpaid principal amount of each Loan for the period commencing on the date of such Loan until such Loan is paid in full at the Interest Rate.

4.2 Interest Payment Dates. Accrued interest on each Loan shall be payable in arrears for each month on the 10th day of the next succeeding month and at maturity. After maturity (whether by acceleration or otherwise), accrued interest on all Loans shall be payable on demand.

4.3 Computation of Interest. Interest shall be computed for the actual number of days elapsed on the basis of a year of 360 days. The Interest Rate shall change simultaneously with each change in the Eurodollar Rate referred to in the definition of "Interest Rate."

SECTION 5. FEES.

5.1 Agent's Fee. Each Lender hereto that is not DCSNA agrees that it will pay to the Agent an amount equal to 0.15% per annum of such Lender's Commitment (regardless of usage) in advance on the Closing Date and on each anniversary thereof. All fees under this Section are nonrefundable.

5.2 Facility Fee. The Company agrees to pay to the Agent for the account of each Lender a facility fee, for the period from the Closing Date to the Termination Date, at the rate of 0.10% per annum of such Lender's Pro Rata Share (as adjusted from time to time) of the Revolving Commitment Amount (regardless of usage). Such facility fee shall be payable in advance on the Closing Date, on each anniversary of the Closing Date and on the Termination Date for any period then ending for which such facility fee shall not have previously been paid. All fees under this Section are nonrefundable.

5.3 Letter of Credit Fees. The Company agrees to pay to the Agent for the account of each Lender a fee for each Letter of Credit equal to 1.50% per annum of such Lender's Pro Rata Share (as adjusted from time to time) of the undrawn amount of such Letter of Credit. Such letter of credit fee shall be payable annually in advance (x) on the date of issuance of such Letter of Credit and (y) on each anniversary of such date of issuance (or, if such day is not a Business Day, on the next succeeding Business Day). All fees under this Section are nonrefundable.

5.4 Computation of Fees. All fees hereunder shall be computed for the actual number of days elapsed on the basis of a year of 360 days.

SECTION 6. REDUCTION OR TERMINATION OF THE REVOLVING COMMITMENT AMOUNT; PREPAYMENTS.

6.1 Voluntary Reduction or Termination of Revolving Commitment Amount. The Company may from time to time on at least one Business Day's prior written notice to the Agent (which shall promptly advise each Lender thereof) permanently reduce the Revolving Commitment Amount to an amount not less than the Revolving Outstandings. Concurrently with any reduction of the Revolving Commitment Amount to zero, the Company shall pay all interest on the Revolving Loans and all fees and shall Cash Collateralize in full all obligations arising with respect to the Letters of Credit. All reductions of the Revolving Commitment Amount shall reduce the Commitments pro rata among the Lenders according to their respective Pro Rata Shares.

6.2 Voluntary Prepayments. The Company may from time to time prepay the Loans in whole or in part, without premium or penalty; provided that the Company shall give the Agent (which shall promptly advise each Lender) notice thereof not later than 3:00 p.m., Detroit time, on the Business Day prior to the date of such prepayment (which shall be a Business Day), specifying the Loans to be prepaid and the date and amount of prepayment.

6.3 Mandatory Prepayments. (a) If at any time (A) the sum of the Revolving Outstandings exceeds (B) the sum of (i) the Borrowing Base in effect at such time plus (ii) $50,000,000, the Company shall immediately prepay Loans and/or Cash Collateralize Letters of Credit, or do a combination of the foregoing, in an amount sufficient to eliminate such excess.

(b) If on any day on which the Revolving Commitment Amount is reduced pursuant to Section 6.1 the Revolving Outstandings exceed the Revolving Commitment Amount, the Company shall immediately prepay Loans and/or Cash Collateralize Letters of Credit, or do a combination of the foregoing, in an amount sufficient to eliminate such excess.

SECTION 7. MAKING AND PRORATION OF PAYMENTS; SETOFF; TAXES.

7.1 Making of Payments. All payments of principal of or interest on the Notes, and of all fees, shall be made by the Company to the Agent in immediately available funds at the office specified by the Agent not later than 3:00 p.m., Detroit time, on the date due; and funds received after that hour shall be deemed to have been received by the Agent on the following Business Day. The Agent shall remit to each Lender its share of all such payments received in collected funds by the Agent for the account of such Lender no later than the Business Day after it has received such collected funds.

7.2 Application of Certain Payments. Each payment of principal shall be applied to such Loans as the Company shall direct by notice to be received by the Agent on or before the date of such payment. Concurrently with each remittance to any Lender of its share of any such payment, the Agent shall advise such Lender as to the application of such payment.

7.3 Due Date Extension. If any payment of principal or interest with respect to any of the Loans, or of any fees, falls due on a day that is not a Business Day, then such due date shall be extended to the immediately following Business Day and, in the case of principal, additional interest shall accrue and be payable for the period of any such extension.

7.4 Setoff. The Company agrees that the Agent and each Lender have all rights of set-off provided by applicable law, and in addition thereto, the Company agrees that at any time any Event of Default or Unmatured Event of Default exists, the Agent and each Lender may apply to the payment of any obligations of the Company hereunder, whether or not then due, any and all balances, credits, deposits, accounts or moneys of the Company then or thereafter with the Agent or such Lender. The Agent or the Lender exercising the set-off shall promptly notify the Company thereof after making such exercise; provided that failure to give such notice shall not affect the validity of the set-off.

7.5 Proration of Payments. If any Lender shall obtain any payment or other recovery (whether voluntary, involuntary, by application of offset or otherwise, but excluding any payment pursuant to Section 13.9) on account of principal of or interest on any Loan (or on account of its exposure under any Letter of Credit) in excess of its pro rata share of payments and other recoveries obtained by all Lenders on account of principal of and interest on the Loans (or such exposure) then held by them, such Lender shall purchase from the other Lenders such participations in the Loans (or subparticipations in Letters of Credit) held by them as shall be necessary to cause such purchasing Lender to share the excess payment or other recovery ratably

with each of them; provided that if all or any portion of the excess payment or other recovery is thereafter recovered from such purchasing Lender, the purchase shall be rescinded and the purchase price restored to the extent of such recovery.

7.6 Taxes. All payments of principal of, and interest on, the Loans and all other amounts payable hereunder shall be made free and clear of and without deduction for any present or future income, excise, stamp or franchise taxes and other taxes, fees, duties, withholdings or other charges of any nature whatsoever imposed by any taxing authority, excluding franchise taxes and taxes imposed on or measured by any Lender's net income or receipts (all non-excluded items being called "Taxes"). If any withholding or deduction from any payment to be made by the Company hereunder is required in respect of any Taxes pursuant to any applicable law, rule or regulation, then the Company will:

(a) pay directly to the relevant authority the full amount required to be so withheld or deducted;

(b) promptly forward to the Agent an official receipt or other documentation satisfactory to the Agent evidencing such payment to such authority; and

(c) pay to the Agent for the account of the Lenders such additional amount as is necessary to ensure that the net amount actually received by each Lender will equal the full amount such Lender would have received had no such withholding or deduction been required.

Moreover, if any Taxes are directly asserted against the Agent or any Lender with respect to any payment received by the Agent or such Lender hereunder, the Agent or such Lender may pay such Taxes and the Company will promptly pay such additional amounts (including any penalty, interest or expense) as is necessary in order that the net amount received by such Person after the payment of such Taxes (including any Taxes on such additional amount) shall equal the amount such Person would have received had such Taxes not been asserted.

If the Company fails to pay any Taxes when due to the appropriate taxing authority or fails to remit to the Agent, for the account of the respective Lenders, the required receipts or other required documentary evidence, the Company shall indemnify the Lenders for any incremental Taxes, interest or penalties that may become payable by any Lender as a result of any such failure. For purposes of this Section 7.6, a distribution hereunder by the Agent or any Lender to or for the account of any Lender shall be deemed a payment by the Company.

Each Lender that (a) is organized under the laws of a jurisdiction other than the United States of America or a state thereof and (b)(i) is a party hereto on the Closing Date or (ii) becomes an assignee of an interest under this Agreement under Section 13.9.1 after the Closing Date (unless such Lender was already a Lender hereunder immediately prior to such assignment) shall execute and deliver to the Company and the Agent one or more (as the Company or the Agent may reasonably request) United States Internal Revenue Service Form W-8ECI or Form W-8BEN or such other forms or documents, appropriately completed, as may be applicable to establish that such Lender is exempt from withholding or deduction of Taxes. The Company shall not be required to pay additional amounts to any Lender pursuant to this Section 7.6 to the

extent that the obligation to pay such additional amounts would not have arisen but for the failure of such Lender to comply with this paragraph.

SECTION 8. WARRANTIES.

To induce the Agent and the Lenders to enter into this Agreement and to induce the Lenders to make Loans and issue and participate in Letters of Credit hereunder, the Company warrants to the Agent and the Lenders that:

8.1 Organization. The Company is a corporation validly existing under the laws of the State of Oregon; each Subsidiary is validly existing and (to the extent such concept is applicable) in good standing under the laws of the jurisdiction of its organization; and each of the Company and each Subsidiary is duly qualified to do business in each jurisdiction where, because of the nature of its activities or properties, such qualification is required, except for such jurisdictions where the failure to so qualify could not reasonably be expected to have a Material Adverse Effect.

8.2 Authorization; No Conflict. Each of the Company and each other Loan Party is duly authorized to execute and deliver each Loan Document to which it is a party, the Company is duly authorized to borrow monies hereunder and each of the Company and each other Loan Party is duly authorized to perform its obligations under each Loan Document to which it is a party. The execution, delivery and performance by the Company of this Agreement and by each of the Company and each other Loan Party of each Loan Document to which it is a party, and the borrowings by the Company hereunder, do not and will not (a) require any consent or approval of any governmental agency or authority (other than any consent or approval that has been obtained and is in full force and effect), (b) conflict with (i) any provision of law, (ii) the charter, by-laws or other organizational documents of the Company or any other Loan Party or (iii) any agreement, indenture, instrument or other document, or any judgment, order or decree, that is binding upon the Company or any other Loan Party or any of their respective properties or (c) require, or result in, the creation or imposition of any Lien on any asset of the Company, any Subsidiary or any other Loan Party (other than Liens in favor of the Agent created pursuant to the Collateral Documents).

8.3 Validity and Binding Nature. Each of this Agreement and each other Loan Document to which the Company or any other Loan Party is a party is the legal, valid and binding obligation of such Person, enforceable against such Person in accordance with its terms, subject to bankruptcy, insolvency and similar laws affecting the enforceability of creditors' rights generally and to general principles of equity.

8.4 Financial Condition. The audited consolidated financial statements of the Company and its Subsidiaries as at December 31, 2001 and the unaudited consolidated financial statements of the Company and its Subsidiaries as at September 30, 2002, copies of each of which have been delivered to the Agent for distribution to each Lender, were prepared in accordance with GAAP (subject, in the case of such unaudited financial statements, to normal year-end audit adjustments) and present fairly the consolidated financial condition of the Company and its Subsidiaries as at such dates and the results of its operations for the periods then ended.

8.5 No Material Adverse Change. Since September 30, 2002 there has been no material adverse change in the condition (financial or otherwise), operations, assets, business, properties or prospects of the Company and its Subsidiaries taken as a whole.

8.6 Litigation and Contingent Liabilities. No litigation (including derivative actions), arbitration proceeding or governmental investigation or proceeding is pending or, to the Company's knowledge, threatened against the Company or any Subsidiary that might reasonably be expected to have a Material Adverse Effect, except as set forth in Schedule 8.6. Other than any liability incident to such litigation or proceedings, neither the Company nor any Subsidiary has any material contingent liabilities not listed on Schedule 8.6.

8.7 Ownership of Properties; Liens. Each of the Company and each Subsidiary owns good and, in the case of real property, marketable title to all of its properties and assets, real and personal, tangible and intangible, of any nature whatsoever (including patents, trademarks, trade names, service marks and copyrights), and valid and enforceable leasehold interests in all of its leased assets, and all such assets and property are free and clear of all Liens, charges and claims (including infringement claims with respect to patents, trademarks, service marks, copyrights and the like) except as permitted by
Section 9.8.

8.8 Subsidiaries. As of the Closing Date, the Company has no Subsidiaries other than those listed on Schedule 8.8.

8.9 Pension Plans. (a) During the twelve-consecutive-month period prior to the date of the execution and delivery of this Agreement or the making of any Loan or the issuance of any Letter of Credit, (i) no steps have been taken to terminate any Pension Plan and (ii) no contribution failure has occurred with respect to any Pension Plan sufficient to give rise to a Lien under Section 302(f) of ERISA. No condition exists or event or transaction has occurred with respect to any Pension Plan that could result in the incurrence by the Company of any material liability, fine or penalty.

(b) All contributions (if any) have been made to any Multiemployer Pension Plan that are required to be made by the Company or any other member of the Controlled Group under the terms of the plan or of any collective bargaining agreement or by applicable law; neither the Company nor any member of the Controlled Group has withdrawn or partially withdrawn from any Multiemployer Pension Plan, incurred any withdrawal liability with respect to any such plan or received notice of any claim or demand for withdrawal liability or partial withdrawal liability from any such plan, and no condition has occurred that, if continued, might result in a withdrawal or partial withdrawal from any such plan; and neither the Company nor any member of the Controlled Group has received any notice that any Multiemployer Pension Plan is in reorganization, that increased contributions may be required to avoid a reduction in plan benefits or the imposition of any excise tax, that any such plan is or has been funded at a rate less than that required under Section 412 of the Code, that any such plan is or may be terminated, or that any such plan is or may become insolvent.

8.10 Investment Company Act. Neither the Company nor any Subsidiary is an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940.

8.11 Public Utility Holding Company Act. Neither the Company nor any Subsidiary is a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935.

8.12 Regulation U. The Company is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying Margin Stock.

8.13 Taxes. Each of the Company and each Subsidiary has filed all Federal and other material tax returns and reports required by law to have been filed by it and has paid all taxes and governmental charges thereby shown to be owing, except any such taxes or charges that are being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books.

8.14 Solvency, etc. On the Closing Date, and immediately prior to and after giving effect to the issuance of each Letter of Credit and each borrowing hereunder and the use of the proceeds thereof, (a) the assets of the Company and the other Loan Parties, taken as a whole, will exceed the liabilities of the Company and the other Loan Parties, taken as a whole, and (b) the Company and the other Loan Parties, taken as a whole, will be solvent, will be able to pay their debts as they mature, will own property with fair saleable value greater than the amount required to pay their debts and will have capital sufficient to carry on their business as then constituted.

8.15 Environmental Matters.

(a) No Violations. Except as set forth on Schedule 8.15, neither the Company nor any Subsidiary, nor any operator of the Company's or any Subsidiary's properties, is in violation, or alleged violation, of any judgment, decree, order, law, permit, license, rule or regulation pertaining to Environmental Matters, including those arising under the Resource Conservation and Recovery Act ("RCRA"), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986 or any other Environmental Law that individually or in the aggregate otherwise might reasonably be expected to have a Material Adverse Effect.

(b) Notices. Except as set forth on Schedule 8.15 and for matters arising after the Closing Date, in each case none of which could singly or in the aggregate be expected to have a Material Adverse Effect, neither the Company nor any Subsidiary has received notice from any third party, including any Federal, state or local governmental authority: (a) that any one of them has been identified by the U.S. Environmental Protection Agency as a potentially responsible party under CERCLA with respect to a site listed on the National Priorities List, 40 C.F.R. Part 300 Appendix B; (b) that any hazardous waste, as defined by 42 U.S.C. Section 6903(5), any hazardous substance as defined by 42 U.S.C. Section 9601(14), any pollutant or contaminant as defined by 42 U.S.C.
Section 9601(33) or any toxic substance, oil or hazardous material or other chemical or substance regulated by any Environmental Law (all of the foregoing, "Hazardous Substances") that any one of them has generated, transported or disposed of has been found at any site at which a Federal, state or local agency or other third party has conducted a remedial investigation,

removal or other response action pursuant to any Environmental Law; (c) that the Company or any Subsidiary must conduct a remedial investigation, removal, response action or other activity pursuant to any Environmental Law; or (d) of any Environmental Claim for which the Company or any Subsidiary may be liable.

(c) Handling of Hazardous Substances. Except as set forth on Schedule 8.15, (i) no portion of the real property or other assets of the Company or any Subsidiary has been used for the handling, processing, storage or disposal of Hazardous Substances except in substantial compliance with applicable Environmental Laws and no underground tank or other underground storage receptacle for Hazardous Substances is located on such properties; (ii) in the course of any activities conducted by the Company, any Subsidiary or the operators of any real property of the Company or any Subsidiary, no Hazardous Substances have been generated or are being used on such properties except in substantial compliance with applicable Environmental Laws; (iii) there have been no Releases or threatened Releases of Hazardous Substances on, upon, into or from any real property or other assets of the Company or any Subsidiary, which Releases singly or in the aggregate might reasonably be expected to have a Material Adverse Effect; (iv) there have been no Releases on, upon, from or into any real property in the vicinity of the real property or other assets of the Company or any Subsidiary that, through soil or groundwater contamination, may have come to be located on, and which might reasonably be expected to have a material adverse effect on the value of, the real property or other assets of the Company or any Subsidiary; and (v) any Hazardous Substances generated by the Company and its Subsidiaries have been transported offsite only by properly licensed carriers and delivered only to treatment or disposal facilities maintaining valid permits as required under applicable Environmental Laws, which transporters and facilities have been and are operating in substantial compliance with such permits and applicable Environmental Laws.

8.16 Insurance. Set forth on Schedule 8.16 is a complete and accurate summary of the property and casualty insurance program of the Company and its Subsidiaries as of the Closing Date (including the names of all insurers, policy numbers, expiration dates, amounts and types of coverage, annual premiums, exclusions, deductibles, self-insured retention and a description in reasonable detail of any self-insurance program, retrospective rating plan, fronting arrangement or other risk assumption arrangement involving the Company or any Subsidiary).

8.17 Information. All information heretofore or contemporaneously herewith furnished in writing by the Company or any Subsidiary to the Agent or any Lender for purposes of or in connection with this Agreement and the transactions contemplated hereby is, and all written information hereafter furnished by or on behalf of the Company or any Subsidiary to the Agent or any Lender pursuant hereto or in connection herewith will be, true and accurate in every material respect on the date as of which such information is dated or certified, and none of such information is or will be incomplete by omitting to state any material fact necessary to make such information not misleading in light of the circumstances under which made (it being recognized by the Agent and the Lenders that any projections and forecasts provided by the Company are based on good faith estimates and assumptions believed by the Company to be reasonable as of the date of the applicable projections or forecasts and that actual results during the period or periods covered by any such projections and forecasts may differ from projected or forecasted results).

8.18 Intellectual Property. The Company and each Subsidiary owns and possesses or has a license or other right to use all patents, patent rights, trademarks, trademark rights, trade names, trade name rights, service marks, service mark rights and copyrights as are necessary for the conduct of the business of the Company and its Subsidiaries, without any infringement upon rights of others, except to the extent that failure to comply with any of the foregoing could not reasonably be expected to have a Material Adverse Effect.

8.19 Burdensome Obligations. Neither the Company nor any Subsidiary is a party to any agreement or contract or subject to any corporate or partnership restriction which might reasonably be expected to have a Material Adverse Effect.

8.20 Labor Matters. Except as set forth on Schedule 8.20, neither the Company nor any Subsidiary is subject to any labor or collective bargaining agreement. There are no existing or threatened strikes, lockouts or other labor disputes involving the Company or any Subsidiary that singly or in the aggregate could reasonably be expected to have a Material Adverse Effect. Hours worked by and payment made to employees of the Company and its Subsidiaries are not in violation of the Fair Labor Standards Act or any other applicable law, rule or regulation dealing with such matters.

8.21 No Default. No Event of Default or Unmatured Event of Default exists or would result from the incurring by the Company of any Debt hereunder or under any other Loan Document.

8.22 Dealer Franchise Agreements; Material Business Relationships. As of the Closing Date, neither the Company nor any of its Subsidiaries is a party to any dealer franchise agreement ("Dealer Franchise Agreements") other than those specifically disclosed in Schedule 8.22, which schedule shows the Manufacturer and the Company or the Subsidiary, as the case may be, that is a party to each such agreement, the date such agreement was entered into and the expiration date of such agreement. Each of such Dealer Franchise Agreements is currently in full force and effect, and neither the Company nor any Subsidiary has received any notice of termination with respect to any such agreement; and, except as disclosed on Schedule 8.22, neither the Company nor any Subsidiary is aware of any event that with notice, lapse of time or both would allow any Manufacturer that is a party to any Dealer Franchise Agreement to terminate any such agreement. There exists no actual or threatened termination, cancellation or limitation of, or any modification or change in, the business relationship between the Company or any of its Subsidiaries and any customer or any group of customers or with any Manufacturer that, in any case, could reasonably be expected to have a Material Adverse Effect.

SECTION 9. COVENANTS.

Until the expiration or termination of the Commitments and thereafter until all obligations of the Company hereunder and under the other Loan Documents are paid in full and all Letters of Credit have been Cash Collateralized or terminated, the Company agrees that, unless at any time the Required Lenders shall otherwise expressly consent (except as provided in
Section 13.1) in writing, it will:

9.1 Reports, Certificates and Other Information. Furnish to the Agent:

9.1.1 Annual Report. Promptly when available and in any event within 90 days after the close of each Fiscal Year: (a) a copy of the annual report of the Company and its Subsidiaries for such Fiscal Year, including therein consolidated balance sheets and statements of earnings and cash flows of the Company and its Subsidiaries for such Fiscal Year, certified (without any qualification arising from the scope of the audit or as to the ability of the Company and its Subsidiaries to operate as a going concern) by independent auditors of recognized standing selected by the Company and reasonably acceptable to the Agent, together with (i) a written statement from such accountants to the effect that in making the examination necessary for the signing of such annual audit report by such accountants, nothing came to their attention that caused them to believe that the Company was not in compliance with any provision of Section 9.6, 9.7, 9.8 or 9.9 of this Agreement insofar as such provision relates to accounting matters or, if something has come to their attention that caused them to believe that the Company was not in compliance with any such provision, describing such non-compliance in reasonable detail and
(ii) a comparison with the previous Fiscal Year; and (b) consolidating balance sheets of the Company and its Subsidiaries as of the end of such Fiscal Year and a consolidating statement of earnings for the Company and its Subsidiaries for such Fiscal Year.

9.1.2 Interim Reports. Promptly when available and in any event within 45 days after the end of each Fiscal Quarter (except the last Fiscal Quarter of each Fiscal Year), consolidated and consolidating balance sheets of the Company and its Subsidiaries as of the end of such Fiscal Quarter, together with consolidated and consolidating statements of earnings and cash flows for such Fiscal Quarter and for the period beginning with the first day of such Fiscal Year and ending on the last day of such Fiscal Quarter, together with a comparison with the corresponding period of the previous Fiscal Year, certified by the chief financial officer or treasurer of the Company.

9.1.3 Compliance Certificates; Insurance Information. Contemporaneously with the furnishing of a copy of each annual audit report pursuant to Section 9.1.1 and each set of quarterly statements pursuant to Section 9.1.2: (a) a duly completed compliance certificate in the form of Exhibit B, with appropriate insertions, dated the date of such annual report or such quarterly statements and signed by the chief financial officer or the treasurer of the Company, containing a computation of each of the financial ratios and restrictions set forth in Section 9.6 and a statement to the effect that such officer has not become aware of any Event of Default or Unmatured Event of Default that has occurred and is continuing or, if there is any such event, describing it and the steps, if any, being taken to cure it and setting forth all Events of Default that had occurred but were cured or waived during the period covered by the related financial statements; and (b) a certificate setting forth in reasonable detail a description of all insurance maintained in accordance with the requirements set forth in Section 9.3(b).

9.1.4 Reports to the SEC and to Shareholders. Promptly upon the filing or sending thereof, copies of all regular, periodic or special reports of the Company or any Subsidiary filed with the SEC; copies of all registration statements of the Company or any Subsidiary filed with the SEC (other than on Form S-8); and copies of all proxy statements or other communications made to security holders generally.

9.1.5 Notice of Default, Litigation and ERISA Matters. Promptly upon the Company obtaining knowledge of any of the following, written notice describing the same and the steps being taken by the Company or the Subsidiary affected thereby with respect thereto:

(a) the occurrence of an Event of Default or an Unmatured Event of Default;

(b) any litigation, arbitration or governmental investigation or proceeding not previously disclosed by the Company to the Lenders that has been instituted or, to the knowledge of the Company, is threatened against the Company or any Subsidiary or to which any of the properties of any thereof is subject that might reasonably be expected to have a Material Adverse Effect;

(c) the institution of any steps by any member of the Controlled Group or any other Person to terminate any Pension Plan, or the failure of any member of the Controlled Group to make a required contribution to any Pension Plan (if such failure is sufficient to give rise to a Lien under Section 302(f) of ERISA) or to any Multiemployer Pension Plan, or the taking of any action with respect to a Pension Plan that could result in the requirement that the Company furnish a bond or other security to the PBGC or such Pension Plan, or the occurrence of any event with respect to any Pension Plan or Multiemployer Pension Plan that could result in the incurrence by any member of the Controlled Group of any material liability, fine or penalty (including any claim or demand for withdrawal liability or partial withdrawal from any Multiemployer Pension Plan), or any material increase in the contingent liability of the Company with respect to any post-retirement welfare plan benefit, or any notice that any Multiemployer Pension Plan is in reorganization, that increased contributions may be required to avoid a reduction in plan benefits or the imposition of an excise tax, that any such plan is or has been funded at a rate less than that required under Section 412 of the Code, that any such plan is or may be terminated, or that any such plan is or may become insolvent;

(d) any cancellation (unless contemporaneously replaced with similar coverage) or material change in any insurance maintained by the Company or any Subsidiary;

(e) any material violation of law by the Company or any Subsidiary or any officer or director of the Company or any Subsidiary related to the business of the Company or such Subsidiary; or

(f) any other event (including any violation of any Environmental Law or the assertion of any Environmental Claim) that might reasonably be expected to have a Material Adverse Effect.

9.1.6 Borrowing Base Certificates. Within 45 days of the end of each Fiscal Quarter, a Borrowing Base Certificate dated as of the end of such Fiscal Quarter and executed by the chief financial officer or the treasurer of the Company on behalf of the Company (provided that at any time an Event of Default exists, the Agent may require the Company to deliver Borrowing Base Certificates more frequently).

9.1.7 Management Reports. Promptly upon receipt thereof, copies of all detailed financial and management reports submitted to the Company by independent auditors in connection with each audit made by such auditors of the books of the Company, to the extent such reports identify a material deficiency in the Company's internal controls.

9.1.8 Subordinated Debt Notices. Promptly from time to time, copies of any material notices (including notices of default or acceleration) received from any holder, or any notice from any trustee, of, under or with respect to any Subordinated Debt.

9.1.9 Manufacturer/Dealer Statements. Upon request of the Agent, copies of each Manufacturer/Dealer Statement of the Company and each Subsidiary.

9.1.10 Dealer Franchise Agreements. Promptly upon the Company obtaining knowledge thereof, notice of the termination of any Dealer Franchise Agreement.

9.1.11 Other Information. Promptly from time to time, such other information concerning the Company and its Subsidiaries as any Lender or the Agent may reasonably request.

9.2 Books, Records and Inspections. Keep, and cause each Subsidiary to keep, its books and records in accordance with sound business practices sufficient to allow the preparation of financial statements in accordance with GAAP; permit, and cause each Subsidiary to permit, any Lender or the Agent or any representative thereof to inspect the properties and operations of the Company or such Subsidiary; and permit, and cause each Subsidiary to permit, at any reasonable time and with reasonable notice (or at any time without notice if an Event of Default exists), any Lender or the Agent or any representative thereof to visit any or all of its offices, to discuss its financial matters with its officers and its independent auditors (and the Company hereby authorizes such independent auditors to discuss such financial matters with any Lender or the Agent or any representative thereof), and to examine (and, at the expense of the Company or the applicable Subsidiary, photocopy extracts from) any of its books or other records; and permit, and cause each Subsidiary to permit, the Agent and its representatives to inspect the Inventory and other tangible assets of the Company or such Subsidiary, to perform appraisals of the Equipment of the Company or such Subsidiary, and to inspect, audit, check and make copies of and extracts from the books, records, computer data, computer programs, journals, orders, receipts, correspondence and other data relating to inventory, accounts receivable and any other collateral. All such inspections, audits or appraisals by the Agent shall be at the Agent's expense, provided that if an Event of Default or Unmatured Event of Default exists, such inspections, audits and appraisals shall be at the Company's expense. Notwithstanding anything to the contrary herein, neither the Company nor any Subsidiary shall be required to disclose any information to the Agent or any Lender if (x) in the opinion of counsel, such disclosure would cause any attorney-client privilege of the Company or such Subsidiary with respect to such information to be lost and
(y) such loss of privilege would be materially prejudicial to the Company and its Subsidiaries, taken as a whole.

9.3 Maintenance of Property; Insurance. (a) Keep, and cause each Subsidiary to keep, all property useful and necessary in the business of the Company or such Subsidiary in good working order and condition, ordinary wear and tear excepted.

(b) Maintain, and cause each Subsidiary to maintain, with responsible insurance companies, such insurance as may be required by any law or governmental regulation or court decree or order applicable to it and such other insurance, to such extent and against such hazards and liabilities, as is customarily maintained by companies similarly situated; and, upon request of the Agent or any Lender, furnish to the Agent or such Lender a certificate setting forth in reasonable detail the nature and extent of all insurance maintained by the Company and its Subsidiaries. The Company shall cause each issuer of an insurance policy to provide the Agent with an endorsement (i) showing loss payable to the Agent with respect to each policy of property or casualty insurance and naming the Agent and each Lender as an additional insured with respect to each policy of insurance for liability for personal injury or property damage, (ii) providing that 30 days' notice will be given to the Agent prior to any cancellation of, material reduction or change in coverage provided by or other material modification to such policy and (iii) reasonably acceptable in all other respects to the Agent. The Company shall execute and deliver, and shall cause each Subsidiary to execute and deliver, to the Agent a collateral assignment, in form and substance reasonably satisfactory to the Agent, of each business interruption insurance policy maintained by the Company or such Subsidiary.

9.4 Compliance with Laws; Payment of Taxes and Liabilities. (a) Comply, and cause each Subsidiary to comply, in all material respects with all applicable laws, rules, regulations, decrees, orders, judgments, licenses and permits; and (b) pay, and cause each Subsidiary to pay, prior to delinquency, all taxes and other governmental charges against it or any of its property, as well as claims of any kind that, if unpaid, might become a Lien on any of its property; provided that the foregoing shall not require the Company or such Subsidiary to pay any such tax or charge so long as it shall contest the validity thereof in good faith by appropriate proceedings and shall set aside on its books adequate reserves with respect thereto in accordance with GAAP.

9.5 Maintenance of Existence, etc. Maintain and preserve, and (subject to
Section 9.10) cause each Subsidiary to maintain and preserve, (a) its existence and (to the extent such concept is applicable) good standing in the jurisdiction of its organization and (b) its qualification to do business and (to the extent such concept is applicable) good standing in each other jurisdiction where the nature of its business makes such qualification necessary (except in those instances in which the failure to be qualified or in good standing does not have a Material Adverse Effect).

9.6 Financial Covenants.

9.6.1 Current Ratio. Not permit the ratio of Consolidated Current Assets to Consolidated Current Liabilities at any time to be less than 1.2:1.0.

9.6.2 Fixed Charge Coverage Ratio. Not permit the Fixed Charge Coverage Ratio for any Computation Period to be less than 1.20:1.0.

9.6.3 Interest Coverage Ratio. Not permit the Interest Coverage Ratio for any Computation Period to be less than 2.50:1.

9.6.4 Adjusted Leverage Ratio. Not permit the Adjusted Leverage Ratio at any time to be greater than 2.50:1.

9.6.5 Working Capital. Cause each Subsidiary to maintain such level of working capital as is necessary to satisfy the requirements of such Subsidiary's Dealer Franchise Agreements.

9.7 Limitations on Debt. Not, and not permit any Subsidiary to, create, incur, assume or suffer to exist any Debt, except:

(a) obligations under this Agreement and the other Loan Documents;

(b) Debt secured by Liens permitted by Section 9.8(d), and extensions thereof and Refinancing Debt in respect thereof; provided that the aggregate amount of all such Debt at any time outstanding shall not exceed $275,000,000;

(c) Debt of Subsidiaries to the Company or to any Collateral Subsidiary;

(d) unsecured Debt of the Company to Collateral Subsidiaries;

(e) Debt of an Excluded Subsidiary to any other Excluded Subsidiary;

(f) Subordinated Debt;

(g) Hedging Obligations incurred for bona fide hedging purposes and not for speculation;

(h) Debt described on Schedule 9.7 and any extension thereof and Refinancing Debt in respect thereof, so long as, in each case, the principal amount thereof is not increased and the obligors with respect thereto are not changed;

(i) Debt with respect to any Floor Plan Financing provided to the Company or any Collateral Subsidiary by General Motors Acceptance Corporation, Ford Motor Credit Corporation or Toyota Motor Credit Corporation, in each case in respect of New Motor Vehicles manufactured by an Affiliate of such Floor Plan Financing Provider or Auction Motor Vehicles purchased at a closed dealer-only auction sponsored by such Floor Plan Financing Provider or its affiliated Manufacturer;

(j) Debt to DCSNA in respect of Floor Plan Financings;

(k) Debt with respect to Floor Plan Financings provided by Persons other than DCSNA, provided DCSNA has declined to provide the same after being offered the opportunity to provide such financing as provided in Section 13.17;

(l) recourse obligations, repurchase obligations and Suretyship Liabilities of Automobile Dealerships arising in the ordinary course of business in connection with the sale of retail installment contracts or retail leases involving Motor Vehicles to financial institutions that are not Affiliates of the Company;

(m) Debt to be Repaid (so long as such Debt is repaid on the Closing Date with the proceeds of the initial Loans hereunder);

(n) unsecured Suretyship Liabilities of the Company in respect of Operating Leases of Subsidiaries, including leases of real property;

(o) unsecured Suretyship Liabilities of the Company and its Subsidiaries in respect of Debt incurred by any Excluded Subsidiary, to the extent such underlying Debt is permitted by clause (b) above; and

(p) other Debt, in addition to the Debt listed above, in an aggregate amount not at any time exceeding $5,000,000.

9.8 Liens. Not, and not permit any Subsidiary to, create or permit to exist any Lien on any of its real or personal properties, assets or rights of whatsoever nature (whether now owned or hereafter acquired), except:

(a) Liens for taxes or other governmental charges not at the time delinquent or thereafter payable without penalty or being contested in good faith by appropriate proceedings and, in each case, for which it maintains adequate reserves;

(b) Liens arising in the ordinary course of business (such as (i) Liens of carriers, warehousemen, mechanics and materialmen and other similar Liens imposed by law and (ii) Liens incurred in connection with worker's compensation, unemployment compensation and other types of social security (excluding Liens arising under ERISA) or in connection with surety bonds, bids, performance bonds and similar obligations) for sums not overdue or being contested in good faith by appropriate proceedings and not involving any deposits or advances or borrowed money or the deferred purchase price of property or services and, in each case, for which it maintains adequate reserves;

(c) Liens described on Schedule 9.8;

(d) subject to the limitation set forth in Section 9.7(b), (i) Liens arising in connection with Capital Leases (and attaching only to the property being leased), (ii) Liens on real property (whether in existence on the date hereof, or for new financing, refinancing or construction financing incurred after the date hereof), provided that any such Lien attaches solely to such real property, (iii) Liens on personal property, other than deposit accounts, of Lithia Real Estate and its Subsidiaries located on or related to real property securing real estate financing in connection with which such Liens are granted and (iv) Liens on assets of Lithia Financial and Lithia Aircraft securing the US Bank Facility;

(e) attachments, appeal bonds, judgments and other similar Liens, for sums not exceeding $5,000,000 arising in connection with court proceedings, provided the execution or other enforcement of such Liens is effectively stayed and the claims secured thereby are being actively contested in good faith and by appropriate proceedings;

(f) easements, rights of way, restrictions, minor defects or irregularities in title and other similar Liens not interfering in any material respect with the ordinary conduct of the business of the Company or any Subsidiary;

(g) Liens arising under the Loan Documents;

(h) Liens on any asset of an Automobile Dealership securing Debt permitted by Section 9.7(i), (j) or (k); provided that, to the extent such Liens attach to any property other than the Inventory financed by such Debt and proceeds thereof, Accounts and payment intangibles owing by the relevant Dealer to the Manufacturer with which the relevant Floor Plan Financing Provider is affiliated (and all other rights to payment in which any such Floor Plan Financing Provider could exercise a right of setoff or recoupment) and service loaner or daily rental vehicles manufactured by a Manufacturer and financed by a Floor Plan Financing Provider permitted under Section 9.7(i), (j) or (k), such Liens shall be subordinated, in form and substance satisfactory to the Agent, to the security interest of the Agent; and

(i) Liens for the purpose of securing Debt referred to in Section 9.7(l) in chattel paper, vehicles leased to retail customers, vehicles leased under such leases, returns and repossessions of such vehicles and proceeds of such collateral.

9.9 Restricted Payments. Not, and not permit any Subsidiary to, (a) make any distribution to any of its shareholders, (b) purchase or redeem any of its capital stock or other equity interests or any warrants, options or other rights in respect thereof, (c) pay any management fees or similar fees to any of its shareholders or any Affiliate thereof, (d) make any redemption, prepayment, defeasance or repurchase of any Subordinated Debt or (e) set aside funds for any of the foregoing. Notwithstanding the foregoing, (i) any Subsidiary may pay dividends or make other distributions to the Company or to a Wholly-Owned Subsidiary that is a Collateral Subsidiary, (ii) any Excluded Subsidiary may pay dividends or make other distributions to a Wholly-Owned Subsidiary that is an Excluded Subsidiary and (iii) so long as no Event of Default or Unmatured Event of Default exists or would result therefrom, the Company may pay dividends or repurchase shares of its capital stock in an aggregate amount, for all such dividends and repurchases, not to exceed $18,000,000 during the term of this Agreement.

9.10 Mergers, Consolidations, Sales. Not, and not permit any Subsidiary to, be a party to any merger or consolidation, or purchase or otherwise acquire all or substantially all of the assets or any stock of any class of, or any membership or partnership or joint venture interest in, any other Person, or, except in the ordinary course of business, sell, transfer, convey or lease all or any substantial part of its assets, or sell or assign with or without recourse any receivables, except for: (a) any such merger, consolidation, sale, transfer, conveyance, lease or assignment of or by any Wholly-Owned Subsidiary into the Company (provided that in the case of a merger or consolidation, the Company is the survivor) or into, with or to any other Wholly-Owned Subsidiary that is a Collateral Subsidiary (provided, that in the case of any merger or consolidation involving a Collateral Subsidiary, a Collateral Subsidiary must be the survivor) ; (b) any such purchase or other acquisition by the Company or any Wholly-Owned Subsidiary that is a Collateral Subsidiary of the assets or stock of any Wholly-Owned Subsidiary; (c) any Acquisition by the Company or any Wholly-Owned Subsidiary that is a Collateral Subsidiary if (1) immediately before and after giving effect to such Acquisition, no Event of Default or Unmatured Event of Default shall exist, (2) immediately after giving effect to such Acquisition,

the Company is in pro forma compliance with all the financial ratios and restrictions set forth in Section 9.6, (3) in the case of the Acquisition of any Person, the Board of Directors of such Person has approved such Acquisition and all Manufacturers doing business with such Person have consented to such Acquisition, (4) in the case of an Acquisition of equity interests of an entity, such Acquisition shall be of 100% of the equity interests of such entity except that in the case of a Majority Acquisition, such Acquisition shall be of at least 80% of the equity interests of such entity, (5) the Company shall have obtained either (i) a written approval for a new Dealer Franchise Agreement between the entity to be acquired in such Acquisition and the Manufacturer on substantially the same terms as the Dealer Franchise Agreement entered into between the Manufacturer and the entity to be acquired in such Acquisition or
(ii) any consent required from a Manufacturer for the continued enforceability and validity of such Dealer Franchise Agreement after the completion of a Acquisition shall have been obtained, (6) prior to and after such Acquisition, the Chief Financial Officer of the Company shall have delivered a certificate to the Agent confirming that the conditions set forth in clauses (1) - (5) above will be (in the case of a certificate delivered prior to such Acquisition) or have been (in the case of a certificate delivered after such Acquisition) met;
(d) sales of Equipment to Lithia Financial, and sales of real estate to Lithia Real Estate, in each case in the ordinary course of business in connection with an Acquisition permitted hereunder by the Subsidiary acquired in such Acquisition (or, in the case of an acquisition of assets, by the Subsidiary acquiring such assets) for at least fair market value (as determined in good faith by the Board of Directors of the Company) and where all the consideration is cash; and (e) sales and dispositions of assets (including the stock of Subsidiaries) for at least fair market value (as determined in good faith by the Board of Directors of the Company) so long as the net book value of all assets sold or otherwise disposed of in any Fiscal Year does not exceed 10% of the net book value of the consolidated assets of the Company and its Subsidiaries as of the last day of the preceding Fiscal Year.

9.11 Modification of Organizational Documents. Not permit the Certificate or Articles of Incorporation, By-Laws or other organizational documents of the Company or any Subsidiary to be amended or modified in any way that might reasonably be expected to adversely affect the interests of the Lenders.

9.12 Use of Proceeds. Use the proceeds of the Loans and Letters of Credit for Acquisitions permitted by Section 9.10(c), for working capital of the Company and its Collateral Subsidiaries and for other general corporate purposes of the Company and its Collateral Subsidiaries; and not use or permit any proceeds of any Loan to be used, either directly or indirectly, for any other purpose, including for the purpose, whether immediate, incidental or ultimate, of "purchasing or carrying" any Margin Stock.

9.13 Further Assurances. Take, and cause each Subsidiary to take, such actions as are necessary or as the Agent or the Required Lenders may reasonably request from time to time (including the execution and delivery of guaranties, security agreements, pledge agreements, mortgages, deeds of trust, financing statements and other documents, the filing or recording of any of the foregoing, and the delivery of stock certificates and other collateral with respect to which perfection is obtained by possession) to ensure that (a) the obligations of the Company hereunder and under the other Loan Documents (i) are secured by substantially all of the assets of the Company, other than property in which the Company is prohibited from granting a

security interest, pledge or assignment pursuant to a Permitted Restriction, and
(ii) guaranteed by all of its Subsidiaries (including, promptly upon the acquisition or creation thereof, any Subsidiary acquired or created after the date hereof) by execution of a counterpart of the Guaranty, (b) the obligations of each Subsidiary (other than Excluded Subsidiaries) under the Guaranty are secured by substantially all of the assets of such Subsidiary (other than property in which such Subsidiary is prohibited from granting a security interest, pledge or assignment pursuant to a Permitted Restriction and other than stock of Excluded Subsidiaries) and (c) the obligations of Lithia Real Estate and its Subsidiaries under the Guaranty are secured by all deposit accounts of Lithia Real Estate, provided that a pledge of the stock of a Subsidiary shall not be required if and to the extent that such pledge would violate a Permitted Restriction in favor of a Manufacturer. Without limiting the foregoing, the Company shall cause any minority holder holding an equity interest in a Subsidiary (other than an Excluded Subsidiary) acquired pursuant to a Majority Acquisition to pledge its equity interest to the Agent in connection with said Acquisition.

9.14 Transactions with Affiliates. Not, and not permit any Subsidiary to, enter into, or cause, suffer or permit to exist any transaction, arrangement or contract with any of its other Affiliates that is on terms that are less favorable than are obtainable from any Person which is not one of its Affiliates; except that the foregoing shall not apply to (i) any transaction, arrangement or contract between the Company and any Collateral Subsidiary or between Collateral Subsidiaries or (ii) any transaction, arrangement or contract between Excluded Subsidiaries.

9.15 Employee Benefit Plans. Maintain, and cause each Subsidiary to maintain, each Pension Plan in substantial compliance with all applicable requirements of law and regulations.

9.16 Environmental Matters. (a) If any Release or Disposal of Hazardous Substances shall occur or shall have occurred on any real property or any other assets of the Company or any Subsidiary, the Company shall, or shall cause the applicable Subsidiary to, cause the prompt containment and removal of such Hazardous Substances and the remediation of such real property or other assets as necessary to comply with all Environmental Laws and to preserve the value of such real property or other assets. Without limiting the generality of the foregoing, the Company shall, and shall cause each Subsidiary to, comply with any valid Federal or state judicial or administrative order requiring the performance at any real property of the Company or any Subsidiary of activities in response to the Release or threatened Release of a Hazardous Substance.

(b) To the extent that the transportation of "hazardous waste" as defined by RCRA is permitted by this Agreement, the Company shall, and shall cause its Subsidiaries to, dispose of such hazardous waste only at licensed disposal facilities operating in compliance with Environmental Laws.

9.17 Unconditional Purchase Obligations. Not, and not permit any Subsidiary to, enter into or be a party to any contract for the purchase of materials, supplies or other property or services if such contract requires that payment be made by it regardless of whether delivery is ever made of such materials, supplies or other property or services.

9.18 Inconsistent Agreements. Not, and not permit any Subsidiary to, enter into any agreement containing any provision which would (a) be violated or breached by any borrowing by the Company hereunder or by the performance by the Company or any Subsidiary of any of its obligations hereunder or under any other Loan Document, (b) except for Permitted Restrictions (provided that such restrictions do not apply to property described in Section 9.13(c)), prohibit the Company or any Subsidiary from granting to the Agent, for the benefit of the Lenders, a Lien on any of its assets or (c) except for Permitted Restrictions, create or permit to exist or become effective any encumbrance or restriction on the ability of any Subsidiary to (i) pay dividends or make other distributions to the Company or any other applicable Subsidiary, or pay any Debt owed to the Company or any other Subsidiary, (ii) make loans or advances to the Company or
(iii) transfer any of its assets or properties to the Company.

9.19 Business Activities. Not, and not permit any Subsidiary to, engage in any line of business other than the businesses engaged in on the date hereof and businesses reasonably related thereto.

9.20 Investments. Not, and not permit any Subsidiary to, make or permit to exist any Investment in any other Person, except (without duplication) the following:

(a) contributions by the Company to the capital of any of its Collateral Subsidiaries, or by any such Collateral Subsidiary to the capital of any of its Collateral Subsidiaries;

(b) in the ordinary course of business, Investments by the Company in any Collateral Subsidiary or by any Subsidiary in the Company, or by any Subsidiary in any Collateral Subsidiary, by way of intercompany loans, advances or guaranties, all to the extent permitted by Section 9.7;

(c) Suretyship Liabilities permitted by Section 9.7;

(d) Cash Equivalent Investments;

(e) bank deposits in the ordinary course of business;

(f) Investments in securities of account debtors received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such account debtors;

(g) Investments to consummate Acquisitions permitted by Section 9.10;

(h) Investments by Lithia Financial in an aggregate amount not to exceed $10,000,000 in equity securities of publicly traded companies not Affiliates of the Company (provided, that in the case of any such Investment in equity securities, such Investment shall not exceed 4.9% of the outstanding equity of any one issuer);

(i) Investments listed on Schedule 9.20;

(j) extensions of credit to customers made in the ordinary course of business and in connection with the sale of Inventory in the ordinary course of business; and

(k) such other Investments consented to by the Required Lenders in their sole discretion;

provided that (x) any Investment which when made complies with the requirements of the definition of the term "Cash Equivalent Investment" may continue to be held notwithstanding that such Investment if made thereafter would not comply with such requirements; (y) no Investment otherwise permitted by clause (a),
(b), (c), (g) or (h) shall be permitted to be made if, immediately before or after giving effect thereto, any Event of Default or Unmatured Event of Default exists; and (z) the Company shall not, and shall not permit any Subsidiary to, create or acquire, or make any Investment in, any Foreign Subsidiary.

9.21 Fiscal Year. Not change its Fiscal Year.

9.22 Hedging Agreements. The Company shall not and shall not permit any of its Subsidiaries to enter into any Hedging Agreement, other than non-speculative Hedging Agreements entered into by the Company or a Subsidiary pursuant to which the Company or such Subsidiary has hedged its actual interest rate, foreign currency or commodity exposure.

9.23 Negative Pledge. With respect to any Subsidiary operating under a Dealer Franchise Agreement with Toyota Motor Sales in USA, Inc., American Honda Motor Corporation, or Nissan in USA, Inc., the Company hereby agrees that it shall not pledge or otherwise transfer its capital stock in such Subsidiary to any Person.

SECTION 10. EFFECTIVENESS; CONDITIONS OF LENDING, ETC.

The obligation of each Lender to make its Loans and of the Issuing Lender to issue Letters of Credit is subject to the following conditions precedent:

10.1 Initial Credit Extension. The obligation of the Lenders to make the initial Loans and the obligation of the Issuing Lender to issue the initial Letter of Credit (whichever first occurs) is, in addition to the conditions precedent specified in Section 10.2, subject to the conditions precedent that
(1) all Debt to be Repaid has been (or concurrently with the initial borrowing will be) paid in full, and that all agreements and instruments governing the Debt to be Repaid and that all Liens securing such Debt to be Repaid have been (or concurrently with the initial borrowing will be) terminated and (2) the Agent shall have received all of the following, each duly executed and dated the Closing Date (or such earlier date as shall be satisfactory to the Agent), in form and substance satisfactory to the Agent (and the date on which all such conditions precedent have been satisfied or waived in writing by the Agent and the Required Lenders is called the "Closing Date"):

10.1.1 Notes. A Note executed by the Company in favor of each Lender.

10.1.2 Resolutions. Certified copies of resolutions of the Board of Directors of the Company authorizing the execution, delivery and performance by the Company of this

Agreement, the Notes and the other Loan Documents to which the Company is a party; and certified copies of resolutions of the Board of Directors of each other Loan Party authorizing the execution, delivery and performance by such Loan Party of each Loan Document to which such entity is a party.

10.1.3 Consents, etc. Certified copies of all documents evidencing any necessary corporate or partnership action, consents and governmental approvals (if any) required for the execution, delivery and performance by the Company and each other Loan Party of the documents referred to in this Section 10.

10.1.4 Incumbency and Signature Certificates. A certificate of the Secretary or an Assistant Secretary (or other appropriate representative) of each Loan Party certifying the names of the officer or officers of such entity authorized to sign the Loan Documents to which such entity is a party, together with a sample of the true signature of each such officer (it being understood that the Agent and each Lender may conclusively rely on each such certificate until formally advised by a like certificate of any changes therein).

10.1.5 Guaranty. A counterpart of the Guaranty executed by each Subsidiary of the Company.

10.1.6 Security Agreement. A counterpart of the Security Agreement executed by the Company and each Collateral Subsidiary.

10.1.7 Pledge Agreements. (a) The Pledge Agreement executed by the Company and each Subsidiary that owns an equity interest in a Subsidiary hereby required to be pledged to the Agent, together with all items required to be delivered in connection therewith and (b) a deposit account pledge agreement for each deposit account of Lithia Real Estate.

10.1.8 Control Agreements. Control Agreements with respect to each deposit account and securities account of the Company and each Collateral Subsidiary and Control Agreements in form and substance satisfactory to the Agent with respect to each deposit account of Lithia Real Estate.

10.1.9 Opinion of Counsel. The opinion of Foster Pepper Tooze LLP, substantially in the form of Exhibit J.

10.1.10 Insurance. Evidence satisfactory to the Agent of the existence of insurance required to be maintained pursuant to Section 9.3(b), together with evidence that the Agent has been named as a lender's loss payee and an additional insured on all related insurance policies, together with a collateral assignment of all business interruption insurance policies maintained by the Company or any Subsidiary.

10.1.11 Payment of Fees. Evidence of payment by the Company of all accrued and unpaid fees, costs and expenses to the extent then due and payable on the Closing Date, together with all Attorney Costs of the Agent to the extent invoiced prior to the Closing Date, plus such additional amounts of Attorney Costs as shall constitute the Agent's reasonable estimate of Attorney Costs incurred or to be incurred by the Agent through the closing proceedings

(provided that such estimate shall not thereafter preclude final settling of accounts between the Company and the Agent).

10.1.12 Search Results; Lien Terminations. Certified copies of Uniform Commercial Code Requests for Information or Copies, or a similar search report certified by a party acceptable to the Agent, dated a date reasonably near to the Closing Date, listing all effective financing statements that name the Company and each Subsidiary (under their present names and any previous names) as debtors and that are filed in the jurisdictions in which filings are to be made pursuant to the Collateral Documents (as well as in all jurisdictions in which, in the Agent's opinion, filings could have been made against the Company and its Collateral Subsidiaries under any version of the Uniform Commercial Code in effect prior to July 1, 2001), together with (i) copies of such financing statements and (ii) authorized copies of proper Uniform Commercial Code Form UCC-3 termination statements (or, in lieu thereof, written authorization sufficient under Section 9-509(d)(1) of the UCC from each secured party of record authorizing the Agent to file such termination statements), if any, necessary to release all Liens and other rights of any Person in any collateral described in the Collateral Documents previously granted by any Person, other than Liens permitted by Section 9.8.

10.1.13 Solvency Certificate. A solvency certificate, substantially in the form of Exhibit F, executed by the Chief Financial Officer of the Company.

10.1.14 Closing Certificate. A certificate signed by a Vice President of the Company dated as of the Closing Date, affirming the matters set forth in
Section 10.2.1 as of the Closing Date.

10.1.15 Filings, Registrations and Recordings. The Agent shall have received each document (including Uniform Commercial Code financing statements) required by the Collateral Documents or under law or reasonably requested by the Agent to be filed, registered or recorded in order to create in favor of the Agent, for the benefit of the Banks, a perfected Lien on the collateral described therein, in proper form for filing, registration or recording.

10.1.16 Borrowing Base Certificate. A Borrowing Base Certificate dated as of the Closing Date.

10.1.17 Documents. Copies, certified by the Secretary of the Company, of the Toyota Facility and the US Bank Facility, and all amendments to each thereof.

10.1.18 Good Standing Certificates. Certificates for the Company and each Loan Party from the Secretary of State of their respective states of incorporation as to the good standing or valid existence of each such entity in such state, such certificates to be dated within a reasonable period prior to the Closing Date.

10.1.19 Certified Articles. Copies of the articles of incorporation of the Company and each Loan Party, in each case certified by the Secretary of State of the applicable state of incorporation.

10.1.20 Other. Such other documents as the Agent or any Lender may reasonably request.

10.2 Conditions. The obligation of each Lender to make each Loan and of the Issuing Lender to issue each Letter of Credit is subject to the following further conditions precedent that:

10.2.1 Compliance with Warranties, No Default, etc. Both before and after giving effect to the making of any Loan or the issuance of any Letter of Credit, the following statements shall be true and correct:

(a) the representations and warranties of the Company and each other Loan Party set forth in this Agreement and the other Loan Documents shall be true and correct in all material respects with the same effect as if then made (except to the extent stated to relate to a specific earlier date, in which case such representations and warranties shall be true and correct as of such earlier date);

(b) no Event of Default or Unmatured Event of Default shall have then occurred and be continuing.

10.2.2 Confirmatory Certificate. If requested by the Agent or any Lender, the Agent shall have received (in sufficient counterparts to provide one to each Lender) a certificate dated the date of such requested Loan or Letter of Credit and signed by a duly authorized representative of the Company as to the matters set out in Section 10.2.1 (it being understood that each request by the Company for the making of a Loan or for the issuance of a Letter of Credit shall be deemed to constitute a warranty by the Company that the conditions precedent set forth in Section 10.2.1 will be satisfied at the time of the making of such Loan or the issuance of such Letter of Credit), together with such other documents as the Agent or any Lender may reasonably request in support thereof.

SECTION 11. EVENTS OF DEFAULT AND THEIR EFFECT.

11.1 Events of Default. Each of the following shall constitute an Event of Default under this Agreement:

11.1.1 Non-Payment of the Loans, etc. Default in the payment when due of the principal of any Loan or any reimbursement obligation payable by the Company hereunder; or default, and continuance thereof for three days, in the payment when due of any interest, fee or other amount payable by the Company hereunder or under any other Loan Document.

11.1.2 Non-Payment of Other Debt. Any default shall occur under the terms applicable to any Debt of the Company or any Subsidiary in an aggregate amount
(for all such Debt so affected) exceeding $5,000,000 and such default shall (a) consist of the failure to pay such Debt when due, whether by acceleration or otherwise, or (b) accelerate the maturity of such Debt or permit the holder or holders thereof, or any trustee or agent for such holder or holders, to cause such Debt to become due and payable prior to its expressed maturity; or any such Debt shall be required to be prepaid or redeemed (other than by a regularly scheduled prepayment or redemption), purchased or defeased or an offer to prepay, redeem, purchase or defease such Debt

shall be required to be made, in each case prior to the stated maturity thereof; or any default shall occur under any Floor Plan Financing provided by any Lender or any Affiliate of a Lender to the Company or any Subsidiary.

11.1.3 Other Material Obligations. Default in the payment when due, or in the performance or observance of, any material obligation of, or condition agreed to by, the Company or any Subsidiary with respect to any material purchase or lease of goods or services, or any agreement with a Manufacturer, where such default, singly or in the aggregate with all other such defaults, might reasonably be expected to have a Material Adverse Effect; or default in the performance or observance by the Company or any Subsidiary of any of its obligations under any Dealer Franchise Agreement where such default might reasonably be expected to have a Material Adverse Effect.

11.1.4 Bankruptcy, Insolvency, etc. The Company or any Subsidiary becomes insolvent or generally fails to pay, or admits in writing its inability or refusal to pay, debts as they become due; or the Company or any Subsidiary applies for, consents to, or acquiesces in the appointment of a trustee, receiver or other custodian for the Company or such Subsidiary or any property thereof, or makes a general assignment for the benefit of creditors; or, in the absence of such application, consent or acquiescence, a trustee, receiver or other custodian is appointed for the Company or any Subsidiary or for a substantial part of the property of any thereof and is not discharged within 60 days; or any bankruptcy, reorganization, debt arrangement, or other case or proceeding under any bankruptcy or insolvency law, or any dissolution or liquidation proceeding, is commenced in respect of the Company or any Subsidiary, and if such case or proceeding is not commenced by the Company or such Subsidiary, it is consented to or acquiesced in by the Company or such Subsidiary, or remains for 30 days undismissed; or the Company or any Subsidiary takes any action to authorize, or in furtherance of, any of the foregoing.

11.1.5 Non-compliance with Loan Documents. (a) Failure by the Company to comply with or to perform any covenant set forth in Sections 9.1.5(a), 9.5 through 9.14, 9.19 through 9.21 and 9.23; or (b) failure by the Company or any other Loan Party to comply with or to perform any other provision of this Agreement or any other Loan Document (and not constituting an Event of Default under any other provision of this Section 11) and continuance of such failure uncured for 30 days.

11.1.6 Warranties. Any warranty made by the Company or any other Loan Party herein or any other Loan Document is breached or is false or misleading in any material respect, or any schedule, certificate, financial statement, report, notice or other writing furnished by the Company or any other Loan Party to the Agent or any Lender in connection herewith is false or misleading in any material respect on the date as of which the facts therein set forth are stated or certified.

11.1.7 Pension Plans. (i) Institution of any steps by the Company or any other Person to terminate a Pension Plan if as a result of such termination the Company could be required to make a contribution to such Pension Plan, or could incur a liability or obligation to such Pension Plan, in excess of $5,000,000;
(ii) a contribution failure occurs with respect to any Pension Plan sufficient to give rise to a Lien under Section 302(f) of ERISA; or (iii) there shall

occur any withdrawal or partial withdrawal from a Multiemployer Pension Plan and the withdrawal liability (without unaccrued interest) to Multiemployer Pension Plans as a result of such withdrawal (including any outstanding withdrawal liability that the Company and the Controlled Group have incurred on the date of such withdrawal) exceeds $5,000,000.

11.1.8 Judgments. Final judgments that exceed an aggregate of $5,000,000 shall be rendered against the Company or any Subsidiary and shall not have been paid, discharged or vacated or had execution thereof stayed pending appeal within 30 days after entry or filing of such judgments.

11.1.9 Invalidity of Guaranty, etc. The Guaranty shall cease to be in full force and effect with respect to any Subsidiary; or any Subsidiary (or any Person by, through or on behalf of such Subsidiary) shall contest in any manner the validity, binding nature or enforceability of the Guaranty with respect to such Subsidiary.

11.1.10 Invalidity of Collateral Documents, etc. Any Collateral Document shall cease to be in full force and effect; or the Company or any Subsidiary (or any Person by, through or on behalf of the Company or any Subsidiary) shall contest in any manner the validity, binding nature or enforceability of any Collateral Document.

11.1.11 Invalidity of Subordination Provisions, etc. Any subordination provision in any document or instrument governing Subordinated Debt, or any subordination provision in any guaranty by any Subsidiary of any Subordinated Debt, shall cease to be in full force and effect, or the Company or any other Person (including the holder of any applicable Subordinated Debt) shall contest in any manner the validity, binding nature or enforceability of any such provision.

11.1.12 Change in Control. A Change in Control shall occur.

11.2 Effect of Event of Default. If any Event of Default described in
Section 11.1.4 shall occur, the Commitments (if they have not theretofore terminated) shall immediately terminate and the Loans and all other obligations hereunder shall become immediately due and payable and the Company shall become immediately obligated to Cash Collateralize all Letters of Credit, all without presentment, demand, protest or notice of any kind; and, if any other Event of Default shall occur and be continuing, the Agent (upon written request of the Required Lenders) shall declare the Commitments (if they have not theretofore terminated) to be terminated and/or declare all Loans and all other obligations hereunder to be due and payable and/or demand that the Company immediately Cash Collateralize all Letters of Credit, whereupon the Commitments (if they have not theretofore terminated) shall immediately terminate and/or all Loans and all other obligations hereunder shall become immediately due and payable and/or the Company shall immediately become obligated to Cash Collateralize all Letters of Credit, all without presentment, demand, protest or notice of any kind. The Agent shall promptly advise the Company of any such declaration, but failure to do so shall not impair the effect of such declaration. Notwithstanding the foregoing, the effect as an Event of Default of any event described in Section 11.1.1 or Section 11.1.4 may be waived by the written concurrence of all of the Lenders, and the effect as an Event of Default of any other event described in this Section 11 may be waived by the written concurrence of the Required Lenders (except as provided in Section 13.1). Any cash collateral delivered hereunder shall be held by

the Agent (without liability for interest thereon) and applied to reimbursement obligations under the Letters of Credit. After the expiration or termination of the Letters of Credit, such cash collateral shall be applied by the Agent to any remaining obligations hereunder and any excess shall be delivered to the Company or as a court of competent jurisdiction may direct.

SECTION 12. THE AGENT.

12.1 Appointment and Authorization. (a) Each Lender hereby irrevocably (subject to Section 12.9) appoints, designates and authorizes the Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document, the Agent shall not have any duty or responsibility except those expressly set forth herein, nor shall the Agent have or be deemed to have any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Agent.

(b) The Issuing Lender shall act on behalf of the Lenders with respect to any Letters of Credit issued by it and the documents associated therewith. The Issuing Lender shall have all of the benefits and immunities (i) provided to the Agent in this Section 12 with respect to any acts taken or omissions suffered by the Issuing Lender in connection with Letters of Credit issued by it or proposed to be issued by it and the applications and agreements for letters of credit pertaining to such Letters of Credit as fully as if the term "Agent", as used in this Section 12, included the Issuing Lender with respect to such acts or omissions and (ii) as additionally provided in this Agreement with respect to the Issuing Lender.

12.2 Delegation of Duties. The Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects with reasonable care.

12.3 Liability of Agent. None of the Agent nor any of its directors, officers, employees or agents shall (i) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct), or (ii) be responsible in any manner to any of the Lenders for any recital, statement, representation or warranty made by the Company or any Subsidiary or Affiliate of the Company, or any officer thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of the Company or any other party to any Loan Document to perform its obligations hereunder or thereunder. The Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or

conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Company or any of the Company's Subsidiaries or Affiliates.

12.4 Reliance by Agent. The Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex or telephone message, statement or other document or conversation reasonably believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to the Company), independent accountants and other experts reasonably selected by the Agent. The Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders as it deems appropriate and, if it so requests, confirmation from the Lenders of their obligation to indemnify the Agent against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Required Lenders and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

12.5 Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Event of Default or Unmatured Event of Default except with respect to defaults in the payment of principal, interest and fees required to be paid to the Agent for the account of the Lenders, unless the Agent shall have received written notice from a Lender or the Company referring to this Agreement, describing such Event of Default or Unmatured Event of Default and stating that such notice is a "notice of default". The Agent will notify the Lenders of its receipt of any such notice. The Agent shall take such action with respect to such Event of Default or Unmatured Event of Default as may be requested by the Required Lenders in accordance with Section 11; provided that unless and until the Agent has received any such request, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Event of Default or Unmatured Event of Default as it shall deem advisable or in the best interest of the Lenders.

12.6 Credit Decision. Each Lender acknowledges that the Agent has not made any representation or warranty to it, and that no act by the Agent hereafter taken, including any review of the affairs of the Company and its Subsidiaries, shall be deemed to constitute any representation or warranty by the Agent to any Lender. Each Lender represents to the Agent that it has, independently and without reliance upon the Agent and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of the Company and its Subsidiaries, and made its own decision to enter into this Agreement and to extend credit to the Company hereunder. Each Lender also represents that it will, independently and without reliance upon the Agent and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of the Company. Except for notices, reports and other documents expressly herein required to be furnished to the Lenders

by the Agent, the Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial or other condition or creditworthiness of the Company that may come into the possession of the Agent.

12.7 Indemnification. Whether or not the transactions contemplated hereby are consummated, the Lenders shall indemnify upon demand the Agent and its directors, officers, employees and agents (to the extent not reimbursed by or on behalf of the Company and without limiting the obligation of the Company to do so), pro rata, from and against any and all Indemnified Liabilities; provided that no Lender shall be liable for any payment to any such Person of any portion of the Indemnified Liabilities resulting from such Person's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender shall reimburse the Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including Attorney Costs) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that the Agent is not reimbursed for such expenses by or on behalf of the Company. The undertaking in this Section shall survive repayment of the Loans, termination of the Commitments, cancellation of the Notes, expiration or termination of the Letters of Credit, any foreclosure under, or modification, release or discharge of, any or all of the Collateral Documents, termination of this Agreement and the resignation or replacement of the Agent.

12.8 Agent in Individual Capacity. DCSNA and its Affiliates may make loans to, issue letters of credit for the account of, acquire equity interests in and generally engage in any kind of business with the Company and its Subsidiaries and Affiliates as though DCSNA were not the Agent hereunder and without notice to or consent of the Lenders. The Lenders acknowledge that, pursuant to such activities, DCSNA or its Affiliates may receive information regarding the Company or its Affiliates (including information that may be subject to confidentiality obligations in favor of the Company or such Affiliate) and acknowledge that the Agent shall be under no obligation to provide such information to them. With respect to their Loans (if any), DCSNA and its Affiliates shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though DCSNA were not the Agent, and the terms "Lender" and "Lenders" include DCSNA and its Affiliates, to the extent applicable, in their individual capacities.

12.9 Successor Agent. The Agent may resign as Agent upon 30 days' notice to the Lenders. If the Agent resigns under this Agreement, the Required Lenders shall, with (so long as no Event of Default exists) the consent of the Company (which shall not be unreasonably withheld or delayed), appoint from among the Lenders a successor agent for the Lenders. If no successor agent is appointed prior to the effective date of the resignation of the Agent, the Agent may appoint, after consulting with the Lenders and the Company, a successor agent from among the Lenders. Upon the acceptance of its appointment as successor agent hereunder, such successor agent shall succeed to all the rights, powers and duties of the retiring Agent and the term "Agent" shall mean such successor agent, and the retiring Agent's appointment, powers and

duties as Agent shall be terminated. After any retiring Agent's resignation hereunder as Agent, the provisions of this Section 12 and Sections 13.6 and 13.13 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement. If no successor agent has accepted appointment as Agent by the date that is 30 days following a retiring Agent's notice of resignation, the retiring Agent's resignation shall nevertheless thereupon become effective and the Lenders shall perform all of the duties of the Agent hereunder until such time, if any, as the Required Lenders appoint a successor agent as provided for above.

12.10 Collateral Matters. The Lenders irrevocably authorize the Agent, at its option and in its discretion, (a) to release any Lien granted to or held by the Agent under any Collateral Document (i) upon termination of the Commitments and payment in full of all Loans and all other obligations of the Company hereunder and the expiration or termination of all Letters of Credit; (ii) constituting property sold or to be sold or disposed of as part of or in connection with any disposition permitted hereunder; or (iii) subject to Section 13.1, if approved, authorized or ratified in writing by the Required Lenders; or
(b) to subordinate its interest in any collateral to any holder of a Lien on such collateral that is permitted by clause (d) or (h) of Section 9.8. Upon request by the Agent at any time, the Lenders will confirm in writing the Agent's authority to release, or subordinate its interest in, particular types or items of collateral pursuant to this Section 12.10.

12.11 Funding Reliance. (a) Unless the Agent receives notice from a Lender by noon, Detroit time, on the day of a proposed borrowing that such Lender will not make available to the Agent an amount equal to its Pro Rata Share of such borrowing, the Agent may assume that such Lender has made such amount available to the Agent and, in reliance upon such assumption, make a corresponding amount available to the Company. If and to the extent such Lender has not made such amount available to the Agent, such Lender and the Company jointly and severally agree to repay such amount to the Agent forthwith on demand, together with interest thereon at the interest rate applicable to Loans comprising such borrowing or, in the case of any Lender that repays such amount within three Business Days, the Federal Funds Rate. Nothing set forth in this clause (a) shall relieve any Lender of any obligation it may have to make any Loan hereunder.

(b) Unless the Agent receives notice from the Company prior to the due date for any payment hereunder that the Company does not intend to make such payment, the Agent may assume that the Company has made such payment and, in reliance upon such assumption, make available to each Lender its share of such payment. If and to the extent that the Company has not made any such payment to the Agent, each Lender that received a share of such payment shall repay such share (or the relevant portion thereof) to the Agent forthwith on demand, together with interest thereon at the Prime Rate (or, in the case of any Lender that repays such amount within three Business Days, the Federal Funds Rate). Nothing set forth in this clause (b) shall relieve the Company of any obligation it may have to make any payment hereunder.

SECTION 13. GENERAL.

13.1 Waiver; Amendments. No delay on the part of the Agent or any Lender in the exercise of any right, power or remedy shall operate as a waiver thereof, nor shall any single or

partial exercise by any of them of any right, power or remedy preclude other or further exercise thereof, or the exercise of any other right, power or remedy. No amendment, modification or waiver of, or consent with respect to, any provision of this Agreement or the Notes shall in any event be effective unless the same shall be in writing and signed and delivered by Lenders having an aggregate Pro Rata Share of not less than the aggregate Pro Rata Share expressly designated herein with respect thereto or, in the absence of such designation as to any provision of this Agreement or the Notes, by the Required Lenders, and then any such amendment, modification, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided,
(i) the Lenders authorize the Agent to act within its discretion (and without notice to or the consent of any Lender) to waive or forbear on behalf of all Lenders any noncompliance by the Company (other than a waiver of, or forbearance with respect to, any Event of Default under Section 11.1.4) with this Agreement (provided that no such waiver shall be for a period in excess of 90 days) and
(ii) Section 13.17 may be amended, modified or waived with the consent of DCSNA (and not with the consent of any other Lender). No amendment, modification, waiver or consent shall change the Pro Rata Share of any Lender without the consent of such Lender. No amendment, modification, waiver or consent shall (i) increase the Revolving Commitment Amount, (ii) extend the date for payment of any principal of or interest on the Loans or any fees payable hereunder, (iii) reduce the principal amount of any Loan, the rate of interest thereon or any fees payable hereunder, (iv) release the Guaranty or all or substantially all of the collateral granted under the Collateral Documents or (v) reduce the aggregate Pro Rata Share required to effect an amendment, modification, waiver or consent without, in each case, the consent of all Lenders. No provision of
Section 12 or other provision of this Agreement affecting the Agent in its capacity as such shall be amended, modified or waived without the consent of the Agent. No provision of this Agreement relating to the rights or duties of the Issuing Lender in its capacity as such shall be amended, modified or waived without the consent of the Issuing Lender.

13.2 Confirmations. The Company and each holder of a Note agree from time to time, upon written request received by it from the other, to confirm to the other in writing (with a copy of each such confirmation to the Agent) the aggregate unpaid principal amount of the Loans then outstanding under such Note.

13.3 Notices. Except as otherwise provided in Section 2.2, all notices hereunder shall be in writing (including facsimile transmission) and shall be sent to the applicable party at its address shown on Schedule 13.3 or at such other address as such party may, by written notice received by the other parties, have designated as its address for such purpose. Notices sent by facsimile transmission shall be deemed to have been given when sent and mechanical confirmation of successful transmission has been received; notices sent by mail shall be deemed to have been given three Business Days after the date when sent by registered or certified mail, postage prepaid; and notices sent by hand delivery or overnight courier service shall be deemed to have been given when received. For purposes of Section 2.2, the Agent shall be entitled to rely on telephonic instructions from any person that the Agent in good faith believes is an authorized officer or employee of the Company, and the Company shall hold the Agent and each other Lender harmless from any loss, cost or expense resulting from any such reliance.

13.4 Computations. Where the character or amount of any asset or liability or item of income or expense is required to be determined, or any consolidation or other accounting computation is required to be made, for the purpose of this Agreement, such determination or calculation shall, to the extent applicable and except as otherwise specified in this Agreement, be made in accordance with GAAP, consistently applied; provided that if the Company notifies the Agent that the Company wishes to amend any covenant in Section 9 to eliminate or to take into account the effect of any change in GAAP on the operation of such covenant (or if the Agent notifies the Company that the Required Lenders wish to amend
Section 9 for such purpose), then the Company's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Company and the Required Lenders.

13.5 Regulation U. Each Lender represents that it in good faith is not relying, either directly or indirectly, upon any Margin Stock as collateral security for the extension or maintenance by it of any credit provided for in this Agreement.

13.6 Costs, Expenses and Taxes. The Company agrees to pay on demand all out-of-pocket costs and expenses of the Agent (including Attorney Costs) in connection with the preparation, execution, syndication, delivery and administration of this Agreement, the other Loan Documents and all other documents provided for herein or delivered or to be delivered hereunder or in connection herewith (including any amendment, supplement or waiver to any Loan Document), and all out-of-pocket costs and expenses (including Attorney Costs) incurred by the Agent and each Lender after an Event of Default in connection with the enforcement of this Agreement, the other Loan Documents or any such other documents. In addition, the Company agrees to pay, and to save the Agent and the Lenders harmless from all liability for, (a) any stamp or other taxes (excluding income taxes and franchise taxes based on net income) that may be payable in connection with the execution and delivery of this Agreement, the borrowings hereunder, the issuance of the Notes or the execution and delivery of any other Loan Document or any other document provided for herein or delivered or to be delivered hereunder or in connection herewith and (b) any fees of the Company's auditors in connection with any reasonable exercise by the Agent and the Lenders of their rights pursuant to Section 9.2. All obligations provided for in this Section 13.6 shall survive repayment of the Loans, cancellation of the Notes, expiration or termination of the Letters of Credit and termination of this Agreement.

13.7 Subsidiary References. The provisions of this Agreement relating to Subsidiaries shall apply only during such times as the Company has one or more Subsidiaries.

13.8 Captions. Section captions used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

13.9 Assignments; Participations.

13.9.1 Assignments. Any Lender may, with the prior written consents of the Issuing Lender and the Agent and (so long as no Event of Default exists) the Company (which consents shall not be unreasonably delayed or withheld and, in any event, shall not be required for an

assignment by a Lender to one of its Affiliates or to any other Lender), at any time assign and delegate to one or more commercial banks or other Persons (any Person to whom such an assignment and delegation is to be made being herein called an "Assignee") all or any fraction of such Lender's Loans and Commitment (which assignment and delegation shall be of a constant, and not a varying, percentage of all the assigning Lender's Loans and Commitment) in a minimum aggregate amount equal to the lesser of (i) the amount of the assigning Lender's Pro Rata Share of the Revolving Commitment Amount and (ii) $10,000,000; provided that (a) no assignment and delegation may be made to any Person if, at the time of such assignment and delegation, the Company would be obligated to pay any greater amount under Section 7.6 to the Assignee than the Company is then obligated to pay to the assigning Lender under such Section (and if any assignment is made in violation of the foregoing, the Company will not be required to pay the incremental amounts) and (b) the Company and the Agent shall be entitled to continue to deal solely and directly with such Lender in connection with the interests so assigned and delegated to an Assignee until the date when all of the following conditions shall have been met:

(x) five Business Days (or such lesser period of time as the Agent and the assigning Lender shall agree) shall have passed after written notice of such assignment and delegation, together with payment instructions, addresses and related information with respect to such Assignee, shall have been given to the Company and the Agent by such assigning Lender and the Assignee,

(y) the assigning Lender and the Assignee shall have executed and delivered to the Company and the Agent an assignment agreement substantially in the form of Exhibit G (an "Assignment Agreement"), together with any documents required to be delivered thereunder, which Assignment Agreement shall have been accepted by the Agent, and

(z) except in the case of an assignment by a Lender to one of its Affiliates, the assigning Lender or the Assignee shall have paid the Agent a processing fee of $3,500.

From and after the date on which the conditions described above have been met, (A) such Assignee shall be deemed automatically to have become a party hereto and, to the extent that rights and obligations hereunder have been assigned and delegated to such Assignee pursuant to such Assignment Agreement, shall have the rights and obligations of a Lender hereunder and (B) the assigning Lender, to the extent that rights and obligations hereunder have been assigned and delegated by it pursuant to such Assignment Agreement, shall be released from its obligations hereunder. Within five Business Days after effectiveness of any assignment and delegation, the Company shall execute and deliver to the Agent (for delivery to the Assignee) a new Note (unless the Assignee was already a holder of a Note immediately prior to such effectiveness). Each such Note shall be dated the effective date of such assignment. Accrued interest on that part of the predecessor Note being assigned shall be paid as provided in the Assignment Agreement. Accrued interest and fees on that part of the predecessor Note not being assigned shall be paid to the assigning Lender. Accrued interest and accrued fees shall be paid at the same time or times provided in the predecessor Note and in this Agreement. Any attempted assignment and delegation not made in accordance with this Section 13.9.1 shall be null and void.

Notwithstanding the foregoing provisions of this Section 13.9.1 or any other provision of this Agreement, any Lender may at any time assign all or any portion of its Loans and its Note to a Federal Reserve Bank (but no such assignment shall release any Lender from any of its obligations hereunder).

13.9.2 Participations. Any Lender may at any time sell to one or more commercial banks or other Persons participating interests in any Loan owing to such Lender, the Note held by such Lender, the Commitment of such Lender or any other interest of such Lender hereunder (any Person purchasing any such participating interest being herein called a "Participant"). In the event of a sale by a Lender of a participating interest to a Participant, (x) such Lender shall remain the holder of its Note for all purposes of this Agreement, (y) the Company and the Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations hereunder and (z) all amounts payable by the Company shall be determined as if such Lender had not sold such participation and shall be paid directly to such Lender. No Participant shall have any direct or indirect voting rights hereunder except with respect to any of the events described in the fourth sentence of Section
13.1. Each Lender agrees to incorporate the requirements of the preceding sentence into each participation agreement that such Lender enters into with any Participant. The Company agrees that if amounts outstanding under this Agreement and the Notes are due and payable (as a result of acceleration or otherwise), each Participant shall be deemed to have the right of setoff in respect of its participating interest in amounts owing under this Agreement and any Note to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement or such Note; provided that such right of setoff shall be subject to the obligation of each Participant to share with the Lenders, and the Lenders agree to share with each Participant, as provided in
Section 7.5. The Company also agrees that each Participant shall be entitled to the benefits of Section 7.6 as if it were a Lender (provided that no Participant shall receive any greater compensation pursuant to Section 7.6 than would have been paid to the participating Lender if no participation had been sold).

13.10 Governing Law. This Agreement and each Note shall be a contract made under and governed by the laws of the State of Michigan applicable to contracts made and to be performed entirely within such State. Whenever possible each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement. All obligations of the Company and rights of the Agent and the Lenders expressed herein or in any other Loan Document shall be in addition to and not in limitation of those provided by applicable law.

13.11 Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Agreement.

13.12 Successors and Assigns. This Agreement shall be binding upon the Company, the Lenders and the Agent and their respective successors and assigns, and shall inure to the benefit

of the Company, the Lenders and the Agent and the successors and assigns of the Lenders and the Agent.

13.13 Indemnification by the Company. In consideration of the execution and delivery of this Agreement by the Agent and the Lenders and the agreement to extend the Commitments provided hereunder, the Company hereby agrees to indemnify, exonerate and hold the Agent, each Lender and each of the officers, directors, employees, Affiliates and agents of the Agent and each Lender (each a "Lender Party") free and harmless from and against any and all actions, causes of action, suits, losses, liabilities, damages and expenses, including Attorney Costs (collectively, the "Indemnified Liabilities"), incurred by the Lender Parties or any of them as a result of, or arising out of, or relating to (i) any tender offer, merger, purchase of stock, purchase of assets or other similar transaction financed or proposed to be financed in whole or in part, directly or indirectly, with the proceeds of any of the Loans, (ii) the use, handling, release, emission, discharge, transportation, storage, treatment or disposal of any hazardous substance at any property owned or leased by the Company or any Subsidiary, (iii) any violation of any Environmental Laws with respect to conditions at any property owned or leased by the Company or any Subsidiary or the operations conducted thereon, (iv) the investigation, cleanup or remediation of offsite locations at which the Company or any Subsidiary or their respective predecessors are alleged to have directly or indirectly disposed of hazardous substances or (v) the execution, delivery, performance or enforcement of this Agreement or any other Loan Document by any of the Lender Parties, except for any such Indemnified Liabilities arising on account of the applicable Lender Party's gross negligence or willful misconduct. If and to the extent that the foregoing undertaking may be unenforceable for any reason, the Company hereby agrees to make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under applicable law. All obligations provided for in this Section 13.13 shall survive repayment of the Loans, cancellation of the Notes, expiration or termination of the Letters of Credit, any foreclosure under, or any modification, release or discharge of, any or all of the Collateral Documents and termination of this Agreement.

13.14 Nonliability of Lenders. The relationship between the Company on the one hand and the Lenders and the Agent on the other hand shall be solely that of borrower and lender. Neither the Agent nor any Lender shall have any fiduciary responsibility to the Company. Neither the Agent nor any Lender undertakes any responsibility to the Company to review or inform the Company of any matter in connection with any phase of the Company's business or operations. The Company agrees that neither the Agent nor any Lender shall have liability to the Company (whether sounding in tort, contract or otherwise) for losses suffered by the Company in connection with, arising out of, or in any way related to the transactions contemplated and the relationship established by the Loan Documents, or any act, omission or event occurring in connection therewith, unless it is determined in a final non-appealable judgment by a court of competent jurisdiction that such losses resulted from the gross negligence or willful misconduct of the party from which recovery is sought. Neither the Agent nor any Lender shall have any liability with respect to, and the Company hereby waives, releases and agrees not to sue for, any special, indirect or consequential damages suffered by the Company in connection with, arising out of, or in any way related to the Loan Documents or the transactions contemplated thereby.

13.15 Forum Selection and Consent to Jurisdiction. ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, SHALL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE COURTS OF THE STATE OF MICHIGAN OR IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF MICHIGAN; PROVIDED THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT THE AGENT'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. THE COMPANY HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF MICHIGAN AND OF THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF MICHIGAN FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE. THE COMPANY FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF MICHIGAN. THE COMPANY HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

13.16 Waiver of Jury Trial. EACH OF THE COMPANY, THE AGENT AND EACH LENDER HEREBY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT, ANY NOTE, ANY OTHER LOAN DOCUMENT AND ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HEREWITH OR THEREWITH OR ARISING FROM ANY LENDING RELATIONSHIP EXISTING IN CONNECTION WITH ANY OF THE FOREGOING, AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

13.17 DCSNA Right of First Refusal on Floor Plan Financing. No Automobile Dealership shall obtain any Floor Plan Financing from any Person other than DCSNA (other than Floor Plan Financings permitted under Section 9.7(i)) unless and until it shall have requested in writing that DCSNA provide such Floor Plan Financing on terms consistent with the terms of the Floor Plan Financing at the time provided by DCSNA to the Company and the other Automobile Dealerships and provided a reasonable opportunity to DCSNA to provide such financing and DCSNA shall have declined to provide the same. For purposes hereof, DCSNA will be deemed to have declined to provide any Floor Plan Financing requested by an Automobile Dealership in writing if it shall have failed to respond to such Automobile Dealership within ten Business Days of receiving such written request. If DCSNA declines to provide any such requested Floor Plan Financing, the Automobile Dealership that requested the same may then obtain such requested Floor Plan Financing from another Person.

13.18 Confidentiality. Each Lender agrees to take, and to cause its Affiliates to take, normal and reasonable precautions and exercise due care to maintain the confidentiality of all non-public information provided to it by the Company or any Subsidiary, or by the Agent on the Company's or any Subsidiary's behalf, under this Agreement or any other Loan Document, and neither such Lender nor any of its Affiliates shall use any such information other than in connection with or in enforcement of this Agreement and the other Loan Documents or in connection with other business now or hereafter existing or contemplated with the Company or any Subsidiary, except to the extent such information was or becomes generally available to the public other than as a result of disclosure by such Lender or was or becomes available on a non-confidential basis from a source other than the Company (provided that such source is not bound by a confidentiality agreement with the Company or any Subsidiary known to such Lender); provided, however, that any Lender may disclose such information (A) at the request or pursuant to any requirement of any governmental authority to which such Lender is subject or in connection with an examination of such Lender by any such authority, (B) pursuant to subpoena or other court process, when required to do so in accordance with the provisions of any applicable requirement of law, (C) to the extent reasonably required in connection with any litigation or proceeding to which the Agent or any Lender or any of their respective Affiliates may be party, (D) to the extent reasonably required in connection with the exercise of any remedy hereunder or under any other Loan Document, (E) to such Lender's independent auditors and other professional advisors, (F) to any participant or assignee, actual or potential, provided that such Person agrees in writing to keep such information confidential to the same extent required of the Lenders hereunder, (G) as to any Lender or its Affiliate, as expressly permitted under the terms of any other document or agreement regarding confidentiality to which the Company or any Subsidiary is party or is deemed party with such Lender or such Affiliate, (H) to its Affiliates and (I) any nationally recognized rating agency that requires access to information about such Lender's investment portfolio in connection with ratings issued to such Lender.

Delivered at Detroit, Michigan as of the day and year first above written.

LITHIA MOTORS, INC.

By_____
Title_____

DAIMLERCHRYSLER SERVICES NORTH AMERICA LLC, as Agent, Issuing Lender and as a Lender

By_____
Title_____

SCHEDULE 2.1

LENDERS AND PRO RATA SHARES

Lender	Pro Rata Share of Revolving Commitment Amount	Pro Rata Share
DAIMLERCHRYSLER SERVICES NORTH AMERICA LLC	$200,000,000	100%
TOTALS	$200,000,000	100%

SCHEDULE 13.3

ADDRESSES FOR NOTICES

LITHIA MOTORS, INC.

360 East Jackson Street
Medford, Oregon 97501
Attention:
Telephone No.:
Facsimile No.:

Copies to: Jeffrey B. DeBoer
Larissa McAlister
Lithia Motors, Inc.
360 East Jackson Street
Medford, Oregon 97501
Telephone No.: 541-776-6868
Facsimile No.: 541-776-6869

DAIMLERCHRYSLER SERVICES NORTH AMERICA LLC, as Agent and a Lender

Notices of Borrowing and Requests for Letter of Credit Issuance

27777 Inkster Road
Farmington Hills, Michigan 48334-5362
CIMS 405-23-05
Attention: Michele Nowak
Telephone: (248) 427-6524
Facsimile: (248) 427-6550

All Other Notices

27777 Inkster Road
Farmington Hills, Michigan 48334-5362
CIMS 405-23-05
Attention: Michele Nowak
Telephone: (248) 427-6524
Facsimile: (248) 427-6550

EXHIBIT A

FORM OF
NOTE

_____, 200_
Detroit, Michigan

The undersigned, for value received, promises to pay to the order of _____ (the "Lender"), at the principal office of DAIMLERCHRYSLER SERVICES NORTH AMERICA LLC (the "Agent") in Farmington Hills, Michigan, the aggregate unpaid amount of all Loans made to the undersigned by the Lender pursuant to the Credit Agreement referred to below (as shown on the schedule attached hereto (and any continuation thereof) or in the records of the Lender), such principal amount to be payable on the dates set forth in the Credit Agreement.

The undersigned further promises to pay interest on the unpaid principal amount of each Loan from the date of such Loan until such Loan is paid in full, payable at the rate(s) and at the time(s) set forth in the Credit Agreement. Payments of both principal and interest are to be made in lawful money of the United States of America.

This Note evidences indebtedness incurred under, and is subject to the terms and provisions of, the Credit Agreement, dated as of February __, 2003 (as amended or otherwise modified from time to time, the "Credit Agreement"; capitalized terms not otherwise defined herein are used herein as defined in the Credit Agreement), among the undersigned, certain financial institutions (including the Lender) and the Agent, to which Credit Agreement reference is hereby made for a statement of the terms and provisions under which this Note may or must be paid prior to its due date or its due date accelerated.

This Note is made under and governed by the laws of the State of Michigan applicable to contracts made and to be performed entirely within such State.

LITHIA MOTORS, INC.

By:_____
Title:_____

Schedule attached to Note dated _____, 200__ of LITHIA MOTORS, INC. payable to the order of _____

Date and Amount of Loan	Date and Amount of Repayment	Maturity Date	Unpaid Principal Balance	Notation Made by
----	---------	----	-------	-------

EXHIBIT I

FORM OF
L/C APPLICATION

TO: DAIMLERCHRYSLER SERVICES NORTH AMERICA LLC
27777 Inkster Road
Farmington Hills, Michigan 48334-5362
CIMS 405-23-05
Attention: Michele Nowak
Telephone: (248) 427-6524
Facsimile: (248) 427-6550

Ladies and Gentlemen:

We hereby request DaimlerChrysler Services North America LLC, as Issuing Lender under the Credit Agreement referred to below, to establish a Letter of Credit (the "Credit") for our account as follows:

BENEFICIARY:

APPLICANT:

AMOUNT:

EXPIRY DATE:

AVAILABLE BY SIGHT DRAFTS TO BE ACCOMPANIED BY:

SPECIAL INSTRUCTIONS:

PURPOSE OF CREDIT:

The Credit is subject to the terms and provisions of the Credit Agreement, dated as of February __, 2003 (as amended or otherwise modified from time to time, the "Credit Agreement"; capitalized terms not otherwise defined herein are used herein as defined in the Credit Agreement), among the undersigned, certain financial institutions and the Issuing Lender, to which Credit Agreement reference is hereby made for a statement of the terms and provisions regarding the issuance of Letters of Credit and the reimbursement obligations arising in connection therewith.

The undersigned hereby confirms that, both before and after giving effect to the issuance of the Credit, (a) the representations and warranties of the undersigned and each Subsidiary set forth in the Credit Agreement and the other Loan Documents are true and correct in all material respects with the same effect as if made on the date hereof (except to the extent such representations and warranties relate to a specific earlier date) and (b) no Event of Default or Unmatured Event of Default has occurred or is continuing.

Dated this ____ day of _____, 200__.

LITHIA MOTORS, INC.

By:_____
Its:_____

EXHIBIT 10.14

AMENDED AND RESTATED LOAN AGREEMENT

DATED AS OF: DECEMBER 28, 2001

PARTIES:	LITHIA FINANCIAL CORPORATION	("LFC")
	LITHIA MOTORS, INC.	("LMI")
	LITHIA SALMIR, INC.	("LSI")
	LITHIA AIRCRAFT, INC.	("LAI")
AND:	U.S. BANK NATIONAL ASSOCIATION	("LENDER")

ARTICLE I
DEFINITIONS AND INTERPRETIVE PROVISIONS

1.1 DEFINITIONS.

AS USED IN THIS AGREEMENT, THE FOLLOWING TERMS SHALL HAVE THE FOLLOWING

MEANINGS:

"ACCESS LAWS" MEANS THE AMERICANS WITH DISABILITIES ACT OF 1990; THE FAIR HOUSING AMENDMENTS ACT OF 1988; ALL OTHER FEDERAL, STATE AND LOCAL LAWS OR ORDINANCES RELATED TO DISABLED ACCESS; AND ALL STATUTES, RULES, REGULATIONS, ORDINANCES, ORDERS OF GOVERNMENTAL BODIES AND REGULATORY AGENCIES AND ORDERS AND DECREES OF ANY COURT ADOPTED, ENACTED OR ISSUED WITH RESPECT THERETO; ALL AS NOW EXISTING OR HEREAFTER AMENDED OR ADOPTED.

"CAPITAL EXPENDITURES" MEANS, FOR ANY PERIOD, FOR ANY PERSON, THE AGGREGATE OF ALL EXPENDITURES (OTHER THAN IN CONNECTION WITH PERMITTED ACQUISITIONS), WHETHER PAID IN CASH OR ACCRUED AS LIABILITIES, INCLUDING CAPITALIZED LEASE OBLIGATIONS, BY SUCH PERSON DURING SUCH PERIOD THAT, IN CONFORMITY WITH GAAP, ARE REQUIRED TO BE INCLUDED IN OR REFLECTED BY THE PROPERTY, PLANT, EQUIPMENT OR SIMILAR FIXED ASSET ACCOUNTS REFLECTED IN THE BALANCE SHEET OF SUCH PERSON.

"CAPITALIZED LEASE" OF A PERSON MEANS ANY LEASE OF PROPERTY BY SUCH PERSON AS LESSEE WHICH WOULD BE CAPITALIZED ON A BALANCE SHEET OF SUCH PERSON PREPARED IN ACCORDANCE WITH GAAP.

"COLLATERAL" MEANS THE LFC COLLATERAL.

"DEFAULT" MEANS ANY EVENT OF DEFAULT OR ANY EVENT WHICH WITH THE GIVING OF

NOTICE OR THE PASSAGE OF TIME, OR BOTH, WOULD CONSTITUTE AN EVENT OF DEFAULT.

"EBITDA" MEANS, FOR ANY PERIOD, FOR ANY PERSON, THE SUM OF THE AMOUNTS FOR

SUCH PERIOD, WITHOUT DUPLICATION, OF:

(i) NET INCOME,

PLUS (ii) INTEREST EXPENSE,

PLUS (iii) CHARGES AGAINST INCOME FOR FOREIGN, FEDERAL, STATE AND LOCAL TAXES, TO THE EXTENT DEDUCTED IN COMPUTING NET INCOME,

PLUS (iv) DEPRECIATION EXPENSE, TO THE EXTENT DEDUCTED IN COMPUTING NET INCOME,

PLUS (v) AMORTIZATION EXPENSE, INCLUDING, WITHOUT LIMITATION, AMORTIZATION OF GOODWILL, OTHER INTANGIBLE ASSETS AND COSTS ASSOCIATED WITH ANY PERMITTED ACQUISITION, TO THE EXTENT DEDUCTED IN COMPUTING NET INCOME,

PLUS (vi) OTHER NON-CASH CHARGES CLASSIFIED AS LONG-TERM DEFERRALS IN ACCORDANCE WITH GAAP WHICH HAVE BEEN INCLUDED IN THE DETERMINATION OF NET INCOME,

MINUS (vii) ALL EXTRAORDINARY GAINS (AND ANY NONRECURRING UNUSUAL GAINS ARISING IN OR OUTSIDE OF THE ORDINARY COURSE OF BUSINESS NOT INCLUDED IN EXTRAORDINARY GAINS DETERMINED IN ACCORDANCE WITH GAAP WHICH HAVE BEEN INCLUDED IN THE DETERMINATION OF NET INCOME).

EBITDA SHALL BE CALCULATED FOR ANY PERIOD BY INCLUDING THE ACTUAL AMOUNT FOR THE APPLICABLE PERIOD ENDING ON SUCH DAY, INCLUDING THE EBITDA ATTRIBUTABLE TO PERMITTED ACQUISITIONS OCCURRING DURING SUCH PERIOD ON A PRO FORMA BASIS FOR THE PERIOD FROM THE FIRST DAY OF THE APPLICABLE PERIOD THROUGH THE DATE OF THE CLOSING OF EACH PERMITTED ACQUISITION, UTILIZING (a) WHERE AVAILABLE, HISTORICAL AUDITED AND/OR REVIEWED UNAUDITED FINANCIAL STATEMENTS OBTAINED FROM THE SELLER, BROKEN DOWN BY FISCAL QUARTER IN LMI'S REASONABLE JUDGMENT OR (b) IN LENDER'S DISCRETION, UNAUDITED FINANCIAL STATEMENTS (WHERE NO AUDITED OR REVIEWED FINANCIAL STATEMENTS ARE AVAILABLE) REVIEWED INTERNALLY BY THE BORROWER, BROKEN DOWN IN THE BORROWER'S REASONABLE JUDGMENT.

"EBITDAR" MEANS, FOR ANY PERIOD, FOR ANY PERSON, THE SUM OF THE AMOUNTS

FOR SUCH PERIOD, WITHOUT DUPLICATION, OF (i) EBITDA AND (ii) RENTALS.

"ENVIRONMENTAL LAWS" MEANS ALL LOCAL, STATE OR FEDERAL LAWS, RULES, REGULATIONS, OR ORDINANCES PERTAINING TO HAZARDOUS SUBSTANCES AND ENVIRONMENTAL REGULATION, CONTAMINATION OR CLEAN-UP INCLUDING, WITHOUT LIMITATION, THE FEDERAL STATUTES COMMONLY KNOWN AS CERCLA AND RCRA AND ALL OTHER FEDERAL OR STATE LIEN OR ENVIRONMENTAL CLEAN-UP STATUTES, ALL AS NOW EXISTING OR HEREAFTER AMENDED OR ADOPTED.

"FINANCIAL STATEMENTS" MEANS a) FOR ANY PERSON WHICH IS A CORPORATION OR OTHER ENTITY, THAT PERSON'S BALANCE SHEET AND RELATED STATEMENTS OF INCOME, RETAINED EARNINGS AND CASH FLOWS, PREPARED IN ACCORDANCE WITH GAAP, AND b) FOR ANY INDIVIDUAL, THAT PERSON'S PERSONAL FINANCIAL STATEMENT IN A FORM ACCEPTABLE TO LENDER.

"FIXED CHARGE COVERAGE RATIO" MEANS, FOR ANY PERSON, FOR ANY TIME PERIOD, THE RATIO FOR SUCH TIME PERIOD OF (a) EBITDAR LESS CAPITAL EXPENDITURES FOR TANGIBLE OR INTANGIBLE PERSONAL PROPERTY PAID IN CASH ("MAINTENANCE CAPITAL EXPENDITURES") TO (b) (i) INTEREST EXPENSE PLUS (ii) SCHEDULED AMORTIZATION OF THE PRINCIPAL PORTION OF INDEBTEDNESS FOR MONEY BORROWED EXCEPT, WITH RESPECT TO LMI, FOR SELLER'S NOTES, PLUS (iii) RENTALS, PLUS (iv) TAXES PAID IN CASH DURING SUCH PERIOD.

"GAAP" MEANS GENERALLY ACCEPTED ACCOUNTING PRINCIPLES CONSISTENTLY

APPLIED.

"GUARANTOR" MEANS EITHER OR BOTH OF (a) LMI IN ITS CAPACITY AS GUARANTOR OF THE OBLIGATIONS OF LFC AND LAI TO LENDER, AND (b) LFC IN ITS CAPACITY AS GUARANTOR OF THE OBLIGATIONS OF LMI AND LSI TO LENDER.

"GUARANTY" MEANS EACH GUARANTY OF ANY OBLIGATIONS OF LMI, LSI, LFC, OR LAI TO LENDER HERETOFORE, CONTEMPORANEOUSLY HEREWITH OR HEREAFTER EXECUTED BY GUARANTOR OR ANY OTHER PERSON.

"HAZARDOUS SUBSTANCES" MEANS (a) ANY SUBSTANCE OR MATERIAL DEFINED OR DESIGNATED AS HAZARDOUS OR TOXIC WASTE, HAZARDOUS OR TOXIC MATERIAL, OR A HAZARDOUS, TOXIC OR RADIOACTIVE SUBSTANCE (OR DESIGNATED BY ANY SIMILAR TERM) BY OR FOR PURPOSES OF ANY APPLICABLE ENVIRONMENTAL LAW; (b) ASBESTOS AND ANY SUBSTANCE OR COMPOUND CONTAINING ASBESTOS; AND (c) ANY OTHER HAZARDOUS, TOXIC OR DANGEROUS WASTE, SUBSTANCE OR MATERIAL, INCLUDING BUT NOT LIMITED TO GASOLINE, CRUDE OIL, FUEL OIL, DIESEL OIL, AND ANY OTHER RELATED PETROLEUM PRODUCTS.

"INTEREST EXPENSE" MEANS, FOR ANY PERIOD, FOR ANY PERSON, THE TOTAL INTEREST EXPENSE OF SUCH PERSON, WHETHER PAID OR ACCRUED (INCLUDING THE INTEREST COMPONENT OF CAPITALIZED LEASES, COMMITMENT AND LETTER OF CREDIT FEES), BUT EXCLUDING INTEREST EXPENSE NOT PAYABLE IN CASH (INCLUDING AMORTIZATION OF DISCOUNT), ALL AS DETERMINED IN CONFORMITY WITH GAAP.

"LC AGREEMENT(S)" MEANS EITHER OR BOTH OF THE CONTINUING AGREEMENTS FOR

IRREVOCABLE STANDBY LETTERS OF CREDIT DESCRIBED IN SECTIONS 2.2.2 AND 2.2.3.

"LFC FIXED CHARGE COVERAGE RATIO" MEANS, AS OF THE LAST DAY OF ANY FISCAL QUARTER, THE RATIO FOR LFC OF (a) EBITDAR FOR THE PERIOD OF FOUR CONSECUTIVE FISCAL QUARTERS ENDING ON SUCH DATE (EACH SUCH PERIOD, AN "ANNUAL PERIOD") LESS CAPITAL EXPENDITURES DURING SUCH ANNUAL PERIOD FOR TANGIBLE OR INTANGIBLE PERSONAL PROPERTY PAID IN CASH ("MAINTENANCE CAPITAL EXPENDITURES") TO (b) (i) INTEREST EXPENSE FOR SUCH ANNUAL PERIOD, PLUS (ii) SCHEDULED AMORTIZATION DURING THE PERIOD OF FOUR CONSECUTIVE FISCAL QUARTERS FOLLOWING SUCH DATE OF THE PRINCIPAL PORTION OF INDEBTEDNESS FOR MONEY BORROWED, PLUS (iii) RENTALS FOR SUCH ANNUAL PERIOD, PLUS (iv) TAXES PAID IN CASH DURING SUCH ANNUAL PERIOD, PLUS
(v) AN AMOUNT EQUAL TO 20% OF THE OUTSTANDING PRINCIPAL BALANCE OF THE REVOLVING LOANS AS OF THE LAST DAY OF SUCH ANNUAL PERIOD.

"LIBOR BORROWING RATE" HAS THE MEANING GIVEN TO SUCH TERM IN THE

PROMISSORY NOTE ATTACHED HERETO AS EXHIBIT A.

"LOAN DOCUMENTS" MEANS THIS AGREEMENT, THE NOTES, THE SECURITY DOCUMENTS, THE GUARANTIES AND ALL OTHER DOCUMENTS AND INSTRUMENTS ATTACHED HERETO, REFERRED TO HEREIN OR HERETOFORE, CONTEMPORANEOUSLY HEREWITH OR HEREAFTER EXECUTED OR DELIVERED TO LENDER BY ANY PERSON IN CONNECTION WITH ANY INDEBTEDNESS OR OBLIGATIONS OF ANY LOAN PARTY TO LENDER.

"LOAN PARTY" MEANS LFC, LMI, LSI, OR LAI.

"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.

"NET INCOME" MEANS, FOR ANY PERIOD, FOR ANY PERSON THE NET EARNINGS (OR LOSS) AFTER TAXES OF SUCH PERSON FOR SUCH PERIOD TAKEN AS A SINGLE ACCOUNTING PERIOD DETERMINED IN CONFORMITY WITH GAAP.

"NOTE(S)" MEANS ANY ONE OR MORE OF THE NEW REVOLVING NOTE AND THE TERM-OUT

NOTES.

"PERMITTED ACQUISITION" SHALL HAVE THE MEANING ASCRIBED TO SUCH TERM IN SECTION 5.3(f)(iii) OF THE $75,000,000 CREDIT AGREEMENT DATED NOVEMBER 23, 1998 BETWEEN LITHIA MOTORS, INC. AND FORD MOTOR CREDIT COMPANY, BUT EXCLUDING ANY CHANGES TO SUCH DEFINITION MADE SUBSEQUENT TO SEPTEMBER 20, 1999, WITHOUT THE PRIOR WRITTEN CONSENT OF LENDER.

"PERMITTED LIENS" HAS THE MEANING ASSIGNED TO SUCH TERM IN SECTION 6.3.

"PERSON" MEANS ANY NATURAL PERSON, CORPORATION, LIMITED LIABILITY COMPANY, PARTNERSHIP, JOINT VENTURE, FIRM, ASSOCIATION, TRUST, UNINCORPORATED ORGANIZATION, GOVERNMENT OR GOVERNMENTAL AGENCY OR POLITICAL SUBDIVISION OR ANY OTHER ENTITY, WHETHER ACTING IN AN INDIVIDUAL, FIDUCIARY OR OTHER CAPACITY.

"RENTALS" OF A PERSON MEANS THE AGGREGATE FIXED AMOUNTS PAYABLE BY SUCH PERSON UNDER ANY LEASE OF PERSONAL PROPERTY BUT DOES NOT INCLUDE ANY AMOUNTS PAYABLE UNDER CAPITALIZED LEASES OF SUCH PERSON.

"REVOLVING LOAN TERMINATION DATE" MEANS JANUARY 31, 2004.

"SELLER'S NOTES" MEANS INDEBTEDNESS (EVIDENCED BY A PROMISSORY NOTE OR NOTES) CONSTITUTING THAT PORTION OF THE DEFERRED PURCHASE PRICE PAYABLE BY LMI IN CONNECTION WITH A PERMITTED ACQUISITION, AND INDEBTEDNESS (EVIDENCED BY A PROMISSORY NOTE OR NOTES) TO SHAREHOLDERS, MEMBERS OR PARTNERS OF A SUBSIDIARY OR A PREDECESSOR OF SUCH A SUBSIDIARY ACQUIRED IN A PERMITTED ACQUISITION THAT ARE CREDITED AGAINST THE PURCHASE PRICE.

"TANGIBLE NET WORTH" MEANS FOR ANY PERSON THE NET BOOK VALUE OF (a) ALL OF SUCH PERSON'S ASSETS EXCLUSIVE OF PATENTS, TRADEMARKS, LICENSES, GOODWILL AND OTHER INTANGIBLES AND OF LOANS TO AND NOTES AND RECEIVABLES FROM OFFICERS, EMPLOYEES, DIRECTORS, SHAREHOLDERS, PARTNERS,

MEMBERS AND AFFILIATES OF SUCH PERSON MINUS (b) ALL OF SUCH PERSON'S LIABILITIES DETERMINED IN ACCORDANCE WITH GAAP.

"TITLE DOCUMENTS" MEANS ALL MANUFACTURERS' CERTIFICATES OF ORIGIN, MANUFACTURERS' STATEMENTS OF ORIGIN, MSOS, CERTIFICATES OF TITLE AND ANY OTHER DOCUMENTS EVIDENCING OWNERSHIP OF A MOTOR VEHICLE OR THE TRANSFER OF OWNERSHIP OF A MOTOR VEHICLE FROM A MANUFACTURER OR ANOTHER DEALER TO ANOTHER PERSON, AND ALL WAREHOUSE RECEIPTS, BILLS OF LADING AND OTHER NEGOTIABLE DOCUMENTS OF TITLE.

"TOTAL NET WORTH" MEANS FOR ANY PERSON THE NET BOOK VALUE OF (a) ALL OF

SUCH PERSON'S ASSETS MINUS (b) ALL OF SUCH PERSON'S LIABILITIES.

1.2 OTHER INTERPRETIVE PROVISIONS

1.2.1 UNLESS OTHERWISE SPECIFIED, THE WORDS "HEREIN," "HEREOF," "HERETO," "HEREUNDER" AND SIMILAR TERMS REFER TO THIS AGREEMENT AS A WHOLE AND NOT TO ANY PARTICULAR PROVISIONS OF THIS AGREEMENT AND SUBSECTION, SECTION, AND EXHIBIT REFERENCES ARE TO THIS AGREEMENT.

1.2.2 THE WORD "OR" SHALL NOT BE EXCLUSIVE; THE SINGULAR INCLUDES THE PLURAL AND THE PLURAL INCLUDES THE SINGULAR; THE MASCULINE INCLUDES THE FEMININE AND THE FEMININE INCLUDES THE MASCULINE, AND THE WORD "INCLUDING" IS NOT LIMITING AND MEANS "INCLUDING WITHOUT LIMITATION".

1.2.3 REFERENCES TO ANY LOAN DOCUMENT SHALL MEAN SUCH LOAN DOCUMENT AS AMENDED, MODIFIED, SUPPLEMENTED OR EXTENDED FROM TIME TO TIME AND ANY NUMBER OF SUBSTITUTIONS, RENEWALS AND REPLACEMENTS THEREOF OR THEREFOR.

1.2.4 REFERENCES TO GOVERNMENTAL LAWS, STATUTES, ORDINANCES, RULES AND REGULATIONS SHALL BE CONSTRUED AS INCLUDING ALL AMENDMENTS, CONSOLIDATIONS AND REPLACEMENTS THEREOF OR THEREFOR.

1.2.5 HEADINGS IN THIS AGREEMENT AND EACH OF THE OTHER LOAN DOCUMENTS ARE FOR CONVENIENCE OF REFERENCE ONLY AND ARE NOT PART OF THE SUBSTANCE HEREOF OR THEREOF.

1.2.6 EXCEPT AS OTHERWISE PROVIDED IN THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, ALL ACCOUNTING TERMS USED IN THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT SHALL BE CONSTRUED, AND ALL ACCOUNTING AND FINANCIAL INFORMATION OR COMPUTATIONS SHALL BE PREPARED OR COMPUTED, IN ACCORDANCE WITH GAAP. IF GAAP CHANGES DURING THE TERM OF THIS AGREEMENT SUCH THAT ANY COVENANTS CONTAINED HEREIN WOULD THEN BE CALCULATED IN A DIFFERENT MANNER OR WITH DIFFERENT COMPONENTS, THE LOAN PARTIES AND LENDER AGREE TO NEGOTIATE IN GOOD FAITH TO AMEND THIS AGREEMENT IN SUCH RESPECTS AS IS NECESSARY TO CONFORM THOSE COVENANTS AS CRITERIA FOR EVALUATING THE LOAN PARTIES' FINANCIAL CONDITION TO SUBSTANTIALLY THE SAME CRITERIA AS WERE EFFECTIVE BEFORE SUCH CHANGE IN GAAP, PROVIDED, HOWEVER, THAT UNTIL THE LOAN PARTIES AND LENDER SO AMEND THIS AGREEMENT, ALL SUCH COVENANTS SHALL BE CALCULATED IN ACCORDANCE WITH GAAP AS IN EFFECT ON THE DATE OF THIS AGREEMENT.

ARTICLE II
CURRENT INDEBTEDNESS

2.1 PROMISSORY NOTES. LFC AND LAI ARE INDEBTED TO LENDER PURSUANT TO THE TERMS OF THE FOLLOWING PROMISSORY NOTE, WHICH MAY RENEW PROMISSORY NOTES PREVIOUSLY EXECUTED BY LFC AND/OR LAI. LFC AND LAI MAY ALSO HAVE OTHER INDEBTEDNESS OR OBLIGATIONS TO LENDER.

2.1.1 PROMISSORY NOTE DATED NOVEMBER 9, 2000, IN THE PRINCIPAL AMOUNT OF $27,500,000 ("REVOLVING NOTE").

2.2 LETTER OF CREDIT.

2.2.1 LENDER HAS ISSUED STANDBY LETTER OF CREDIT NO. SLCS001152 IN THE FACE AMOUNT OF $1,000,000 ON WHICH THE APPLICANT IS LITHIA SALMIR, INC. AND THE BENEFICIARY IS STATE OF NEVADA DEPARTMENT OF TAXATION ("LETTER OF CREDIT").

2.2.2 LMI HAS EXECUTED A CONTINUING AGREEMENT FOR IRREVOCABLE STANDBY LETTERS OF CREDIT DATED AS OF SEPTEMBER 18, 1997, PURSUANT TO WHICH LMI HAS AGREED TO BE LIABLE FOR ALL OBLIGATIONS TO LENDER WHICH RELATE TO THE LETTER OF CREDIT.

2.2.3 LSI HAS EXECUTED A CONTINUING AGREEMENT FOR IRREVOCABLE STANDBY LETTERS OF CREDIT DATED AS OF AUGUST 26, 1997, PURSUANT TO WHICH LSI HAS AGREED TO BE LIABLE FOR ALL OBLIGATIONS TO LENDER WHICH RELATE TO THE LETTER OF CREDIT.

2.3 CURRENT LOAN AGREEMENT. LFC AND LENDER HAVE ENTERED INTO A LOAN AGREEMENT DATED SEPTEMBER 20, 1999, WHICH HAS BEEN AMENDED FROM TIME TO TIME, INCLUDING BY AMENDMENTS DATED MARCH 6, 2000, JULY 26, 2000, AND NOVEMBER 9, 2000 (COLLECTIVELY, "CURRENT LOAN AGREEMENT"). THIS AGREEMENT, AS OF ITS EFFECTIVE DATE, SHALL AMEND, RESTATE, AND REPLACE THE CURRENT LOAN AGREEMENT.

ARTICLE III
REVOLVING LOANS

3.1 MAXIMUM AMOUNT. SUBJECT TO THE TERMS AND CONDITIONS OF THIS AGREEMENT, LENDER AGREES TO MAKE LOANS TO LFC AND LAI (WHO SHALL BE JOINTLY AND SEVERALLY LIABLE) FROM TIME TO TIME ON A REVOLVING CREDIT BASIS (EACH A "REVOLVING ADVANCE", COLLECTIVELY, "REVOLVING LOANS"), PROVIDED THAT THE PRINCIPAL BALANCE OF THE NEW REVOLVING NOTE SHALL AT NO TIME EXCEED THE MAXIMUM REVOLVING LOAN AMOUNT. THE AVAILABILITY OF REVOLVING ADVANCES SHALL TERMINATE ON THE REVOLVING LOAN TERMINATION DATE.

3.2 USE OF PROCEEDS. LFC AND LAI SHALL USE THE PROCEEDS OF THE REVOLVING LOANS FOR THEIR GENERAL CORPORATE PURPOSES WHICH ARE PERMITTED BY THE TERMS OF THIS AGREEMENT AND WHICH ARE CONSISTENT WITH THEIR CURRENT BUSINESS OPERATIONS AND PRACTICES.

3.3 NEW REVOLVING NOTE.

3.3.1 THE REVOLVING LOANS SHALL BE EVIDENCED BY A PROMISSORY NOTE EXECUTED BY LFC AND LAI IN THE PRINCIPAL AMOUNT OF $27,500,000, SUBSTANTIALLY IN THE FORM ATTACHED AS

EXHIBIT A ("NEW REVOLVING NOTE"). THE NEW REVOLVING NOTE RENEWS AND MODIFIES THE TERMS APPLICABLE TO THE REVOLVING NOTE BUT SHALL NOT BE DEEMED TO BE IN SATISFACTION OF, OR TO CONSTITUTE A NOVATION OF, THE REVOLVING NOTE. THE REVOLVING LOANS SHALL BE SUBJECT TO ALL TERMS AND CONDITIONS OF THE NEW REVOLVING NOTE AND OF THIS AGREEMENT.

3.3.2 INTEREST. INTEREST ON THE UNPAID PRINCIPAL BALANCE OF THE REVOLVING NOTE SHALL BE DUE AND PAYABLE AT THE TIMES AND AT THE RATES SET FORTH IN THE REVOLVING NOTE.

3.3.3 PRINCIPAL PAYMENTS. THE PRINCIPAL BALANCE OF THE REVOLVING NOTE SHALL BE DUE AND PAYABLE ON JANUARY 31, 2004.

3.3.4 REQUESTS FOR REVOLVING ADVANCES. WHENEVER LFC WISHES TO REQUEST A REVOLVING ADVANCE, IT SHALL GIVE LENDER NOTICE THEREOF IN ACCORDANCE WITH THE PROVISIONS OF THE REVOLVING NOTE.

3.4 TERM OUT.

3.4.1 TERM-OUT LOANS. SUBJECT TO THE TERMS AND CONDITIONS OF THIS AGREEMENT AND SATISFACTION OF THE CONDITIONS PRECEDENT IN SECTION 7.2 HEREOF, LAI AND LFC MAY, AT ANY TIME PRIOR TO THE REVOLVING LOAN TERMINATION DATE, ELECT TO TERM OUT ALL OR A PORTION OF THE REVOLVING LOANS FOR A PERIOD OF UP TO FIVE YEARS (EACH PRINCIPAL AMOUNT TERMED OUT, A "TERM-OUT LOAN"). EACH TERM-OUT LOAN SHALL BE IN THE MINIMUM PRINCIPAL AMOUNT OF $5,000,000. 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.

3.4.2 TERM-OUT NOTES. EACH TERM-OUT LOAN SHALL BE EVIDENCED BY A SEPARATE PROMISSORY NOTE (EACH A "TERM-OUT NOTE) IN THE PRINCIPAL AMOUNT OF THE APPLICABLE TERM-OUT LOAN.

3.4.3 INTEREST. BORROWER MAY CHOOSE TO PAY INTEREST ON EACH TERM-OUT NOTE AT A VARIABLE RATE EQUAL TO THE LIBOR BORROWING RATE OR A FIXED RATE EQUAL TO THE FIXED BORROWING RATE IN EFFECT ON THE DATE SUCH TERM-OUT LOAN IS MADE; PROVIDED, HOWEVER, THAT THE RATE OPTION CHOSEN SHALL APPLY TO THE ENTIRE PRINCIPAL BALANCE OF THE TERM-OUT NOTE FOR THE ENTIRE TERM OF SUCH NOTE. ACCRUED INTEREST SHALL BE DUE AND PAYABLE ON A MONTHLY BASIS. THE FIXED BORROWING RATE IS AN ANNUAL RATE EQUAL TO 2.0% PLUS THAT RATE AT WHICH LENDER WOULD BE ABLE TO BORROW FUNDS OF COMPARABLE AMOUNTS IN THE MONEY MARKETS FOR THE NUMBER OF YEARS IN THE TERM OF THE TERM-OUT NOTE (ROUNDING UPWARD TO THE NEAREST WHOLE YEAR), INCLUDING FDIC INSURANCE, RESERVE REQUIREMENTS AND OTHER EXPLICIT AND IMPLICIT COSTS LEVIED BY ANY REGULATORY AGENCY; SUCH RATE ROUNDED UPWARD TO THE NEAREST ONE-EIGHTH PERCENT. SUCH RATE SHALL BE DETERMINED SOLELY BY LENDER ONE BANKING DAY PRIOR TO THE APPLICABLE DATE. THE TERM "MONEY MARKETS" REFERS TO ONE OR MORE WHOLESALE FUNDING MARKETS AVAILABLE TO LENDER INCLUDING NEGOTIABLE CERTIFICATES OF DEPOSIT, COMMERCIAL PAPER, EURODOLLAR DEPOSITS, BANK NOTES, FEDERAL FUNDS AND OTHERS.

3.4.4 PRINCIPAL PAYMENTS. THE PRINCIPAL BALANCE OF EACH TERM-OUT NOTE SHALL BE REPAID IN APPROXIMATELY EQUAL CONSECUTIVE MONTHLY PAYMENTS, EACH IN THE AMOUNT REQUIRED TO AMORTIZE THE PRINCIPAL BALANCE OF THE TERM-OUT NOTE, PLUS INTEREST THEREON, OVER THE TERM SELECTED BY BORROWER. NOTWITHSTANDING THE FOREGOING, NO TERM-OUT NOTE SHALL HAVE A FINAL

MATURITY DATE WHICH IS LATER THAN JANUARY 31, 2009. THE PAYMENTS MAY, IN LENDER'S DISCRETION, BE ADJUSTED EACH TIME THE INTEREST RATE CHANGES.

3.4.5 REQUESTS FOR TERM-OUT LOAN. WHENEVER BORROWER WISHES TO TERM OUT ALL OR A PORTION OF THE REVOLVING LOANS, BORROWER SHALL GIVE LENDER WRITTEN NOTICE THEREOF, AT LEAST FIVE (5) BUSINESS DAYS PRIOR TO THE DESIRED EFFECTIVE DATE, WHICH NOTICE SHALL SPECIFY THE AMOUNT OF THE TERM-OUT LOAN, THE INTEREST RATE AND TERM SELECTED, AND THE REQUESTED DATE OF THE TERM-OUT LOAN.

3.4.6 PREPAYMENT. IF BORROWER SELECTS THE FIXED BORROWING RATE FOR ANY TERM-OUT NOTE, ANY PREPAYMENT OF SUCH TERM-OUT NOTE SHALL BE SUBJECT TO PAYMENT OF A PREPAYMENT FEE SUBSTANTIALLY AS SET FORTH ON ATTACHED EXHIBIT B.

ARTICLE IV
LETTER OF CREDIT

4.1 EXPIRY DATE. THE EXPIRY DATE ("LC EXPIRY DATE") OF THE LETTER OF CREDIT IS CURRENTLY

4.2 LC AGREEMENTS. LMI AND LSI EACH AGREE THAT (a) THE LETTER OF CREDIT SHALL BE DEEMED TO BE A "CREDIT" WHICH IS COVERED BY THE LC AGREEMENT WHICH IT SIGNED. EACH OF THEM AGREES TO BE LIABLE AS AN "APPLICANT" ON THE LC AGREEMENT, THE LETTER OF CREDIT AND THE APPLICATION FOR THE LETTER OF CREDIT, EVEN THOUGH LMI MAY NOT HAVE SIGNED SUCH APPLICATION.

ARTICLE V
ADDITIONAL TERMS APPLICABLE TO CERTAIN CREDIT FACILITIES

5.1 REPRESENTATION AND WARRANTY OF CREDIT AVAILABILITY. EACH REQUEST OF LFC AND LAI FOR A REVOLVING ADVANCE OR TERM-OUT LOAN SHALL BE DEEMED TO BE ITS REPRESENTATION AND WARRANTY THAT (a) SUCH REVOLVING ADVANCE OR TERM-OUT LOAN MAY BE MADE WITHOUT EXCEEDING THE APPLICABLE MAXIMUM AMOUNT DETERMINED IN ACCORDANCE WITH THE PROVISIONS OF THIS AGREEMENT, (b) NO DEFAULT HAS OCCURRED, OR WILL EXIST AFTER GIVING EFFECT TO SUCH REVOLVING ADVANCE OR TERM-OUT LOAN, AND (c) ALL REPRESENTATIONS AND WARRANTIES SET FORTH IN THIS AGREEMENT ARE TRUE, ACCURATE AND COMPLETE AS OF THE DATE OF SUCH REQUEST.

5.2 EXTENSIONS OF CREDIT FACILITIES.

5.2.1 IF LFC AND LAI WISH TO EXTEND THE REVOLVING LOAN TERMINATION DATE THEN IN EFFECT, OR IF LMI OR LSI WISHES TO EXTEND THE LC EXPIRY DATE THEN IN EFFECT, THE APPLICABLE LOAN PARTY SHALL DELIVER TO LENDER A WRITTEN NOTICE REQUESTING EXTENSION OF THE APPLICABLE DATE (EACH, A "TERMINATION DATE"). SUCH NOTICE SHALL BE GIVEN NO LESS THAN THREE (3) MONTHS PRIOR TO THE APPLICABLE TERMINATION DATE. SUCH NOTICE SHALL INCLUDE LFC'S AND LAI'S OR LMI'S CERTIFICATION THAT, AS OF THE DATE OF THE NOTICE, ALL REPRESENTATIONS AND WARRANTIES IN THIS AGREEMENT ARE TRUE AND CORRECT IN ALL MATERIAL RESPECTS AND THAT NO DEFAULT HAS OCCURRED AND IS CONTINUING. EACH LOAN PARTY SHALL PROVIDE TO LENDER ANY INFORMATION REASONABLY REQUESTED BY LENDER IN CONNECTION WITH A REQUEST FOR EXTENSION.

5.2.2 LENDER WILL NOTIFY THE APPLICABLE LOAN PARTY WITHIN 3 MONTHS AFTER RECEIPT OF ANY REQUEST WHETHER IT IS WILLING TO EXTEND THE APPLICABLE TERMINATION DATE AND IF SO,

THE TERMS OF SUCH EXTENSION; PROVIDED, HOWEVER, THAT IF LENDER DOES NOT SO NOTIFY LFC OR LMI, THE APPLICABLE TERMINATION DATE SHALL NOT BE EXTENDED. IF LENDER AGREES TO EXTEND ANY TERMINATION DATE, IT MAY BE UPON TERMS WHICH ARE DIFFERENT FROM THOSE IN THIS AGREEMENT.

ARTICLE VI
SECURITY, GUARANTIES AND RELATED MATTERS

6.1 SECURITY.

6.1.1 COLLATERAL. ALL PRESENT AND FUTURE INDEBTEDNESS AND OBLIGATIONS OF LFC AND LAI TO LENDER, INCLUDING WITHOUT LIMITATION SUCH OBLIGATIONS UNDER THIS AGREEMENT, THE NOTES, AND LFC'S GUARANTY OF THE OBLIGATIONS OF LSI AND LMI TO LENDER SHALL BE SECURED BY A FIRST PRIORITY SECURITY INTEREST (SUBJECT TO PERMITTED LIENS) IN THE FOLLOWING PROPERTY AND IN ALL SUCH OTHER REAL AND PERSONAL PROPERTY COLLATERAL AS LENDER MAY FROM TIME TO TIME REQUIRE (COLLECTIVELY, "LFC COLLATERAL"): ALL OF LFC'S NOW OWNED AND HEREAFTER ACQUIRED INVENTORY, INCLUDING WITHOUT LIMITATION ALL VEHICLES, TRADE-INS, REPOSSESSIONS AND INVENTORY HELD FOR DISPLAY OR DEMONSTRATION PURPOSES AND ALL OTHER INVENTORY; EQUIPMENT; ACCOUNTS; CHATTEL PAPER; DOCUMENTS; INSTRUMENTS; LETTER OF CREDIT RIGHTS; GENERAL INTANGIBLES; LEASES; REBATES, CREDITS, FACTORY HOLDBACKS, INCENTIVE PAYMENTS AND OTHER PAYMENTS FROM ANY MANUFACTURER, FACTORY OR DISTRIBUTOR; AND ALL PRODUCTS AND PROCEEDS OF ANY OF THE FOREGOING.

6.1.2 SECURITY DOCUMENTS. LENDER'S SECURITY INTERESTS IN THE COLLATERAL SHALL BE EVIDENCED BY SUCH SECURITY AGREEMENTS, UNIFORM COMMERCIAL CODE FINANCING STATEMENTS, CERTIFICATES OF TITLE, TRUST DEEDS AND OTHER SECURITY DOCUMENTS COVERING THE COLLATERAL AS LENDER MAY AT ANY TIME REQUIRE ("SECURITY DOCUMENTS").

6.1.3 LEASED COLLATERAL.

(a) LFC SHALL (i) FILE FINANCING STATEMENTS COVERING ALL NON-TITLED INVENTORY AND EQUIPMENT LEASED TO ANY PERSON, SHOWING ITSELF AS SECURED PARTY, THE LESSEE AS DEBTOR AND LENDER AS ASSIGNEE; AND (ii) IF REQUIRED BY LENDER, NOTE THE INTERESTS OF LENDER, ITSELF AND THE LESSEE ON ALL CERTIFICATES OF TITLE COVERING LEASED VEHICLES. LENDER MAY AT ANY TIME, WHETHER OR NOT A DEFAULT HAS OCCURRED, REQUIRE LFC TO NOTE THE INTEREST OF LENDER ON ALL CERTIFICATES OF TITLE.

(b) ALL LEASES OF INVENTORY AND EQUIPMENT BY LFC SHALL BE EVIDENCED BY A WRITTEN LEASE BETWEEN LFC AND THE LESSEE. LENDER MAY AT ANY TIME REQUIRE LFC TO DELIVER TO LENDER ORIGINAL LEASES COVERING ANY COLLATERAL. UNTIL SUCH TIME, THE ORIGINAL LEASES SHALL BE MAINTAINED BY LFC IN A MANNER ACCEPTABLE TO LENDER AND EACH LEASE SHALL BE CONSPICUOUSLY MARKED "ASSIGNED TO U.S. BANK NATIONAL ASSOCIATION".

(c) FOR EACH VEHICLE LEASE BETWEEN LFC AND ANY LESSEE WHICH IS NOT A SUBSIDIARY OF LMI, LFC SHALL MAINTAIN THE ORIGINAL LEASE APPLICATION AND APPLICATION FOR TITLE SIGNED BY THE LESSEE, CREDIT REPORT AND EVIDENCE OF INSURANCE. SUCH DOCUMENTS SHALL BE MAINTAINED IN A MANNER ACCEPTABLE TO LENDER.

6.1.4 TITLE DOCUMENTS. SUBJECT TO THE PROVISIONS OF THIS SECTION 6.1.4, ALL ORIGINAL TITLE DOCUMENTS SHALL BE MAINTAINED BY LFC IN A MANNER ACCEPTABLE TO LENDER. ALL

TITLE DOCUMENTS SHALL BE AVAILABLE FOR INSPECTION BY LENDER AT ANY REASONABLE TIME. LENDER MAY REQUIRE LFC TO DELIVER ALL TITLE DOCUMENTS TO LENDER IF AN EVENT OF DEFAULT HAS OCCURRED, OR IF LENDER DETERMINES THAT LFC IS NOT MAINTAINING THE TITLE DOCUMENTS AND OTHER RECORDS REGARDING THE COLLATERAL IN A MANNER ACCEPTABLE TO LENDER.

6.1.5 ADDITIONAL ACTS. AS A CONDITION PRECEDENT TO THE EFFECTIVENESS OF THIS AGREEMENT, AND FROM TIME TO TIME AT LENDER'S REQUEST, EACH LOAN PARTY SHALL EXECUTE AND/OR DELIVER TO LENDER SUCH SECURITY AGREEMENTS, UNIFORM COMMERCIAL CODE FINANCING STATEMENTS, CERTIFICATES OF TITLE, DEEDS OF TRUST AND ANY OTHER DOCUMENTS AND INSTRUMENTS (ENDORSED OR ASSIGNED TO LENDER AS LENDER MAY REQUEST), WHICH MAY BE REQUIRED UNDER APPLICABLE LAW OR WHICH LENDER MAY REQUEST TO EFFECTUATE THE TRANSACTIONS CONTEMPLATED HEREUNDER AND TO GRANT, PRESERVE, PROTECT, PERFECT AND CONTINUE THE VALIDITY AND FIRST PRIORITY OF LENDER'S SECURITY INTERESTS.

6.1.6 LESSEE CONSENTS. EACH AFFILIATE OF LFC WHICH LEASES ANY COLLATERAL (OTHER THAN MOTOR VEHICLES) FROM LFC SHALL EXECUTE AN AGREEMENT, IN FORM AND SUBSTANCE ACCEPTABLE TO LENDER, SUBORDINATING THE LESSEE'S INTEREST IN THE COLLATERAL TO LENDER'S SECURITY INTEREST AND GRANTING LENDER THE RIGHT TO REPOSSESS THE COLLATERAL UPON THE OCCURRENCE OF AN EVENT OF DEFAULT (EACH A "LESSEE CONSENT"). LFC SHALL NOT ENTER INTO LEASES WITH ANY AFFILIATE UNLESS SUCH AFFILIATE HAS SIGNED A LESSEE CONSENT WITH LENDER.

6.1.7 INTERCREDITOR AGREEMENTS. FORD MOTOR CREDIT COMPANY, TOYOTA MOTOR CREDIT CORP., CHRYSLER FINANCIAL COMPANY, L.L.C. AND GENERAL MOTORS ACCEPTANCE CORPORATION AND ALL OTHER LENDERS PROVIDING FINANCING TO LMI OR ANY OF LMI'S AFFILIATES OR HAVING A SECURITY INTEREST IN THE COLLATERAL SHALL ENTER INTO INTERCREDITOR AGREEMENTS WITH LENDER, CONSENTING TO THE CREDIT FACILITIES EXTENDED UNDER THIS AGREEMENT, SUBORDINATING AND WAIVING THEIR SECURITY INTERESTS IN THE COLLATERAL AND INCLUDING SUCH OTHER TERMS AND CONDITIONS AS LENDER REQUIRES. LFC SHALL NOT ENTER INTO LEASES WITH ANY OTHER PERSON UNLESS LENDER HAS RECEIVED SUCH INTERCREDITOR AGREEMENTS AS LENDER REQUIRES FROM SUCH PERSON.

6.1.8 MAXIMUM SECURITY AMOUNT. NOTWITHSTANDING ANY CONTRARY PROVISION OF ANY SECURITY DOCUMENT EXECUTED BY ANY LOAN PARTY, IF ANY ACTION OR PROCEEDING IS COMMENCED ASSERTING THAT ANY SECURITY INTEREST GRANTED TO LENDER BY ANY LOAN PARTY IS SUBJECT TO AVOIDANCE AS A FRAUDULENT TRANSFER OR FRAUDULENT CONVEYANCE OR ANY SIMILAR TERM UNDER ANY APPLICABLE STATE OR FEDERAL LAW, THE SECURITY INTEREST OF LENDER IN THE COLLATERAL SHALL BE LIMITED TO COLLATERAL HAVING A VALUE EQUAL TO THE MAXIMUM AMOUNT WHICH CAN OR COULD BE TRANSFERRED TO LENDER WITHOUT RENDERING SUCH LOAN PARTY'S GRANT OF A SECURITY INTEREST SUBJECT TO AVOIDANCE UNDER SUCH LAW IN SUCH ACTION OR PROCEEDING.

6.2 GUARANTIES. ALL PRESENT AND FUTURE OBLIGATIONS OF LFC AND LAI TO LENDER SHALL BE GUARANTEED BY LMI. ALL PRESENT AND FUTURE OBLIGATIONS OF LMI AND LSI TO LENDER SHALL BE GUARANTEED BY LFC.

6.2.1 MAXIMUM GUARANTY AMOUNT. NOTWITHSTANDING ANY CONTRARY PROVISION OF ANY GUARANTY, IF ANY ACTION OR PROCEEDING IS COMMENCED ASSERTING THAT THE GUARANTY OF ANY GUARANTOR IS SUBJECT TO AVOIDANCE AS A FRAUDULENT TRANSFER OR FRAUDULENT CONVEYANCE OR ANY SIMILAR TERM UNDER ANY APPLICABLE STATE OR FEDERAL LAW, THE OBLIGATIONS OF SUCH GUARANTOR UNDER SUCH GUARANTY SHALL BE LIMITED TO THE MAXIMUM AMOUNT THAT WOULD NOT RENDER SUCH GUARANTOR'S OBLIGATIONS SUBJECT TO AVOIDANCE UNDER SUCH LAW IN SUCH ACTION OR PROCEEDING.

6.3 NEGATIVE PLEDGE.

6.3.1 WITHOUT THE PRIOR WRITTEN CONSENT OF LENDER, LFC SHALL NOT GRANT, CREATE, ASSUME OR PERMIT TO EXIST ANY PLEDGE, ASSIGNMENT FOR SECURITY PURPOSES, ENCUMBRANCE, MORTGAGE, HYPOTHECATION, OR ANY OTHER SECURITY INTEREST (INCLUDING WITHOUT LIMITATION, ANY CONDITIONAL SALE OR OTHER TITLE RETENTION AGREEMENT AND ANY FINANCING OR CAPITAL LEASE HAVING SUBSTANTIALLY THE SAME ECONOMIC EFFECT AS ANY OF THE FOREGOING) IN ALL OR ANY PORTION OF ANY REAL OR PERSONAL PROPERTY NOW OWNED OR HEREAFTER ACQUIRED BY LFC, EXCEPT (a) SECURITY INTERESTS IN FAVOR OF LENDER; AND (b) LIENS EXISTING ON THE DATE HEREOF IN FAVOR OF FORD MOTOR CREDIT COMPANY WHICH ARE SUBORDINATE TO LENDER'S SECURITY INTERESTS (EXCEPT LIENS COVERING FIXTURES, WHICH MUST BE TERMINATED). (THE SECURITY INTERESTS DESCRIBED IN CLAUSES (a) AND (b) ARE THE "PERMITTED LIENS".)

ARTICLE VII
CONDITIONS PRECEDENT

7.1 INITIAL CONDITIONS PRECEDENT. THE EFFECTIVENESS OF THIS AGREEMENT IS SUBJECT TO SATISFACTION OF EACH OF THE FOLLOWING CONDITIONS PRECEDENT CONCURRENTLY WITH OR PRIOR TO EXECUTION OF THIS AGREEMENT:

7.1.1 LENDER HAS RECEIVED EXECUTED ORIGINALS OF THIS AGREEMENT, THE NEW REVOLVING NOTE, ANY REQUIRED SECURITY DOCUMENTS, AND EACH OTHER LOAN DOCUMENT REQUIRED BY LENDER.

7.1.2 LENDER HAS RECEIVED 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.

7.1.3 LENDER HAS RECEIVED SUCH ADDITIONAL DOCUMENTS AND INFORMATION (INCLUDING, IF REQUIRED BY LENDER, ATTORNEY OPINION LETTERS) AND EACH LOAN PARTY HAS SATISFIED SUCH ADDITIONAL REQUIREMENTS AS LENDER REASONABLY REQUIRES.

7.1.4 LENDER HAS A VALID AND PERFECTED FIRST PRIORITY SECURITY INTEREST IN THE COLLATERAL AND HAS RECEIVED SUCH EVIDENCE AS IT REQUIRES REGARDING THE PERFECTION AND PRIORITY OF ITS SECURITY INTERESTS.

7.2 CONDITIONS PRECEDENT TO REVOLVING ADVANCES AND TERM-OUT LOANS. LENDER'S AGREEMENT TO MAKE ANY REVOLVING ADVANCE OR TO TERM OUT ALL OR A PART OF THE REVOLVING LOANS IS SUBJECT TO SATISFACTION OF THE CONDITIONS SET FORTH IN
SECTION 7.1 AND THE FOLLOWING CONDITIONS ON THE DATE ANY REVOLVING ADVANCE OR TERM-OUT LOAN IS MADE.

7.2.1 NO DEFAULT HAS OCCURRED OR WILL EXIST AFTER GIVING EFFECT TO THE REVOLVING ADVANCE OR TERM-OUT LOAN.

7.2.2 THE REPRESENTATIONS AND WARRANTIES IN THIS AGREEMENT SHALL BE TRUE AND CORRECT AS OF SUCH DATE.

7.2.3 WITH RESPECT TO EACH REVOLVING ADVANCE TO BE USED BY LAI TO PURCHASE ANY AIRCRAFT, LENDER HAS RECEIVED (a) A COPY OF THE PURCHASE AGREEMENT FOR SUCH AIRCRAFT, AND (b) LAI HAS EXECUTED AND DELIVERED TO LENDER A SATISFACTORY NEGATIVE PLEDGE AGREEMENT COVERING THE AIRCRAFT.

7.2.4 WITH RESPECT TO EACH TERM-OUT LOAN, LFC AND LAI HAVE EXECUTED AND DELIVERED TO LENDER A TERM-OUT NOTE IN FORM AND SUBSTANCE SATISFACTORY TO LENDER.

ARTICLE VIII
REPRESENTATIONS AND WARRANTIES

EACH LOAN PARTY HEREBY REPRESENTS AND WARRANTS:

8.1 EXISTENCE AND POWER. IT IS A DULY ORGANIZED AND VALIDLY EXISTING CORPORATION, IS DULY QUALIFIED AND IN GOOD STANDING IN EACH JURISDICTION WHERE THE CONDUCT OF ITS BUSINESS OR THE OWNERSHIP OF ITS PROPERTIES REQUIRES SUCH QUALIFICATION, AND HAS FULL POWER, AUTHORITY AND LEGAL RIGHT TO CARRY ON ITS BUSINESS AS PRESENTLY CONDUCTED, TO OWN AND OPERATE ITS PROPERTIES AND ASSETS, AND TO EXECUTE, DELIVER AND PERFORM THE LOAN DOCUMENTS AND ALL OTHER DOCUMENTS TO BE EXECUTED AND DELIVERED BY IT.

8.2 AUTHORIZATION. ITS EXECUTION, DELIVERY AND PERFORMANCE OF THE LOAN DOCUMENTS AND ALL DOCUMENTS TO BE EXECUTED, DELIVERED OR PERFORMED BY IT AND ANY BORROWING IN CONNECTION THEREWITH HAVE BEEN DULY AUTHORIZED BY ALL NECESSARY CORPORATE ACTION, DO NOT CONTRAVENE ANY LAW, REGULATION, RULE OR ORDER BINDING ON IT OR ITS ARTICLES OF INCORPORATION, AND DO NOT CONTRAVENE THE PROVISIONS OF OR CONSTITUTE A DEFAULT UNDER ANY AGREEMENT OR INSTRUMENT TO WHICH IT IS A PARTY OR BY WHICH IT MAY BE BOUND OR AFFECTED.

8.3 LITIGATION. THERE ARE NO ACTIONS, PROCEEDINGS, INVESTIGATIONS, OR CLAIMS PENDING AGAINST IT, OR TO ITS KNOWLEDGE, THREATENED AGAINST OR AFFECTING IT, BEFORE ANY COURT OR ARBITRATOR OR ANY GOVERNMENTAL BODY OR AGENCY WHICH WOULD BE LIKELY TO RESULT IN A JUDGMENT OR ORDER AGAINST IT (IN EXCESS OF INSURANCE COVERAGE) FOR MORE THAN $500,000 INDIVIDUALLY OR IN THE AGGREGATE.

8.4 FINANCIAL CONDITION. THE MOST RECENT FINANCIAL STATEMENTS DELIVERED TO LENDER FAIRLY PRESENT AS OF THE DATE THEREOF ITS FINANCIAL CONDITION AND THE RESULTS OF ITS OPERATIONS AND CASH FLOWS FOR THE PERIOD THEN ENDED, ALL IN ACCORDANCE WITH GAAP. SINCE THAT DATE THERE HAVE BEEN NO MATERIAL ADVERSE CHANGES IN ITS FINANCIAL CONDITION OR OPERATIONS, EXCEPT AS DISCLOSED TO LENDER IN WRITING.

8.5 TAXES. IT HAS FILED ALL TAX RETURNS AND REPORTS REQUIRED OF IT, AND HAS PAID ALL TAXES PAYABLE BY IT WHICH HAVE BECOME DUE PURSUANT TO SUCH TAX RETURNS AND ALL OTHER TAXES AND ASSESSMENTS PAYABLE BY IT.

8.6 OTHER AGREEMENTS. IT IS NOT IN BREACH OF OR IN DEFAULT UNDER ANY AGREEMENT TO WHICH IT IS A PARTY OR WHICH IS BINDING ON IT OR ANY OF ITS ASSETS, WHICH SUCH BREACH OR DEFAULT WOULD HAVE A MATERIAL ADVERSE EFFECT ON ITS FINANCIAL CONDITION OR OPERATIONS.

8.7 GOOD TITLE AND VALIDITY. IT IS THE TRUE AND LAWFUL OWNER OF AND HAS GOOD TITLE TO ALL COLLATERAL AND TO ALL OTHER PROPERTIES INCLUDED ON ITS MOST RECENT FINANCIAL STATEMENTS AND IT WILL HAVE GOOD TITLE TO ALL SUCH COLLATERAL AND PROPERTY ACQUIRED HEREAFTER.

8.8 FIRST PRIORITY SECURITY INTEREST. SUBJECT TO PERMITTED LIENS, THE LIENS CREATED OR TO BE CREATED IN FAVOR OF LENDER UNDER THE SECURITY DOCUMENTS DO AND WILL AT ALL TIMES ON AND AFTER THE EFFECTIVE DATE OF THIS AGREEMENT, CONSTITUTE FIRST PRIORITY SECURITY INTERESTS IN THE COLLATERAL AND THERE WILL BE NO OTHER LIENS OR ENCUMBRANCES ON THE COLLATERAL.

8.9 COMPLIANCE WITH LAWS. IT IS IN COMPLIANCE WITH ALL APPLICABLE FEDERAL, STATE, REGIONAL AND LOCAL LAWS, REGULATIONS AND ORDINANCES, INCLUDING WITHOUT LIMITATION ALL ENVIRONMENTAL PERMITS, ENVIRONMENTAL LAWS AND ACCESS LAWS.

8.10 ERISA AND FLSA COMPLIANCE. ANY EMPLOYEE PENSION BENEFIT PLAN ("PLAN") MAINTAINED FOR ITS EMPLOYEES WHICH IS SUBJECT TO THE EMPLOYMENT RETIREMENT INCOME SECURITY ACT OF 1974 AND ANY REGULATIONS ISSUED THERETO COMPLIES IN ALL MATERIAL RESPECTS WITH ERISA AND ANY OTHER APPLICABLE LAWS AND (a) SUCH PLAN HAS NOT INCURRED ANY MATERIAL ACCUMULATED "FUNDING DEFICIENCY" AND (b) WITH RESPECT TO SUCH PLAN, NO "REPORTABLE EVENT" NOR "PROHIBITED TRANSACTION" HAS OCCURRED. IT IS IN FULL COMPLIANCE WITH THE FAIR LABOR STANDARDS ACT.

8.11 NO MATERIAL MISSTATEMENTS. NO REPORT, FINANCIAL STATEMENT, REPRESENTATION OR OTHER INFORMATION FURNISHED BY IT TO LENDER CONTAINS ANY MATERIAL MISSTATEMENT OF FACT OR OMITS TO STATE ANY MATERIAL FACT NECESSARY TO MAKE THE STATEMENTS THEREIN, IN LIGHT OF THE CIRCUMSTANCES UNDER WHICH THEY WERE MADE, NOT MISLEADING.

8.12 ENFORCEABILITY. THIS AGREEMENT CONSTITUTES, AND EACH OTHER LOAN DOCUMENT TO WHICH IT IS A PARTY WHEN EXECUTED AND DELIVERED TO LENDER WILL CONSTITUTE A LEGAL, VALID AND BINDING OBLIGATION OF SUCH LOAN PARTY, ENFORCEABLE IN ACCORDANCE WITH ITS TERMS.

ARTICLE IX
FINANCIAL COVENANTS AND INFORMATION

9.1 FINANCIAL COVENANTS. UNTIL TERMINATION OF THE AVAILABILITY OF ADVANCES AND PAYMENT AND PERFORMANCE IN FULL OF ALL OBLIGATIONS OF EACH LOAN PARTY UNDER THE LOAN DOCUMENTS, EACH LOAN PARTY AGREES THAT:

9.1.1 LMI CURRENT RATIO. LMI SHALL MAINTAIN A RATIO OF CURRENT ASSETS TO CURRENT LIABILITIES OF AT LEAST 1.20 TO 1.0.

9.1.2 LMI MINIMUM TOTAL NET WORTH. LMI AND ITS SUBSIDIARIES SHALL MAINTAIN, ON A CONSOLIDATED BASIS, TOTAL NET WORTH OF NOT LESS THAN (a) $87,500,000 PLUS (b) 100% OF THE VALUE OF THE NET PROCEEDS (CASH OR NON-CASH) RECEIVED BY LMI FROM THE ISSUANCE OF CAPITAL STOCK AFTER THE DATE OF THIS AGREEMENT.

9.1.3 LMI FIXED CHARGE COVERAGE RATIO. LMI AND ITS SUBSIDIARIES SHALL MAINTAIN, ON A CONSOLIDATED BASIS, AS OF THE LAST DAY OF EACH FISCAL QUARTER, FOR THE PERIOD OF FOUR CONSECUTIVE FISCAL QUARTERS ENDING ON SUCH DAY, A FIXED CHARGE COVERAGE RATIO OF AT LEAST 1.20 TO 1.0.

9.1.4 LFC CURRENT RATIO. LFC SHALL MAINTAIN A RATIO OF CURRENT ASSETS TO CURRENT LIABILITIES OF AT LEAST 1.20 TO 1.0.

9.1.5 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 $7,500,000.

9.1.6 LFC FIXED CHARGE COVERAGE RATIO. LFC SHALL MAINTAIN, AS OF THE LAST DAY OF EACH FISCAL QUARTER, FOR THE PERIOD OF FOUR CONSECUTIVE FISCAL QUARTERS ENDING ON SUCH DATE, AN LFC FIXED CHARGE COVERAGE RATIO OF AT LEAST 1.0 TO 1.0.

9.2 FINANCIAL INFORMATION.

9.2.1 WITHIN 95 DAYS AFTER THE END OF EACH FISCAL YEAR OF LMI, LMI SHALL DELIVER TO LENDER (a) AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF THE END OF AND FOR SUCH FISCAL YEAR, IN EACH CASE CERTIFIED BY A CERTIFIED PUBLIC ACCOUNTANT ACCEPTABLE TO LENDER; AND A COPY OF SUCH ACCOUNTANT'S MANAGEMENT LETTER, IF ANY AND (b) A COMPLETE COPY OF ITS FORM 10K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC"). NO FINANCIAL STATEMENT SHALL CONTAIN A DISCLAIMER OF OPINION OR QUALIFIED OPINION EXCEPT SUCH AS LENDER IN ITS SOLE DISCRETION MAY DETERMINE TO BE IMMATERIAL.

9.2.2 WITHIN 95 DAYS AFTER THE END OF EACH OF ITS FISCAL YEARS AND WITHIN 50 DAYS AFTER THE END OF EACH OF ITS FISCAL QUARTERS, LFC SHALL DELIVER TO LENDER ITS INTERNALLY PREPARED FINANCIAL STATEMENTS AS OF THE END OF AND FOR SUCH FISCAL YEAR OR FISCAL QUARTER, IN EACH CASE CERTIFIED BY A CERTIFIED PUBLIC ACCOUNTANT ACCEPTABLE TO LENDER; AND A COPY OF SUCH ACCOUNTANT'S MANAGEMENT LETTER, IF ANY. NO DOCUMENT OR REPORT SHALL CONTAIN A DISCLAIMER OF OPINION OR QUALIFIED OPINION EXCEPT SUCH AS LENDER IN ITS SOLE DISCRETION MAY DETERMINE TO BE IMMATERIAL.

9.2.3 WITHIN 50 DAYS AFTER THE END OF EACH OF LFC'S AND LMI'S FISCAL QUARTERS, THE LOAN PARTIES SHALL DELIVER TO LENDER A COMPLIANCE CERTIFICATE, SUBSTANTIALLY IN THE FORM ATTACHED AS EXHIBIT C, PROPERLY COMPLETED AND SIGNED BY LMI'S CHIEF FINANCIAL OFFICER OR OTHER AUTHORIZED OFFICER ACCEPTABLE TO LENDER.

9.2.4 WITHIN 50 DAYS AFTER THE END OF EACH OF ITS FISCAL QUARTERS, LMI SHALL DELIVER TO LENDER ITS (a) INTERNALLY PREPARED CONSOLIDATED FINANCIAL STATEMENTS AS OF THE END OF AND FOR SUCH FISCAL QUARTER, AND FOR THE FISCAL YEAR TO DATE AND (b) A COMPLETE COPY OF ITS FORM 10Q FILED WITH THE SEC.

9.2.5 WITHIN 5 DAYS AFTER DELIVERY TO ITS SHAREHOLDERS OR THE SEC, LMI SHALL DELIVER TO LENDER COPIES OF ALL PROXY STATEMENTS, FINANCIAL STATEMENTS AND REPORTS (OTHER THAN FORMS 10K AND 10Q) AND OTHER DOCUMENTS WHICH IT SENDS TO ITS SHAREHOLDERS OR THE SEC.

9.2.6 FROM TIME TO TIME, EACH LOAN PARTY SHALL PROVIDE TO LENDER SUCH INFORMATION AS LENDER MAY REASONABLY REQUEST CONCERNING THE FINANCIAL CONDITION AND BUSINESS AFFAIRS OF SUCH LOAN PARTY, OR OF ANY PARTNERS IN SUCH LOAN PARTY.

ARTICLE X
AFFIRMATIVE COVENANTS

UNTIL TERMINATION OF THE AVAILABILITY OF ADVANCES AND PAYMENT AND PERFORMANCE IN FULL OF ALL OBLIGATIONS OF EACH LOAN PARTY UNDER THE LOAN DOCUMENTS, EACH LOAN PARTY AGREES THAT, EXCEPT AS OTHERWISE AGREED BY LENDER IN WRITING:

10.1 INSPECTION RIGHTS. AT ANY REASONABLE TIME, AND FROM TIME TO TIME, IT WILL PERMIT LENDER TO EXAMINE AND MAKE COPIES OF AND ABSTRACTS FROM ITS RECORDS AND BOOKS OF ACCOUNT, TO VISIT ITS PROPERTIES AND TO DISCUSS ITS AFFAIRS, FINANCES AND ACCOUNTS WITH ANY OF ITS OFFICERS OR REPRESENTATIVES.

10.2 COLLATERAL AUDITS. IT WILL PERMIT LENDER BY OR THROUGH ANY OF LENDER'S REPRESENTATIVES, ATTORNEYS OR ACCOUNTANTS AND AT THE EXPENSE OF THE LOAN PARTIES, AT SUCH INTERVALS AS MAY BE REQUIRED BY LENDER IN ITS SOLE DISCRETION, TO CONDUCT AUDITS OF AND TO VERIFY, THE COLLATERAL.

10.3 KEEPING OF BOOKS AND RECORDS. IT WILL KEEP ADEQUATE RECORDS AND BOOKS OF ACCOUNT IN WHICH COMPLETE ENTRIES WILL BE MADE REFLECTING ALL MATERIAL FINANCIAL TRANSACTIONS, AND EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED HEREIN, WILL PREPARE ALL FINANCIAL STATEMENTS, COMPUTATIONS AND INFORMATION REQUIRED HEREUNDER IN ACCORDANCE WITH GAAP.

10.4 OTHER OBLIGATIONS. IT WILL PAY AND DISCHARGE BEFORE THE SAME SHALL BECOME DELINQUENT ALL INDEBTEDNESS, TAXES AND OTHER OBLIGATIONS FOR WHICH IT IS LIABLE OR TO WHICH ITS INCOME OR PROPERTY IS SUBJECT AND ALL CLAIMS FOR LABOR AND MATERIALS OR SUPPLIES WHICH, IF UNPAID, MIGHT BECOME BY LAW A LIEN UPON ITS ASSETS, UNLESS IT IS CONTESTING THE INDEBTEDNESS, TAXES, OR OTHER OBLIGATIONS IN GOOD FAITH AND PROVISION HAS BEEN MADE TO THE REASONABLE SATISFACTION OF LENDER FOR THE PAYMENT THEREOF IN THE EVENT ANY SUCH CONTEST IS DETERMINED ADVERSELY TO IT.

10.5 INSURANCE. IT WILL PROVIDE, MAINTAIN AND DELIVER TO LENDER POLICIES OF INSURANCE UPON ALL OF THE COLLATERAL, AND ON ITS PROPERTIES AND OPERATIONS, CARRIED WITH COMPANIES ACCEPTABLE TO LENDER, IN SUCH FORM AND AMOUNTS AND COVERING SUCH RISKS AS LENDER MAY REQUIRE, WITH LOSS PAYABLE TO LENDER.

10.6 ERISA COMPLIANCE. IT WILL CAUSE EACH PLAN TO COMPLY IN ALL MATERIAL RESPECTS WITH ERISA AND ANY OTHER APPLICABLE LAWS, WILL PROMPTLY MAKE ALL CONTRIBUTIONS NECESSARY TO MEET THE MINIMUM FUNDING STANDARDS SET FORTH IN ERISA AND WILL PROMPTLY NOTIFY LENDER OF THE OCCURRENCE OF ANY "REPORTABLE EVENT" (AS DEFINED IN ERISA) OR ANY OTHER EVENT WHICH MIGHT CONSTITUTE GROUNDS FOR TERMINATION OF ANY ERISA PLAN. IT WILL NOT TERMINATE ANY ERISA PLAN NOR PERMIT TO EXIST ANY "TERMINATION EVENT" (AS DEFINED IN ERISA).

10.7 COMPLIANCE WITH LAWS. IT SHALL COMPLY IN ALL MATERIAL RESPECTS WITH ALL FEDERAL, STATE, REGIONAL, LOCAL AND OTHER GOVERNMENTAL LAWS, REGULATIONS AND ORDINANCES (INCLUDING BUT NOT LIMITED TO ALL ENVIRONMENTAL LAWS, ACCESS LAWS AND THE FAIR LABOR STANDARDS ACT) AND PROMPTLY PROVIDE WRITTEN NOTICE TO LENDER OF THE RECEIPT OF ANY NOTICE OF VIOLATION THEREOF FROM ANY GOVERNMENTAL AUTHORITY WHICH VIOLATION, ALONE OR TOGETHER WITH ANY OTHER SUCH VIOLATIONS,

COULD REASONABLY BE EXPECTED TO HAVE A MATERIAL ADVERSE EFFECT ON ITS BUSINESS, ASSETS, OPERATIONS OR CONDITION, FINANCIAL OR OTHERWISE.

10.8 MANAGEMENT. IT WILL MAINTAIN EXECUTIVE AND MANAGEMENT PERSONNEL WITH QUALIFICATIONS AND EXPERIENCE AT LEAST COMPARABLE TO CURRENT EXECUTIVE AND MANAGEMENT PERSONNEL AND WILL PROVIDE PRIOR WRITTEN NOTICE TO LENDER OF ANY CHANGE IN SUCH PERSONNEL.

10.9 NOTIFICATION. PROMPTLY AFTER LEARNING THEREOF, IT WILL NOTIFY LENDER IN WRITING OF:

10.9.1 THE OCCURRENCE OF ANY DEFAULT, AND IF SUCH DEFAULT IS THEN CONTINUING, A CERTIFICATE OF ITS CHIEF FINANCIAL OFFICER OR OTHER AUTHORIZED OFFICER SETTING FORTH THE DETAILS THEREOF AND THE ACTION WHICH IT IS TAKING OR PROPOSES TO TAKE WITH RESPECT THERETO;

10.9.2 THE OCCURRENCE OF ANY RELEASE OF ANY HAZARDOUS SUBSTANCES ONTO OR AFFECTING ANY OF ITS PROPERTY OR ANY ADJACENT PROPERTY, ANY COLLATERAL, OR ANY OTHER ENVIRONMENTAL PROBLEM OR LIABILITY WITH RESPECT TO ANY SUCH PROPERTY; AND

10.9.3 THE DETAILS OF ANY CLAIM, LIEN, LITIGATION, ADMINISTRATIVE PROCEEDING OR JUDGMENT INVOLVING $500,000 OR MORE INDIVIDUALLY OR IN THE AGGREGATE THREATENED, INSTITUTED OR COMPLETED AGAINST ANY LOAN PARTY, ANY COLLATERAL OR ANY ASSETS OF ANY LOAN PARTY, INCLUDING BUT NOT LIMITED TO ANY AND ALL ENFORCEMENT, CLEANUP, REMOVAL OR OTHER GOVERNMENTAL OR REGULATORY PROCEEDINGS PURSUANT TO ANY ENVIRONMENTAL LAWS.

10.9.4 ANY MATERIAL ADVERSE CHANGE IN THE FINANCIAL CONDITION OF ANY LOAN PARTY.

10.10 DEPOSIT ACCOUNTS. LFC AND LMI SHALL MAINTAIN THEIR PRIMARY OPERATING DEPOSIT ACCOUNTS WITH LENDER.

10.11 LOAN AGREEMENTS. LMI SHALL PROVIDE LENDER WITH COPIES OF ALL LOAN AGREEMENTS COVERING ANY FLOOR PLAN LENDING OR ACQUISITION FINANCING PROVIDED BY ANY PERSON TO LMI OR ITS SUBSIDIARIES.

ARTICLE XI
NEGATIVE COVENANTS

UNTIL TERMINATION OF THE AVAILABILITY OF ADVANCES AND PAYMENT AND PERFORMANCE IN FULL OF ALL OBLIGATIONS OF EACH LOAN PARTY UNDER THE LOAN DOCUMENTS, EACH LOAN PARTY AGREES THAT, EXCEPT WITH THE WRITTEN CONSENT OF LENDER:

11.1 LIQUIDATION, MERGER, ETC. LFC SHALL NOT WIND UP, LIQUIDATE OR DISSOLVE ITSELF, REORGANIZE, MERGE OR CONSOLIDATE WITH OR INTO, OR CONVEY, SELL, ASSIGN, TRANSFER, LEASE OR OTHERWISE DISPOSE OF (WHETHER IN ONE TRANSACTION OR IN A SERIES OF TRANSACTIONS) ALL OR SUBSTANTIALLY ALL OF ITS ASSETS (WHETHER NOW OWNED OR HEREAFTER ACQUIRED) TO ANY PERSON, OR ACQUIRE ALL OR A SUBSTANTIAL PORTION OF THE ASSETS OR THE BUSINESS OF ANY PERSON, EXCEPT FOR PURCHASES OF INVENTORY AND EQUIPMENT IN THE ORDINARY COURSE OF BUSINESS.

11.2 SALE OF ASSETS. LFC SHALL NOT SELL, LEASE OR DISPOSE OF ANY PORTION OF ITS BUSINESS OR ASSETS EXCEPT FOR SALES OF INVENTORY IN THE ORDINARY COURSE OF BUSINESS, SALES OF EQUIPMENT

WHICH IS PROMPTLY REPLACED WITH EQUIPMENT OF EQUAL OR GREATER VALUE AND SALES OF OBSOLETE EQUIPMENT FOR NOT LESS THAN FAIR MARKET VALUE.

11.3 GUARANTIES, ETC. LFC SHALL NOT ASSUME, GUARANTEE, ENDORSE OR OTHERWISE BECOME DIRECTLY OR CONTINGENTLY LIABLE FOR, NOR OBLIGATED TO PURCHASE, PAY OR PROVIDE FUNDS FOR PAYMENT OF, ANY OBLIGATION OR INDEBTEDNESS OF ANY OTHER PERSON.

11.4 LOANS AND INVESTMENTS. LFC SHALL NOT MAKE OR CONTRACT TO MAKE ANY LOAN OR ADVANCE TO ANY PERSON, OR PURCHASE OR OTHERWISE ACQUIRE, ANY CAPITAL STOCK, ASSETS, OBLIGATIONS, OR OTHER SECURITIES OF, MAKE ANY CAPITAL CONTRIBUTIONS TO, OR OTHERWISE INVEST IN OR ACQUIRE ANY INTEREST IN ANY PERSON, OR PARTICIPATE AS A PARTNER OR JOINT VENTURER WITH ANY OTHER PERSON.

11.5 LIENS. SUBJECT TO PERMITTED LIENS, NEITHER LFC NOR LAI SHALL AT ANY TIME GRANT OR PERMIT TO EXIST A SECURITY INTEREST IN ANY OR ALL OF ITS PRESENTLY OWNED OR HEREAFTER ACQUIRED REAL OR PERSONAL PROPERTY, EXCEPT IN FAVOR OF LENDER.

11.6 LIMITATIONS ON DIVIDENDS. IT SHALL NOT DECLARE OR PAY ANY DIVIDEND ON ANY CLASS OF ITS CAPITAL STOCK (EXCEPT THOSE PAYABLE SOLELY IN ITS CAPITAL STOCK); OR PURCHASE, REDEEM OR OTHERWISE MAKE ANY DISTRIBUTION WITH RESPECT TO SUCH CAPITAL STOCK, PROVIDED, HOWEVER, THAT LFC AND LSI MAY MAKE DIVIDENDS OR DISTRIBUTIONS TO LMI.

11.7 TYPE OF BUSINESS. IT SHALL NOT MAKE ANY MATERIAL CHANGE IN THE CHARACTER OF ITS BUSINESS.

11.8 STRUCTURE. IT SHALL NOT MAKE ANY MATERIAL CHANGE IN ITS CORPORATE STRUCTURE.

11.9 DEBT. WITHOUT THE PRIOR WRITTEN CONSENT OF LENDER, LFC SHALL NOT INCUR OR PERMIT TO EXIST ANY INDEBTEDNESS TO ANY PERSON OR ANY OBLIGATIONS AS LESSEE ON CAPITAL LEASES, OTHER THAN INDEBTEDNESS TO LENDER, AND SHORT TERM TRADE OBLIGATIONS INCURRED IN THE ORDINARY COURSE OF BUSINESS.

11.10 TRANSACTIONS WITH AFFILIATES. LFC SHALL NOT ENTER INTO ANY TRANSACTION WITH ANY AFFILIATE, INCLUDING, WITHOUT LIMITATION, THE PURCHASE, SALE, OR EXCHANGE OF PROPERTY OR THE RENDERING OF ANY SERVICE, EXCEPT IN THE ORDINARY COURSE OF BUSINESS AND UPON FAIR AND REASONABLE TERMS NO LESS FAVORABLE TO IT THAN THOSE THAT WOULD PREVAIL IN A COMPARABLE ARM'S-LENGTH TRANSACTION WITH A PERSON NOT AN AFFILIATE.

ARTICLE XII
DEFAULT

12.1 EVENTS OF DEFAULT. THE OCCURRENCE OF ANY OF THE FOLLOWING SHALL CONSTITUTE AN EVENT OF DEFAULT UNDER THIS AGREEMENT AND EACH OF THE LOAN DOCUMENTS:

12.1.1 ANY LOAN PARTY FAILS TO PAY ANY PRINCIPAL, INTEREST, FEES OR ANY OTHER AMOUNT WHEN DUE UNDER THIS AGREEMENT, ANY NOTE OR ANY OTHER LOAN DOCUMENT.

12.1.2 ANY DEFAULT OCCURS UNDER OR ANY LOAN PARTY FAILS TO PAY, PERFORM OR COMPLY WITH ANY TERM, CONDITION, COVENANT OR OBLIGATION IN THIS AGREEMENT, ANY OTHER LOAN

DOCUMENT, OR ANY OTHER AGREEMENT BETWEEN ANY LOAN PARTY OR ANY SUBSIDIARY OF ANY LOAN PARTY AND LENDER OR ANY AFFILIATE OF LENDER OR U.S. BANCORP.

12.1.3 ANY DEFAULT OCCURS UNDER OR ANY LOAN PARTY OR ANY SUBSIDIARY OF ANY LOAN PARTY FAILS TO PAY, PERFORM OR COMPLY WITH ANY TERM, CONDITION, COVENANT OR OBLIGATION IN ANY AGREEMENT BETWEEN ANY LOAN PARTY OR ANY SUBSIDIARY OF ANY LOAN PARTY AND FORD MOTOR CREDIT COMPANY, TOYOTA MOTOR CREDIT CORP., CHRYSLER FINANCIAL COMPANY, L.L.C., GENERAL MOTORS ACCEPTANCE CORPORATION OR ANY PRESENT OR FUTURE LENDER TO ANY LOAN PARTY OR ANY SUBSIDIARY OF ANY LOAN PARTY.

12.1.4 ANY INDEBTEDNESS OF ANY LOAN PARTY UNDER ANY NOTE, INDENTURE, AGREEMENT, UNDERTAKING OR OBLIGATION OF ANY KIND TO ANY PERSON BECOMES DUE BY ACCELERATION OR OTHERWISE AND IS NOT PAID.

12.1.5 ANY DEFAULT UNDER ANY SECURITY INSTRUMENT SECURING ANY INDEBTEDNESS OR OBLIGATION OF ANY LOAN PARTY TO LENDER OR ANY SECURITY INTEREST OR LIEN CREATED OR PURPORTED TO BE CREATED BY ANY SECURITY DOCUMENT SHALL CEASE TO BE, OR SHALL BE ASSERTED BY ANY PERSON NOT TO BE, A VALID, FIRST PRIORITY SECURITY INTEREST OR LIEN, SUBJECT ONLY TO PERMITTED LIENS.

12.1.6 ANY GUARANTY SHALL CEASE TO BE, OR SHALL BE ASSERTED BY ANY PERSON NOT TO BE, IN FULL FORCE AND EFFECT.

12.1.7 ANY WARRANTY, REPRESENTATION, STATEMENT, OR INFORMATION MADE OR FURNISHED TO LENDER BY OR ON BEHALF OF ANY LOAN PARTY PROVES TO HAVE BEEN FALSE OR MISLEADING IN ANY MATERIAL RESPECT WHEN MADE OR FURNISHED OR WHEN DEEMED MADE OR FURNISHED, OR BECOMES FALSE OR MISLEADING AT ANY TIME THEREAFTER.

12.1.8 ANY PROCEEDING UNDER ANY BANKRUPTCY OR INSOLVENCY LAWS IS COMMENCED BY OR AGAINST, A RECEIVER IS APPOINTED FOR ANY PART OF THE PROPERTY OF, OR ANY ATTACHMENT, SEIZURE OR LEVY IS MADE ON ANY PROPERTY OF, ANY LOAN PARTY; OR ANY LOAN PARTY BECOMES INSOLVENT.

12.1.9 ANY LOAN PARTY IS DISSOLVED OR LIQUIDATED OR ANY LOAN PARTY TAKES ANY ACTION TO AUTHORIZE A DISSOLUTION OR LIQUIDATION.

12.1.10 A MATERIAL PORTION OF ANY LOAN PARTY'S ORDINARY BUSINESS OPERATIONS CEASES OR IS INTERRUPTED FOR A TIME DEEMED MATERIAL BY LENDER.

12.1.11 ANY JUDGMENT, WRIT OF ATTACHMENT OR SIMILAR PROCESS IN AN AMOUNT IN EXCESS OF $250,000 INDIVIDUALLY OR IN THE AGGREGATE SHALL BE ENTERED OR FILED AGAINST ANY LOAN PARTY OR ANY PROPERTY OF ANY LOAN PARTY AND REMAINS UNPAID, UNVACATED, UNBONDED OR UNSTAYED FOR A PERIOD OF 30 DAYS OR MORE.

12.1.12 ANY LOAN PARTY FAILS TO PROVIDE LENDER WITH FINANCIAL INFORMATION PROMPTLY WHEN REQUESTED.

12.1.13 SIDNEY B. DEBOER, OR A SUCCESSOR OR SUCCESSORS REASONABLY ACCEPTABLE TO LENDER CEASES TO OWN AND CONTROL, FREE AND CLEAR OF ENCUMBRANCES, A SUFFICIENT PERCENTAGE OF THE VOTING INTERESTS OF LITHIA HOLDINGS, LLC ("LH") TO ENABLE HIM AT ALL TIMES TO APPROVE ANY

MATTER TO BE VOTED BY THE MANAGERS OR MEMBERS OF LH, INCLUDING, WITHOUT LIMITATION, THE RIGHT AT ALL TIMES TO ELECT THE MANAGERS OF LH.

12.1.14 LH CEASES TO OWN OF RECORD AND BENEFICIALLY, FREE AND CLEAR OF ANY AND ALL ENCUMBRANCES, SUFFICIENT ISSUED AND OUTSTANDING VOTING SECURITIES OF LMI TO HAVE THE UNFETTERED ABILITY AT ALL TIMES TO APPROVE ANY MATTER TO BE VOTED UPON BY THE STOCKHOLDERS OF LMI, AND AT ALL TIMES TO DESIGNATE A MAJORITY OF THE BOARD OF DIRECTORS OF LMI.

12.1.15 THERE IS ANY CHANGE IN OWNERSHIP OF ANY OF THE CAPITAL STOCK OF LFC OR LSI.

12.1.16 LENDER REASONABLY DETERMINES THAT THERE HAS BEEN A MATERIAL ADVERSE CHANGE IN THE FINANCIAL CONDITION OR MANAGEMENT OF ANY LOAN PARTY OR LENDER REASONABLY DEEMS ITSELF INSECURE WITH RESPECT TO THE PAYMENT OR PERFORMANCE OF ANY OBLIGATIONS OF ANY LOAN PARTY TO LENDER.

12.2 CONSEQUENCES OF DEFAULT; LENDER'S RIGHTS AND REMEDIES. TIME IS OF THE ESSENCE OF THIS AGREEMENT.

12.2.1 UPON THE OCCURRENCE OF ANY EVENT OF DEFAULT AND AT ANY TIME THEREAFTER LENDER MAY, AT ITS SOLE OPTION, DO ANY ONE OR MORE OF THE FOLLOWING:

(a) WITHOUT NOTICE TO ANY LOAN PARTY, TERMINATE THE AVAILABILITY OF ADVANCES AND DECLARE THE ENTIRE OUTSTANDING BALANCE OF PRINCIPAL AND INTEREST ON THE NOTES AND OTHER AMOUNTS DUE UNDER THE LETTER OF CREDIT, LC AGREEMENT AND OTHER LOAN DOCUMENTS IMMEDIATELY DUE AND PAYABLE, WHEREUPON THE SAME SHALL BECOME IMMEDIATELY DUE AND PAYABLE WITHOUT PRESENTMENT, DEMAND, PROTEST OR OTHER REQUIREMENTS OF ANY KIND, ALL OF WHICH ARE EXPRESSLY WAIVED BY EACH LOAN PARTY; PROVIDED, HOWEVER, THAT IF ANY PROCEEDING UNDER ANY BANKRUPTCY OR INSOLVENCY LAWS IS COMMENCED BY OR AGAINST ANY LOAN PARTY, THE AVAILABILITY OF ADVANCES SHALL BE IMMEDIATELY TERMINATED WITHOUT NOTICE AND THE ENTIRE OUTSTANDING BALANCE OF PRINCIPAL AND INTEREST ON THE NOTES AND OTHER AMOUNTS DUE UNDER THE LOAN DOCUMENTS SHALL AUTOMATICALLY BECOME IMMEDIATELY DUE AND PAYABLE WITHOUT PRESENTMENT, DEMAND, PROTEST OR OTHER REQUIREMENTS OF ANY KIND, ALL OF WHICH ARE EXPRESSLY WAIVED BY EACH LOAN PARTY.

(b) EXERCISE ANY AND ALL OTHER RIGHTS AND REMEDIES PROVIDED IN THE LOAN DOCUMENTS AND IN ANY RELATED AGREEMENTS AND DOCUMENTS, AND AS OTHERWISE PROVIDED BY LAW.

12.2.2 NOTWITHSTANDING ANY RIGHT TO CURE EVENTS OF DEFAULT PROVIDED IN ANY NOTE OR ANY OF THE OTHER LOAN DOCUMENTS, EACH LOAN PARTY AGREES THAT SUCH LOAN PARTY SHALL HAVE ONLY SUCH CURE RIGHTS AS MAY BE SET FORTH HEREIN.

ARTICLE XIII
HAZARDOUS SUBSTANCES

13.1 REPRESENTATIONS AND WARRANTIES. EXCEPT AS DISCLOSED TO AND ACKNOWLEDGED BY LENDER IN WRITING, EACH LOAN PARTY REPRESENTS AND WARRANTS THAT:
(a) DURING THE PERIOD OF THE OWNERSHIP OR OPERATION OF THE REAL PROPERTY WHERE IT OPERATES ITS BUSINESS OR WHERE THE COLLATERAL IS LOCATED (THE "PROPERTIES"), THERE HAS BEEN NO USE, GENERATION, MANUFACTURE,

STORAGE, TREATMENT, DISPOSAL, RELEASE OR THREATENED RELEASE OF ANY HAZARDOUS SUBSTANCE BY ANY PERSON ON, UNDER, ABOUT OR FROM ANY OF THE PROPERTIES EXCEPT, WITH RESPECT TO PROPERTIES USED AS AUTOMOBILE DEALERSHIPS, SUCH USE AND STORAGE AS IS CUSTOMARY IN THE OPERATION OF AN AUTOMOBILE DEALERSHIP AND HAS BEEN CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE FEDERAL, STATE AND LOCAL, LAWS, REGULATIONS AND ORDINANCES; (b) IT HAS NO KNOWLEDGE OF, OR REASON TO BELIEVE THAT THERE HAS BEEN (i) ANY USE, GENERATION, MANUFACTURE, STORAGE, TREATMENT, DISPOSAL, RELEASE, OR THREATENED RELEASE OF ANY HAZARDOUS SUBSTANCE ON, UNDER, ABOUT OR FROM THE PROPERTIES BY ANY PRIOR OWNERS OR OCCUPANTS OF ANY OF THE PROPERTIES EXCEPT, WITH RESPECT TO PROPERTIES USED AS AUTOMOBILE DEALERSHIPS, SUCH USE AND STORAGE AS IS CUSTOMARY IN THE OPERATION OF AN AUTOMOBILE DEALERSHIP AND HAS BEEN CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE FEDERAL, STATE AND LOCAL, LAWS, REGULATIONS AND ORDINANCES, OR (ii) ANY ACTUAL OR THREATENED LITIGATION OR CLAIMS OF ANY KIND BY ANY PERSON RELATING TO SUCH MATTERS. THE REPRESENTATIONS AND WARRANTIES CONTAINED HEREIN ARE BASED ON THE LOAN PARTIES' DUE DILIGENCE IN INVESTIGATING THE PROPERTIES FOR HAZARDOUS SUBSTANCES.

13.2 ACTIVITIES. EXCEPT AS AGREED TO BY LENDER IN WRITING, EACH LOAN PARTY AGREES THAT IT WILL NOT, AND WILL NOT PERMIT ANY TENANT, CONTRACTOR, AGENT OR OTHER AUTHORIZED USER OF ANY OF THE PROPERTIES TO USE, GENERATE, MANUFACTURE, STORE, TREAT, DISPOSE OF, OR RELEASE ANY HAZARDOUS SUBSTANCE ON, UNDER, ABOUT OR FROM ANY OF THE PROPERTIES; PROVIDED, HOWEVER, THAT WITH RESPECT TO ANY AUTOMOBILE DEALERSHIP, IT MAY USE AND STORE SUCH HAZARDOUS SUBSTANCES AS ARE CUSTOMARY IN THE OPERATION OF AN AUTOMOBILE DEALERSHIP, SO LONG AS SUCH USE, STORAGE AND ANY OTHER PERMITTED ACTIVITY IS CONDUCTED IN COMPLIANCE WITH ALL APPLICABLE FEDERAL, STATE, AND LOCAL LAWS, REGULATIONS, AND ORDINANCES.

13.3 INSPECTIONS. EACH LOAN PARTY AUTHORIZES LENDER AND ITS AGENTS TO ENTER UPON THE PROPERTIES TO MAKE SUCH INSPECTIONS AND TESTS AS LENDER MAY DEEM APPROPRIATE TO DETERMINE COMPLIANCE OF THE PROPERTIES WITH THIS SECTION 13. ANY INSPECTIONS OR TESTS MADE BY LENDER SHALL BE AT THE EXPENSE OF THE LOAN PARTIES AND FOR LENDER'S PURPOSES ONLY AND SHALL NOT BE CONSTRUED TO CREATE ANY RESPONSIBILITY OR LIABILITY ON THE PART OF LENDER TO ANY LOAN PARTY OR ANY OTHER PERSON.

13.4 RELEASE AND INDEMNITY. EACH LOAN PARTY HEREBY (a) RELEASES AND WAIVES ANY FUTURE CLAIMS AGAINST LENDER FOR INDEMNITY OR CONTRIBUTION IN THE EVENT IT BECOMES LIABLE FOR CLEANUP OR OTHER COSTS UNDER ANY ENVIRONMENTAL LAWS, AND (b) AGREES TO INDEMNIFY AND HOLD HARMLESS LENDER AGAINST ANY AND ALL CLAIMS, LOSSES, LIABILITIES, DAMAGES, PENALTIES, AND EXPENSES WHICH LENDER MAY DIRECTLY OR INDIRECTLY SUSTAIN OR SUFFER RESULTING FROM A BREACH OF THIS SECTION 13 OR AS A CONSEQUENCE OF ANY USE, GENERATION, MANUFACTURE, STORAGE, DISPOSAL, RELEASE OR THREATENED RELEASE OF A HAZARDOUS SUBSTANCE ON THE PROPERTIES.

13.5 SURVIVAL. THE PROVISIONS OF THIS SECTION 13, INCLUDING THE OBLIGATION TO INDEMNIFY, SHALL SURVIVE THE REPAYMENT OF THE NOTES AND OTHER LIABILITIES AND OBLIGATIONS OF THE LOAN PARTIES UNDER THIS AGREEMENT, AND THE TERMINATION OR EXPIRATION OF THIS AGREEMENT, AND SHALL NOT BE AFFECTED BY LENDER'S ACQUISITION OF ANY INTEREST IN ANY OF THE PROPERTIES, WHETHER BY FORECLOSURE OR OTHERWISE.

ARTICLE XIV
MISCELLANEOUS

14.1 NO WAIVER BY LENDER. NO FAILURE OR DELAY OF LENDER IN EXERCISING ANY RIGHT, POWER OR REMEDY UNDER THIS AGREEMENT OR ANY LOAN DOCUMENT SHALL OPERATE AS A WAIVER OF SUCH RIGHT, POWER OR REMEDY OF LENDER OR OF ANY OTHER RIGHT. A WAIVER OF ANY PROVISION OF ANY LOAN DOCUMENT SHALL NOT CONSTITUTE A WAIVER OF OR PREJUDICE LENDER'S RIGHT OTHERWISE TO DEMAND STRICT COMPLIANCE WITH THAT PROVISION OR ANY OTHER PROVISION. ANY WAIVER, PERMIT, CONSENT OR APPROVAL OF ANY KIND OR CHARACTER ON THE PART OF LENDER MUST BE IN WRITING AND SHALL BE EFFECTIVE ONLY TO THE EXTENT SPECIFICALLY SET FORTH IN SUCH WRITING.

14.2 COSTS AND FEES. WITHOUT LIMITING ANY OTHER PROVISIONS OF THIS AGREEMENT, EACH LOAN PARTY HEREBY AGREES TO PAY LENDER ON DEMAND AN AMOUNT EQUAL TO ALL COSTS AND EXPENSES INCURRED BY LENDER IN CONNECTION WITH THE NEGOTIATION, PREPARATION, EXECUTION, ADMINISTRATION, AND ENFORCEMENT OF THE LOAN DOCUMENTS AND THE COLLECTION OF AMOUNTS DUE TO LENDER, INCLUDING WITHOUT LIMITATION ALL RECORDING COSTS, FILING FEES, COSTS OF APPRAISALS, COSTS OF COLLATERAL AUDITS, COSTS OF PERFECTING, PROTECTING AND DEFENDING LENDER'S SECURITY INTEREST IN THE COLLATERAL AND FEES OF IN-HOUSE AND OUTSIDE COUNSEL. WITHOUT LIMITING THE FOREGOING, IF LITIGATION OR ARBITRATION IS COMMENCED TO ENFORCE OR CONSTRUE ANY TERM OF ANY OF THE LOAN DOCUMENTS, EACH LOAN PARTY SHALL PAY TO LENDER ALL COSTS THEREOF, INCLUDING BUT NOT LIMITED TO REASONABLE ATTORNEY FEES IN ANY ARBITRATION, THE APPELLATE PROCEEDING, PROCEEDING UNDER THE BANKRUPTCY CODE OR RECEIVERSHIP, AND POST-JUDGMENT ATTORNEY FEES INCURRED IN ENFORCING ANY JUDGMENT.

14.3 NOTICES. EXCEPT AS OTHERWISE SPECIFICALLY SET FORTH IN ANY LOAN DOCUMENT, ALL NOTICES, REQUESTS AND DEMANDS HEREUNDER SHALL BE IN WRITING, AND SHALL BE DEEMED TO HAVE BEEN GIVEN WHEN HAND-DELIVERED, DELIVERED BY COURIER, WHEN DEPOSITED IN THE MAIL AS FIRST CLASS, REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, OR WHEN SENT BY TELECOPIER, ADDRESSED AS SET FORTH BELOW; PROVIDED, HOWEVER, THAT ANY REQUEST FOR AN ADVANCE SHALL NOT BE EFFECTIVE UNTIL RECEIVED BY LENDER. ANY PARTY MAY AT ANY TIME CHANGE ITS ADDRESS FOR NOTICES BY GIVING NOTICE OF SUCH CHANGE TO THE OTHER PARTIES.

14.4 SHARING OF INFORMATION WITH AFFILIATES. EACH LOAN PARTY HEREBY CONSENTS TO THE SHARING OF INFORMATION CONCERNING OR PROVIDED BY EACH LOAN PARTY OR ITS AFFILIATES BY AND AMONG LENDER, U.S. BANCORP, AND THEIR PRESENT AND FUTURE AFFILIATES, AND THEIR RESPECTIVE PRESENT AND FUTURE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS AND ADVISORS.

14.5 INTEGRATION; CONFLICTING TERMS. THIS AGREEMENT TOGETHER WITH THE OTHER LOAN DOCUMENTS COMPRISES THE ENTIRE AGREEMENT OF THE PARTIES ON THE SUBJECT MATTER HEREOF AND SUPERSEDES AND REPLACES ALL PRIOR AGREEMENTS, ORAL AND WRITTEN, ON SUCH SUBJECT MATTER. IF ANY TERM OF ANY OF THE OTHER LOAN DOCUMENTS EXPRESSLY CONFLICTS WITH THE PROVISIONS OF THIS AGREEMENT, THE PROVISIONS OF THIS AGREEMENT SHALL CONTROL; PROVIDED, HOWEVER, THAT THE INCLUSION OF SUPPLEMENTAL RIGHTS AND REMEDIES OF LENDER IN ANY OF THE OTHER LOAN DOCUMENTS SHALL NOT BE DEEMED A CONFLICT WITH THIS AGREEMENT.

14.6 ASSIGNMENT AND PARTICIPATION. LENDER MAY FROM TIME TO TIME ASSIGN OR SELL PARTICIPATING INTERESTS IN ALL OR ANY PART OF ITS INTEREST IN THIS AGREEMENT, THE NOTES AND THE OTHER LOAN DOCUMENTS.

14.7 SUCCESSORS AND ASSIGNS. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE BINDING UPON AND INURE TO THE BENEFIT OF THE PARTIES AND THEIR RESPECTIVE SUCCESSORS AND ASSIGNS, EXCEPT THAT NO LOAN PARTY MAY ASSIGN OR TRANSFER ANY OF ITS RIGHTS OR OBLIGATIONS UNDER ANY LOAN DOCUMENT WITHOUT THE PRIOR WRITTEN CONSENT OF LENDER.

14.8 SEVERABILITY. IF ANY PROVISION OF THIS AGREEMENT OR ANY OF THE LOAN DOCUMENTS IS HELD INVALID UNDER ANY APPLICABLE LAWS, SUCH INVALIDITY SHALL NOT AFFECT ANY OTHER PROVISION OF THIS AGREEMENT THAT CAN BE GIVEN EFFECT WITHOUT THE INVALID PROVISION.

14.9 GOVERNING LAW. EXCEPT TO THE EXTENT THAT LENDER HAS GREATER RIGHTS AND REMEDIES UNDER FEDERAL LAW, THIS AGREEMENT 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 (EXCEPT THAT MATTERS CONCERNING THE VALIDITY AND PERFECTION OF SECURITY INTERESTS COVERED THEREBY SHALL BE GOVERNED BY THE CONFLICTS OF LAW PROVISIONS OF THE UNIFORM COMMERCIAL CODE).

14.10 ADDITIONAL ACTS. UPON REQUEST BY LENDER, EACH LOAN PARTY WILL FROM TIME TO TIME PROVIDE SUCH INFORMATION, EXECUTE SUCH DOCUMENTS AND DO SUCH ACTS AS MAY REASONABLY BE REQUIRED BY LENDER IN CONNECTION WITH ANY INDEBTEDNESS OR OBLIGATIONS OF ANY OF THEM TO LENDER.

14.11 DOCUMENTS SATISFACTORY TO LENDER. ALL INFORMATION, DOCUMENTS AND INSTRUMENTS REQUIRED TO BE EXECUTED OR DELIVERED TO LENDER SHALL BE IN FORM AND SUBSTANCE SATISFACTORY TO LENDER.

14.12 EXHIBITS. ALL EXHIBITS REFERRED TO HEREIN ARE ATTACHED HERETO AND HEREBY INCORPORATED BY REFERENCE AS IF FULLY SET FORTH HEREIN.

14.13 COMPUTATIONS. ALL INTEREST RATES AND FEES REFERRED TO HEREIN SHALL BE COMPUTED ON THE BASIS OF A 360-DAY YEAR AND APPLIED TO THE ACTUAL NUMBER OF DAYS ELAPSED.

14.14 COUNTERPARTS. THIS AGREEMENT MAY BE EXECUTED IN ANY NUMBER OF COUNTERPARTS, EACH OF WHICH SHALL BE DEEMED TO BE AN ORIGINAL, AND ALL OF SAID COUNTERPARTS TAKEN TOGETHER SHALL CONSTITUTE ONE DOCUMENT.

14.15 WAIVER OF JURY TRIAL. EACH LOAN PARTY AND LENDER WAIVE ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS (a) UNDER THIS AGREEMENT OR UNDER ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HEREWITH OR (b) ARISING FROM ANY BANKING RELATIONSHIP EXISTING IN CONNECTION WITH THIS AGREEMENT, AND EACH AGREE THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

14.16 AGREEMENTS ENFORCEABLE. EACH LOAN PARTY REAFFIRMS THE REPRESENTATIONS AND WARRANTIES IN EACH OF THE EXISTING LOAN DOCUMENTS AND ACKNOWLEDGES THAT EXCEPT AS AMENDED, SUPERSEDED, OR REPLACED PREVIOUSLY OR HEREIN, OR TO THE EXTENT INCONSISTENT HEREWITH, EACH SUCH LOAN DOCUMENT (OTHER THAN THE CURRENT LOAN AGREEMENT) REMAINS IN FULL FORCE AND EFFECT AND IS AND SHALL REMAIN VALID AND ENFORCEABLE IN ACCORDANCE WITH ITS TERMS.

14.17 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.

EACH LOAN PARTY ACKNOWLEDGES RECEIPT OF A COPY OF THIS AGREEMENT.

LITHIA FINANCIAL CORPORATION

BY: _____
TITLE:_____

LITHIA SALMIR, INC.

BY:_____
TITLE:_____

LITHIA MOTORS, 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 U.S. Bank National Association, Commercial Loan Service Center West, 555 Southwest Oak Street, PL-7, Portland, Oregon 97204, or such other address as Lender may designate, the Principal Balance of this note, with interest thereon at the rate(s) specified below.

4. INTEREST RATE. Interest on each Advance hereunder shall accrue at an annual rate equal to 1.75% plus the one-month LIBOR rate (the "LIBOR Borrowing Rate") quoted by Lender from Telerate Page 3750 or any successor thereto, which shall be that one-month LIBOR rate in effect and reset each New York banking day. Lender's internal records of applicable interest rates shall be determinative in the absence of manifest error. For determining payment dates for LIBOR rate loans, the New York banking day shall be the standard convention. In the event after the date of initial funding any governmental authority subjects Lender to any new or additional charge, fee, withholding or tax of any kind with respect to any loans hereunder or changes the method of taxation of such loans or changes the reserve or deposit requirements applicable to such loans, Borrower shall pay to Lender such additional amounts as will compensate Lender for such costs or lost income resulting therefrom as reasonably determined by Lender.

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 January 31, 2004 ("Maturity Date").

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 on the Maturity Date.

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. 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.

9. 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 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.

10. DEFAULT.

a. Any Event of Default under the Amended and Restated Loan Agreement between Borrower, Lender, Lithia Salmir, Inc., and Lithia Motors, Inc. dated _____, and any amendments, modifications, supplements, renewals, substitutions and replacements thereof or therefor ("Loan Agreement"), 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, Setoff 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.

11. 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.

12. CREDIT BALANCES; SETOFF. As additional security for the payment of the obligations described in this note or any document securing or related to the loan evidenced by this note (collectively, the "Loan Documents"), and any other obligations of Borrower to Lender of any nature whatsoever (collectively, the "Obligations"), Borrower hereby grants to Lender a security interest in, a lien on, and an express contractual right to set off against all depository account balances, cash, and any other property of Borrower now or hereafter in the possession of Lender and the right to refuse to allow withdrawals from any account (collectively, "Setoff"). Lender may, at any time upon the occurrence of an Event of Default (notwithstanding any notice requirements or grace/cure periods under this or other agreements between Borrower and Lender) Setoff against the Obligations whether or not the Obligations (including future installments) are then due or have been accelerated, all without any advance or contemporaneous notice of demand of any kind to Borrower, such notice and demand being expressly waived.

13. REQUESTS FOR ADVANCES.

a. Any Advance may be made upon the request of any person or persons authorized to execute and deliver promissory notes to Lender on behalf of Borrower or any other person authorized in writing by Borrower to request Advances.

b. All Advances shall be disbursed by deposit directly to Borrower's account number 153600740853 with Lender, or by cashier's check issued to Borrower.

c. Borrower agrees that Lender shall have no obligation to verify the identity of any person making any request pursuant to this note, 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.

14. 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.

15. 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.

16. 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 may adjudge reasonable as attorney fees, including without limitation, costs and attorney fees incurred at trial, 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.

17. 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 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.

18. 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.

19. 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.

20. RENEWAL NOTE. This note renews, increases the amount of and modifies the terms of the promissory note executed by Borrower dated November 9, 2000, in the principal amount of $27,500,000, but shall not be deemed to be a replacement for or to constitute a novation of such note.

21. LOAN AGREEMENT. This note is subject to all terms and conditions of, and entitled to all the benefits of, the Loan Agreement.

22. SUCCESSORS AND ASSIGNS. The terms of this note shall be binding upon Borrower, and Borrower's heirs, personal representatives, successors, and assigns, and shall inure to the benefit of Lender and its successors and assigns.

23. WAIVER OF JURY TRIAL. BORROWER HEREBY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING RELATING TO THIS NOTE, ANY DOCUMENTS EXECUTED IN CONNECTION HEREWITH, THE OBLIGATIONS HEREUNDER, ANY COLLATERAL SECURING THE OBLIGATIONS, OR ANY TRANSACTION ARISING THEREFROM OR CONNECTED THERETO. BORROWER REPRESENTS TO LENDER THAT THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY GIVEN.

24. 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	LITHIA AIRCRAFT, INC.
By:_____	By:_____
Title:_____	Title:_____

EXHIBIT B
PREPAYMENT FEE

PREPAYMENT: THERE SHALL BE NO PREPAYMENTS OF THIS NOTE, PROVIDED THAT THE BANK MAY CONSIDER REQUESTS FOR ITS CONSENT WITH RESPECT TO PREPAYMENT OF THIS NOTE, WITHOUT INCURRING AN OBLIGATION TO DO SO, AND THE BORROWER ACKNOWLEDGES THAT IN THE EVENT THAT SUCH CONSENT IS GRANTED, THE BORROWER SHALL BE REQUIRED TO PAY THE BANK, UPON PREPAYMENT OF ALL OR PART OF THE PRINCIPAL AMOUNT BEFORE FINAL MATURITY, A PREPAYMENT FEE EQUAL TO THE MAXIMUM OF: (a) ZERO, OR (b) THAT AMOUNT, CALCULATED ON ANY PREPAYMENT DATE, WHICH IS DERIVED BY SUBTRACTING: (a) THE PRINCIPAL AMOUNT OF THE NOTE OR PORTION OF THE NOTE TO BE PREPAID FROM (b) THE NET PRESENT VALUE OF THE NOTE OR PORTION OF THE NOTE TO BE PREPAID ON SUCH DATE OF PREPAYMENT; PROVIDED, HOWEVER, THAT THE PREPAYMENT FEE SHALL NOT IN ANY EVENT EXCEED THE MAXIMUM PREPAYMENT FEE PERMITTED BY APPLICABLE LAW.

"NET PRESENT VALUE" SHALL MEAN THE AMOUNT WHICH IS DERIVED BY SUMMING THE PRESENT VALUES OF EACH PROSPECTIVE PAYMENT OF PRINCIPAL AND INTEREST WHICH, WITHOUT SUCH FULL OR PARTIAL PREPAYMENT, COULD OTHERWISE HAVE BEEN RECEIVED BY THE BANK OVER THE SHORTER OF THE REMAINING CONTRACTUAL LIFE OF THE NOTE OR NEXT REPRICING DATE IF THE BANK HAD INSTEAD INITIALLY INVESTED THE NOTE PROCEEDS AT THE INITIAL MONEY MARKET RATE. THE INDIVIDUAL DISCOUNT RATE USED TO PRESENT VALUE EACH PROSPECTIVE PAYMENT OF INTEREST AND/OR PRINCIPAL SHALL BE THE MONEY MARKET RATE AT PREPAYMENT FOR THE MATURITY MATCHING THAT OF EACH SPECIFIC PAYMENT OF PRINCIPAL AND/OR INTEREST.

"INITIAL MONEY MARKET RATE" SHALL MEAN THE RATE PER ANNUM, DETERMINED SOLELY BY THE BANK, ON THE FIRST DAY OF THE TERM OF THIS NOTE OR THE MOST RECENT REPRICING DATE OR AS MUTUALLY AGREED UPON BY THE BORROWER AND THE BANK, AS THE RATE AT WHICH THE BANK WOULD BE ABLE TO BORROW FUNDS IN MONEY MARKETS FOR THE AMOUNT OF THIS NOTE AND WITH AN INTEREST PAYMENT FREQUENCY AND PRINCIPAL REPAYMENT SCHEDULE EQUAL TO THIS NOTE AND FOR A TERM AS MAY BE ARRANGED AND AGREED UPON BY THE BORROWER AND THE BANK. SUCH A RATE SHALL INCLUDE FDIC INSURANCE, RESERVE REQUIREMENTS AND OTHER EXPLICIT OR IMPLICIT COSTS LEVIED BY ANY REGULATORY AGENCY. BORROWER ACKNOWLEDGES THAT THE BANK IS UNDER NO OBLIGATION TO ACTUALLY PURCHASE AND/OR MATCH FUNDS FOR THE INITIAL MONEY MARKET RATE OF THIS NOTE.

"MONEY MARKET RATE AT PREPAYMENT" SHALL MEAN THAT ZERO-COUPON RATE, CALCULATED ON THE DATE OF PREPAYMENT, AND DETERMINED SOLELY BY THE BANK, AS THE RATE IN WHICH THE BANK WOULD BE ABLE TO BORROW FUNDS IN MONEY MARKETS FOR THE PREPAYMENT AMOUNT MATCHING THE MATURITY OF A SPECIFIC PROSPECTIVE NOTE PAYMENT OR REPRICING DATE. SUCH A RATE SHALL INCLUDE FDIC INSURANCE, RESERVE REQUIREMENTS AND OTHER EXPLICIT OR IMPLICIT COSTS LEVIED BY ANY REGULATORY AGENCY. A SEPARATE MONEY MARKET RATE AT PREPAYMENT WILL BE CALCULATED FOR EACH PROSPECTIVE INTEREST AND/OR PRINCIPAL PAYMENT DATE.

"MONEY MARKETS" SHALL MEAN ONE OR MORE WHOLESALE FUNDING MECHANISMS AVAILABLE TO THE BANK, INCLUDING NEGOTIABLE CERTIFICATES OF DEPOSIT, EURODOLLAR DEPOSITS, BANK NOTES, FED FUNDS, INTEREST RATE SWAPS, OR OTHERS.

IN CALCULATING THE AMOUNT OF SUCH A PREPAYMENT FEE, THE BANK IS HEREBY AUTHORIZED BY THE BORROWER TO MAKE SUCH ASSUMPTIONS REGARDING THE SOURCE OF FUNDING, REDEPLOYMENT OF FUNDS AND OTHER RELATED MATTERS, AS THE BANK MAY DEEM APPROPRIATE. IF THE BORROWER FAILS TO PAY ANY PREPAYMENT FEE WHEN DUE, THE AMOUNT OF SUCH PREPAYMENT FEE SHALL THEREAFTER BEAR INTEREST UNTIL PAID AT THE DEFAULT RATE SPECIFIED IN THIS NOTE (COMPUTED ON THE BASIS OF A 360-DAY YEAR, ACTUAL DAYS ELAPSED). ANY PREPAYMENT OF PRINCIPAL SHALL BE ACCOMPANIED BY A PAYMENT OF INTEREST ACCRUED TO DATE THEREON; AND SAID PREPAYMENT SHALL BE APPLIED TO THE PRINCIPAL INSTALLMENTS IN THE INVERSE ORDER OF THEIR MATURITIES. ALL PREPAYMENTS SHALL BE IN AN AMOUNT OF AT LEAST $100,000 OR IF LESS, THE REMAINING ENTIRE PRINCIPAL BALANCE OF THE LOAN.

EXHIBIT COMPLIANCE CERTIFICATE

THIS COMPLIANCE CERTIFICATE IS EXECUTED AND DELIVERED BY LITHIA MOTORS, INC. ("LMI") TO U.S. BANK NATIONAL ASSOCIATION ("LENDER") PURSUANT TO THE REQUIREMENTS OF THE LOAN AGREEMENT DATED AS OF _____ BETWEEN LMI, LITHIA FINANCIAL CORPORATION, LITHIA SALMIR, INC. (THE "LOAN PARTIES") AND LENDER ("LOAN AGREEMENT"). ANY CAPITALIZED TERMS USED HEREIN AND NOT DEFINED HEREIN SHALL HAVE THE MEANINGS GIVEN TO SUCH TERMS IN THE LOAN AGREEMENT. THIS COMPLIANCE CERTIFICATE COVERS THE LOAN PARTIES' FISCAL QUARTER ENDED _____.

1. A REVIEW OF THE ACTIVITIES OF THE LOAN PARTIES DURING THE FISCAL PERIOD COVERED BY THIS COMPLIANCE CERTIFICATE HAS BEEN MADE UNDER THE SUPERVISION OF THE UNDERSIGNED WITH A VIEW TO DETERMINING WHETHER DURING SUCH FISCAL PERIOD THE LOAN PARTIES PERFORMED AND OBSERVED ALL OF THEIR OBLIGATIONS UNDER THE LOAN AGREEMENT. TO THE BEST KNOWLEDGE OF THE UNDERSIGNED, DURING SUCH FISCAL PERIOD ALL COVENANTS AND CONDITIONS OF THE LOAN PARTIES HAVE BEEN PERFORMED AND OBSERVED AND NO DEFAULT HAS OCCURRED AND IS CONTINUING UNDER THE LOAN AGREEMENT
[WITH THE EXCEPTIONS SET FORTH BELOW IN RESPONSE TO WHICH THE LOAN PARTIES HAS TAKEN OR PROPOSES TO TAKE THE FOLLOWING ACTIONS:

_____.]

2. TO THE BEST KNOWLEDGE OF THE UNDERSIGNED, NO MATERIAL ADVERSE CHANGE HAS OCCURRED WITH REGARD TO THE LOAN PARTIES' BUSINESS, ASSETS, OPERATIONS OR CONDITION, FINANCIAL OR OTHERWISE, SINCE THE LAST COMPLIANCE CERTIFICATE WAS DELIVERED [WITH THE EXCEPTIONS SET FORTH BELOW:

_____.]

3. ATTACHED ARE THE CALCULATIONS SHOWING WHETHER THE LOAN PARTIES WERE IN COMPLIANCE WITH SECTIONS 9.1.1, 9.1.2, 9.1.3, 9.1.4, 9.1.5 AND 9.1.6 OF THE LOAN AGREEMENT AS OF THE END OF THE FISCAL PERIOD COVERED BY THIS COMPLIANCE CERTIFICATE. EACH SUCH CALCULATION IS DERIVED FROM THE BOOKS AND RECORDS OF THE LOAN PARTIES AND CORRECTLY REFLECTS WHETHER THEY ARE IN COMPLIANCE WITH THE APPLICABLE SECTIONS OF THE LOAN AGREEMENT.

4. THIS COMPLIANCE CERTIFICATE IS EXECUTED ON _____.

LITHIA MOTORS, INC.

BY:_____
TITLE:_____

EXHIBIT 10.14.1

CONSENT AND WAIVER AND AMENDMENT TO AMENDED AND RESTATED LOAN AGREEMENT AND PROMISSORY NOTE

Dated as of: January 31, 2003

Parties:	Lithia Financial Corporation	("LFC")
	Lithia Motors, Inc.	("LMI")
	Lithia Salmir, Inc.	("LSI")
	Lithia Aircraft, Inc.	("LAI")
And:	U.S. BANK NATIONAL ASSOCIATION	("Lender")

This Agreement amends (a) the Amended and Restated Loan Agreement between the parties dated as of December 28, 2001, (the "Loan Agreement"); and (b) the promissory note executed by Borrower dated December 28, 2001, in the original principal amount of $27,500,000 ("Note").

For valuable consideration, the parties agree as follows:

1. AMENDMENTS TO LOAN AGREEMENT.

1.1 The definition of Revolving Loan Termination date in Section 1.1 of the Loan Agreement is deleted and replaced with the following:

"Revolving Loan Termination Date" means March 31, 2004.

1.2 Section 3.3.3 of the Loan Agreement is deleted and replaced with the following:

3.3.3 PRINCIPAL PAYMENTS. The principal balance of the Revolving Note shall be due and payable on March 31, 2004.

2. Section 11.3 of the Loan Agreement is deleted and replaced with the following:

11.3 GUARANTIES, ETC. LFC shall not assume, guarantee, endorse or otherwise become directly or contingently liable for, nor obligated to purchase, pay or provide funds for payment of, any obligation or indebtedness of any other Person. Notwithstanding the foregoing, LFC may guarantee the indebtedness of LMI to the lenders under a $200,000,000 revolving line of credit facility on which DaimlerChrysler Services North America LLC, is the Agent and Lead Lender.

3. Section 11.6 of the Loan Agreement is deleted and replaced with the following:

11.6 LIMITATIONS ON DIVIDENDS. It shall not declare or pay any dividend on any class of its capital stock (except those payable solely in its capital stock); or purchase, redeem or otherwise make any distribution with respect to such capital stock; provided, however, that it may make such dividends, purchases, redemptions or distributions so long as no Default exists or would exist after giving effect thereto.

4. AMENDMENT TO PROMISSORY NOTE. Section 6a of the Note is deleted and replaced with the following:

a. PRINCIPAL. Principal shall be paid on March 31, 2004 ("Maturity Date").

5. CONSENT AND WAIVER. The Loan Parties have informed Lender that LMI has repurchased approximately 40,000 shares of its capital stock (the "Repurchase") and have asked Lender, pursuant to Section 11.6 of the Loan Agreement, to consent to such Repurchase. Lender hereby consents to the Repurchase and waives any Event of Default which may exist as a result of the Repurchase.

6. CONDITIONS PRECEDENT. The effectiveness of this Agreement is subject to satisfaction of each of the following conditions:

6.1 Lender has received executed originals of this Agreement and such other Loan Documents as Lender requires and each Loan Party has provided such information and satisfied such requirements as Lender reasonably requires.

6.2 No Default has occurred and is continuing.

6.3 All representations and warranties in the Loan Agreement are true and correct as of the date of this Agreement.

7. DEFINED TERMS. Capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Loan Agreement.

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

9. EXPENSES. Borrower shall pay all costs, fees and expenses incurred by Lender in connection with the preparation, negotiation, execution, and delivery of this Agreement and any other document required to be furnished herewith, including without limitation the charges of Lender's legal counsel.

10. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of said counterparts taken together shall be deemed to constitute but one document.

11. 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.

EACH LOAN PARTY ACKNOWLEDGES RECEIPT OF A COPY OF THIS AGREEMENT.

LITHIA FINANCIAL CORPORATION	LITHIA MOTORS, INC.
By:_____	By:_____
Its:_____	Its:_____
LITHIA SALMIR, INC.	LITHIA AIRCRAFT, INC.
By:_____	By:_____
Its:_____	Its:_____

U.S. BANK NATIONAL ASSOCIATION

By:_____
Its:_____

CONSENT AND WAIVER AND AMENDMENT TO AMENDED AND RESTATED LOAN AGREEMENT AND PROMISSORY NOTE- 3

EXHIBIT 10.15

AMENDED AND RESTATED REVOLVING LOAN AND SECURITY AGREEMENT

This AMENDED AND RESTATED REVOLVING LOAN AND SECURITY AGREEMENT (this "Agreement") is made and entered into as of May 10, 2002, by and between Lithia Real Estate, Inc., an Oregon corporation (the "Borrower"), and Toyota Motor Credit Corporation, a California corporation ("TMCC"), in reference to the following.

A. Borrower and TMCC are parties to that certain Revolving Loan and Security Agreement dated as of July 2, 2001 (the "Prior Agreement"), pursuant to which TMCC agreed to make loans to Borrower in an aggregate amount not to exceed $18,000,000 the proceeds of which were used to pay off certain existing indebtedness and for other working capital reasons.

B. Borrower has requested that TMCC increase the amount of the line of credit provided under the Prior Agreement from $18,000,000 to $40,000,000 and make certain other modifications to the Prior Agreement which TMCC has agreed to do subject to the terms, provisions and conditions of this Agreement.

NOW, THEREFORE, the parties hereto hereby agree to amend and restate the Prior Agreement in its entirety as follows:

ARTICLE I
CERTAIN DEFINITIONS AND RULES OF CONSTRUCTION

1.1 Definitions. As used in this Agreement, the following terms shall have the following meanings:

"Advance" shall have the meaning set forth in Section 2.1 hereof.

"Agreement" shall mean this Revolving Loan and Security Agreement and any supplements, amendments, or modifications to or in connection with this Revolving Loan and Security Agreement.

"Affiliate" shall mean, as to the Borrower, any other corporation or entity directly or indirectly controlling, controlled by or under direct or indirect common control with Borrower.

"Assignment of Leases" shall mean, collectively, the Assignments of Rents and Leases (which may be incorporated within a Deed of Trust) and delivered to TMCC pursuant to Section 3.1, including any amendments thereto delivered to TMCC pursuant to Section 4.2 hereof.

"Borrowing Base" shall mean the amount equal to the aggregate Loan Value of the Eligible Property.

"Business Day" means any day other than Saturday, Sunday or other day on which banks are authorized or obligated to close in Los Angeles, California or Portland, Oregon.

"Collateral" shall have the meaning set forth in Section 3.1 hereof.

"Control" shall mean the power to direct the management and policies of a corporation or other entity.

"Credit Limit" shall mean Forty Million dollars ($40,000,000) as such amount may be increased or decreased by written agreement of TMCC and Borrower.

"Dealer" shall mean with respect to a Property, the business organization that operates the automobile dealership located on such Property.

"Deed of Trust" shall mean, collectively, the deeds of trust and mortgages delivered to TMCC pursuant to Section 3.1, including any amendments thereto delivered to TMCC pursuant to Section 4.2 hereof.

"Eligible Property" shall mean, as of any date of determination, Property: (i) for which each of the conditions precedent set forth in Section 3.1 hereof have been satisfied or waived; (ii) that does not secure a Term Loan; and (iii) that is described in a Deed of Trust that was filed of record not more than one year prior to such date of determination.

"Environmental Indemnification" shall mean, collectively, the Environmental Indemnification Agreements delivered to TMCC pursuant to Section 3.1 hereof, including any amendments thereto delivered to TMCC pursuant to Section 4.2 hereof.

"Environmental Laws" means any and all federal, state and local statutes, regulations, ordinances, and requirements, pertaining to environmental protection, contamination or cleanup, as now or may at any time hereafter be in effect.

"Event of Default" shall have the meaning set forth in Section 8.1 hereof.

"Fixed Rate" shall mean an interest rate based on the five (5) year swap rate published by Bloomberg Financial as the mid-price "USSWAP 5 Index."

"Floating Rate" shall mean an interest rate based on the (1) month London Interbank Offered Rate ("LIBOR"), as published by the Wall Street Journal in its "Money Rates" section.

"Guarantor" shall mean with respect to the Revolving Loan or any Term Loan, any person or business organization that has delivered to TMCC, or in accordance with the terms of this Agreement is required to deliver to TMCC, a Guaranty with respect to the Revolving Loan or such Term Loan pursuant to Article IV hereof.

"Guaranty" shall mean any Continuing and Irrevocable Guaranty delivered to TMCC pursuant to Article IV hereof, including any amendments thereto or restatements or modifications thereof.

"Indebtedness" means, without duplication (i) all indebtedness for borrowed money; (ii) all obligations issued, undertaken or assumed as the deferred purchase price of property or services (other than indebtedness or liability for borrowed money deferred for a period of six months or less from the date of incurrence or trade payables entered into in the ordinary course of business on ordinary terms); (iii) all non-contingent reimbursement or payment obligations with respect to letters of credit, bankers acceptances, surety bonds and similar instruments; (iv) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses; (v) net obligations under an interest rate swap agreement or similar rate swap master agreement; (vi) all indebtedness created or arising under any conditional sale or other title retention agreement (excluding any operating lease), or incurred as financing, in either case with respect to property acquired by Borrower; (vii) all obligations with respect to leases which shall have been, or in accordance with generally accepted accounting principles, should be recorded as capital leases; (viii) all obligations with respect to so-called synthetic, off-balance sheet or tax retention lease; (ix) all indebtedness referred to in clauses (i) through (viii) above secured by any Lien upon or in property owned by Borrower, even though Borrower has not assumed or become liable for the payment of such Indebtedness; and (ix) all liabilities in respect of indebtedness or obligations of others of the kinds referred to in clauses (i) through (ix) above for which Borrower is directly or contingently liable as obligor, guarantor, or otherwise, or in respect of which such person otherwise assures a creditor against loss. For purposes of this Agreement, the Indebtedness of Borrower shall include all recourse Indebtedness of any partnership or joint venture formed as a partnership where Borrower is a general partner or is otherwise liable for the Indebtedness of such partnership or joint venture.

"Lien" shall mean any security interest, mortgage, deed of trust, pledge, lien, claim on property, charge or encumbrance (including any conditional sale or other title retention agreement), any lease thereof, and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction.

"Loan Documents" shall mean, collectively, this Agreement, the Notes, the Deeds of Trust, the Assignments of Leases, the Tenant Agreements, the UCC Financing Statements, the Environmental Indemnifications, and such other documents, instruments and agreements that may be executed by Borrower or at Borrower's direction pursuant to this Agreement and delivered to TMCC pursuant to Section 3.1 and Article IV hereof.

"Loan Value" shall mean with respect to a Property, (i) one hundred percent (100%) for Toyota or Lexus dealerships; or (ii) ninety (90%) for non-Toyota dealerships, in each case of the appraised value of such real property based upon the MAI appraisal delivered to TMCC pursuant to

Section 3.1 hereof.

"Material Adverse Change" shall have the meaning set forth in Section 5.2 hereof.

"Maturity Date" shall mean (i) in respect of the Advances, May 10, 2005 and (ii) in respect of a Term Loan, the date that is sixty (60) months after the Conversion Date for such Term Loan, or such later date as may be established in accordance with Section 2.2 hereof.

"Note" shall mean any Promissory Note delivered to TMCC pursuant to pursuant to Article IV hereof, including any amendments thereto or restatements or extensions thereof.

"Permitted Liens" shall have the meaning set forth in Section 6.8 hereof.

"Property" shall mean, collectively, (i) all real property and all buildings, structures and improvements located thereon or hereafter to be constructed thereon including, any and all fixtures, machinery, equipment, building materials, appurtenances, or accessories to the extent described in a Deed of Trust, (ii) all leases of all or any portion of the foregoing described property; and (iii) all of Borrower's property located upon the foregoing described property.

"Property Lease" shall mean with respect to a Property, any lease affecting such Property, including, without limitation, any lease between Borrower and the Dealer operating the automobile dealership on such Property, as any such leases may be amended or otherwise modified from time to time.

"Revolving Loan" shall mean the obligation of TMCC to make Advances pursuant to Section 2.1 hereof.

"Tenant Agreement" shall mean, collectively, the Tenant Agreements delivered to TMCC pursuant to Section 3.1 hereof, including any amendments thereto delivered to TMCC pursuant to Section 4.2 hereof.

"Term Loan" shall have the meaning set forth in Section 2.2 hereof.

"Term Loan Collateral" shall mean with respect to a Term Loan, the Property described in the Deed of Trust securing such Term Loan.

1.2 Rules of Construction. Definitions given herein shall be equally applicable to both singular and plural forms of the terms therein defined. Reference to Loan Documents, shall include all amendments, supplements, and replacements thereto. References to specific Exhibits shall mean as attached, or intended to be attached, to this Agreement and regardless of whether they are in fact attached to this Agreement, including amendments, supplements, and replacements thereto. The Recitals to this Agreement are a part of this Agreement and are incorporated herein. The headings in this Agreement are for convenience only and shall not affect the construction hereof.

ARTICLE II
THE LOANS

2.1 Revolving Loan.

a. Credit Limit. Subject to the terms and conditions hereof, TMCC agrees to make revolving loans (each an "Advance") to Borrower, from time to time, during the period from the date hereof to, but not including the Maturity Date, in an aggregate principal amount not to exceed at any time outstanding the lesser of (i) the Credit Limit or (ii) the Borrowing Base. The Revolving Loan described in this Section constitutes a revolving credit and within the amount and time specified, Borrower may pay, prepay and reborrow.

b. Procedure for Advances. Subject to the terms and conditions hereof, Borrower may from time to time upon three (3) days' prior written notice to TMCC, request an Advance hereunder. Such notice (a "Borrowing Notice") shall be in a form substantially similar to Exhibit C-1 hereto, made by an authorized representative of Borrower, and transmitted to TMCC by facsimile or personal delivery in accordance with Section 9.3 hereof and shall specify, subject to the conditions of this Section, (i) the amount of the Advance (which amount shall be in an integral multiple of $10,000 and not less than $100,000), and (ii) the proposed date of borrowing (which day shall be a Business Day). Any such Borrowing Notice shall be irrevocable and shall be deemed to constitute a representation and warranty by Borrower that as of the date of such notice the representations and warranties set forth in Article V hereof are true and correct and that no Event of Default or event that, with the giving of notice or the passing of time, or both, would constitute an Event of Default, has occurred and is continuing. All Advances will be made by ACH, wire transfers or check, in TMCC's discretion.

c. Interest. Borrower shall pay interest on the aggregate daily unpaid principal balance of the Advances at the Floating Rate in accordance with the terms of the Note evidencing the Advances.

d. Repayment of Advances. If, at any time and for any reason, the aggregate unpaid principal balance of the Advances exceeds the lesser of (i) the Credit Limit or (ii) the Borrowing Base, such excess (an "Over Advance") shall be debt deemed due and owing to TMCC, and Borrower, upon TMCC's election and demand, shall immediately pay to TMCC, in cash, the amount of such Over Advance. Unless earlier terminated by TMCC pursuant to Section 8.02 hereof, the Revolving Loan shall automatically terminate on the Maturity Date, and Borrower shall repay all Advances made by TMCC to Borrower in full on such date of termination.

2.2 Term Loan.

a. Procedure for Term Loans. Subject to the terms and conditions hereof, Borrower may from time to time upon not less than thirty (30) days' and not more than ninety (90) days' prior written notice to TMCC, elect to convert one or more Advances into a single term loan (a "Term Loan"). Such notice (a "Conversion Notice") shall be in a form substantially similar to Exhibit C-2 hereto, made by an authorized representative of Borrower, and transmitted

to TMCC by facsimile or personal delivery in accordance with Section 9.3 hereof and shall specify, subject to the conditions of this Section, (i) the amount of the Advances to be converted into a Term Loan, (ii) the proposed conversion date (the "Conversion Date") and (iii) whether the Term Loan shall bear interest at the Floating Rate or the Fixed Rate. Any such Conversion Notice shall be irrevocable and shall be deemed to constitute a representation and warranty by Borrower that as of the date of such notice the representations and warranties set forth in Article V hereof are true and correct and that no Event of Default or event that, with the giving of notice or the passing of time, or both, would constitute an Event of Default, has occurred and is continuing.

b. Limitations. In addition to the conditions set forth in Section 4.2 hereof, Borrower's right to elect to convert one or more Advances into a Term Loan shall on each occasion be subject to the following conditions: (i) the principal amount of the Term Loan shall not exceed the Loan Value of the Term Loan Collateral; and (ii) the Conversion Date shall be a Business Day not later than the Maturity Date of the Revolving Loan.

e. Interest. Borrower shall pay interest on the unpaid principal balance of each Term Loan at the Floating Rate or the Fixed Rate in accordance with the terms of the Note evidencing such Term Loan.

f. Repayment of Term Loans. Borrower shall repay the principal balance of each Term Loan in accordance with the terms of the Note evidencing such Term Loan.

g. Maturity Date. The initial Maturity Date of each Term Loan shall be the date that is sixty (60) months after the Conversion Date. Subject to the terms and conditions hereof, Borrower may from time to time request that TMCC extend the Maturity Date of any Term Loan for an additional sixty (60) months, and may request that TMCC further extend the Maturity Date of such Term Loan for three (3) more periods of sixty (60) months each, up to a maximum term (including the original term of such Term Loan and all renewal terms) of three hundred (300) months; provided that, except as otherwise provided in this subsection g, each of the following conditions is satisfied on or before the then effective Maturity Date for such Term Loan:

(1) TMCC shall have received from Borrower written notice of Borrower's request to extend the Maturity Date for such Term Loan not less than one hundred eighty (180) days and not more than two hundred seventy
(270) days prior to the then effective Maturity Date for such Term Loan;

(2) No Event of Default or event that, with the giving of notice or the passing of time, or both, would constitute a Event of Default, has occurred and is continuing either as of the date of the notice delivered by Borrower pursuant to clause (1) above or on the then effective Maturity Date for such Term Loan;

(3) Borrower's request to extend the Maturity Date of such Term Loan shall have received credit approval from TMCC, in TMCC's sole discretion;

(4) TMCC shall have received such endorsements (or commitments to issue same) to each mortgagee's policy of title insurance insuring the lien of the Deed(s) of Trust securing such Term Loan as TMCC may reasonably request;

(5) TMCC shall have received evidence satisfactory to it that the term of each Property Lease affecting Property comprising the Term Loan Collateral has been extended to a date no earlier than the date that is sixty (60) months after the extended Maturity Date for such Term Loan;

(6) Borrower and each Guarantor of such Term Loan shall have executed and delivered to TMCC, or caused to be so executed and delivered, such additional documentation relating to such Term Loan as TMCC may require, subject to TMCC's sole discretion; and

(7) TMCC shall have received from Borrower payment for expenses (including without limitation title insurance costs and attorneys' fees) incurred by TMCC in connection with extending the Maturity Date of such Term Loan plus such additional amounts as shall constitute the TMCC's reasonable estimate of additional expenses, incurred or to be incurred by it through the closing of such extension.

Upon the satisfaction of the conditions set forth in this subsection g, the term "Maturity Date" when used with reference to the Term Loan specified by Borrower in the notice delivered pursuant to clause (1) above shall be the date that is sixty (60) months after the effective Maturity Date for such Term Loan as of the date of such notice, and the Note evidencing such Term Note and each other Loan Document containing a reference to such Maturity Date shall be amended to mean the Maturity Date of such Term Loan as extended by this subsection g.

2.3 Credit for Payments. The receipt of any payment by TMCC shall not be considered a payment on account until same is honored when presented for payment.

2.4 Monthly Statements. TMCC shall provide Borrower with monthly statements of the outstanding sums due and owing by Borrower to TMCC under the Notes. In the absence of manifest error, such statements shall be conclusively presumed to be correct and accurate and constitute an account stated between Borrower and TMCC unless, within thirty (30) days after delivery thereof to Borrower, Borrower shall deliver to TMCC, by written objection thereto specifying the error or errors, if any, contained in any such statement.

ARTICLE III
SECURITY INTEREST; COLLATERAL

3.1 Collateral. As security for the obligations of Borrower under the Loan Documents, Borrower has or will grant to TMCC a first (except as otherwise agreed to in writing by TMCC) and prior continuing lien on all Property (including, without limitation, all Eligible Property) covered by a Deed of Trust (collectively, the "Collateral"). Without limiting the foregoing, the following shall be conditions precedent to any Property becoming an Eligible Property:

a. Appraisal. TMCC shall have received an MAI appraisal (from an appraiser as shall be selected by Borrower and TMCC) regarding such Property;

b. Documentary Conditions. Borrower shall have executed and delivered, or caused to be executed and delivered, security documents with respect to such Property in form and substance satisfactory to TMCC and its counsel, as follows:

(1) Deed of Trust. One or more recordable deeds of trust or mortgages, in form and substance acceptable to TMCC, granting to TMCC a first priority lien in such Property as security for the Advances subject only to such exceptions as TMCC may expressly approve in writing, in its sole discretion;

(2) Assignment of Leases. If required by TMCC, one or more recordable Assignments of Rents and Leases, satisfactory to TMCC (which may be incorporated within a Deed of Trust);

(3) Tenant Agreement. If required by TMCC, a recordable Subordination, Nondisturbance and Attornment Agreement, satisfactory to TMCC, from any tenant thereof; and

(4) Environmental Indemnification. If required by TMCC, an Agreement and Indemnification concerning Hazardous Materials executed by Borrower and satisfactory to TMCC.

c. Title Insurance. An ALTA extended coverage mortgagee's policy of title insurance in an aggregate amount not less than the Credit Limit issued by a title company or companies satisfactory to TMCC, insuring the lien of the Deed of Trust specified in preceding subparagraph b (1) to be first priority liens upon such Property as security for the Advances subject only to such exceptions as TMCC may expressly approve in writing; and

d. Environmental Report. TMCC shall have received a Phase I environmental report regarding such Property to be satisfactory to TMCC.

3.2 Pledge of Additional Collateral. Borrower shall have the right to add additional Property to the pool of Collateral and, subject to the conditions set forth in Section 3.1 hereof, to increase the Borrowing Base by the Loan Value of such Property.

3.3 Release of Collateral. Borrower shall have the right to sell or otherwise request the release of Property(ies) comprising the Collateral and obtain a partial reconveyance, satisfaction or release of security documents from TMCC with respect to such Collateral; provided that (i) no Event of Default or event that, with the giving of notice or the passing of time, or both, would constitute an Event of Default, has occurred and is continuing or would result therefrom, (ii) in the case of Collateral securing the Advances, the Borrowing Base shall be reduced by the Loan Value of the Eligible Property sold or released, and (iii) in the case of Collateral securing a Term Loan, such Term Loan shall have been, or concurrent with such sale or release shall be, repaid in full.

3.4 Termination of Revolving Loan. Upon repayment in full of all Advances and termination of the Revolving Loan, TMCC will release its security interest in the Collateral except for such Collateral as is security for outstanding Term Loans or other obligations of Borrower to TMCC.

ARTICLE IV
CONDITIONS

4.1 Conditions Precedent to Initial Advance. In addition to the conditions set forth in Section 4.3 hereof, the effectiveness of this Agreement and the extension of financial accommodations to Borrower by TMCC hereunder are subject to the fulfillment of the following conditions:

a. Borrower Conditions. Borrower shall execute (by its authorized officers) and deliver to TMCC, or cause to be issued or executed by third parties and delivered to TMCC, all documents requested by TMCC, in form and content acceptable to TMCC and its counsel, including but not limited to the following:

(1) Loan Agreement. This Agreement;

(2) Promissory Note. A Note in a form substantially similar to Exhibit A-1 hereto;

(3) Evidence of Authorization. (i) Copies of such charter documents of Borrower, and of such resolutions of Borrower authorizing the execution, delivery and performance of the Loan Documents to which it is or is to become a party pursuant hereto, and (ii) such evidence of Borrower's continuing existence and good standing, as TMCC may require; and

(4) Other Documents. Such other documents as TMCC may require from time to time.

b. Guarantor Conditions. Each Dealer operating an automobile dealership on any Property comprising the Collateral shall have executed and delivered, or caused to be executed and delivered, loan documentation in form and substance satisfactory to TMCC and its counsel, as follows:

(1) Guaranty. A Continuing and Irrevocable Guaranty in a form substantially similar to Exhibit C-1 hereto with appropriate insertions, pursuant to which such Dealer shall guaranty the payment of the Advances in an amount equal to the Loan Value of the Property(ies) comprising the Collateral on which such Dealer operates an automobile dealership; and

(2) Evidence of Authorization. (i) Copies of such charter documents of such Dealer, and of such resolutions of such Dealer authorizing the execution, delivery and performance of the Loan Documents to which it is or is to become a party pursuant hereto,

and (ii) such evidence of such Dealer's continuing existence and good standing, as TMCC may require.

c. Collateral Conditions. Receipt by TMCC of evidence satisfactory to it that (1) each of the conditions described in Section 3.1 hereof for the Property(ies) comprising the Collateral have been satisfied, including, without limitation, each Eligible Property and (2) all Liens against the Collateral have been released (except such as are accepted by TMCC in writing) and that TMCC will obtain a perfected first priority lien (unless otherwise agreed by TMCC in writing) against the Collateral as security for the Advances upon the disbursement of the initial Advance.

d. Costs and Expenses. TMCC shall have received from Borrower payment for expenses (including without limitation title insurance costs and attorneys' fees) incurred by TMCC in connection with the preparation of the Loan Documents and closing the transactions contemplated hereby and thereby plus such additional amounts as shall constitute the TMCC's reasonable estimate of additional expenses, incurred or to be incurred by it through the closing proceedings for the initial Advance.

4.2 Conditions Precedent to Each Term Loan. The following shall be conditions precedent to each Term Loan:

a. Borrower Conditions. Borrower shall execute (by its authorized officers) and deliver to TMCC, or cause to be issued or executed by third parties and delivered to TMCC, all documents requested by TMCC, in form and content acceptable to TMCC and its counsel, including but not limited to the following:

(1) Promissory Note. A Note in a form substantially similar to Exhibit A-2 hereto with appropriate insertions;

(2) Evidence of Authorization. (i) Copies such resolutions of Borrower authorizing the execution, delivery and performance of the Loan Documents to which it is or is to become a party pursuant hereto, and (ii) such evidence of Borrower's continuing existence and good standing, as TMCC may require;

(3) Deed of Trust. A recordable deed of trust or mortgage, satisfactory to TMCC, or a recordable amendment to an existing Deed of Trust, in each case in form and substance acceptable to TMCC covering the Term Loan Collateral granting to TMCC a first priority lien as security for the Term Loan subject only to such exceptions as TMCC may expressly approve in writing, in its sole discretion;

(4) Assignment of Leases. If required by TMCC, a recordable Assignment of Rents and Leases (which may be incorporated within a Deed of Trust), or a recordable amendment to an existing Assignment of Rents and Leases, in each case satisfactory to TMCC;

(5) Title Insurance. An ALTA extended coverage mortgagee's policy of title insurance, or an endorsement to an existing ALTA extended coverage mortgagee's policy of title insurance, in each case on the Term Loan Collateral in an aggregate amount

not less than the principal amount of the Term Loan issued by a title company or companies satisfactory to TMCC, insuring the lien of the Deed(s) of Trust securing the Term Loan to be first priority liens upon such Collateral as security for the Term Loan subject only to such exceptions as TMCC may expressly approve in writing; and

(5) Other Documents. Such other documents as TMCC may require from time to time.

b. Guarantor Conditions. Each Dealer that operates an automobile dealership on any Property comprising the Term Loan Collateral shall have executed and delivered, or caused to be executed and delivered, loan documentation in form and substance satisfactory to TMCC and its counsel, as follows:

(1) Guaranty. A Continuing and Irrevocable Guaranty in a form substantially similar to Exhibit C-2 hereto with appropriate insertions, pursuant to which such Dealer shall guaranty the payment of the Term Loan; and

(2) Evidence of Authorization. (i) Copies of such resolutions of such Dealer authorizing the execution, delivery and performance of the Loan Documents to which it is or is to become a party pursuant hereto, and
(ii) such evidence of such Dealer's continuing existence and good standing, as TMCC may require.

c. Collateral Conditions. Receipt by TMCC of evidence satisfactory to it that all Liens against the Term Loan Collateral have been released (except such as are accepted by TMCC in writing) and that TMCC will obtain a perfected first priority lien (unless otherwise agreed by TMCC in writing) against the Term Loan Collateral as security for the Term Loan.

d. Costs and Expenses. TMCC shall have received from Borrower payment for expenses (including without limitation title insurance costs and attorneys' fees) incurred by TMCC in connection with closing the transactions contemplated by this Section plus such additional amounts as shall constitute the TMCC's reasonable estimate of additional expenses, incurred or to be incurred by it through the closing of such transactions.

4.3 Conditions Precedent to Each Advance and Term Loan. The following shall be conditions precedent to all Advances and Term Loans, including the Advances made pursuant to Section 4.1 above and Term Loans made pursuant to
Section 4.2 above:

a. Representations and Warranties. As of the date any Advance or Term Loan is made hereunder, the representations and warranties set forth in Article V hereof shall be true and correct on and as of such time with the same effect as though such representations and warranties had been made on and as of such time, except to the extent that such representations and warranties expressly relate to an earlier date.

b. No Default. No Event of Default has occurred and is continuing or would result from such Advance or Term Loan, and no event has occurred and be continuing which with the giving of notice or passage of time or both would become an Event of Default hereunder.

c. Other Documents. Such other documents and instruments, including assignments, releases, subordination and intercreditor agreements, security agreements, certificates, and the like, as TMCC shall request in order to perfect, protect, obtain and maintain a first priority security interest in the Collateral and to carry out and effectuate this Agreement or the other Loan Documents.

ARTICLE V
REPRESENTATIONS AND WARRANTIES

Borrower makes the following representations and warranties to TMCC on the date hereof and at the time any Advance or Term Loan is made, and with respect to such Advance or Term Loan. TMCC shall be entitled to rely upon the truth, accuracy, and completeness of the following representations and warranties without regard to any other information that may be now or hereafter known by or disclosed to TMCC or its officers, employees, agents, attorneys or other advisors:

5.1 Corporate Action. Borrower has the power and authority to engage in the transactions contemplated by this Agreement and if applicable, all actions, corporate or otherwise, have been taken which are necessary to authorize the execution, delivery and performance of this Agreement, the Note(s) and each of the Loan Documents to which it is a party. This Agreement and the Loan Documents, and actions contemplated thereby, constitute valid and legally binding obligations of Borrower enforceable in accordance with their respective terms.

5.2 No Disputes or Defaults. There are no disputes, offsets or adverse claims in connection with or arising out of any of the Collateral or other security assigned or to be assigned to TMCC of which Borrower has knowledge which have not been disclosed to TMCC in writing. No event or condition is continuing which constitutes, or with notice or lapse of time would constitute, a default or an Event of Default. There is no action, suit or proceeding pending or threatened against Borrower which would result in a material adverse change in the business, assets or financial condition of Borrower ("Material Adverse Change") or of Borrower's rights or duties hereunder or under the other Loan Documents. Borrower has filed all tax returns required to be filed by it or obtained extensions, and is not in default in the payment of any taxes levied against the Property or any of its other assets which could result in a Material Adverse Change. Borrower is not in default in any material way in respect to an obligation under any applicable law, judgment, order, writ, injunction, decree, rule or other regulation of any court, administrative agency, or other governmental authority to which it may be subject which could result in a Material Adverse Change. Borrower is not in violation of any term or provision of its charter articles of incorporation or organization, by-laws or operating agreement which could result in a Material Adverse Change. Neither the execution and delivery, nor the performance of and compliance with this Agreement or any other document or action required by Borrower pursuant to this Agreement will result in the breach or default under any agreement, obligation, order or undertaking by which Borrower, or its property is bound or affected which could result in a Material Adverse Change.

5.3 Financial Accuracy. No certificate, financial statement, schedule or any other statement made or furnished to TMCC by or on behalf of Borrower in connection with this

Agreement or any other Loan Document contains or will contain any materially untrue statement of fact or omits any material fact. All financial statements provided to TMCC have been prepared in accordance with generally accepted accounting principles applied on a consistent basis to prior periods and accurately and completely represent the financial conditions of Borrower as of their respective dates in all material respects. There are no facts known to Borrower which have not been disclosed in writing to TMCC which materially and adversely affect the business, properties, assets, operations or condition (financial or otherwise), affairs, or prospects of Borrower.

5.4 Notice of Default. Borrower shall give prompt written notice to TMCC of all Events of Default under any of the terms or provisions of this Agreement or any other agreement entered into between Borrower and any other lender which has a materially adverse effect on Borrower's financial condition or operation, material changes in ownership, material litigation (not covered by insurance), or any other matter which has resulted or might reasonably be expected to result in a Materially Adverse Change. Borrower shall authorize any creditor with which a default exists to release all pertinent financial or other information concerning such default to TMCC.

5.5 Environmental Quality. Borrower has complied with all applicable Environmental Laws in all material respects. Neither Borrower nor any Collateral is under any investigation related to it by any state or federal agency designated to enforce said Environmental Laws nor is any such investigation threatened.

5.6 Good Title. Borrower has good and marketable title to any and all Collateral and Property and other security granted by it to TMCC, which shall be free from any other mortgage, pledge, lien, security interest, lease, encumbrance or charge. If the interest of Borrower in any Property is threatened for any reason, Borrower authorizes TMCC to take all necessary steps for the defense of such interests, including employment of counsel and the compromise and discharge of said claims, and Borrower agrees to reimburse TMCC for all reasonable costs, including attorneys' fees, incurred in connection therewith, and any costs and fees incurred shall be repaid by Borrower on demand and bear interest from the date incurred until repaid by Borrower at the default rate set forth in the Note evidencing the Advances.

5.7 Leases. Borrower has delivered to TMCC a true and correct copy of and each Property Lease affecting any of the Property(ies) comprising the Collateral, including all amendments thereto, as currently in full force and effect. There currently exists no default under any such Property Lease(s). The Property Lease(s) contains the full agreement of the parties thereto with respect to the subject matter thereof.

ARTICLE VI
AFFIRMATIVE COVENANTS

Borrower covenants and agrees that so long as TMCC shall have any obligation to extend financial accommodations to Borrower hereunder, and until payment in full of all amounts owed by Borrower to TMCC hereunder and under the other Loan Documents, Borrower agrees to do all of the following unless TMCC shall otherwise consent in writing:

6.1 Maintenance of Existence. To maintain and preserve its existence, good standing, assets and all rights and other authority in each jurisdiction necessary for the conduct of its business. Borrower shall not change its business organization, liquidate, dissolve or enter into any consolidation, merger or other combination in which its separate entity shall cease to exist without the prior written consent of TMCC. Borrower shall not permit any transfer of ownership or control, in whole or in part, without the prior written consent of TMCC.

6.2 Taxes, Assessments and Other Charges. To duly and promptly pay and discharge all taxes, assessments and governmental and other charges, levies or claims which if unpaid might become a lien or a charge upon the property, assets or earnings of Borrower, except such as are being diligently contested in good faith and by the appropriate proceedings or bonded over.

6.3 Laws. To comply in all material respects with all material federal, state and local statutes, regulations, ordinances, and requirements affecting the ownership of its property and conduct of its business.

6.4 Subordination. To subordinate to the lien of TMCC any obligations owed by Borrower to its principals, owners or officers.

6.5 Maintain Collateral. To maintain the Collateral in good condition and repair, reasonable wear and tear excepted, and permit TMCC to inspect the Collateral at any time during regular business hours.

6.6 Payment of Obligations. To pay as part of the indebtedness secured hereby and by the other Loan Documents all amounts with interest thereon paid by TMCC for taxes (other than TMCC's income or franchise taxes), levies, insurance, repairs to or maintenance of the Collateral and Property after TMCC's taking possession of, disposing of or preserving the Collateral or Property after any default under the Loan Documents.

6.8 Environmental Matters. Borrower covenants, represents and agrees as follows:

a. Hazardous Materials and Environmental Control Laws. All Environmental Laws will continue to be complied with by Borrower in all material respects. Borrower has not received notice of any violation of any Environmental Laws and is not under any investigation by any state or federal agency designated to enforce said laws and regulations. Borrower shall not cause or permit the (i) violation of any law relating to industrial hygiene or environmental conditions in connection with any Property, including soil and ground water conditions; (ii) use, generation, or storage of any hazardous materials on, under, or about any Property, except in accordance with all applicable laws; or (iii) manufacture or disposal of any hazardous materials on, under, or about any Property, except in accordance with all applicable laws.

b. Hazardous Materials Indemnification. Borrower shall indemnify TMCC and hold TMCC and its assigns, agents, attorneys, successors, affiliates, subsidiaries, and parent companies, officers, directors, shareholders, and representatives, harmless from and against all loss, penalty, liability, damage, and expenses suffered or incurred by TMCC (whether as holder of any Deed of Trust, as beneficiary in possession, or as successor-in-interest, or holder of interest in any

Property by virtue of foreclosure or acceptance of a deed in lieu of foreclosure or otherwise) relating to or arising out of (i) the presence of hazardous materials on, under, or about such Property; (ii) any hazardous materials affecting such Property or any contiguous real estate owned by Borrower, including any loss of value of such Property as a result of the presence of hazardous materials; or (iii) any other matter affecting the Property within the jurisdiction of the government of the United States or any State or any political subdivision of any thereof or any department, agency or regulatory authority with authority to enforce any Environmental Law, which loss, penalty, liability, damage, and expense shall include, but not be limited to (A) court costs, attorneys' fees, and expense disbursements through and including appellate court proceedings, (B) all foreseeable and unforeseeable consequential damages, directly or indirectly arising out of the use, generation, storage, or disposal of hazardous materials by Borrower,or any prior owner or operator of the Property, (C) the cost of any required or necessary investigation, repair, buried tank removal, clean-up, or detoxification of any Property, and (D) the cost of preparation of any disclosure or other plans required under any hazardous waste or buried tank law or regulation necessary prior to the transfer of any Property.

6.9 Insurance. To maintain at its expense insurance on all Collateral and Property in an amount and upon such terms and covering such risks as are acceptable to TMCC.

6.10 Financial Statements. To furnish or cause to be furnished to TMCC:

a. Within ninety (90) days after the last day of each fiscal year of the Borrower, audited financial statements including income and statements of changes in financial position for such year and balance sheets as of the end of such year presented and prepared on a consistent basis and in accordance with generally accepted accounting principles and in form satisfactory to TMCC.

b. Within forty-five (45) days after the last day of each fiscal quarter, unaudited statements of income, changes in financial position for such fiscal quarter and balance sheets as of the end of such fiscal quarter of the Borrower, in a form satisfactory to TMCC accompanied in each case by a certificate of an officer stating that said financial statements are true and correct and in all material respects and fairly present the financial condition and results of operations of Borrower at the date thereof of for the period then ended.

6.11 Notices. To promptly give TMCC notice of:

a. The occurrence of any Event of Default;

b. Any litigation of proceeding affecting Borrower or any of its Affiliates that could have a Material Adverse Change; or

c. A Material Adverse Change.

6.12 Use of Proceeds. To use the proceeds of each Advance for acquisitions of real property related to the operation of an automobile dealership.

ARTICLE VII

NEGATIVE COVENANTS

Borrower covenants and agrees that so long as TMCC shall have any obligation to extend financial accommodations to Borrower hereunder, and until payment in full of all amounts owed by Borrower to TMCC hereunder and under the other Loan Documents, Borrower will not, directly, or indirectly do any of the following unless TMCC shall otherwise consent in writing:

7.1 Consolidation and Merger. Liquidate or dissolve or enter into any consolidation, merger, partnership, joint venture, syndicate or other combination.

7.2 Liens. Create, incur, assume or suffer to exist, any Lien, individually or in the aggregate, upon the Collateral or permit any Affiliate to do so except (i) Liens in favor of TMCC, (ii) Liens specified on Schedule 6.8 ("Permitted Liens"), (iii) such Liens as TMCC may expressly approve in writing, in its sole discretion, and (iv) liens or charges for current taxes or assessments that are not delinquent or that remain payable without penalty, or the validity of which are contested in good faith by appropriate proceedings upon stay of execution of the enforcement thereof; provided that the Borrower shall have set aside on its books and shall maintain adequate reserves for the payment of same in conformity with generally accepted accounting principals, consistently applied.

7.3 Sale of Assets. Sell, lease, transfer, exchange or otherwise dispose of any part of its interest in the Collateral or any Property without the prior written consent of TMCC except for sale of inventory in the ordinary course of business.

7.4 Indebtedness. Create, incur, assume or suffer to exist, or otherwise become or be liable, in respect of any Indebtedness, exceeding $100,000 individually or in the aggregate, except:

a. The obligations of Borrower to TMCC hereunder; and

b. The Indebtedness reflected in Borrower's balance sheet at December 31, 2002, and all extensions and renewals thereof.

7.5 Change of Control. Suffer or permit a change of Control of Borrower, or permit the sale or transfer of any significant assets other than in the ordinary course of business.

ARTICLE VIII
EVENTS OF DEFAULT AND CERTAIN REMEDIES

8.1 Events of Default. Any one or more of the following shall constitute an Event of Default by Borrower under this Agreement:

a. Failure to Pay any Obligation. Borrower's failure to make any payment, pursuant to the terms of any Note or this Agreement, of the principal or interest on the Revolving Loan, any Term Loan or any other amount payable hereunder or thereunder, or default by Borrower in the payment of any other indebtedness or obligation of such person to TMCC, whether now existing or hereafter arising, such failure not having been cured within ten (10) days of its due date.

The cure of such default shall not excuse or limit Borrower's obligation to pay interest and late charges which shall continue to accrue until paid in full.

b. Breach of Representation or Warranty. Any representation, warranty or statement made by Borrower to TMCC shall prove to have been false or misleading in any respect when made or deemed made.

c. Default in Agreements. Borrower fails to discharge any other obligation of due performance, or to observe any material covenant or condition of this Agreement, the Deeds of Trust, any other Loan Document, or any other agreement or arrangement between Borrower and TMCC, and such failure shall continue unremedied for a period of thirty (30) days after the earlier of (i) the date upon which written notice thereof shall have been given to Borrower by TMCC or (ii) the date upon which a responsible officer of Borrower knew or reasonably should have known of such failure.

d. Guarantor Default. Any Guarantor revokes or attempts to revoke any Guaranty to which such Guarantor is a party or fails to discharge any obligation of due performance, or to observe any material covenant or condition of any Guaranty to which such Guarantor is a party, and such failure shall continue unremedied for a period of thirty (30) days after the earlier of (i) the date upon which written notice thereof shall have been given to such Guarantor by TMCC or (ii) the date upon which a responsible officer of such Guarantor knew or reasonably should have known of such failure.

e. Attachment, Execution. The levy of any attachment, execution or other like process in an amount in excess of One Hundred Thousand Dollars ($100,000) against any of Borrower's property, unless within thirty (30) days thereof, such attachment, execution or process is released, Borrower provides a bond acceptable to TMCC, or substitute collateral is provided and accepted consistent with the terms hereof.

f. Abandonment. Borrower shall abandon or vacate any of the Collateral for more than thirty (30) days.

g. Bankruptcy. Borrower or any person (including any Guarantor) obligated to pay any part of the indebtedness evidenced, governed or secured by the Note(s), this Agreement or any other document, instrument or agreement executed in connection herewith:

(1) does not pay its debts as they become due or admits in writing its inability to pay its debts or makes a general assignment for the benefit of creditors; or

(2) commences any case, proceeding or other action seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors; or

(3) in any involuntary case, proceeding or other action commenced against it which seeks to have an order for relief entered against it, as debtor, or seeks reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its

debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, (i) fails to obtain a dismissal of such case, proceeding or other action within thirty (30) days of its commencement, or
(ii) converts the case from one chapter of the Federal Bankruptcy Code to another chapter, or (iii) is the subject of an order for relief, or (iv) consents thereto; or

(4) conceals, removes or permits to be concealed or removed, any part of its property, with intent to hinder, delay or defraud its creditors or any of them, or makes or suffers a transfer of any of its property which may be fraudulent under any bankruptcy, fraudulent conveyance or similar law; or makes any transfer of its property to or for the benefit of a creditor at a time when other creditors similarly situated have not been paid; or suffers or permits, while insolvent, any creditor to obtain a lien upon any of its property through legal proceedings which is not vacated or bonded over within sixty (60) days from the date thereof; or

(5) has a trustee, receiver, custodian or other similar official appointed for or take possession of all or any part of the Collateral or any other of its property or has any court take jurisdiction of any other of its property which continues for a period of thirty (30) days (except where a shorter period is specified in the following subparagraph (6)); or

(6) fails to have discharged or bonded over within a period of thirty (30) days any attachment, sequestration, or similar writ levied upon any property of such person; or

(7) fails to pay promptly any final money judgment entered against it exceeding $25,000 against such person unless covered by insurance.

h. Leases. Without the prior written consent of TMCC, amends (or suffers the termination of) any Property Lease or enters into any lease of part or all of the Collateral other than a Property Lease.

i. Deterioration. TMCC reasonably determines that the condition of any material portion of the Collateral has deteriorated to such a degree that it impairs the security of TMCC therein.

j. Foreclosure. The holder of any lien, security interest or assignment on any Property institutes foreclosure or other proceedings or takes other action for the enforcement of its remedies thereunder.

k. Impairment. Reasonable belief by TMCC that the prospect of payment or performance of any obligation under any of this Agreement or any of the Loan Documents is materially impaired.

l. Financial Condition. The occurrence and continuance of any Material Adverse Change in the financial condition of Borrower.

8.2 REMEDIES UPON DEFAULT. Upon the occurrence of one or more of the Events of Default as set forth above, unless all such Events of Default shall have been cured within the time provided, or waived in writing by TMCC, all amounts outstanding under this Agreement and the Notes shall, at the option of TMCC, without presentment, demand, protest or notice of acceleration, notice of intent to accelerate or notice of any kind (all of which are hereby expressly waived), be immediately due and payable, anything herein or in the Note(s) or other agreement to the contrary notwithstanding, and TMCC may enforce, but shall not be obligated to enforce, payment of all obligations and liabilities of Borrower under this Agreement by taking (without limitation) any or all of the following actions:

a. Declare all obligations owing by Borrower to TMCC, whether evidenced by this Agreement, the Note(s), or otherwise, immediately due and payable;

b. Cease advancing money or extending credit to or for the benefit of Borrower under this Agreement, or any other agreement between Borrower and TMCC;

c. Terminate this Agreement as to any future liability or obligation of TMCC, but without affecting TMCC's rights and security interest in the Collateral and without affecting the obligations owing by Borrower to TMCC;

d. Without notice to or demand upon Borrower, make such payments and do such acts as TMCC considers necessary or reasonable to protect its security interest in the Collateral and the Property. Borrower agrees to assemble the Collateral if TMCC so requires, and to make the Collateral available to TMCC as TMCC may designate. Borrower authorizes TMCC to enter the premises where the Collateral is located, take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest or compromise any encumbrance, charge or lien (other than Permitted Liens or Liens approved by TMCC in writing), which in the opinion of TMCC appears to be prior or superior to its security interest and to pay all expenses incurred in connection therewith;

e. Sell the Collateral at either public or private sales, or both, for cash or on terms, in such manner and at such places (including at Borrower's premises) as is commercially reasonable in the determination of TMCC and in accordance with applicable law. TMCC may bid (by credit bidding or in any other permitted way) and purchase at any public sale. It is not necessary that the Collateral be present at any such sale;

f. TMCC shall provide, as required by law, notice of the disposition of the Collateral, unless such notice shall have been waived by Borrower;

g. Foreclose on the Collateral, in whole or in part, and exercise its rights under the Assignments of Rents and Leases and the Deeds of Trust;

h. Borrower shall pay all costs and expenses incurred by TMCC in connection with TMCC's enforcement and exercise of any of its rights and remedies as herein provided, whether or not suit is commenced by TMCC;

j. After disposition of the Collateral, any deficiency which exists as provided above will be paid immediately by Borrower to TMCC, and any excess which exists will be returned to Borrower by TMCC, without interest and subject to the rights of third parties;

provided, however, that upon the occurrence of one or more of the other Events of Default set forth in subsection g of Section 8.1 hereof, any obligation of TMCC to extend financial accommodations to Borrower hereunder shall immediately terminate and all amounts outstanding under this Agreement and the Notes shall be immediately due and payable without presentment, demand, protest or notice of acceleration, notice of intent to accelerate or notice of any kind (all of which are hereby expressly waived).

8.3 Rights and Remedies, Generally. TMCC's rights and remedies under this Agreement and all other agreements shall be cumulative. TMCC shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by TMCC of one right or remedy shall be deemed an election, and no waiver by TMCC of any Event of Default shall be deemed a continuing waiver. No delay by TMCC shall constitute a waiver, election or acquiescence by it.

ARTICLE IX
MISCELLANEOUS

9.1 Waivers. Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, notice of default (except as required hereunder), nonpayment at maturity, release, compromise, settlement, extension or renewal of any or all Collateral or guarantees at any time held by TMCC on which Borrower may in any way be liable. Except for the gross negligence or willful misconduct of TMCC, TMCC shall not in any way or manner be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency or other person whomsoever. All risk of loss, damage or destruction of the Collateral shall be borne by Borrower.

9.2 Warranties, Representations and Agreements, Renewed and Cumulative. Each warranty, representation and agreement contained in this Agreement shall be automatically deemed repeated with each Advance and shall be conclusively presumed to have been relied on by TMCC regardless of any investigation made or information possessed by TMCC unless Borrower has notified TMCC in writing of any change in such warranty, representation or agreement. The warranties, representations, covenants, and agreements set forth herein shall be cumulative and in addition to any and all other warranties, representations, covenants, and agreements which Borrower shall give or cause to be given, to TMCC, either now or hereafter.

9.3 Notices. Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement must be in writing, sent regular United States mail, postage prepaid, express mail, or electronically with receipt confirmation, addressed to Borrower or to TMCC at the following address:

TMCC:

Toyota Motor Credit Corporation
19001 So. Western Avenue
P.O. Box 2958
Torrance, CA 90509-2958
Attention: Vice President Operations

BORROWER:

Lithia Real Estate, Inc.
360 East Jackson Street
Medford, OR 97501
AttnBill Greenstein

9.4 Attorneys Fees and Costs and Other Expenses. Borrower agrees to pay to TMCC, on demand, reasonable attorneys' fees and all other costs and expenses, including but not limited to costs associated with the sale or other collection or disposition of the Collateral by TMCC, which may be incurred by TMCC in the collection or attempted collection from Borrower of any and all amounts due under this Agreement and the Note(s) and/or in the interpretation, enforcement or attempted enforcement by TMCC, or amendment or workout, of this Agreement or the Note(s) or any Lien on the Collateral and Property(ies), including, but not limited to, proceedings in any bankruptcy or other insolvency case or other proceeding affecting Borrower or any guarantor of the obligations hereunder this Agreement, the Note(s) and/or the Collateral therefor, in any manner, whether or not legal proceedings or suit are instituted, together with interest thereon at the rate specified in the Note(s).

9.5 Assignment. This Agreement shall bind and inure to the benefit of the respective successors and assigns of each of the parties; provided, however, that Borrower may not assign this Agreement or any other Loan Document or any rights hereunder or thereunder without TMCC's prior written consent and any prohibited assignment shall be absolutely void.

9.6 Indemnity. Borrower agrees to indemnify and hold harmless TMCC, its parent corporation and subsidiaries and their respective directors, officers, shareholders, employees, agents, servants, successors and assigns, from any cost, loss, liability or expense, including reasonable attorney fees, which result from the security interest held by TMCC in the Collateral, except for claims or liabilities arising from the gross negligence or willful misconduct of TMCC or its representatives.

9.7 Merger; No Oral Effect. This Agreement cannot be changed or terminated orally and amended only in writing signed by all parties hereto. All prior agreements, understandings, representations, warranties, and negotiations, if any, are merged into this Agreement.

9.8 Choice of Law and Venue. The validity of this Agreement, its construction, interpretation and enforcement, and the rights of the parties hereunder and concerning the Collateral, shall be determined under, governed by and construed in accordance with the laws of

the State of Oregon. The parties agree that all actions or proceedings arising in connection with this Agreement shall be tried and litigated only in the state or federal courts sitting in Portland, Multnomah County, Oregon. Borrower and TMCC each waives any right it may have to assert the doctrine of forum non conveniens or to object to such venue and hereby consents to any court ordered relief.

9.9 JURISDICTION AND VENUE. BORROWER HEREBY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF OREGON AND OF THE STATE IN WHICH THE COLLATERAL IS LOCATED, AND THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF OREGON, AS WELL AS TO THE JURISDICTION OF ALL COURTS FROM WHICH AN APPEAL MAY BE TAKEN FROM THE AFORESAID COURTS, FOR THE PURPOSE OF ANY SUIT, ACTION OR OTHER PROCEEDING ARISING OUT OF ANY OF BORROWER'S OBLIGATIONS UNDER OR WITH RESPECT TO THIS NOTE, AND EXPRESSLY WAIVES ANY AND ALL OBJECTIONS IT MAY HAVE AS TO VENUE IN ANY OF SUCH COURTS.

9.10 JURY TRIAL WAIVER. TO THE EXTENT PERMITTED BY LAW, BORROWER AND TMCC HEREBY WAIVE ANY RIGHT TO TRIAL BY JURY TO ANY ACTION BROUGHT BY TMCC, BORROWER OR ANY THIRD PERSON ARISING UNDER THIS AGREEMENT, THE NOTE(S), AND ANY OTHER LOAN DOCUMENT EXECUTED IN CONNECTION HEREWITH, INCLUDING, WITHOUT LIMITATION, ANY ACTION BASED UPON FRAUD, NEGLIGENCE, BREACH OF CONTRACT, WASTE, INTENTIONAL TORT OR NEGLIGENT TORT. BORROWER AND TMCC AGREE THAT SUCH ACTION SHALL BE TRIED BY THE COURT ONLY AND FURTHER AGREE TO EXECUTE AND TO FILE WITH ANY COURT IN WHICH ANY SUCH ACTION IS COMMENCED, ANY DOCUMENTS OR INSTRUMENTS NECESSARY TO EVIDENCE OR TO EFFECTUATE THIS WAIVER OF TRIAL BY JURY.

BORROWER'S INITIALS

TMCC'S INITIALS

9.11 Construction of Agreement. This Agreement is the product or negotiations between the parties. The interpretation and/or enforcement is not to be more strongly in favor of one party or the other. This Agreement and the other Loan Documents have been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of the parties hereto.

9.12 Severability. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

9.13 Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original as against any party who signed it, and all of which shall constitute one and the same document

9.14 When Agreement Is Effective. This Agreement shall be binding and deemed effective when executed by Borrower and accepted and executed by TMCC.

IN WITNESS WHEREOF, Borrower and TMCC have executed and delivered this Agreement as of the date first indicated above.

BORROWER:

LITHIA REAL ESTATE, INC., an Oregon
corporation

By:

Name:
Title:

TMCC:

TOYOTA MOTOR CREDIT CORPORATION, a
California corporation

By: /s/ David Pelliccioni

Name: David Pelliccioni
Title: Group Vice President

Exhibits:

Exhibit A-1 Promissory Note (Revolving Loan) Exhibit A-2 Promissory Note (Term Loan)
Exhibit B-1 Guaranty Agreement (Revolving Loan) Exhibit B-2 Guaranty Agreement (Term Loan) Exhibit C-1 Borrowing Notice
Exhibit C-2 Conversion Notice

Exhibit A-1

AMENDED AND RESTATED PROMISSORY NOTE
(Revolving Loan)

$40,000,000 May 10, 2002

FOR VALUE RECEIVED, the undersigned, Lithia Real Estate, Inc., an Oregon corporation (the "Borrower"), promises to pay to Toyota Motor Credit Corporation, a California corporation ("TMCC"), or its order, at 19001 So. Western Avenue, P.O. Box 2958, Torrance, California 90509-2958, on May ___, 2005 (the "Maturity Date") the unpaid principal balance of all Advances made by TMCC under this Note, in a maximum amount not to exceed Forty Million Dollars ($40,000,000) together with interest thereon as provided in this Promissory Note (the "Note").

This Note is issued under and is subject to the terms of that certain Amended and Restated Loan And Security Agreement of even date herewith (as amended or otherwise modified from time to time, the "Loan Agreement"), executed by Borrower and TMCC. The Loan Agreement contains terms upon which the Advances are made and this Note is issued. In the event of any inconsistency or conflict between the terms of this Note and the terms of the Loan Agreement, the terms of this Note shall control. Capitalized terms used in this Note which are not defined herein have the meanings set forth in the Loan Agreement. This Note is subject to acceleration upon the terms provided herein and in the Loan Agreement.

This Note amends, restates and continues that certain Amended and Restated Revolving Note Secured by Deed of Trust made by Borrower in favor of TMCC dated July 2, 2001 in the amount of Eighteen Million Dollars ($18,000,000) (the "Prior Note"). The indebtedness evidenced by the Prior Note has not been repaid, satisfied or discharged and nothing herein shall constitute a repayment, satisfaction or discharge of such indebtedness.

1. Interest. The Advances evidenced by this Note shall bear interest at a per annum rate two (2.00%) percentage points above the one (1) month London Interbank Offered Rate ("LIBOR"), as published by the Wall Street Journal in its "Money Rates" section, in effect on the last calendar day of the month preceding the date of this Note. The LIBOR Rate shall be adjusted, as necessary, on the first calendar day of each month, based on the LIBOR Rate in effect as of the last calendar day of the preceding month. Should the method of establishing the LIBOR Rate, or the publication of the London Interbank Offered Rates for one (1) month deposits in the Wall Street Journal cease or be abolished, then the LIBOR Rate shall be based on a comparable index selected by TMCC. Interest shall be calculated on the basis of a year of three hundred sixty (360) days applied to the actual number of days elapsed on the unpaid principal balance.

2. Payment Terms. Borrower shall repay to TMCC the principal amount of the Advances evidenced by this Note on or before the Maturity Date. Accrued but unpaid interest on each Advance evidenced by this Note shall be paid in arrears on the first Business Day of each month and on the Maturity Date. Unpaid interest accruing on amounts in default shall be payable on demand. All amounts payable under this Note shall be payable only in lawful money of the United States of America, in immediately available funds.

3. Revolving Loan. The unpaid principal balance of the Advances made by TMCC under the Loan Agreement and evidenced by this Note shall be the total amount advanced, less the amount of the principal payments made. This Note is given to avoid the execution of an individual note for each Advance made by TMCC to Borrower. This Note evidences a revolving credit and, within the limits and on the conditions set forth in the Loan Agreement, prior to the Maturity Date Borrower may borrow, repay and reborrow hereunder. TMCC is hereby authorized to record the date and amount of each Advance it makes and the date and amount of each payment of principal and interest thereon on a schedule annexed hereto and constituting a part of this Note or maintained in connection herewith. Any such recordation by TMCC shall constitute prima facie evidence of the accuracy of the information so recorded; provided, however, that the failure to make any such recordation or any error in any such recordation shall not affect the obligations of Borrower hereunder.

4. Application of Payments. Each payment received by TMCC shall be applied first to interest then due and any late charges, fees or expenses owed, and the remainder to principal.

5. Prepayment. Borrower may repay Advances at any time without penalty or premium.

6. Default Interest. Time is of the essence of this Note. Upon the occurrence and during the continuation of an Event of Default, the Advances evidenced by this Note shall bear interest at a per annum rate two (2.00%) percentage points above the interest rate provided in Section 1 of this Note, but in no event greater than the maximum rate of interest permitted by applicable law.

7. Security for Note. This Note is secured by all mortgages, deeds of trust, security agreements, collateral assignments, and other liens and security now or at any time hereafter executed or granted by Borrower to TMCC, to secure the Advances made under the Loan Agreement, and by any rights of subrogation accruing to TMCC by reason of any indebtedness discharged by the proceeds of the Advances. The deeds of trust or mortgages securing this Note (collectively, the "Deeds of Trust") provide that all amounts due under this Note may be made immediately due and payable in the event that, among other defaults as described in the Deeds of Trust, the property described in any of the Deeds of Trust is sold, transferred, conveyed, encumbered or otherwise alienated without TMCC's prior written consent, all as specifically set forth in the Deeds of Trust.

8. Acceleration. Upon the occurrence of an Event of Default, unless all such Event of Default shall have been cured within the time provided in the Loan Agreement, or waived in writing by TMCC, all amounts outstanding hereunder and all interest accrued hereon, shall, at the option of TMCC, without presentment, demand, protest or notice of acceleration, notice of intent to accelerate or notice of any kind (all of which are hereby expressly waived), be immediately due and payable; provided, however, that upon the occurrence of one or more of the other Events of Default set forth in subsection g of Section 8.1 of the Loan Agreement, all amounts outstanding hereunder and all interest accrued hereon shall be immediately due and payable without presentment, demand, protest or notice of acceleration, notice of intent to accelerate or notice of any kind (all of which are hereby expressly waived). No failure by TMCC to exercise its option under this Section shall not constitute a waiver of the right to exercise it upon the occurrence of any subsequent Event of Default.

9. Guarantor. This Note is guaranteed by the Guarantor(s) referenced in the Loan Agreement pursuant to the terms of certain Continuing and Irrevocable Guaranty(ies) executed from time to time by such Guarantor(s).

10. No Amendment. Neither this Note, nor any term hereof, may be amended, changed, waived, discharged, terminated or otherwise modified without the prior written consent of TMCC.

11. Waivers. The makers, endorsers, guarantors and sureties of this Note, and each of them, hereby waive diligence, all notices, including notice of intent to accelerate and notice of acceleration, demand, presentment for payment, notice of non-payment, protest and notice of protest; and expressly agree that this Note, or any payment hereunder may be extended or modified from time to time; and consent to the acceptance of further security for this Note, including other types of security; and the release of security; all without in any way affecting their liability. The right to plead any and all statutes of limitations as a defense to any demand secured by the Deeds of Trust or any other security securing this Note, against makers, endorsers, guarantors or sureties is expressly waived by each and all said parties.

12. Legal Fees. If this Note is referred to an attorney for collection or legal advice following a default, or if any other judicial or non-judicial action is instituted or an attorney is employed to reclaim, sequester, protect, preserve or enforce any interest in real property or other security for this Note, including but not limited to proceedings under the United States Bankruptcy Code or eminent domain, Borrower agrees to pay the holder's attorneys' fees and costs.

13. Applicable Law. The validity of this Note, its construction, interpretation and enforcement, and the rights of the parties hereunder shall be determined under, governed by and construed in accordance with the laws of the State of Oregon.

14. Severability. If any of the provisions of this Note shall be determined to be invalid, such invalidity shall not invalidate any other provision of this Note, but it shall be construed as if not containing the particular provision or provisions held to be invalid, and all rights and obligations of the parties shall be construed and enforced accordingly. The headings in this Note are for convenience only and shall not affect the construction hereof.

15. Successors And Assigns. The duties, covenants, conditions and obligations of Borrower in this Note shall be binding obligations of Borrower's heirs, executors, administrators, personal representatives, successors and assigns. Each and every party signing or endorsing this Note binds himself or herself as principal and not as surety, and each shall be jointly and severally liable hereunder.

16. Jurisdiction. BORROWER HEREBY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF OREGON AND THE UNITED STATES DISTRICT COURTS FOR THE DISTRICT OF OREGON SITTING IN PORTLAND, MULTNOMAH COUNTY, OREGON, AS WELL AS TO THE JURISDICTION OF ALL COURTS FROM WHICH AN APPEAL MAY BE TAKEN FROM THE AFORESAID COURTS, FOR THE PURPOSE OF ANY SUIT, ACTION OR OTHER PROCEEDING ARISING OUT OF ANY OF BORROWER'S OBLIGATIONS UNDER OR WITH RESPECT TO THIS NOTE, AND EXPRESSLY WAIVES ANY RIGHT IT MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE IN ANY OF SUCH COURTS.

17. Waiver Of Jury Trial. BORROWER AND TMCC MUTUALLY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS NOTE OR ANY OTHER LOAN DOCUMENT CONTEMPLATED TO BE EXECUTED IN CONNECTION HEREWITH, OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR TMCC TO ACCEPT THIS NOTE AND MAKE THE ADVANCES.

18. Commercial Transaction. BORROWER ACKNOWLEDGES THAT THE ADVANCES EVIDENCED BY THIS NOTE ARE FOR COMMERCIAL, INVESTMENT OR BUSINESS PURPOSES.

IN WITNESS WHEREOF, Borrower has executed and delivered this Note as of the date first indicated above.

BORROWER:

LITHIA REAL ESTATE, INC., an Oregon corporation

By:_____
Name:_____
Title:_____

Schedule 6.8

Permitted Liens

1. Liens identified in the title insurance applicable to the Collateral or the Property, which Liens have been accepted by TMCC.

2. Lease between Lithia Motors, Inc. and Borrower, constituting Collateral and subleases thereunder.

3. Judgment Liens in existence for less than 60 days after the entry thereof or with respect to which execution has been stayed or the payment of which is covered in full (subject to a customary deductible) by insurance maintained with responsible insurance companies and which do not otherwise result in an Event of Default and which are junior to TMCC's deed of trust or mortgage.

4. Easements, rights-of-way, zoning restrictions, minor defects or irregularities in title and other similar encumbrances not interfering in any material respect with the value or use of the Property to which such Lien is attached.

5. Priority of Liens on any asset of an automobile dealership securing "floor plan" indebtedness incurred by persons other than a Borrower which might constitute Collateral, shall be in accordance with applicable law.

EXHIBIT 21

LIST OF SUBSIDIARIES

NAME OF ENTITY(1)	STATE OF ORIGIN	ASSUMED BUSINESS NAME(S) (IF DIFFERENT THAN ENTITY NAME)
Lithia Chrysler Jeep of Anchorage, Inc.	Alaska	
Lithia CIMR, Inc.	California	Lithia Chevrolet 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 of Anchorage, Inc.	California	Lithia Dodge of South Anchorage
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 VWC, Inc.	California	Lithia Volkswagen of Concord Lithia Isuzu of Concord
Lithia Centennial Chrysler Plymouth Jeep, Inc.	Colorado	Lithia Centennial Chrysler Jeep
Lithia Cherry Creek Dodge, Inc.	Colorado	Lithia Cherry Creek Dodge Lithia Cherry Creek Kia
Lithia Colorado Chrysler Plymouth, Inc.	Colorado	Lithia Colorado Chrysler Lithia Colorado Kia
Lithia Colorado Jeep, Inc.	Colorado	Lithia Colorado Jeep
Lithia Colorado Springs Jeep Chrysler Plymouth, Inc.	Colorado	Lithia Colorado Springs Jeep Chrysler

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
Lithia IB, Inc. (2)	Idaho	Lithia Isuzu of Boise
Lithia CB, Inc. (2)	Idaho	Chevrolet of Boise
Lithia LMB, Inc. (2)	Idaho	Lithia Lincoln-Mercury of Boise
Lithia DB, Inc. (2)	Idaho	Lithia Daewoo
Lithia Ford of Boise, Inc.	Idaho	Lithia Ford of Boise
Lithia of Pocatello, Inc.	Idaho	Lithia Chrysler Dodge of Pocatello Lithia Hyundai of Pocatello
Lithia of Caldwell, Inc.	Idaho	Chevrolet of Caldwell
Lithia Poca-Hon, Inc.	Idaho	Honda of Pocatello
Lithia SALMIR, Inc.	Nevada	Lithia Audi of Reno Lithia Volkswagen of Reno Lithia Isuzu of Reno Lithia Lincoln Mercury of Reno Lithia Suzuki of Sparks Lithia Hyundai of Reno
Lithia Reno Sub-Hyun, Inc.	Nevada	Lithia Reno Subaru
Lithia Financial Corporation	Oregon	
Lithia Real Estate, Inc.	Oregon	
Lithia Motors Support Services, Inc.	Oregon	
Lithia LAC, Inc.	Oregon	
Lithia LP of Texas, LLC	Oregon	
Lithia TLM, LLC	Oregon	Lithia Toyota
LGPAC, Inc.	Oregon	Lithia Grants Pass Auto Center
Lithia DM, Inc.	Oregon	Lithia Dodge Lithia Chrysler Jeep Dodge

NAME OF ENTITY	STATE OF ORIGIN	ASSUMED BUSINESS NAME(S) (IF DIFFERENT THAN ENTITY NAME)
Saturn of Southwest Oregon, Inc.	Oregon	Saturn of Southwest Oregon
SOE, LLC (3)	Oregon	Saturn of Eugene
Lithia HPI, Inc.	Oregon	Lithia Isuzu Lithia Volkswagen
Lithia DE, Inc.	Oregon	Lithia Dodge of Eugene
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 Chrysler Jeep Dodge of Klamath Falls Lithia Toyota of Klamath Falls
Lithia SOC, Inc.	Oregon	Lithia Subaru of Oregon City
Lithia of Roseburg, Inc.	Oregon	Lithia Chrysler Jeep Dodge 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.	Oregon	Lithia Honda
Lithia of Sioux Falls, Inc.	South Dakota	Lithia Subaru of Sioux Falls Lithia Dodge of Sioux Falls
Lithia Automotive, Inc.	South Dakota	Chevrolet of Sioux Falls
Lithia GP of Texas, LLC	Texas	
Lithia CJDSA, L.P. (4)	Texas	All American Chrysler Jeep Dodge of San Angelo
Lithia CSA, L.P. (4)	Texas	All American Chevrolet of San Angelo
Lithia NSA, L.P. (4)	Texas	All American Nissan of San Angelo

NAME OF ENTITY	STATE OF ORIGIN	ASSUMED BUSINESS NAME(S) (IF DIFFERENT THAN ENTITY NAME)
Lithia DSA, L.P. (4)	Texas	All American Daewoo of San Angelo
Lithia CJDBS L.P. (4)	Texas	All American Chrysler Jeep Dodge of Big Spring
Lithia CJDO, L.P. (4)	Texas	All American Chrysler Jeep Dodge of Odessa
Camp Automotive, Inc.	Washington	Camp BMW Camp Chevrolet Camp Subaru Camp Cadillac
Lithia VS, LLC (5)	Washington	Camp Volvo
Lithia Dodge of Tri-Cities, Inc.	Washington	Lithia Dodge of Tri-Cities
Lithia DC of Renton, Inc.	Washington	Lithia Dodge of Renton Lithia Chrysler Jeep of Renton
Lithia FTC, Inc.	Washington	Lithia Ford of Tri-Cities
TC Hon, Inc.	Washington	Honda of Tri-Cities
Lithia BC, Inc.	Washington	Chevrolet of Bellevue
Lithia IC, Inc.	Washington	Chevrolet of Issaquah
Lithia of Seattle, Inc.	Washington	BMW Seattle
Lithia LAC of Washington, LLC (6)	Washington	Lithia Lot-A-Car of Renton

(1) Unless specifically noted to the contrary, all entities are wholly owned subsidiaries of Lithia Motors, Inc.

(2) Wholly owned subsidiary of Lithia Boise Holding Company, Inc., a wholly owned subsidiary of Lithia Motors, Inc.

(3) Wholly owned subsidiary of Lithia SH, LLC, which is owned 80% by Lithia Motors, Inc. and 20% by Sidney B. DeBoer, who serves as its sole manager (Saturn requires the manager own at least a 20% interest in its dealerships).

(4) Limited Partnership with Lithia GP of Texas, LLC the general partner owning 1% interest; and Lithia LP of Texas, LLC the sole limited partner owning 99% interest.

(5) Camp Automotive, Inc., is the sole manager owning an 80% interest; and Gregory Johnson, is the general manager of the dealership owning 20% interest (Volvo requires the manager own at least a 20% interest in its dealerships).

(6) Wholly owned subsidiary of Lithia LAC, Inc.

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

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

We consent to incorporation by reference in the Registration Statements (Nos. 333-45553, 333-43593, 333-69169, 333-69225, 333-80459, 333-39092, 333-61802 and 333-21673) on Forms S-8 of Lithia Motors, Inc. of our report dated February 7, 2003, except as to note 15, which is as of February 25, 2003, relating to the consolidated balance sheets of Lithia Motors, Inc. and Subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2002, which report appears in the December 31, 2002 Annual Report on Form 10-K of Lithia Motors, Inc. Our report refers to adoption, effective January 1, 2001, of Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, and adoption, effective July 1, 2001, of SFAS No. 141, Business Combinations, and certain provisions of SFAS No. 142, Goodwill and Other Intangible Assets, and adoption, effective January 1, 2002, of the remaining provisions of SFAS No. 142.

/s/ KPMG LLP

Portland, Oregon
March 28, 2003

EXHIBIT 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Lithia Motors, Inc. (the "Company") on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sidney B. DeBoer, Chairman of the Board, Chief Executive Officer and Secretary of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Sidney B. DeBoer

Sidney B. DeBoer
Chairman of the Board,
Chief Executive Officer and Secretary
Lithia Motors, Inc.
March 28, 2003

EXHIBIT 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Lithia Motors, Inc. (the "Company") on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey B. DeBoer, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Jeffrey B. DeBoer
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Jeffrey B. DeBoer
Senior Vice President
and Chief Financial Officer
Lithia Motors, Inc.
March 28, 2003

EXHIBIT 99.3

RISK FACTORS

The risks described below are not the only ones facing our company. Additional risks not presently known to us, or that we currently deem immaterial, may also impair our business operations.

RISKS RELATED TO OUR BUSINESS

OUR ABILITY TO INCREASE REVENUES THROUGH OUR ACQUISITION GROWTH STRATEGY DEPENDS ON OUR ABILITY TO ACQUIRE AND SUCCESSFULLY INTEGRATE ADDITIONAL STORES.

General. 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 our growth in sales is to make additional acquisitions in our existing markets and in new geographic markets. To complete the acquisitions of additional stores, we need to successfully address each of the following challenges.

Limitations on our capital resources may prevent us from capitalizing on acquisition opportunities. Acquisitions of additional stores will require substantial capital investment. Limitations on our capital resources would restrict our ability to complete new acquisitions. Further, the use of any financing source could have the effect of reducing our earnings per share.

In the past, we have financed our acquisitions from a combination of the cash flow from our operations, borrowings under our credit arrangements and issuances of our common stock. We expect cash on hand together with our other financing resources to be sufficient for our currently anticipated acquisition program through 2005. If we are unable to obtain financing on acceptable terms, we may be required to slow the pace of our acquisition plans, which may materially and adversely affect our acquisition growth strategy.

Generally, we use cash and available credit facilities for acquisitions. However, on occasion, we have financed acquisitions by issuing shares of our common stock as partial consideration for acquired stores. The viability of using common stock for acquisitions will depend on our willingness to issue shares, the market price of our common stock and the willingness of potential acquisition candidates to accept our common stock as part of the consideration for the sale of their businesses. Accordingly, our ability to make acquisitions could be adversely affected if the price of our common stock declines or, alternatively, is perceived as fully valued. If potential acquisition candidates are unwilling to accept our common stock as partial consideration, we will be forced to rely solely on available cash from operations or debt financing, which could limit our acquisition plans.

Manufacturers may restrict our ability to make new acquisitions. We are required to obtain consent from the applicable manufacturer prior to the acquisition of a franchised store. The term "manufacturer" in this Form 10-K refers to all of the manufacturers of new vehicles that we sell.

In determining whether to approve an acquisition, a manufacturer considers many factors, including our financial condition, ownership structure, the number of stores currently owned and our performance with those stores. Most major manufacturers have now established limitations or guidelines on the:

- number of such manufacturers' stores that may be acquired by a single owner;

- number of stores that may be acquired in any market or region;

- percentage of total sales that may be controlled by one automotive retailer group;

- ownership of stores in contiguous markets;

- frequency of acquisitions; and

- requirement that no other manufacturers brands be sold from the same store location.

DaimlerChrysler has issued a policy statement to all of its dealers stating that it may disapprove any acquisition if the buyer would own stores representing more than (i) 10% of any Business Center's Annual Planning Potential; (ii) 5% of the Annual Planning Potential of the United States; or (iii) 20% of a Metro Market's Annual Planning Potential. We are currently below all of these specified limits. There are approximately 4,300 Chrysler stores nationwide.

General Motors currently evaluates our acquisitions of GM stores on a case-by-case basis. GM, however, limits the maximum number of GM stores that we may acquire at any time to 50% of the GM stores, by franchise line, in a GM-defined geographic market area. GM has approximately 7,300 stores nationwide.

Ford currently limits the number of stores that we may own to the greater of (i) 15 Ford and 15 Lincoln Mercury stores and (ii) that number of Ford and Lincoln Mercury stores accounting for 5% of the preceding year's total Ford, Lincoln and Mercury retail sales in the United States. In addition, Ford limits us to one Ford store in a Ford-defined market area having two or fewer authorized Ford stores and one-third of Ford stores in any Ford-defined market area having three or more authorized Ford stores. Ford has approximately 4,600 franchised stores nationwide.

Toyota restricts the number of stores that we may own and the time frame over which we may acquire them, and imposes specific performance criteria on existing stores as a condition to any future acquisitions. In order for us to acquire more than seven stores, we must execute Toyota's standard Level Two Multiple Ownership Agreement. Under the Level Two Multiple Ownership Agreement, we may acquire more than seven stores over a minimum of seven semi-annual periods, up to a maximum number of stores equal to 5% of Toyota's aggregate national annual retail sale volume. In addition, Toyota restricts the number of Toyota stores that we may acquire in any Toyota-defined region and Metro market, as well as any contiguous market. Toyota has approximately 1,200 stores nationwide.

With respect to other manufacturers, we do not believe existing numerical limitations will materially restrict our acquisition program for a number of years.

A manufacturer also considers our past performance as measured by their customer satisfaction index, or CSI, scores and sales performance at our existing stores. At any point in time, some of our stores may have CSI scores below the manufacturers' sales zone averages or have achieved sales performances below the targets manufacturers have set.

Our failure to maintain satisfactory CSI scores and to achieve sales performance goals could restrict our ability to complete future acquisitions. In particular, our current Nissan and Ford stores have not achieved manufacturer established sales goals and we do not believe we would receive approval to acquire any new Nissan or Ford stores until our sales levels improve for a sustained period of time.

We may be unable to improve profitability of newly acquired stores. We target stores with pretax margins below our historical pretax margin. Our ability to improve the profitability of newly acquired stores depends in large part on our ability at such stores to:

- increase new vehicle sales;

- improve sales of higher margin used vehicles and finance and insurance products;

- train and motivate store management;

- achieve cost savings and realize revenue enhancing opportunities; and

- improve inventory, receivable and other controls.

If we fail to improve the profitability of newly acquired stores, we may be unable to maintain our historical pretax margin. Further, failure to improve the performance of under-performing stores could preclude us from receiving manufacturer approval for any new acquisitions of that brand.

Competition with other automotive retailers for attractive acquisition targets could restrict our ability to complete new acquisitions. In the current economic environment, we are presented with an increasing number of attractive acquisition opportunities. However, we compete with several other public and private national automotive retailers, some of which have greater financial and managerial resources. Competition with existing automotive retailers and those formed in the future may result in fewer attractive acquisition opportunities and increased acquisition costs. If we cannot negotiate acquisitions on acceptable terms, our future revenue growth will be significantly limited.

THE LOSS OF KEY PERSONNEL OR THE FAILURE TO ATTRACT ADDITIONAL PROVEN MANAGEMENT PERSONNEL COULD ADVERSELY AFFECT OUR OPERATIONS AND GROWTH.

Our success depends to a significant degree on the efforts and abilities of our senior management, particularly Sidney B. DeBoer, our Chairman and Chief Executive Officer, M. L. Dick Heimann, our President and Chief Operating Officer, R. Bradford Gray, our Executive Vice President, Bryan B. DeBoer, our Senior Vice President, Mergers and Acquisitions/Operations and Don Jones, Jr., our Senior Vice President, Retail Operations. Further, we have identified Mr. DeBoer and/or Mr. Heimann in most of our store franchise agreements as the individuals who control the franchises and upon whose financial resources and management expertise the manufacturers may consider when awarding or approving the transfer of any franchise. The loss of either of those individuals could have a material adverse effect on our on-going relationship with the manufacturers.

We place substantial responsibility on our general managers for the profitability of their stores. We have increased our number of stores from 5 in 1996 to 72 as of March 14, 2003. Many stores are offered for sale to us to enable the owner/manager to retire. These potential acquisitions are viable to us only if we are able to obtain replacement management. This has resulted in the need to hire many additional managers. As we continue to expand, the need for additional experienced managers will become even more

critical. The market for qualified general managers is highly competitive. The loss of the services of key management personnel or the inability to attract additional qualified general managers could have a material adverse effect on our business and the execution of our acquisition growth strategy.

OUR STORES DEPEND ON VEHICLE SALES AND, THEREFORE, OUR SUCCESS DEPENDS IN LARGE

PART UPON THE OVERALL DEMAND FOR THE PARTICULAR LINES OF VEHICLES THAT EACH OF

OUR STORES SELL.

Our Chrysler, GM, Ford and Toyota stores represent approximately three-fourths of our total new vehicle retail sales. Chrysler alone accounts for over a third of those sales. Demand for our primary manufacturers' vehicles as well as the financial condition, management, marketing, production and distribution capabilities of these manufacturers can significantly affect our business. Events that adversely affect a manufacturer's ability to timely deliver new vehicles, such as labor disputes and other production disruptions, including delays that sometimes occur during periods of new product introductions, may adversely affect us by reducing our supply of popular new vehicles and leading to lower sales in our stores during those periods than would otherwise occur. Further, any event that causes adverse publicity involving any of our manufacturers or their vehicles could reduce sales of those vehicles and adversely affect our sales and profits.

CYCLICAL DOWNTURNS IN THE AUTOMOBILE INDUSTRY THAT REDUCE OUR VEHICLE SALES MAY ADVERSELY AFFECT OUR PROFITABILITY.

The automobile industry is cyclical and historically has experienced downturns characterized by oversupply and weak demand. Many factors affect the industry, including general economic conditions, consumer confidence, personal discretionary spending levels, interest rates and credit availability. We cannot guarantee that the industry will not experience sustained periods of decline in vehicle sales in the future. Any such decline could have an adverse effect on our business.

The automobile industry also experiences seasonal variations in revenue. Demand for automobiles is generally lower during the winter months than in other seasons, particularly in our market areas that experience harsh winters. Accordingly, we expect revenues and operating results generally to be lower in our first and fourth quarters than in our second and third quarters for existing stores. With respect to our company, the timing and volume of our acquisitions has had a greater effect on our revenues than seasonal sales variations.

HOSTILITIES IN THE MIDDLE EAST OR OTHER FACTORS THAT SIGNIFICANTLY INCREASE GASOLINE PRICES CAN BE EXPECTED TO REDUCE VEHICLE SALES.

Historically, in times of rapid increase in crude oil and gasoline prices, sales of vehicles have dropped, particularly in the short term, as consumer confidence wanes and fuel costs become more prominent to the consumer's buying decision. In sustained periods of higher fuel costs, consumers who do purchase vehicles tend to prefer smaller, more fuel efficient vehicles.

The majority of our new vehicle sales are of domestic manufacture and are predominately SUVs and light trucks. These vehicles generally provide us with higher gross margins. A significant drop in sales volume in these vehicles would adversely affect our level of profits.

THE ABILITY OF OUR STORES TO MAKE NEW VEHICLE SALES DEPENDS IN LARGE PART UPON THE MANUFACTURERS AND, THEREFORE, ANY DISRUPTION OR CHANGE IN OUR RELATIONSHIPS WITH MANUFACTURERS MAY MATERIALLY AND ADVERSELY AFFECT OUR PROFITABILITY.

We depend on the manufacturers to provide us with a desirable mix of new vehicles. The most popular vehicles usually produce the highest profit margins and are frequently in short supply. If we cannot obtain sufficient quantities of the most popular models, our profitability may be adversely affected. Sales of less desirable models may reduce our profit margins.

We depend on the manufacturers for sales incentives and other programs that are intended to promote sales or support our profitability. Manufacturers historically have made many changes to their incentive programs during each year. A discontinuation or change in manufacturers' incentive programs could adversely affect our business. Moreover, some manufacturers use a store's CSI scores as a factor for participating in incentive programs. Accordingly, our failure to meet CSI standards at our stores could have a material adverse effect on us.

Each of our stores operates pursuant to a franchise agreement with each of the respective manufacturers for which it serves as franchisee. Manufacturers exert significant control over our stores through the terms and conditions of their franchise agreements, including provisions for termination or non-renewal for a variety of causes. From time-to-time, certain of our stores have failed to comply with certain provisions of their franchise agreements. These agreements and state law, however, generally afford us the opportunity to cure violations and no manufacturer has terminated or failed to renew any franchise agreement with us. If a manufacturer terminates or fails to renew one or more of our significant franchise agreements, such action could have a material adverse effect on us.

Our franchise agreements also specify that, in certain situations, we cannot operate a franchise by another manufacturer in the same building as the manufacturer's franchised store. This may require us to build new facilities at a significant cost. In addition, some manufacturers are in the process of realigning their stores along defined channels, such as combining Chrysler and Jeep in one location. As a result, manufacturers may require us to move or sell certain stores. Moreover, our manufacturers generally require that the store meet defined image standards. All of these commitments could require us to make significant capital expenditures.

Some of our franchise agreements prohibit transfers of ownership interests of a store or, in some cases, its parent. The most prohibitive restriction, which has been imposed by various manufacturers, provides that, under certain circumstances, we may lose a franchise if a person or entity acquires an ownership interest in us above a specified level (ranging from 20% to 50% depending on the particular manufacturer's restrictions and falling as low as 5% if another vehicle manufacturer is the entity acquiring the ownership interest) without the approval of the applicable manufacturer. Violations by our stockholders or prospective stockholders are generally outside of our control and may result in the termination or non-renewal of one or more of our franchises, which may have a material adverse effect on us.

WITH THE BREADTH OF OUR OPERATIONS AND VOLUME OF TRANSACTIONS, COMPLIANCE WITH THE MANY FEDERAL AND STATE CONSUMER PROTECTION AND MOTOR VEHICLE LAWS CANNOT BE ASSURED. FINES AND ADMINISTRATION SANCTIONS CAN BE SEVERE.

We are subject to numerous consumer protection and department of motor vehicle laws in each of the ten states in which we have stores, as well as federal consumer protection laws. With the number of stores we operate, personnel we employ and the large volume of transactions we handle, it is likely mistakes will be made. If there are unauthorized activities of serious magnitude, the state and federal authorities have the power to impose civil monetary penalties and sanctions, suspend or withdraw dealer licenses or take other actions that could materially impair our activities or our ability to acquire new stores in those states where violations occurred.

IMPORT PRODUCT RESTRICTIONS AND FOREIGN TRADE RISKS MAY IMPAIR OUR ABILITY TO SELL FOREIGN VEHICLES PROFITABLY.

Certain vehicles we sell, as well as certain major components of vehicles we sell, are manufactured outside the United States. Accordingly, we are subject to import and export restrictions of various jurisdictions and are dependent to some extent on general economic conditions in, and political relations with, a number of foreign countries. Additionally, fluctuations in currency exchange rates may adversely affect our sales of vehicles produced by foreign manufacturers. Imports into the United States may also be adversely affected by increased transportation costs and tariffs, quotas or duties, any of which could have a material adverse effect on us.

THE SOLE VOTING CONTROL OF OUR COMPANY IS HELD BY SIDNEY B. DEBOER, WHO MAY HAVE INTERESTS DIFFERENT FROM YOUR INTERESTS.

Lithia Holding Company, LLC, of which Sidney B. DeBoer, our Chairman and Chief Executive Officer, is the sole managing member, holds all of the outstanding shares of Class B common stock. A holder of Class B common stock is entitled to ten votes for each share held, while a holder of Class A common stock is entitled to one vote per share held. On most matters, the Class A and Class B common stock vote together as a single class. Lithia Holding currently controls over 72.0% of the aggregate number of votes eligible to be cast by stockholders for the election of directors and most other stockholder actions. Therefore, Lithia Holding will control the election of our Board of Directors and will be in a position to control the policies and operations of the company. In addition, because Mr. DeBoer is the managing member of Lithia Holding, he currently controls and will continue to control, all of the outstanding Class B common stock, thereby allowing him to control the company. So long as at least 16 2/3% of the total number of shares outstanding are shares of Class B common stock, the holders of Class B common stock will be able to control all matters requiring approval of 66 2/3% or less of the aggregate number of votes. Absent a significant increase in the number of shares of Class A common stock outstanding or conversion of Class B common stock into Class A common stock, the holders of shares of Class B common stock will be entitled to elect all members of the Board of Directors and control all matters subject to stockholder approval that do not require a class vote.