
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

Mark One)

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

For the quarterly period ended March 31, 2020

OR

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

For the transition period from _____ to _____

Commission File Number: 1-13395

SONIC AUTOMOTIVE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

56-2010790
(I.R.S. Employer
Identification No.)

4401 Colwick Road
Charlotte, North Carolina
(Address of principal executive offices)

28211
(Zip Code)

(704) 566-2400
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock, par value \$0.01 per share	SAH	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 29, 2020, there were 30,890,395 shares of the registrant's Class A Common Stock and 12,029,375 shares of the registrant's Class B Common Stock outstanding.

UNCERTAINTY OF FORWARD-LOOKING STATEMENTS AND INFORMATION

This Quarterly Report on Form 10-Q contains, and written or oral statements made from time to time by us or by our authorized officers may contain, “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address our future objectives, plans and goals, as well as our intent, beliefs and current expectations regarding future operating performance, results and events, and can generally be identified by words such as “may,” “will,” “should,” “could,” “believe,” “expect,” “estimate,” “anticipate,” “intend,” “plan,” “foresee” and other similar words or phrases.

These forward-looking statements are based on our current estimates and assumptions and involve various risks and uncertainties. As a result, you are cautioned that these forward-looking statements are not guarantees of future performance, and that actual results could differ materially from those projected in these forward-looking statements. Factors which may cause actual results to differ materially from our projections include those risks described in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2019 and in “Item 1A. Risk Factors” of this report and elsewhere herein, as well as:

- the number of new and used vehicles sold in the United States as compared to our expectations and the expectations of the market;
- our ability to generate sufficient cash flows or to obtain additional financing to fund our EchoPark expansion, capital expenditures, our share repurchase program, dividends on our common stock, acquisitions and general operating activities;
- our business and growth strategies, including, but not limited to, our EchoPark store operations;
- the reputation and financial condition of vehicle manufacturers whose brands we represent, the financial incentives vehicle manufacturers offer and their ability to design, manufacture, deliver and market their vehicles successfully;
- our relationships with manufacturers, which may affect our ability to obtain desirable new vehicle models in inventory or to complete additional acquisitions or dispositions;
- the adverse resolution of one or more significant legal proceedings against us or our franchised dealerships or EchoPark stores;
- changes in laws and regulations governing the operation of automobile franchises, accounting standards, taxation requirements and environmental laws;
- changes in vehicle and parts import quotas, duties, tariffs or other restrictions;
- general economic conditions in the markets in which we operate, including fluctuations in interest rates, employment levels, the level of consumer spending and consumer credit availability;
- high levels of competition in the retail automotive industry, which not only create pricing pressures on the products and services we offer, but also on businesses we may seek to acquire;
- our ability to successfully integrate potential future acquisitions;
- the rate and timing of overall economic expansion or contraction; and
- the severity and duration of the COVID-19 pandemic and the actions taken by governmental authorities, businesses or consumers in response to the pandemic.

These forward-looking statements speak only as of the date of this report or when made, and we undertake no obligation to revise or update these statements to reflect subsequent events or circumstances, except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission.

SONIC AUTOMOTIVE, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2020

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

SONIC AUTOMOTIVE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
(Dollars and shares in thousands, except per share amounts)		
Revenues:		
New vehicles	\$ 959,489	\$ 1,066,334
Used vehicles	850,052	820,366
Wholesale vehicles	48,543	54,770
Total vehicles	1,858,084	1,941,470
Parts, service and collision repair	334,680	341,430
Finance, insurance and other, net	115,292	106,238
Total revenues	2,308,056	2,389,138
Cost of Sales:		
New vehicles	(914,074)	(1,012,538)
Used vehicles	(817,922)	(783,358)
Wholesale vehicles	(48,700)	(56,037)
Total vehicles	(1,780,696)	(1,851,933)
Parts, service and collision repair	(176,782)	(178,194)
Total cost of sales	(1,957,478)	(2,030,127)
Gross profit	350,578	359,011
Selling, general and administrative expenses	(282,156)	(247,095)
Impairment charges	(268,000)	(1,952)
Depreciation and amortization	(22,297)	(22,649)
Operating income (loss)	(221,875)	87,315
Other income (expense):		
Interest expense, floor plan	(10,508)	(13,226)
Interest expense, other, net	(10,965)	(12,853)
Other income (expense), net	100	100
Total other income (expense)	(21,373)	(25,979)
Income (loss) from continuing operations before taxes	(243,248)	61,336
Provision for income taxes for continuing operations - benefit (expense)	44,117	(18,987)
Income (loss) from continuing operations	(199,131)	42,349
Discontinued operations:		
Income (loss) from discontinued operations before taxes	(285)	(180)
Provision for income taxes for discontinued operations - benefit (expense)	83	52
Income (loss) from discontinued operations	(202)	(128)
Net income (loss)	\$ (199,333)	\$ 42,221
Basic earnings (loss) per common share:		
Earnings (loss) per share from continuing operations	\$ (4.67)	\$ 0.99
Earnings (loss) per share from discontinued operations	(0.01)	(0.01)
Earnings (loss) per common share	\$ (4.68)	\$ 0.98
Weighted-average common shares outstanding	42,615	42,838
Diluted earnings (loss) per common share:		
Earnings (loss) per share from continuing operations	\$ (4.67)	\$ 0.99
Earnings (loss) per share from discontinued operations	(0.01)	(0.01)
Earnings (loss) per common share	\$ (4.68)	\$ 0.98
Weighted-average common shares outstanding	42,615	42,888

See notes to unaudited condensed consolidated financial statements.

SONIC AUTOMOTIVE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
	(Dollars in thousands)	
Net income (loss)	\$ (199,333)	\$ 42,221
Other comprehensive income (loss) before taxes:		
Change in fair value of interest rate swap and interest rate cap agreements	361	(2,349)
Amortization of terminated interest rate swap agreements	(797)	(288)
Total other comprehensive income (loss) before taxes	(436)	(2,637)
Provision for income tax benefit (expense) related to components of other comprehensive income (loss)	164	776
Other comprehensive income (loss)	(272)	(1,861)
Comprehensive income (loss)	\$ (199,605)	\$ 40,360

See notes to unaudited condensed consolidated financial statements.

SONIC AUTOMOTIVE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2020	December 31, 2019
	(Dollars in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 181,780	\$ 29,103
Receivables, net	200,876	432,742
Inventories	1,608,218	1,517,875
Other current assets	138,912	37,890
Total current assets	2,129,786	2,017,610
Property and Equipment, net	1,092,385	1,097,247
Goodwill	207,791	475,791
Other Intangible Assets, net	64,300	64,300
Operating Right-of-Use Lease Assets	344,148	337,842
Finance Right-of-Use Lease Assets	50,698	34,691
Other Assets	87,636	43,554
Total Assets	\$ 3,976,744	\$ 4,071,035
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable - floor plan - trade	\$ 827,292	\$ 860,871
Notes payable - floor plan - non-trade	719,446	678,223
Trade accounts payable	78,394	135,217
Operating short-term lease liabilities	43,139	43,332
Finance short-term lease liabilities	20,225	1,564
Accrued interest	6,534	10,830
Other accrued liabilities	237,211	266,211
Current maturities of long-term debt	80,803	69,908
Total current liabilities	2,013,044	2,066,156
Long-Term Debt	830,839	636,978
Other Long-Term Liabilities	66,287	73,746
Operating Long-Term Lease Liabilities	311,371	304,151
Finance Long-Term Lease Liabilities	33,216	36,313
Deferred Income Taxes	—	8,927
Commitments and Contingencies		
Stockholders' Equity:		
Class A Convertible Preferred Stock, none issued	—	—
Class A Common Stock, \$0.01 par value; 100,000,000 shares authorized; 65,199,247 shares issued and 30,834,793 shares outstanding at March 31, 2020; 64,733,667 shares issued and 31,105,000 shares outstanding at December 31, 2019	652	647
Class B Common Stock, \$0.01 par value; 30,000,000 shares authorized; 12,029,375 shares issued and outstanding at March 31, 2020 and December 31, 2019	121	121
Paid-in capital	758,327	755,904
Retained earnings	586,511	790,158
Accumulated other comprehensive income (loss)	(2,334)	(2,062)
Treasury stock, at cost; 34,364,454 Class A Common Stock shares held at March 31, 2020 and 33,628,667 Class A Common Stock shares held at December 31, 2019	(621,290)	(600,004)
Total Stockholders' Equity	721,987	944,764
Total Liabilities and Stockholders' Equity	\$ 3,976,744	\$ 4,071,035

See notes to unaudited condensed consolidated financial statements.

SONIC AUTOMOTIVE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Class A Common Stock		Class A Treasury Stock		Class B Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
(Dollars and shares in thousands, except per share amounts)										
Balance at December 31, 2018	64,197	\$ 642	(33,476)	\$ (597,623)	12,029	\$ 121	\$ 745,052	\$ 670,691	\$ 4,233	\$ 823,116
Shares awarded under stock compensation plans	480	5	—	—	—	—	54	—	—	59
Purchases of treasury stock	—	—	(149)	(2,333)	—	—	—	—	—	(2,333)
Effect of cash flow hedge instruments, net of tax benefit of \$776	—	—	—	—	—	—	—	—	(1,861)	(1,861)
Restricted stock amortization	—	—	—	—	—	—	2,814	—	—	2,814
Net income (loss)	—	—	—	—	—	—	—	42,221	—	42,221
Cumulative effect of change in accounting principle (1)	—	—	—	—	—	—	—	(7,428)	—	(7,428)
Class A dividends declared (\$0.10)	—	—	—	—	—	—	—	(3,099)	—	(3,099)
Class B dividends declared (\$0.10)	—	—	—	—	—	—	—	(1,203)	—	(1,203)
Balance at March 31, 2019	64,677	\$ 647	(33,625)	\$ (599,956)	12,029	\$ 121	\$ 747,920	\$ 701,182	\$ 2,372	\$ 852,286

	Class A Common Stock		Class A Treasury Stock		Class B Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
(Dollars and shares in thousands, except per share amounts)										
Balance at December 31, 2019	64,734	\$ 647	(33,629)	\$ (600,004)	12,029	\$ 121	\$ 755,904	\$ 790,158	\$ (2,062)	\$ 944,764
Shares awarded under stock compensation plans	465	5	—	—	—	—	(4)	—	—	1
Purchases of treasury stock	—	—	(735)	(21,286)	—	—	—	—	—	(21,286)
Effect of cash flow hedge instruments, net of tax benefit of \$164	—	—	—	—	—	—	—	—	(272)	(272)
Restricted stock amortization	—	—	—	—	—	—	2,427	—	—	2,427
Net income (loss)	—	—	—	—	—	—	—	(199,333)	—	(199,333)
Class A dividends declared (\$0.10)	—	—	—	—	—	—	—	(3,111)	—	(3,111)
Class B dividends declared (\$0.10)	—	—	—	—	—	—	—	(1,203)	—	(1,203)
Balance at March 31, 2020	65,199	\$ 652	(34,364)	\$ (621,290)	12,029	\$ 121	\$ 758,327	\$ 586,511	\$ (2,334)	\$ 721,987

(1) See Note 1, "Summary of Significant Accounting Policies," for further discussion.

See notes to unaudited condensed consolidated financial statements.

SONIC AUTOMOTIVE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (199,333)	\$ 42,221
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	21,540	22,198
Provision for bad debt expense	134	159
Debt issuance cost amortization	557	591
Stock-based compensation expense	2,427	2,814
Deferred income taxes	(53,999)	(2,816)
Net distributions from equity investee	448	379
Asset impairment charges	268,000	1,952
Loss (gain) on disposal of dealerships and property and equipment	(39)	(46,785)
Loss (gain) on exit of leased dealerships	—	(170)
Changes in assets and liabilities that relate to operations:		
Receivables	231,732	66,814
Inventories	(90,342)	(40,210)
Other assets	(89,114)	(66,967)
Notes payable - floor plan - trade	(33,579)	(57,984)
Trade accounts payable and other liabilities	(105,630)	(16,525)
Total adjustments	152,135	(136,550)
Net cash provided by (used in) operating activities	(47,198)	(94,329)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of land, property and equipment	(19,805)	(30,619)
Proceeds from sales of property and equipment	194	1,125
Proceeds from sales of dealerships	—	121,700
Net cash provided by (used in) investing activities	(19,611)	92,206
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (repayments) borrowings on notes payable - floor plan - non-trade	41,223	9,841
Borrowings on revolving credit facilities	460,916	126,185
Repayments on revolving credit facilities	(250,916)	(126,185)
Debt issuance costs	(24)	—
Principal payments and repurchase of long-term debt	(5,777)	(6,011)
Principal payments of long-term lease liabilities	(337)	—
Purchases of treasury stock	(21,286)	(2,333)
Issuance of shares under stock compensation plans	1	59
Dividends paid	(4,314)	(2,565)
Net cash provided by (used in) financing activities	219,486	(1,009)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	152,677	(3,132)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	29,103	5,854
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 181,780	\$ 2,722
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Effect of cash flow hedge instruments (net of tax benefit of \$164 and \$776 in the three months ended March 31, 2020 and 2019, respectively)	\$ (272)	\$ (1,861)
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid (received) during the period for:		
Interest, including amount capitalized	\$ 25,359	\$ 26,945
Income taxes	\$ 3	\$ 10,277

See notes to unaudited condensed consolidated financial statements.

1. Summary of Significant Accounting Policies

Basis of Presentation – The accompanying unaudited condensed consolidated financial statements of Sonic Automotive, Inc. and its wholly owned subsidiaries (“Sonic,” the “Company,” “we,” “us” or “our”) for the three months ended March 31, 2020 and 2019 are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and applicable rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The accompanying unaudited condensed consolidated financial statements reflect, in the opinion of management, all material normal recurring adjustments necessary to fairly state the financial position, results of operations and cash flows for the periods presented. The operating results for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year or future interim periods, because the first quarter historically has contributed less operating profit than the second, third and fourth quarters. Additionally, the continued magnitude and impact of COVID-19 pandemic could impact earnings in the second, third and fourth quarters of 2020. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in Sonic’s Annual Report on Form 10-K for the year ended December 31, 2019.

COVID 19 – The COVID-19 pandemic negatively impacted the global economy. As of March 31, 2020, the impact on the economy is primarily affecting demand as many countries around the world and states in the United States (“U.S.”) have mandated restrictions on citizen movements (stay-at-home orders) or on retail trade at physical locations. As a result, many businesses have curtailed operations and furloughed or terminated many positions. In the U.S., the government passed several measures through the legislature that were signed by the President and enacted into law. Those measures include the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) and the Families First Coronavirus Response Act. Both Acts attempt to provide short-term relief to families and businesses as a result of the economic impacts of the COVID-19 pandemic.

Specifically related to Sonic, all our stores have been impacted by the crisis. As of March 31, 2020, the majority of our stores are not permitted to conduct retail sales of new and used vehicles at our physical locations. Those locations can offer virtual sales transactions with “contactless” delivery to customers. Due to the critical nature of automotive repair, our fixed operations have been deemed “essential” by governmental agencies and were able to continue to conduct business, but must maintain certain local standards for “social distancing”. As a result, in the last several weeks of March of 2020, we experienced 30%-50% declines in unit sales of new and used vehicles (as compared to the prior year period) and 15%-30% reductions in repair order activity in fixed operations. These trends have continued into April of 2020 and are expected to continue until at least through mid-May of 2020.

Based on these events, we evaluated our long-lived assets for impairment. This evaluation included reviews of fixed assets and related right-of-use assets, franchise assets and goodwill. As a result of this evaluation, we determined the carrying values of all long-lived assets to be recoverable at March 31, 2020 with the exception of goodwill related to our franchised dealership reporting unit. One of the primary factors which contributed to the conclusion that goodwill was impaired was the market value of Sonic’s stock between the announcement date of the pandemic on March 11, 2020 to March 31, 2020. See Note 5 for further discussion.

The effects of the COVID-19 pandemic continue to evolve. While we currently expect to begin to see recovery in the last half of 2020, the outbreak may cause changes in customer behaviors, including a potential reduction in consumer spending for vehicles and automotive repairs. This may lead to increased asset recovery and valuation risks, such as impairment of additional long-lived assets. The uncertainties in the global economy may negatively impact our suppliers and other business partners, which may interrupt our supply chain and require other changes to our operations. These and other factors may adversely impact our revenues, operating income and earnings per share financial measures.

As a result of the pandemic and related stay-at-home orders, we have transitioned many of our teammates to remote work arrangements. In situations where the role does not permit remote work (ie. technicians), we have implemented staggered work hours and other social distancing measures to promote the health and safety of our teammates and guests. As a result of the systems and infrastructure we had in place prior to the pandemic, we have been able to effectively maintain our back-office operations, financial reporting and internal control processes with minimal disruption.

Recent Accounting Pronouncements – In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2016-13, “Financial Instruments - Credit Losses (Accounting Standards Codification (“ASC”) Topic 326): Measurement of Credit Losses on Financial Instruments.” The amendment in this update replaced the previous incurred loss impairment methodology of recognizing credit losses when a loss is probable, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to assess credit

SONIC AUTOMOTIVE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

loss estimates. This ASU is effective for fiscal years beginning after December 15, 2019. We adopted this ASU as of January 1, 2020 and the effects of this ASU did not materially impact our unaudited condensed consolidated financial statements.

Principles of Consolidation – All of our dealership and non-dealership subsidiaries are wholly owned and consolidated in the accompanying unaudited condensed consolidated financial statements, except for one 50%-owned dealership that is accounted for under the equity method. All material intercompany balances and transactions have been eliminated in the accompanying unaudited condensed consolidated financial statements.

Revenue Recognition – Revenue is recognized when a customer obtains control of promised goods or services and in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. ASC Topic 606, “Revenue from Contracts with Customers,” applies a five-step model that includes: (1) identifying the contract(s) with the customer; (2) identifying the performance obligation(s) in the contract(s); (3) determining the transaction price; (4) allocating the transaction price to the performance obligation(s) in the contract(s); and (5) recognizing revenue as the performance obligation(s) are satisfied. The standard also requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We do not include the cost of obtaining contracts within the related revenue streams since we elected the practical expedient to expense the costs to obtain a contract when incurred.

Management has evaluated our established business processes, revenue transaction streams and accounting policies, and identified our material revenue streams to be: (1) the sale of new vehicles; (2) the sale of used vehicles to retail customers; (3) the sale of wholesale used vehicles at third-party auctions; (4) the arrangement of vehicle financing and the sale of service, warranty and other insurance contracts; and (5) the performance of vehicle maintenance and repair services and the sale of related parts and accessories. Generally, performance conditions are satisfied when the associated vehicle is either delivered or returned to a customer and customer acceptance has occurred, or over time as the maintenance and repair services are performed. We do not have any revenue streams with significant financing components as payments are typically received within a short period of time following completion of the performance obligation(s). Certain retrospective finance and insurance revenue is earned in periods subsequent to the completion of the initial performance obligation (“F&I retro revenues”).

F&I retro revenues are recognized when the product contract has been executed with the end customer and are estimated each reporting period based on the expected value method using historical and projected data, which results in the acceleration of revenue recognition. F&I retro revenues, which represent variable consideration, subject to constraint, are to be included in the transaction price and recognized when or as the performance obligation is satisfied. F&I retro revenues can vary based on a variety of factors, including number of contracts and history of cancellations and claims. Accordingly, we utilize this historical and projected data to constrain the consideration to the extent that it is probable that a significant reversal in the amount of cumulative revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

We record revenue when vehicles are delivered to customers, when vehicle service work is performed and when parts are delivered. Conditions for completing a sale include having an agreement with the customer, including pricing, and the sales price must be reasonably expected to be collected.

Receivables, net in the accompanying unaudited condensed consolidated balance sheets as of March 31, 2020 and December 31, 2019 include approximately \$0.6 million and \$5.1 million, respectively, related to work in process and contract assets related to F&I retro revenues of approximately \$5.2 million and \$12.9 million, respectively. Changes in contract assets from December 31, 2019 to March 31, 2020 were primarily due to ordinary business activity, including the receipt of cash for amounts earned and recognized in prior periods. Please refer to Note 1, “Description of Business and Summary of Significant Accounting Policies,” to the consolidated financial statements in Sonic’s Annual Report on Form 10-K for the year ended December 31, 2019 for further discussion of our revenue recognition policies and processes.

Income Tax Expense – The overall effective tax rate from continuing operations was 18.2% for the three months ended March 31, 2020, and 31.0% for the three months ended March 31, 2019. Income tax expense for the three months ended March 31, 2020 includes a \$51.3 million benefit, including the effect of non-deductible amounts, related to the \$268.0 million goodwill impairment charge, a \$0.5 million discrete benefit related to vested or exercised stock compensation awards, offset partially by a \$0.1 million discrete charge related to changes in uncertain tax positions. Income tax expense for the three months ended March 31, 2019 includes a \$1.5 million discrete charge for non-deductible executive officer compensation related to executive transition costs, a \$0.2 million discrete charge related to changes in uncertain tax positions, and a \$0.2 million discrete charge related to vested or exercised stock compensation awards. Sonic’s effective tax rate varies from year to year based on the level of taxable income, the distribution of taxable income between states in which the Company operates and other tax adjustments.

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Earnings Per Share – The calculation of diluted earnings per share considers the potential dilutive effect of restricted stock units, restricted stock awards and stock options granted under Sonic’s stock compensation plans (and any non-forfeitable dividends paid on such awards).

2. Business Dispositions

We did not dispose of any dealerships during the three months ended March 31, 2020. We disposed of one luxury franchised dealership and three mid-line import franchised dealerships during the three months ended March 31, 2019 that generated net cash of approximately \$121.7 million. The results of operations of each of these disposed dealerships remain in continuing operations in the accompanying unaudited condensed consolidated statements of income.

Revenues and other activities associated with disposed franchised dealerships that remain in continuing operations were as follows:

	Three Months Ended March 31,	
	2020	2019
(In thousands)		
Income (loss) from operations	\$ (160)	\$ (2,553)
Gain (loss) on disposal	2	46,750
Lease exit accrual adjustments and charges	—	170
Pre-tax income (loss)	\$ (158)	\$ 44,367
Total revenues	\$ —	\$ 106,774

Revenues and other activities associated with disposed franchised dealerships classified as discontinued operations were as follows:

	Three Months Ended March 31,	
	2020	2019
(In thousands)		
Income (loss) from operations	\$ (285)	\$ (180)
Lease exit accrual adjustments and charges	—	—
Pre-tax income (loss)	\$ (285)	\$ (180)
Total revenues	\$ —	\$ —

3. Inventories

Inventories consist of the following:

	March 31, 2020	December 31, 2019
	(In thousands)	
New vehicles	\$ 1,072,318	\$ 983,123
Used vehicles	324,526	319,791
Service loaners	152,254	152,278
Parts, accessories and other	59,120	62,683
Net inventories	\$ 1,608,218	\$ 1,517,875

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4. Property and Equipment

Property and equipment, net consists of the following:

	March 31, 2020	December 31, 2019
	(In thousands)	
Land	\$ 373,963	\$ 373,301
Building and improvements	976,904	969,609
Furniture, fixtures and equipment	352,574	346,260
Construction in progress	53,214	50,928
Total, at cost	1,756,655	1,740,098
Less accumulated depreciation	(638,030)	(616,611)
Subtotal	1,118,625	1,123,487
Less assets held for sale (1)	(26,240)	(26,240)
Property and equipment, net	\$ 1,092,385	\$ 1,097,247

(1) Classified in other current assets in the accompanying unaudited condensed consolidated balance sheets.

In the three months ended March 31, 2020 and 2019, capital expenditures were approximately \$9.8 million and \$30.6 million, respectively. Capital expenditures in all periods were primarily related to real estate acquisitions, construction of new franchised dealerships and EchoPark stores, building improvements and equipment purchased for use in our franchised dealerships and EchoPark stores. Assets held for sale as of March 31, 2020 and December 31, 2019 consists of real property not currently used in operations that we expect to dispose of in the next 12 months.

There were no fixed asset impairment charges for the three months ended March 31, 2020. Impairment charges for the three months ended March 31, 2019, were approximately \$2.0 million, related to fair value adjustments of real estate at former EchoPark locations classified as held for sale.

5. Goodwill and Intangible Assets

Pursuant to the applicable accounting pronouncements, we were required to evaluate the recoverability of our long-lived assets at the end of the first quarter of 2020 as a result of the effects of the COVID-19 pandemic on our operations and market value. Based on this evaluation, we determined the carrying value of our franchised dealership reporting unit goodwill was greater than the fair value of the reporting unit. Accordingly, we recorded a non-cash goodwill impairment charge of \$268.0 million and a corresponding income tax benefit of \$51.3 million to reduce the carrying value to fair value as of March 31, 2020. We utilized the Discounted Cash Flows ("DCF") method, using unobservable inputs (Level 3) to estimate Sonic's enterprise value as of March 31, 2020 and reconciled the discounted cash flows to Sonic's market capitalization, using quoted market price inputs (Level 1). The significant assumptions in our DCF model include projected earnings, a discount rate (and estimates in the discount rate inputs), control premium factors and residual growth rates.

The carrying amount of goodwill was approximately \$207.8 million and \$475.8 million as of March 31, 2020 and December 31, 2019, respectively. The carrying amount of goodwill for our franchised dealership reporting unit was \$147.8 million and \$415.8 million as of March 31, 2020 and December 31, 2019, respectively. The carrying amount of goodwill for our EchoPark reporting unit was \$60.0 million as of March 31, 2020 and December 31, 2019. The total carrying amount of goodwill is net of accumulated impairment losses of approximately \$1.1 billion and \$797.6 million as of March 31, 2020 and December 31, 2019, respectively. The carrying amount of franchise assets was approximately \$64.3 million as of both March 31, 2020 and December 31, 2019, respectively.

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6. Long-Term Debt

Long-term debt consists of the following:

	March 31, 2020	December 31, 2019
	(In thousands)	
2016 Revolving Credit Facility (1)	\$ 210,000	\$ —
6.125% Senior Subordinated Notes due 2027 (the “6.125% Notes”)	250,000	250,000
2019 Mortgage Facility (2)	109,088	109,088
Mortgage notes to finance companies - fixed rate, bearing interest from 3.51% to 7.03%	191,248	194,535
Mortgage notes to finance companies - variable rate, bearing interest at 1.50 to 2.90 percentage points above one-month or three-month LIBOR	158,855	161,345
Subtotal	\$ 919,191	\$ 714,968
Debt issuance costs	(7,549)	(8,082)
Total debt	911,642	706,886
Less current maturities	(80,803)	(69,908)
Long-term debt	\$ 830,839	\$ 636,978

- (1) The interest rate on the 2016 Revolving Credit Facility (as defined below) was 175 and 150 basis points above LIBOR at March 31, 2020 and December 31, 2019, respectively.
- (2) The interest rate on the 2019 Mortgage Facility (as defined below) was 175 and 200 basis points above the London Interbank Offer Rate (“LIBOR”) at March 31, 2020 and December 31, 2019, respectively.

2016 Credit Facilities

On November 30, 2016, we entered into an amended and restated syndicated revolving credit facility (the “2016 Revolving Credit Facility”) and amended and restated syndicated new and used vehicle floor plan credit facilities (the “2016 Floor Plan Facilities” and, together with the 2016 Revolving Credit Facility, the “2016 Credit Facilities”), which are scheduled to mature on November 30, 2021. The amendment and restatement of the 2016 Credit Facilities extended the scheduled maturity date, increased availability under the 2016 Revolving Credit Facility by \$25.0 million and increased availability under the 2016 Floor Plan Facilities by \$215.0 million, among other things.

Availability under the 2016 Revolving Credit Facility is calculated as the lesser of \$250.0 million or a borrowing base calculated based on certain eligible assets, less the aggregate face amount of any outstanding letters of credit under the 2016 Revolving Credit Facility (the “2016 Revolving Borrowing Base”). The 2016 Revolving Credit Facility may be increased at our option up to \$300.0 million upon satisfaction of certain conditions. As of March 31, 2020, the 2016 Revolving Borrowing Base was approximately \$196.5 million based on balances as of such date which will go into effect upon filing of this Form 10-Q for the period ended March 31, 2020. As of March 31, 2020, we had \$210.0 million in outstanding borrowings and approximately \$13.0 million in outstanding letters of credit under the 2016 Revolving Credit Facility, resulting in no remaining borrowing availability under the 2016 Revolving Credit Facility.

The 2016 Floor Plan Facilities are comprised of a new vehicle revolving floor plan facility (as amended, the “2016 New Vehicle Floor Plan Facility”) and a used vehicle revolving floor plan facility (as amended, the “2016 Used Vehicle Floor Plan Facility”), subject to a borrowing base, in a combined amount of up to \$1.015 billion. We may, under certain conditions, request an increase in the 2016 Floor Plan Facilities to a maximum borrowing limit of up to \$1.265 billion, which shall be allocated between the 2016 New Vehicle Floor Plan Facility and the 2016 Used Vehicle Floor Plan Facility as we request, with no more than 30% of the aggregate commitments allocated to the commitments under the 2016 Used Vehicle Floor Plan Facility. Outstanding obligations under the 2016 Floor Plan Facilities are guaranteed by us and certain of our subsidiaries and are secured by a pledge of substantially all of our and our subsidiaries’ assets. The amounts outstanding under the 2016 Credit Facilities bear interest at variable rates based on specified percentages above LIBOR.

We agreed under the 2016 Credit Facilities not to pledge any assets to any third parties (other than those explicitly allowed to be pledged by the amended terms of the 2016 Credit Facilities), including other lenders, subject to certain stated exceptions, including floor plan financing arrangements. In addition, the 2016 Credit Facilities contain certain negative covenants, including covenants which could restrict or prohibit indebtedness, liens, the payment of dividends, capital expenditures and material dispositions and acquisitions of assets, as well as other customary covenants and default provisions. Specifically, the 2016 Credit Facilities permit cash dividends on our Class A and Class B Common Stock so long as no event of

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default (as defined in the 2016 Credit Facilities) has occurred and is continuing and provided that we remain in compliance with all financial covenants under the 2016 Credit Facilities.

6.125% Notes

On March 10, 2017, we issued \$250.0 million in aggregate principal amount of unsecured senior subordinated 6.125% Notes which mature on March 15, 2027. The 6.125% Notes were issued at a price of 100.0% of the principal amount thereof. Balances outstanding under the 6.125% Notes are guaranteed by all of our domestic operating subsidiaries. These guarantees are full and unconditional and joint and several. The parent company has no independent assets or operations. The non-domestic operating subsidiary that is not a guarantor is considered to be minor. Interest on the 6.125% Notes is payable semi-annually in arrears on March 15 and September 15 of each year.

We may redeem the 6.125% Notes, in whole or in part, at any time on or after March 15, 2022 at the following redemption prices, which are expressed as percentages of the principal amount:

	Redemption Price
Beginning on March 15, 2022	103.063 %
Beginning on March 15, 2023	102.042 %
Beginning on March 15, 2024	101.021 %
Beginning on March 15, 2025 and thereafter	100.000 %

Before March 15, 2022, we may redeem all or a part of the 6.125% Notes at a redemption price equal to 100.0% of the aggregate principal amount of the 6.125% Notes redeemed, plus the Applicable Premium (as defined in the indenture governing the 6.125% Notes) and accrued and unpaid interest, if any, to the redemption date. The indenture governing the 6.125% Notes also provides that holders of the 6.125% Notes may require us to repurchase the 6.125% Notes at a purchase price equal to 101.0% of the aggregate principal amount of the 6.125% Notes, plus accrued and unpaid interest, if any, to the date of purchase if we undergo a Change of Control (as defined in the indenture governing the 6.125% Notes).

The indenture governing the 6.125% Notes contains certain specified restrictive covenants. We have agreed not to pledge any assets to any third-party lender of senior subordinated debt except under certain limited circumstances. We also have agreed to certain other limitations or prohibitions concerning the incurrence of other indebtedness, guarantees, liens, certain types of investments, certain transactions with affiliates, mergers, consolidations, issuance of preferred stock, cash dividends to stockholders, distributions, redemptions and the sale, assignment, lease, conveyance or disposal of certain assets. Specifically, the indenture governing the 6.125% Notes limits our ability to pay quarterly cash dividends on our Class A and Class B Common Stock in excess of \$0.12 per share. We may only pay quarterly cash dividends on our Class A and Class B Common Stock if we comply with the terms of the indenture governing the 6.125% Notes. We were in compliance with all restrictive covenants in the indenture governing the 6.125% Notes as of March 31, 2020.

Our obligations under the 6.125% Notes may be accelerated by the holders of 25% of the outstanding principal amount of the 6.125% Notes then outstanding if certain events of default occur, including: (1) defaults in the payment of principal or interest when due; (2) defaults in the performance, or breach, of our covenants under the 6.125% Notes; and (3) certain defaults under other agreements under which we or our subsidiaries have outstanding indebtedness in excess of \$50.0 million.

2019 Mortgage Facility

On November 22, 2019, we entered into a delayed draw-term loan credit agreement which is scheduled to mature on November 22, 2024 (the "2019 Mortgage Facility").

Under the 2019 Mortgage Facility, Sonic has a maximum borrowing limit of \$112.2 million, which varies based on the value of the collateral underlying the 2019 Mortgage Facility. The amount available for borrowing under the 2019 Mortgage Facility is subject to compliance with a borrowing base. The borrowing base is calculated based on 75% of the appraisal value of certain eligible real estate designated by Sonic and owned by certain of our subsidiaries. Based on balances as of March 31, 2020, we had approximately \$109.1 million of outstanding borrowings, resulting in total remaining borrowing availability of approximately \$3.1 million under the 2019 Mortgage Facility.

Amounts outstanding under the 2019 Mortgage Facility bear interest at (1) a specified rate above LIBOR (as defined in the 2019 Mortgage Facility), ranging from 1.50% to 2.75% per annum according to a performance-based pricing grid determined by the Company's Consolidated Total Lease Adjusted Leverage Ratio (as defined in the 2019 Mortgage Facility) as of the last day of the immediately preceding fiscal quarter (the "Performance Grid"); or (2) a specified rate above the Base Rate

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(as defined in the 2019 Mortgage Facility), ranging from 0.50% to 1.75% per annum according to the Performance Grid. Interest on the 2019 Mortgage Facility is paid monthly in arrears calculated using the Base Rate plus the Applicable Rate (as defined in the 2019 Mortgage Facility) according to the Performance Grid. Repayment of principal is paid quarterly commencing on March 31, 2020 through September 30, 2024 at a rate of 2.50% of the aggregate initial principal amount. A balloon payment of the remaining balance will be due at the November 22, 2024 maturity date. Prior to the November 22, 2024 maturity date, the Company reserves the right to prepay the principal amount outstanding at any time without premium or penalty provided the prepayment amount exceeds \$0.5 million.

The 2019 Mortgage Facility contains usual and customary representations and warranties, and usual and customary affirmative and negative covenants, including covenants which could restrict or prohibit indebtedness, liens, the payment of dividends and other restricted payments, capital expenditures and material dispositions and acquisitions of assets, as well as other customary covenants and default provisions. Specifically, the 2019 Mortgage Facility permits quarterly cash dividends on our Class A and Class B Common Stock up to \$0.10 per share so long as no Event of Default (as defined in the 2019 Mortgage Facility) has occurred and is continuing and provided that we remain in compliance with all financial covenants under the 2019 Mortgage Facility.

Mortgage Notes to Finance Companies

As of March 31, 2020, the weighted-average interest rate of our other outstanding mortgage notes (excluding the 2019 Mortgage Facility) was 4.01% and the total outstanding mortgage principal balance of these notes (excluding the 2019 Mortgage Facility) was approximately \$350.1 million. These mortgage notes require monthly payments of principal and interest through their respective maturities, are secured by the underlying properties and contain certain cross-default provisions. Maturity dates for these mortgage notes range between 2020 and 2033.

Covenants

We agreed under the 2016 Credit Facilities and the 2019 Mortgage Facility not to pledge any assets to any third parties (other than those explicitly allowed to be pledged by the amended terms of the 2016 Credit Facilities and the 2019 Mortgage Facility), including other lenders, subject to certain stated exceptions, including floor plan financing arrangements. In addition, the 2016 Credit Facilities and the 2019 Mortgage Facility contain certain negative covenants, including covenants which could restrict or prohibit indebtedness, liens, the payment of dividends and other restricted payments, capital expenditures and material dispositions and acquisitions of assets, as well as other customary covenants and default provisions.

We were in compliance with the financial covenants under the 2016 Credit Facilities and the 2019 Mortgage Facility as of March 31, 2020. Financial covenants include required specified ratios (as each is defined in the 2016 Credit Facilities and the 2019 Mortgage Facility) of:

	Covenant		
	Minimum Consolidated Liquidity Ratio	Minimum Consolidated Fixed Charge Coverage Ratio	Maximum Consolidated Total Lease Adjusted Leverage Ratio
Required ratio	1.05	1.20	5.75
March 31, 2020 actual	1.07	1.70	3.69

The 2016 Credit Facilities and the 2019 Mortgage Facility contain events of default, including cross defaults to other material indebtedness, change of control events and other events of default customary for syndicated commercial credit facilities. Upon the future occurrence of an event of default, we could be required to immediately repay all outstanding amounts under the 2016 Credit Facilities and the 2019 Mortgage Facility.

After giving effect to the applicable restrictions on the payment of dividends under our debt agreements, as of March 31, 2020, we had approximately \$74.1 million of net income and retained earnings free of such restrictions. We were in compliance with all restrictive covenants under our debt agreements as of March 31, 2020.

In addition, many of our facility leases are governed by a guarantee agreement between the landlord and us that contains financial and operating covenants. The financial covenants under the guarantee agreement are identical to those under the 2016 Credit Facilities and the 2019 Mortgage Facility with the exception of one additional financial covenant related to the ratio of EBT DAR to Rent (as defined in the guarantee agreement) with a required ratio of no less than 1.50 to 1.00. As of March 31, 2020, the ratio was 5.80 to 1.00.

Derivative Instruments and Hedging Activities

Prior to March 9, 2018, we had outstanding interest rate cash flow swap agreements to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate (these interest rate cash flow swap agreements were terminated on March 9, 2018 with a net \$4.8 million payment to us from the counterparties, which is being amortized into income as a reduction of interest expense, other, net in the accompanying unaudited condensed consolidated statements of income on a ratable basis over the original term of these agreements (through July 1, 2020)). As of both March 31, 2020 and December 31, 2019, we had interest rate cap agreements to limit our exposure to increases in LIBOR rates above certain levels. Under the terms of these interest rate cap agreements, interest rates reset monthly. We paid cash premiums of approximately \$2.5 million and \$2.8 million in the years ended December 31, 2019 and 2018, respectively, upon entering into new interest rate cap agreements, and the cash premiums were reflected in operating cash flows for the period in which the premiums were paid. The total unamortized premium amounts related to the outstanding interest rate caps were approximately \$3.4 million and \$3.7 million as of March 31, 2020 and December 31, 2019, respectively, and will be amortized into interest expense, other, net in the accompanying unaudited condensed consolidated statements of income over the remaining term of the interest rate cap agreements. The fair value of the outstanding interest rate cap positions at March 31, 2020 was an asset of approximately \$0.1 million, included in other assets in the accompanying unaudited condensed consolidated balance sheet as of such date. The fair value of the outstanding interest rate cap positions at December 31, 2019 was a net asset of approximately \$0.1 million, included in other assets in the accompanying unaudited condensed consolidated balance sheet as of such date.

Under the terms of the interest rate cap agreements, we will receive interest based on the following:

Notional Amount	Cap Rate (1)	Receive Rate (1) (2)	Start Date	End Date
(In millions)				
\$ 312.5	2.000%	one-month LIBOR	July 1, 2019	June 30, 2020
\$ 250.0	3.000%	one-month LIBOR	July 1, 2019	June 30, 2020
\$ 225.0	3.000%	one-month LIBOR	July 1, 2020	June 30, 2021
\$ 150.0	2.000%	one-month LIBOR	July 1, 2020	July 1, 2021
\$ 250.0	3.000%	one-month LIBOR	July 1, 2021	July 1, 2022

- (1) Under these interest rate caps, no payment from the counterparty will occur unless the stated receive rate exceeds the stated cap rate, in which case a net payment to us from the counterparty, based on the spread between the receive rate and the cap rate, will be recognized as a reduction of interest expense, other, net in the accompanying unaudited condensed consolidated statements of income.
- (2) The one-month LIBOR rate was approximately 0.993% at March 31, 2020.

The interest rate caps are designated as cash flow hedges, and the changes in the fair value of these instruments are recorded in other comprehensive income (loss) in the accompanying unaudited condensed consolidated statements of comprehensive income and are disclosed in the supplemental schedule of non-cash financing activities in the accompanying unaudited condensed consolidated statements of cash flows. For the three months ended March 31, 2020, we did not have incremental interest income (the excess of interest received over interest paid) related to the interest rate caps. For the three months ended March 31, 2019, incremental interest income (the excess of interest received over interest paid) related to the interest rate caps was approximately \$0.4 million and is included as a reduction of interest expense, other, net in the accompanying unaudited condensed consolidated statements of income, and the interest amount is disclosed in the supplemental disclosures of cash flow information in the accompanying unaudited condensed consolidated statements of cash flows. The estimated net benefit expected to be reclassified out of accumulated other comprehensive income (loss) into results of operations during the next 12 months is approximately \$0.7 million.

7. Commitments and Contingencies

Legal and Other Proceedings

Sonic is involved, and expects to continue to be involved, in various legal and administrative proceedings arising out of the conduct of its business, including regulatory investigations and private civil actions brought by plaintiffs purporting to represent a potential class or for which a class has been certified. Although Sonic vigorously defends itself in all legal and administrative proceedings, the outcomes of pending and future proceedings arising out of the conduct of Sonic's business, including litigation with customers, employment-related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities, cannot be predicted with certainty. An unfavorable resolution of one or more

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of these matters could have a material adverse effect on Sonic's business, financial condition, results of operations, cash flows or prospects.

Included in other accrued liabilities and other long-term liabilities in the accompanying unaudited condensed consolidated balance sheet as of March 31, 2020 was approximately \$0.4 million and \$0.2 million, respectively, in reserves that Sonic was holding for pending proceedings. Included in other accrued liabilities and other long-term liabilities in the accompanying unaudited condensed consolidated balance sheet as of December 31, 2019 was approximately \$1.2 million and \$0.3 million, respectively, for such reserves. Except as reflected in such reserves, Sonic is currently unable to estimate a range of reasonably possible loss, or a range of reasonably possible loss in excess of the amount accrued, for pending proceedings.

Guarantees and Indemnification Obligations

In accordance with the terms of Sonic's operating lease agreements, Sonic's dealership subsidiaries, acting as lessees, generally agree to indemnify the lessor from certain exposure arising as a result of the use of the leased premises, including environmental exposure and repairs to leased property upon termination of the lease. In addition, Sonic has generally agreed to indemnify the lessor in the event of a breach of the lease by the lessee.

In connection with dealership dispositions and facility relocations, certain of Sonic's subsidiaries have assigned or sublet to the buyer their interests in real property leases associated with such dealerships or facilities. In general, the subsidiaries retain responsibility for the performance of certain obligations under such leases, including rent payments and repairs to leased property upon termination of the lease, to the extent that the assignee or sublessee does not perform. In the event an assignee or a sublessee does not perform its obligations, Sonic remains liable for such obligations.

In accordance with the terms of agreements entered into for the sale of Sonic's dealerships, Sonic generally agrees to indemnify the buyer from certain liabilities and costs arising subsequent to the date of sale, including environmental exposure and exposure resulting from the breach of representations or warranties made in accordance with the agreements. While Sonic's exposure with respect to environmental remediation and repairs is difficult to quantify, Sonic's maximum exposure associated with these general indemnifications was approximately \$43.3 million and \$46.5 million at March 31, 2020 and December 31, 2019, respectively. These indemnifications typically expire within a period of one to three years following the date of sale. The estimated fair value of these indemnifications was not material and the amount recorded for this contingency was not significant at March 31, 2020.

Sonic also guarantees the floor plan commitments of its 50%-owned joint venture, the amount of which was approximately \$4.3 million at both March 31, 2020 and December 31, 2019.

8. Fair Value Measurements

In determining fair value, Sonic uses various valuation approaches, including market, income and/or cost approaches. "Fair Value Measurements and Disclosures" in the ASC establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of Sonic. Unobservable inputs are inputs that reflect Sonic's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that Sonic has the ability to access. Assets utilizing Level 1 inputs include marketable securities that are actively traded, including Sonic's stock or public bonds.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities utilizing Level 2 inputs include cash flow swap instruments and deferred compensation plan balances.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Asset and liability measurements utilizing Level 3 inputs include those used in estimating fair value of non-financial assets and non-financial liabilities in purchase acquisitions, those used in assessing impairment of right-of-use assets ("ROU assets"), property, plant and equipment and other intangibles and those used in the reporting unit valuation in the goodwill impairment evaluation.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment required by Sonic in determining fair value is greatest for assets and liabilities

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categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input (Level 3 being the lowest level) that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, Sonic's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. Sonic uses inputs that are current as of the measurement date, including during periods when the market may be abnormally high or abnormally low. Accordingly, fair value measurements can be volatile based on various factors that may or may not be within Sonic's control.

Assets and liabilities recorded at fair value in the accompanying unaudited condensed consolidated balance sheets as of March 31, 2020 and December 31, 2019 are as follows:

	Fair Value Based on Significant Other Observable Inputs (Level 2)	
	March 31, 2020	December 31, 2019
(In thousands)		
Assets:		
Cash surrender value of life insurance policies (1)	\$ 32,209	\$ 32,799
Interest rate caps designated as hedges (2)	88	97
Total assets	<u>\$ 32,297</u>	<u>\$ 32,896</u>
Liabilities:		
Deferred compensation plan (3)	\$ 17,934	\$ 17,890
Total liabilities	<u>\$ 17,934</u>	<u>\$ 17,890</u>

(1) Included in other assets in the accompanying unaudited condensed consolidated balance sheets.

(2) As of both March 31, 2020 and December 31, 2019, approximately \$0.1 million was included in other assets in the accompanying unaudited condensed consolidated balance sheet.

(3) Included in other long-term liabilities in the accompanying unaudited condensed consolidated balance sheets.

There were \$268.0 million of impairment charges related to long-lived intangible assets assessed during the three months ended March 31, 2020 which required a fair value measurement of assets ordinarily measured at fair value on a non-recurring basis. Goodwill has been adjusted for fair value through impairment charges using Level 1 and Level 3 fair value inputs as discussed in Note 5, "Goodwill and Intangible Assets." Remaining intangible and long-lived assets will be evaluated as of the annual valuation assessment date of October 1, 2020 or as events or changes in circumstances require.

As of March 31, 2020 and December 31, 2019, the fair values of Sonic's financial instruments, including receivables, notes receivable from finance contracts, notes payable – floor plan, trade accounts payable, borrowings under the revolving credit facilities and certain mortgage notes, approximated their carrying values due either to length of maturity or existence of variable interest rates that approximate prevailing market rates.

At March 31, 2020 and December 31, 2019, the fair value and carrying value of Sonic's significant fixed rate long-term debt were as follows:

	March 31, 2020		December 31, 2019	
	Fair Value	Carrying Value	Fair Value	Carrying Value
(In thousands)				
6.125% Notes (1)	\$ 207,500	\$ 250,000	\$ 261,250	\$ 250,000
Mortgage Notes (2)	\$ 194,265	\$ 191,248	\$ 195,962	\$ 194,535

(1) As determined by market quotations as of March 31, 2020 and December 31, 2019, respectively (Level 1).

(2) As determined by discounted cash flows (Level 3) based on estimated current market interest rates for comparable instruments.

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9. Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component for the three months ended March 31, 2020 are as follows:

	Gains and (Losses) on Cash Flow Hedges	Defined Benefit Pension Plan	Total Accumulated Other Comprehensive Income (Loss)
(In thousands)			
Balance at December 31, 2019	\$ (1,326)	\$ (736)	\$ (2,062)
Other comprehensive income (loss) before reclassifications (1)	294	—	294
Amounts reclassified out of accumulated other comprehensive income (loss) (2)	(566)	—	(566)
Net current-period other comprehensive income (loss)	(272)	—	(272)
Balance at March 31, 2020	<u>\$ (1,598)</u>	<u>\$ (736)</u>	<u>\$ (2,334)</u>

- (1) Net of tax expense of \$67 related to cash flow hedges.
(2) Net of tax benefit of \$231 related to cash flow hedges.

See the heading “Derivative Instruments and Hedging Activities” in Note 6, “Long-Term Debt,” for further discussion of Sonic’s cash flow hedges. For further discussion of Sonic’s defined benefit pension plan, see Note 10, “Employee Benefit Plans,” to the consolidated financial statements in Sonic’s Annual Report on Form 10-K for the year ended December 31, 2019.

10. Segment Information

As of March 31, 2020, Sonic had two operating segments comprised of: (1) retail automotive franchises that sell new vehicles and buy and sell used vehicles, sell replacement parts, perform vehicle repair and maintenance services, and arrange finance and insurance products (the “Franchised Dealerships Segment”); and (2) pre-owned vehicle specialty retail locations that provide customers an opportunity to search our nationwide inventory, purchase a pre-owned vehicle, select finance and insurance products and sell their current vehicle to us (the “EchoPark Segment”). Sonic has determined that its operating segments also represent its reportable segments.

The reportable segments identified above are the business activities of Sonic for which discrete financial information is available and for which operating results are regularly reviewed by Sonic’s chief operating decision maker to assess operating performance and allocate resources. Sonic’s chief operating decision maker is a group of three individuals consisting of: (1) the Company’s Chief Executive Officer; (2) the Company’s President; and (3) the Company’s Chief Financial Officer.

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Reportable segment financial information for the three months ended March 31, 2020 and 2019 are as follows:

	Three Months Ended March 31,	
	2020	2019
(In thousands, except unit data)		
Segment Revenues:		
Franchised Dealerships Segment revenues:		
New vehicles	\$ 959,489	\$ 1,066,334
Used vehicles	566,888	603,949
Wholesale vehicles	42,440	52,533
Parts, service and collision repair	324,501	336,225
Finance, insurance and other, net	83,029	80,521
Franchised Dealerships Segment revenues	<u>\$ 1,976,347</u>	<u>\$ 2,139,562</u>
EchoPark Segment revenues:		
Used vehicles	\$ 283,164	\$ 216,417
Wholesale vehicles	6,103	2,237
Parts, service and collision repair	10,179	5,205
Finance, insurance and other, net	32,263	25,717
EchoPark Segment revenues	<u>\$ 331,709</u>	<u>\$ 249,576</u>
Total consolidated revenues	<u><u>\$ 2,308,056</u></u>	<u><u>\$ 2,389,138</u></u>

	Three Months Ended March 31,	
	2020	2019
(In thousands)		
Segment Income (Loss) (1):		
Franchised Dealerships Segment (2)	\$ 22,656	\$ 61,182
EchoPark Segment	2,096	2,106
Total segment income (loss)	<u>\$ 24,752</u>	<u>\$ 63,288</u>
Impairment charges (3)	(268,000)	(1,952)
Income (loss) from continuing operations before taxes	<u><u>\$ (243,248)</u></u>	<u><u>\$ 61,336</u></u>

Retail New and Used Vehicle Unit Sales Volume:		
Franchised Dealerships Segment	47,762	52,609
EchoPark Segment	13,986	11,051
Total retail new and used vehicle unit sales volume	<u><u>61,748</u></u>	<u><u>63,660</u></u>

- (1) Segment income (loss) for each segment is defined as income (loss) from continuing operations before taxes and impairment charges.
- (2) For the three months ended March 31, 2019, the above amount includes a pre-tax net gain on the disposal of franchised dealerships of approximately \$46.7 million, offset partially by approximately \$6.3 million of pre-tax executive transition costs.
- (3) For the three months ended March 31, 2020, the above amount includes a pre-tax impairment charge of approximately \$68.0 million related to adjustments in fair value of goodwill for the Franchised Dealerships Segment as a result of the economic disruptions due to the worldwide spread of COVID-19 which has adversely affected our business. For the three months ended March 31, 2019, the above amount includes approximately \$1.9 million of pre-tax fair value adjustments to real estate at former EchoPark locations classified as held for sale.

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	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Impairment Charges:		
Franchised Dealerships Segment	\$ 268,000	\$ 26
EchoPark Segment	—	1,926
Total impairment charges	\$ 268,000	\$ 1,952

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Depreciation and amortization:		
Franchised Dealerships Segment	\$ 19,589	\$ 20,237
EchoPark Segment	2,708	2,412
Total depreciation and amortization	\$ 22,297	\$ 22,649

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Floor Plan Interest Expense:		
Franchised Dealerships Segment	\$ 9,608	\$ 12,505
EchoPark Segment	900	721
Total floor plan interest expense	\$ 10,508	\$ 13,226

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Interest Expense, Other, Net:		
Franchised Dealerships Segment	\$ 10,599	\$ 12,414
EchoPark Segment	366	439
Total interest expense, other, net	\$ 10,965	\$ 12,853

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Capital expenditures:		
Franchised Dealerships Segment	\$ 17,249	\$ 25,229
EchoPark Segment	2,556	5,390
Total capital expenditures	\$ 19,805	\$ 30,619

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	March 31, 2020	December 31, 2019
(In thousands)		
Assets:		
Franchised Dealerships Segment assets	\$ 3,550,745	\$ 3,797,878
EchoPark Segment assets	244,219	244,054
Corporate and other:		
Cash and cash equivalents	181,780	29,103
Total assets	\$ 3,976,744	\$ 4,071,035

11. Lease Accounting

The majority of our leases are related to dealership properties that are subject to long-term lease arrangements. In addition, we have certain equipment leases and contracts containing embedded leased assets that have been evaluated and included in the recorded ROU asset and lease liabilities as appropriate.

As a result of the adoption of ASC 842, "Leases," on January 1, 2019, we are required to recognize a ROU asset and a lease liability in the accompanying unaudited condensed consolidated balance sheets at the lease commencement date. For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date. For finance leases, the lease liability is initially measured in the same manner and date as for operating leases, and is subsequently measured at reduced cost using the effective interest method.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred or previously recognized favorable lease assets, less any lease incentives received or previously recognized lease exit accruals. For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term. For finance leases, the ROU asset is reduced using the straight-line method from the lease commencement date to the earlier of the end of its useful life or the end of the lease term unless the lease transfers ownership of the underlying asset to us or we are reasonably certain to exercise an option to purchase the underlying asset. In those cases, the ROU asset is reduced over the expected useful life of the underlying asset. Expense related to the reduction of the ROU asset is recognized and presented separately from interest expense on the lease liability.

Variable lease payments associated with our leases are recognized when the event, activity or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented as operating expense in our unaudited condensed consolidated statements of income in the same line item as expense arising from fixed lease payments (operating leases) or expense related to the reduction of the ROU asset (finance leases).

ROU assets for operating and finance leases are periodically reduced by impairment losses. We use the long-lived assets impairment guidance in ASC 360, "Property, Plant, and Equipment," to determine whether the ROU asset is impaired and, if so, the amount of the impairment loss to recognize.

We regularly monitor events or changes in circumstances that may require a reassessment of one of our leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in profit or loss.

Key estimates and judgments related to the measurement and recording of ROU assets and lease liabilities include how we determine: (1) the discount rate used to discount the unpaid lease payments to present value; and (2) the expected lease term, including any extension options.

ASC 842, "Leases," requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. Generally, we cannot determine the interest rate implicit in the lease because we do not have access to the lessor's estimated residual value or the amount of the lessor's deferred initial direct costs. Therefore, we generally use our incremental borrowing rate as the discount rate for the lease. We determined the discount rate for our leases based on the risk-free rate as of the measurement date for varying maturities corresponding to the remaining lease term, adjusted for the risk-premium attributed to Sonic's corporate credit rating for a secured or collateralized instrument.

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Many of our lease arrangements have one or more existing renewal options to extend the lease term (typically in five- to ten-year increments), which were considered in the calculation of the ROU assets and lease liabilities if we determined that it was reasonably certain that an extension option would be exercised. The lease term for all of the Company's leases includes the noncancellable period of the lease plus any additional periods covered by our option to extend the lease that we are reasonably certain to exercise. We determined the probability of the exercise of a lease extension option based on our long-term strategic business outlook and the condition and remaining useful life of the fixed assets at the location subject to the lease agreement, among other factors.

The majority of our lease agreements require fixed monthly payments (subject to either specific or index-based escalations in future periods) while other agreements require variable lease payments based on changes in LIBOR or any replacement thereof. Lease payments included in the measurement of the lease liability comprise the: (1) fixed lease payments, including in-substance fixed payments, owed over the lease term, which include termination penalties we would owe if the estimated lease term assumes that we would be likely to exercise a termination option prior to the earliest expiration date; (2) variable lease payments that depend on an index or rate, initially measured using the index or rate at the lease commencement date; and (3) the exercise price of our option to purchase the underlying asset if we are reasonably certain to exercise the option. Our leases do not typically contain residual value guarantees.

In certain situations, we have entered into sublease agreements whereby we sublease all or a portion of a leased real estate asset to a third party. To the extent that we have a sublease related to a lease agreement for an asset that we are no longer using in operations, we have reduced the ROU asset by any applicable net deficiency in expected cash flows from that sublease (either due to partial monthly sublease proceeds or a sublease term less than the remaining master lease term).

Following is information related to changes in our ROU asset and lease liability balances and other financial information for the three months ended March 31, 2020:

	As Reported December 31, 2019	New Leases	Modifications (1)	Reduction / Amortization	As Reported March 31, 2020
(In thousands)					
ROU Assets:					
Finance Leases	\$ 34,691	\$ —	\$ 16,763	\$ (756)	\$ 50,698
Operating Leases	337,842	—	17,191	(10,885)	344,148
Total ROU Assets	<u>\$ 372,533</u>	<u>\$ —</u>	<u>\$ 33,954</u>	<u>\$ (11,641)</u>	<u>\$ 394,846</u>
Current Lease Liabilities:					
Finance Leases	\$ 1,564	\$ —	\$ 18,588	\$ 73	\$ 20,225
Operating Leases	43,332	—	402	(595)	43,139
Total Current Lease Liabilities	<u>\$ 44,896</u>	<u>\$ —</u>	<u>\$ 18,990</u>	<u>\$ (522)</u>	<u>\$ 63,364</u>
Long-Term Lease Liabilities:					
Finance Leases	\$ 36,313	\$ —	\$ (2,687)	\$ (410)	\$ 33,216
Operating Leases	304,151	—	17,651	(10,431)	311,371
Total Long-Term Lease Liabilities	<u>\$ 340,464</u>	<u>\$ —</u>	<u>\$ 14,964</u>	<u>\$ (10,841)</u>	<u>\$ 344,587</u>

(1) Includes the impact of remeasurements related to lease terminations and changes in assumptions around the probability of exercise of extension options.

SONIC AUTOMOTIVE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Lease Expense:		
Finance lease expense:		
Reduction of ROU assets	\$ 756	\$ 709
Interest on lease liabilities	1,344	1,176
Operating lease expense (1)	16,610	17,997
Short-term lease expense (1)	420	427
Variable lease expense	718	114
Sublease income	(3,099)	(3,578)
Total	\$ 16,749	\$ 16,845

(1) Included in operating cash flows in the accompanying unaudited condensed consolidated statement of cash flows as of March 31, 2020.

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Other Information:		
Cash paid for amounts included in the measurement of lease liabilities		
Financing cash flows for finance leases	\$ 337	\$ 281
Operating cash flows for finance leases	\$ 1,344	\$ 1,176
Operating cash flows for operating leases	\$ 16,753	\$ 18,469
ROU assets obtained in exchange for lease liabilities		
Finance leases	\$ 6,728	\$ 9,983
Operating leases (1)	\$ 27,226	\$ (10,711)

(1) Includes the impact of reclassification of ROU assets from operating leases to finance leases due to remeasurement.

	March 31, 2020	March 31, 2019
	Other Information:	
Weighted-average remaining lease term (in years)		
Finance leases	7.8	11.4
Operating leases	9.6	9.8
Weighted-average discount rate		
Finance leases	16.52 %	18.31 %
Operating leases	6.56 %	6.86 %

Year Ending December 31,	Undiscounted Lease Cash Flows Under ASC 842 as of March 31, 2020		
	Finance	Operating	Receipts from Subleases
	(In thousands)		
Remainder of 2020	\$ 23,572	\$ 48,808	\$ (8,343)
2021	6,075	60,674	(8,228)
2022	6,083	54,358	(6,103)
2023	6,144	52,687	(6,103)
2024	6,263	47,219	(5,042)
Thereafter	43,103	223,118	(4,270)
Total	\$ 91,240	\$ 486,864	\$ (38,089)
Less: Present value discount			
	(37,799)	(132,354)	
Lease liabilities	\$ 53,441	\$ 354,510	

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes thereto and "Item 1A. Risk Factors" in this report, as well as the consolidated financial statements and related notes thereto, "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing in our Annual Report on Form 10-K for the year ended December 31, 2019.

Except to the extent that differences among operating segments are material to an understanding of our business taken as a whole, we present the discussion in this Management's Discussion and Analysis of Financial Condition and Results of Operations on a consolidated basis.

Overview

We are one of the largest automotive retailers in the United States (as measured by total revenue). As a result of the way we manage our business, we had two reportable segments as of March 31, 2020: (1) the Franchised Dealerships Segment and (2) the EchoPark Segment. For management and operational reporting purposes, we group certain businesses together that share management and inventory (principally used vehicles) into "stores." As of March 31, 2020, we operated 86 stores in the Franchised Dealerships Segment and nine stores in the EchoPark Segment. The Franchised Dealerships Segment consists of 99 new vehicle franchises (representing 21 different brands of cars and light trucks) and 15 collision repair centers in 12 states.

The Franchised Dealerships Segment provides comprehensive services, including (1) sales of both new and used cars and light trucks; (2) sales of replacement parts and performance of vehicle maintenance, manufacturer warranty repairs, and paint and collision repair services (collectively, "Fixed Operations"); and (3) arrangement of extended warranties, service contracts, financing, insurance and other aftermarket products (collectively, "finance and insurance" or "F&I") for our customers. The EchoPark Segment sells used cars and light trucks and arranges F&I product sales for our customers in pre-owned vehicle specialty retail locations. Our EchoPark business operates independently from our franchised dealerships business. Sales operations in our first EchoPark market in Denver, Colorado began in the fourth quarter of 2014. As of March 31, 2020, we had three EchoPark stores in operation in Colorado, four in Texas, one in North Carolina and one in California. By the end of 2020, we expect to open three additional EchoPark stores. We believe that the continued expansion of our EchoPark business will provide long-term benefits to the Company, our stockholders and our guests.

Beginning in the middle of March 2020 the novel coronavirus ("COVID-19") pandemic began to adversely impact our business operations. All of the markets in which we currently operate are under various levels of "shelter-in-place" or "stay-at-home" orders from state and local governmental authorities, which in many cases significantly restrict our business operations and suppress consumer activity, in particular related to our vehicle sales activities. As a result, we saw significant declines in new and used vehicle unit sales volume, including a year-over-year decline of approximately 50% during the second half of March 2020 as compared to the second half of March 2019, and our parts and service business is currently operating below full capacity, despite automotive repair having been deemed an essential service in all of the markets in which we operate. We currently expect these trends to continue into the second quarter with the expectation that the majority of shelter-in-place and stay-at-home orders will be lifted in the latter half of the second quarter of 2020. If the shelter-in-place and stay-at-home orders are extended or there is a second wave of shut-downs in the second half of the year due to another outbreak of COVID-19, we would again expect to face headwinds on the demand side of our business.

As a result of these developments and the impact of COVID-19, we took various actions in an attempt to mitigate the financial impact of COVID-19 on our business during the first quarter of 2020. We have placed approximately 1,700 associates on unpaid leave, terminated an additional 1,200 associates, implemented additional compensation expense reductions, and instituted a hiring freeze. We have also taken actions to reduce our advertising expenses and non-essential spending, and postponed certain capital expenditures. We have taken steps to shore up our liquidity position and continue to evaluate opportunities for further expense reduction and additional sources of liquidity as we navigate the COVID-19 pandemic.

Executive Summary

The U.S. retail automotive industry's total new vehicle (retail and fleet combined) seasonally adjusted annual rate of sales ("SAAR") decreased 12.4%, to 14.9 million vehicles, in the three months ended March 31, 2020, compared to 17.0 million vehicles in the three months ended March 31, 2019, according to data from Bloomberg Financial Markets, provided by Stephens Inc. Prior to COVID-19, analysts' industry expectation for the total new vehicle SAAR in 2020 ranged

from 16.0 million to 17.0 million vehicles. It is difficult to anticipate what the total new vehicle SAAR may be in 2020 and beyond due to the rapidly evolving circumstances around the COVID-19 pandemic and related economic impact. Further changes in consumer confidence, unemployment levels, availability of consumer financing, manufacturer inventory production levels or incentive levels from automotive manufacturers or government programs could cause actual 2020 total new vehicle SAAR to vary from current expectations. Many factors, including brand and geographic concentrations as well as the industry sales mix between retail and fleet new vehicle unit sales volume, have caused our past results to differ from the industry's overall trend. Since we do not participate in any material manner in fleet sales, we believe it is appropriate to compare our retail new vehicle unit sales volume to the retail new vehicle SAAR (which excludes fleet new vehicle sales). According to the Power Information Network ("PIN") from J.D. Power, retail new vehicle SAAR was 11.6 million vehicles for the three months ended March 31, 2020, a decrease of 8.7% from the prior year period.

As a result of the disposition, termination or closure of several franchised dealerships and EchoPark stores since March 31, 2019, the change in consolidated reported amounts from period to period may not be indicative of the actual operational or financial performance of our current group of operating stores. Please refer to the same store tables and discussion on the following pages for more meaningful comparison and discussion of financial results on a comparable store basis.

Unless otherwise noted, all discussion of increases or decreases are for the three months ended March 31, 2020 and are compared to the same prior year period. The following discussion of new vehicles, used vehicles, wholesale vehicles, parts, service and collision repair, and finance, insurance and other, net are on a same store basis, except where otherwise noted. All currently operating stores (both our franchised dealerships and EchoPark stores) are included within the same store group in the first full month following the first anniversary of the store's opening or acquisition.

See "Future Liquidity Outlook" section for further discussion related to actions taken to preserve and increase liquidity.

Franchised Dealerships Segment

New vehicle revenue decreased 4.7% during the three months ended March 31, 2020, driven by a 6.1% decrease in new vehicle unit sales volume. New vehicle gross profit decreased 12.1% during the three months ended March 31, 2020, driven primarily by a 6.4% decrease in new vehicle gross profit per unit. New vehicle gross profit per unit decreased \$144 per unit, or 6.4%, to \$2,093 per unit in the three months ended March 31, 2020.

Retail used vehicle revenue decreased 1.8% during the three months ended March 31, 2020. Retail used vehicle unit sales volume increased 1.5% during the three months ended March 31, 2020. Retail used vehicle gross profit decreased 1.0% during the three months ended March 31, 2020, primarily driven by a decrease in retail used vehicle gross profit per unit. Retail used vehicle gross profit per unit decreased \$32 per unit, or 2.5%, to \$1,240 per unit in the three months ended March 31, 2020. Wholesale vehicle gross loss decreased approximately \$0.9 million, or 91.9%, during the three months ended March 31, 2020, primarily driven by a decrease in wholesale vehicle gross loss per unit of \$124, or 91.2%. We generally focus on maintaining used vehicle inventory days' supply in the 30- to 35-day range, which may fluctuate seasonally, in order to limit our exposure to market pricing volatility. Our reported franchised dealerships used vehicle inventory days' supply was approximately 29 and 27 days as of March 31, 2020 and 2019, respectively.

Fixed Operations revenue increased 1.5% during the three months ended March 31, 2020. Fixed Operations gross profit increased 2.0% during the three months ended March 31, 2020, driven primarily by a 5.3% increase in customer pay (as hereinafter defined) gross profit. Fixed Operations gross margin increased 30 basis points, to 48.7%, during the three months ended March 31, 2020, driven primarily by higher levels of customer pay revenue and an increase in customer pay gross margin.

F&I revenue increased 6.9% during the three months ended March 31, 2020, driven primarily by an increase in F&I gross profit per retail unit. F&I gross profit per retail unit increased \$150 per unit, or 9.9%, to \$1,671 per unit, in the three months ended March 31, 2020. We believe that our proprietary software applications, playbook processes and customer-centric selling approach enable us to optimize F&I gross profit and penetration rates (the number of F&I products sold per vehicle) across our F&I product lines. We believe that we will continue to increase revenue in this area as we refine our processes, train our associates and continue to sell a high volume of retail new and used vehicles at our stores.

EchoPark Segment

Retail used vehicle revenue increased 22.6% during the three months ended March 31, 2020. Retail used vehicle unit sales volume increased 18.2% during the three months ended March 31, 2020. Combined retail used vehicle and F&I gross profit per unit decreased \$126 per unit, or 5.5%, to \$2,172 per unit during the three months ended March 31, 2020.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Wholesale vehicle gross loss was flat. We generally focus on maintaining used vehicle inventory days' supply in the 30-to 35-day range, which may fluctuate seasonally, in order to limit our exposure to market pricing volatility. Our used vehicle inventory days' supply at our EchoPark stores was approximately 34 and 29 days as of March 31, 2020 and 2019, respectively.

Results of Operations – Consolidated

The following table lists other items of interest that affected reported amounts in the accompanying unaudited condensed consolidated statements of income:

(Amounts are before the effect of income taxes)	Three Months Ended March 31, 2020			Three Months Ended March 31, 2019			Income Statement Line Impacted
	Franchised Dealerships Segment	EchoPark Segment	Total	Franchised Dealerships Segment	EchoPark Segment	Total	
	(In thousands)						
Gain (loss) on franchise disposals	\$ —	\$ —	\$ —	\$ 46,680	\$ —	\$ 46,680	SG&A expenses
Executive transition costs	—	—	—	(6,264)	—	(6,264)	SG&A expenses
Impairment charges	(268,000)	—	(268,000)	—	(1,926)	(1,926)	Impairment charges

The following table depicts the breakdown of our new vehicle revenues from continuing operations by brand for the three months ended March 31, 2020 and 2019:

Brand	Three Months Ended March 31,	
	2020	2019
Luxury:		
BMW	25.2 %	21.2 %
Mercedes	13.4 %	12.2 %
Audi	6.1 %	6.7 %
Lexus	4.8 %	5.1 %
Land Rover	4.3 %	4.9 %
Porsche	3.0 %	3.2 %
Cadillac	2.2 %	2.2 %
MINI	1.0 %	1.0 %
Other luxury (1)	2.3 %	3.0 %
Total Luxury	62.3 %	59.5 %
Mid-line Import:		
Honda	14.8 %	17.5 %
Toyota	8.7 %	8.7 %
Volkswagen	0.9 %	1.9 %
Hyundai	1.1 %	1.5 %
Other imports (2)	0.5 %	1.5 %
Total Mid-line Import	26.0 %	31.1 %
Domestic:		
Ford	5.9 %	4.8 %
General Motors ("GM") (3)	5.8 %	4.6 %
Total Domestic	11.7 %	9.4 %
Total	100.0 %	100.0 %

(1) Includes Acura, Infiniti, Jaguar, Smart and Volvo.

(2) Includes Kia, Nissan, Scion and Subaru.

(3) Includes Buick, Chevrolet and GMC.

Results of Operations

Unless otherwise noted, all discussion of increases or decreases are for the three months ended March 31, 2020 and are compared to the same prior year period. The following discussion of new vehicles, used vehicles, wholesale vehicles, parts,

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

service and collision repair, and finance, insurance and other, net are on a same store basis, except where otherwise noted. All currently operating stores (both our franchised dealerships and EchoPark stores) are included within the same store group in the first full month following the first anniversary of the store's opening or acquisition.

Results of Operations – Consolidated

New Vehicles – Consolidated

The retail automotive industry uses the total new vehicle SAAR to measure the annual amount of expected new vehicle unit sales activity (both retail and fleet sales) within the United States. The total and retail new vehicle SAAR below reflect all brands marketed or sold in the United States. The total and retail new vehicle SAAR include brands we do not sell and markets in which we do not operate; therefore, our new vehicle sales may not trend directly in line with the total and retail new vehicle SAAR. We believe that the retail new vehicle SAAR is a more meaningful metric for comparing our new vehicle unit sales volume to the industry due to our minimal fleet vehicle business. Beginning in the middle of March 2020, COVID-19 began to adversely impact the retail automotive industry and consequentially also our business operations by severely impacting the demand portion of our business. State and local governmental authorities in all of the markets in which we currently operate began to put in place various levels of shelter-in-place or stay-at-home orders in the middle of March 2020, which in many cases significantly restricted our business operations and suppressed consumer activity, in particular related to our vehicle sales activities.

	Three Months Ended March 31,		Better / (Worse)
	2020	2019	% Change
	(In millions of vehicles)		
Retail new vehicle SAAR (1)	11.6	12.7	(8.7)%
Fleet new vehicle SAAR	3.3	4.3	(23.3)%
Total new vehicle SAAR (1)	14.9	17.0	(12.4)%

(1) Source: PIN from J.D. Power

The following table provides a reconciliation of consolidated reported basis and same store basis for total new vehicles (combined retail and fleet data):

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
	(In thousands, except unit data)			
Total new vehicle revenue:				
Same store	\$ 959,491	\$ 1,006,903	\$ (47,412)	(4.7)%
Acquisitions, open points and dispositions	(2)	59,431	(59,433)	NM
Total as reported	\$ 959,489	\$ 1,066,334	\$ (106,845)	(10.0)%
Total new vehicle gross profit:				
Same store	\$ 45,465	\$ 51,752	\$ (6,287)	(12.1)%
Acquisitions, open points and dispositions	(50)	2,044	(2,094)	NM
Total as reported	\$ 45,415	\$ 53,796	\$ (8,381)	(15.6)%
Total new vehicle unit sales:				
Same store	21,724	23,133	(1,409)	(6.1)%
Acquisitions, open points and dispositions	—	2,064	(2,064)	NM
Total as reported	21,724	25,197	(3,473)	(13.8)%

NM = Not Meaningful

SONIC AUTOMOTIVE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our consolidated reported new vehicle results (combined retail and fleet data) are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Reported new vehicle:				
Revenue	\$ 959,489	\$ 1,066,334	\$ (106,845)	(10.0)%
Gross profit	\$ 45,415	\$ 53,796	\$ (8,381)	(15.6)%
Unit sales	21,724	25,197	(3,473)	(13.8)%
Revenue per unit	\$ 44,167	\$ 42,320	\$ 1,847	4.4 %
Gross profit per unit	\$ 2,091	\$ 2,135	\$ (44)	(2.1)%
Gross profit as a % of revenue	4.7 %	5.0 %	(30) bps	

Our consolidated same store new vehicle results (combined retail and fleet data) are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Same store new vehicle:				
Revenue	\$ 959,491	\$ 1,006,903	\$ (47,412)	(4.7)%
Gross profit	\$ 45,465	\$ 51,752	\$ (6,287)	(12.1)%
Unit sales	21,724	23,133	(1,409)	(6.1)%
Revenue per unit	\$ 44,167	\$ 43,527	\$ 640	1.5 %
Gross profit per unit	\$ 2,093	\$ 2,237	\$ (144)	(6.4)%
Gross profit as a % of revenue	4.7 %	5.1 %	(40) bps	

For further analysis of new vehicle results, see the tables and discussion under the heading "New Vehicles – Franchised Dealerships Segment" in the Franchised Dealerships Segment section below.

Used Vehicles – Consolidated

Used vehicle revenues are directly affected by a number of factors, including the pricing and level of manufacturer incentives on new vehicles, the number and quality of trade-ins and lease turn-ins, the availability and pricing of used vehicles acquired at auction and the availability of consumer credit. As with new vehicles, COVID-19 began to adversely impact the retail automotive industry and consequentially also our business operations starting in the middle of March 2020, by severely impacting the demand portion of our business. State and local governmental authorities in all of the markets in which we currently operate began to put in place various levels of shelter-in-place or stay-at-home orders in the middle of March 2020, which in many cases significantly restricted our business operations and suppressed consumer activity, in particular related to our vehicle sales activities.

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The following table provides a reconciliation of consolidated reported basis and same store basis for retail used vehicles:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit data)				
Total used vehicle revenue:				
Same store	\$ 832,190	\$ 793,460	\$ 38,730	4.9 %
Acquisitions, open points and dispositions	17,862	26,906	(9,044)	NM
Total as reported	<u>\$ 850,052</u>	<u>\$ 820,366</u>	<u>\$ 29,686</u>	<u>3.6 %</u>
Total used vehicle gross profit:				
Same store	\$ 30,444	\$ 32,351	\$ (1,907)	(5.9)%
Acquisitions, open points and dispositions	1,686	4,657	(2,971)	NM
Total as reported	<u>\$ 32,130</u>	<u>\$ 37,008</u>	<u>\$ (4,878)</u>	<u>(13.2)%</u>
Total used vehicle unit sales:				
Same store	39,105	36,692	2,413	6.6 %
Acquisitions, open points and dispositions	919	1,771	(852)	NM
Total as reported	<u>40,024</u>	<u>38,463</u>	<u>1,561</u>	<u>4.1 %</u>

NM = Not Meaningful

Our consolidated reported retail used vehicle results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Reported used vehicle:				
Revenue	\$ 850,052	\$ 820,366	\$ 29,686	3.6 %
Gross profit	\$ 32,130	\$ 37,008	\$ (4,878)	(13.2)%
Unit sales	40,024	38,463	1,561	4.1 %
Revenue per unit	\$ 21,239	\$ 21,329	\$ (90)	(0.4)%
Gross profit per unit	\$ 803	\$ 962	\$ (159)	(16.5)%
Gross profit as a % of revenue	3.8 %	4.5 %	(70) bps	

Our consolidated same store retail used vehicle results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Same store used vehicle:				
Revenue	\$ 832,190	\$ 793,460	\$ 38,730	4.9 %
Gross profit	\$ 30,444	\$ 32,351	\$ (1,907)	(5.9)%
Unit sales	39,105	36,692	2,413	6.6 %
Revenue per unit	\$ 21,281	\$ 21,625	\$ (344)	(1.6)%
Gross profit per unit	\$ 779	\$ 882	\$ (103)	(11.7)%
Gross profit as a % of revenue	3.7 %	4.1 %	(40) bps	

For further analysis of used vehicle results, see the tables and discussion under the headings "Used Vehicles – Franchised Dealerships Segment" and "Used Vehicles and F&I – EchoPark Segment" in the Franchised Dealerships Segment and EchoPark Segment sections, respectively, below.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Wholesale Vehicles – Consolidated

Wholesale vehicle revenues are affected by retail new and used vehicle unit sales volume and the associated trade-in volume. Wholesale vehicle revenues are also significantly affected by our corporate inventory management strategy and policies, which are designed to optimize our total used vehicle inventory and minimize inventory carrying risks.

The following table provides a reconciliation of consolidated reported basis and same store basis for wholesale vehicles:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit data)				
Total wholesale vehicle revenue:				
Same store	\$ 48,313	\$ 52,004	\$ (3,691)	(7.1)%
Acquisitions, open points and dispositions	230	2,766	(2,536)	NM
Total as reported	<u>\$ 48,543</u>	<u>\$ 54,770</u>	<u>\$ (6,227)</u>	<u>(11.4)%</u>
Total wholesale vehicle gross profit (loss):				
Same store	\$ (154)	\$ (1,083)	\$ 929	85.8 %
Acquisitions, open points and dispositions	(3)	(184)	181	NM
Total as reported	<u>\$ (157)</u>	<u>\$ (1,267)</u>	<u>\$ 1,110</u>	<u>87.6 %</u>
Total wholesale vehicle unit sales:				
Same store	8,586	7,972	614	7.7 %
Acquisitions, open points and dispositions	89	675	(586)	NM
Total as reported	<u>8,675</u>	<u>8,647</u>	<u>28</u>	<u>0.3 %</u>

NM = Not Meaningful

Our consolidated reported wholesale vehicle results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Reported wholesale vehicle:				
Revenue	\$ 48,543	\$ 54,770	\$ (6,227)	(11.4)%
Gross profit (loss)	\$ (157)	\$ (1,267)	\$ 1,110	87.6 %
Unit sales	8,675	8,647	28	0.3 %
Revenue per unit	\$ 5,596	\$ 6,334	\$ (738)	(11.7)%
Gross profit (loss) per unit	\$ (18)	\$ (147)	\$ 129	87.8 %
Gross profit (loss) as a % of revenue	(0.3)%	(2.3)%	200	bps

Our consolidated same store wholesale vehicle results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Same store wholesale vehicle:				
Revenue	\$ 48,313	\$ 52,004	\$ (3,691)	(7.1)%
Gross profit (loss)	\$ (154)	\$ (1,083)	\$ 929	85.8 %
Unit sales	8,586	7,972	614	7.7 %
Revenue per unit	\$ 5,627	\$ 6,523	\$ (896)	(13.7)%
Gross profit (loss) per unit	\$ (18)	\$ (136)	\$ 118	86.8 %
Gross profit (loss) as a % of revenue	(0.3)%	(2.1)%	180	bps

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For further analysis of wholesale vehicle results, see the tables and discussion under the headings "Wholesale Vehicles – Franchised Dealerships Segment" and "Wholesale Vehicles – EchoPark Segment" in the Franchised Dealerships Segment and EchoPark Segment sections, respectively, below.

Fixed Operations – Consolidated

Parts, service and collision repair revenues consist of customer requested repair orders ("customer pay"), warranty repairs, wholesale parts and internal, sublet and other. Parts and service revenue is driven by the mix of warranty repairs versus customer pay repairs, available service capacity, vehicle quality, manufacturer recalls, customer loyalty and prepaid or manufacturer-paid maintenance programs. Internal, sublet and other primarily relates to preparation and reconditioning work performed on vehicles that are later sold to customers. When that work is performed by one of our dealerships or stores, the work is classified as internal. In the event the work is performed by a third party on our behalf, it is classified as sublet.

We believe that, over time, vehicle quality will continue to improve, but vehicle complexity and the associated demand for repairs by qualified technicians at franchised dealerships will offset any revenue lost from improvement in vehicle quality. We also believe that, over the long term, we have the ability to continue to add service capacity at our dealerships and stores to further increase Fixed Operations revenues. Manufacturers continue to extend new vehicle warranty periods and have also begun to include regular maintenance items in the warranty or complimentary maintenance program coverage. These factors, over the long term, combined with the extended manufacturer warranties on certified pre-owned vehicles, should facilitate long-term growth in our parts and service business. Barriers to long-term growth may include reductions in the rate paid by manufacturers to dealers for warranty work performed, as well as the improved quality of vehicles that may affect the level and frequency of future customer pay or warranty-related revenues.

The following table provides a reconciliation of consolidated reported basis and same store basis for Fixed Operations:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands)				
Total Fixed Operations revenue:				
Same store	\$ 336,725	\$ 327,562	\$ 9,163	2.8 %
Acquisitions, open points and dispositions	(2,045)	13,868	(15,913)	NM
Total as reported	<u>\$ 334,680</u>	<u>\$ 341,430</u>	<u>\$ (6,750)</u>	<u>(2.0)%</u>
Total Fixed Operations gross profit:				
Same store	\$ 159,055	\$ 155,851	\$ 3,204	2.1 %
Acquisitions, open points and dispositions	(1,157)	7,385	(8,542)	NM
Total as reported	<u>\$ 157,898</u>	<u>\$ 163,236</u>	<u>\$ (5,338)</u>	<u>(3.3)%</u>

NM = Not Meaningful

SONIC AUTOMOTIVE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our consolidated reported Fixed Operations results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands)				
Reported Fixed Operations:				
Revenue				
Customer pay	\$ 135,056	\$ 137,721	\$ (2,665)	(1.9)%
Warranty	60,760	68,973	(8,213)	(11.9)%
Wholesale parts	38,706	39,297	(591)	(1.5)%
Internal, sublet and other	100,158	95,439	4,719	4.9 %
Total revenue	\$ 334,680	\$ 341,430	\$ (6,750)	(2.0)%
Gross profit				
Customer pay	\$ 74,595	\$ 74,326	\$ 269	0.4 %
Warranty	33,746	38,407	(4,661)	(12.1)%
Wholesale parts	6,667	6,796	(129)	(1.9)%
Internal, sublet and other	42,890	43,707	(817)	(1.9)%
Total gross profit	\$ 157,898	\$ 163,236	\$ (5,338)	(3.3)%
Gross profit as a % of revenue				
Customer pay	55.2 %	54.0 %	120	bps
Warranty	55.5 %	55.7 %	(20)	bps
Wholesale parts	17.2 %	17.3 %	(10)	bps
Internal, sublet and other	42.8 %	45.8 %	(300)	bps
Total gross profit as a % of revenue	47.2 %	47.8 %	(60)	bps

Our consolidated same store Fixed Operations results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands)				
Same store Fixed Operations:				
Revenue				
Customer pay	\$ 137,147	\$ 133,233	\$ 3,914	2.9 %
Warranty	61,313	65,474	(4,161)	(6.4)%
Wholesale parts	38,706	38,157	549	1.4 %
Internal, sublet and other	99,559	90,698	8,861	9.8 %
Total revenue	\$ 336,725	\$ 327,562	\$ 9,163	2.8 %
Gross profit				
Customer pay	\$ 75,729	\$ 71,929	\$ 3,800	5.3 %
Warranty	33,907	36,525	(2,618)	(7.2)%
Wholesale parts	6,667	6,565	102	1.6 %
Internal, sublet and other	42,752	40,832	1,920	4.7 %
Total gross profit	\$ 159,055	\$ 155,851	\$ 3,204	2.1 %
Gross profit as a % of revenue				
Customer pay	55.2 %	54.0 %	120	bps
Warranty	55.3 %	55.8 %	(50)	bps
Wholesale parts	17.2 %	17.2 %	—	bps
Internal, sublet and other	42.9 %	45.0 %	(210)	bps
Total gross profit as a % of revenue	47.2 %	47.6 %	(40)	bps

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For further analysis of Fixed Operations results, see the tables and discussion under the headings "Fixed Operations – Franchised Dealerships Segment" and "Fixed Operations – EchoPark Segment" in the Franchised Dealerships Segment and EchoPark Segment sections, respectively, below.

F&I – Consolidated

Finance, insurance and other, net revenues include commissions for arranging vehicle financing and insurance, sales of third-party extended warranties and service contracts for vehicles, and sales of other aftermarket products. In connection with vehicle financing, extended warranties and service contracts, other aftermarket products and insurance contracts, we receive commissions from the providers for originating contracts. F&I revenues are recognized net of estimated chargebacks and other costs associated with originating contracts (as a result, F&I revenues and F&I gross profit are the same amount). F&I revenues are affected by the level of new and used vehicle unit sales, the age and average selling price of vehicles sold, the level of manufacturer financing specials or leasing incentives and our F&I penetration rate. The F&I penetration rate represents the number of finance contracts, extended warranties and service contracts, other aftermarket products or insurance contracts that we are able to originate per vehicle sold, expressed as a percentage.

The following table provides a reconciliation of consolidated reported basis and same store basis for F&I:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Total F&I revenue:				
Same store	\$ 109,054	\$ 99,384	\$ 9,670	9.7 %
Acquisitions, open points and dispositions	6,238	6,854	(616)	NM
Total as reported	<u>\$ 115,292</u>	<u>\$ 106,238</u>	<u>\$ 9,054</u>	<u>8.5 %</u>
Total F&I gross profit per retail unit (excludes fleet):				
Same store	\$ 1,810	\$ 1,669	\$ 141	8.4 %
Reported	\$ 1,885	\$ 1,676	\$ 209	12.5 %
Total combined new and used retail unit sales:				
Same store	60,244	59,546	698	1.2 %
Acquisitions, open points and dispositions	919	3,835	(2,916)	NM
Total as reported	<u>61,163</u>	<u>63,381</u>	<u>(2,218)</u>	<u>(3.5)%</u>

NM = Not Meaningful

Our consolidated reported F&I results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Reported F&I:				
Revenue	\$ 115,292	\$ 106,238	\$ 9,054	8.5 %
Unit sales	61,163	63,381	(2,218)	(3.5)%
Gross profit per retail unit (excludes fleet)	\$ 1,885	\$ 1,676	\$ 209	12.5 %

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Our consolidated same store F&I results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
	(In thousands, except unit and per unit data)			
Same store F&I:				
Revenue	\$ 109,054	\$ 99,384	\$ 9,670	9.7 %
Unit sales	60,244	59,546	698	1.2 %
Gross profit per retail unit (excludes fleet)	\$ 1,810	\$ 1,669	\$ 141	8.4 %

For further analysis of F&I results, see the tables and discussion under the headings “F&I – Franchised Dealerships Segment” and “Used Vehicles and F&I – EchoPark Segment” in the Franchised Dealerships Segment and EchoPark Segment sections, respectively, below.

Results of Operations – Franchised Dealerships Segment

As a result of the disposition, termination or closure of several franchised dealerships since March 31, 2019, the change in reported amounts from period to period may not be indicative of the actual operational or financial performance of our current group of operating stores. Please refer to the same store tables and discussion on the following pages for more meaningful comparison and discussion of financial results on a comparable store basis.

Unless otherwise noted, all discussion of increases or decreases are for the three months ended March 31, 2020 and are compared to the same prior year period. The following discussion of new vehicles, used vehicles, wholesale vehicles, parts, service and collision repair, and finance, insurance and other, net are on a same store basis, except where otherwise noted. All currently operating stores are included within the same store group in the first full month following the first anniversary of the store's opening or acquisition.

New Vehicles – Franchised Dealerships Segment

New vehicle revenues include the sale of new vehicles to retail customers, as well as the sale of fleet vehicles. New vehicle revenues and gross profit can be influenced by vehicle manufacturer incentives to consumers (which vary from cash-back incentives to low interest rate financing, among other things), the availability of consumer credit and the level and type of manufacturer-to-dealer incentives, as well as manufacturers providing adequate inventory allocations to our dealerships to meet customer demands. The automobile manufacturing industry is cyclical and historically has experienced periodic downturns characterized by oversupply and weak demand, both within specific brands and in the industry as a whole. As an automotive retailer, we seek to mitigate the effects of this sales cycle by maintaining a diverse brand mix of dealerships. Our brand diversity allows us to offer a broad range of products at a wide range of prices from lower-priced/economy vehicles to luxury vehicles.

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The following tables provide a reconciliation of Franchised Dealerships Segment reported basis and same store basis for total new vehicles (combined retail and fleet data):

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit data)				
Total new vehicle revenue:				
Same store	\$ 959,491	\$ 1,006,903	\$ (47,412)	(4.7)%
Acquisitions, open points and dispositions	(2)	59,431	(59,433)	NM
Total as reported	<u>959,489</u>	<u>1,066,334</u>	<u>(106,845)</u>	<u>(10.0)%</u>
Total new vehicle gross profit:				
Same store	\$ 45,465	\$ 51,752	\$ (6,287)	(12.1)%
Acquisitions, open points and dispositions	(50)	2,044	(2,094)	NM
Total as reported	<u>\$ 45,415</u>	<u>\$ 53,796</u>	<u>\$ (8,381)</u>	<u>(15.6)%</u>
Total new vehicle unit sales:				
Same store	21,724	23,133	(1,409)	(6.1)%
Acquisitions, open points and dispositions	—	2,064	(2,064)	NM
Total as reported	<u>21,724</u>	<u>25,197</u>	<u>(3,473)</u>	<u>(13.8)%</u>

NM = Not Meaningful

Our Franchised Dealerships Segment reported new vehicle results (combined retail and fleet data) are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Reported new vehicle:				
Revenue	\$ 959,489	\$ 1,066,334	\$ (106,845)	(10.0)%
Gross profit	\$ 45,415	\$ 53,796	\$ (8,381)	(15.6)%
Unit sales	21,724	25,197	(3,473)	(13.8)%
Revenue per unit	\$ 44,167	\$ 42,320	\$ 1,847	4.4 %
Gross profit per unit	\$ 2,091	\$ 2,135	\$ (44)	(2.1)%
Gross profit as a % of revenue	4.7 %	5.0 %	(30) bps	

Our Franchised Dealerships Segment same store new vehicle results (combined retail and fleet data) are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Same store new vehicle:				
Revenue	\$ 959,491	\$ 1,006,903	\$ (47,412)	(4.7)%
Gross profit	\$ 45,465	\$ 51,752	\$ (6,287)	(12.1)%
Unit sales	21,724	23,133	(1,409)	(6.1)%
Revenue per unit	\$ 44,167	\$ 43,527	\$ 640	1.5 %
Gross profit per unit	\$ 2,093	\$ 2,237	\$ (144)	(6.4)%
Gross profit as a % of revenue	4.7 %	5.1 %	(40) bps	

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Same Store Franchised Dealerships Segment New Vehicles— Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

New vehicle revenue decreased 4.7% and new vehicle unit sales volume decreased 6.1%, primarily driven by decreases in new vehicle unit sales volume at our California and Nevada dealerships, which were negatively impacted by governmental orders restricting vehicle sales activity for most of the second half of March 2020 due to COVID-19. New vehicle gross profit decreased approximately \$6.3 million, or 12.1%. New vehicle gross profit per unit decreased \$144 per unit, or 6.4%, to \$2,093 per unit, primarily driven by decreases in new vehicle gross profit per unit at our BMW, Land Rover and Porsche dealerships.

Used Vehicles – Franchised Dealerships Segment

Used vehicle revenues are directly affected by a number of factors, including the pricing and level of manufacturer incentives on new vehicles, the number and quality of trade-ins and lease turn-ins, the availability and pricing of used vehicles acquired at auction and the availability of consumer credit.

The following table provides a reconciliation of Franchised Dealerships Segment reported basis and same store basis for retail used vehicles:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit data)				
Total used vehicle revenue:				
Same store	\$ 566,889	\$ 577,043	\$ (10,154)	(1.8)%
Acquisitions, open points and dispositions	(1)	26,906	(26,907)	NM
Total as reported	<u>\$ 566,888</u>	<u>\$ 603,949</u>	<u>\$ (37,061)</u>	<u>(6.1)%</u>
Total used vehicle gross profit:				
Same store	\$ 32,288	\$ 32,608	\$ (320)	(1.0)%
Acquisitions, open points and dispositions	26	4,130	(4,104)	NM
Total as reported	<u>\$ 32,314</u>	<u>\$ 36,738</u>	<u>\$ (4,424)</u>	<u>(12.0)%</u>
Total used vehicle unit sales:				
Same store	26,038	25,641	397	1.5 %
Acquisitions, open points and dispositions	—	1,771	(1,771)	NM
Total as reported	<u>26,038</u>	<u>27,412</u>	<u>(1,374)</u>	<u>(5.0)%</u>

NM = Not Meaningful

Our Franchised Dealerships Segment reported retail used vehicle results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Reported used vehicle:				
Revenue	\$ 566,888	\$ 603,949	\$ (37,061)	(6.1)%
Gross profit	\$ 32,314	\$ 36,738	\$ (4,424)	(12.0)%
Unit sales	26,038	27,412	(1,374)	(5.0)%
Revenue per unit	\$ 21,772	\$ 22,032	\$ (260)	(1.2)%
Gross profit per unit	\$ 1,241	\$ 1,340	\$ (99)	(7.4)%
Gross profit as a % of revenue	5.7 %	6.1 %	(40) bps	

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Our Franchised Dealerships Segment same store retail used vehicle results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Same store used vehicle:				
Revenue	\$ 566,889	\$ 577,043	\$ (10,154)	(1.8)%
Gross profit	\$ 32,288	\$ 32,608	\$ (320)	(1.0)%
Unit sales	26,038	25,641	397	1.5 %
Revenue per unit	\$ 21,772	\$ 22,505	\$ (733)	(3.3)%
Gross profit per unit	\$ 1,240	\$ 1,272	\$ (32)	(2.5)%
Gross profit as a % of revenue	5.7 %	5.7 %	—	bps

Same Store Franchised Dealerships Segment Used Vehicles – Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

Retail used vehicle revenue decreased 1.8% and retail used vehicle unit sales volume increased 1.5% in spite of governmental orders restricting vehicle sales activity for most of the second half of March 2020 due to COVID-19. Retail used vehicle gross profit decreased approximately \$0.3 million, or 1.0%, driven primarily by a decrease in retail used vehicle gross profit per unit of approximately \$32 per unit, or 2.5%.

Wholesale Vehicles – Franchised Dealerships Segment

Wholesale vehicle revenues are affected by retail new and used vehicle unit sales volume and the associated trade-in volume. Wholesale vehicle revenues are also significantly affected by our corporate inventory management strategy and policies, which are designed to optimize our total used vehicle inventory and minimize inventory carrying risks.

The following table provides a reconciliation of Franchised Dealerships Segment reported basis and same store basis for wholesale vehicles:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit data)				
Total wholesale vehicle revenue:				
Same store	\$ 42,440	\$ 49,767	\$ (7,327)	(14.7)%
Acquisitions, open points and dispositions	—	2,766	(2,766)	NM
Total as reported	<u>\$ 42,440</u>	<u>\$ 52,533</u>	<u>\$ (10,093)</u>	<u>(19.2)%</u>
Total wholesale vehicle gross profit (loss):				
Same store	\$ (83)	\$ (1,020)	\$ 937	91.9 %
Acquisitions, open points and dispositions	—	(184)	184	NM
Total as reported	<u>\$ (83)</u>	<u>\$ (1,204)</u>	<u>\$ 1,121</u>	<u>93.1 %</u>
Total wholesale vehicle unit sales:				
Same store	6,910	7,473	(563)	(7.5)%
Acquisitions, open points and dispositions	—	675	(675)	NM
Total as reported	<u>6,910</u>	<u>8,148</u>	<u>(1,238)</u>	<u>(15.2)%</u>

NM = Not Meaningful

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Our Franchised Dealerships Segment reported wholesale vehicle results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Reported wholesale vehicle:				
Revenue	\$ 42,440	\$ 52,533	\$ (10,093)	(19.2)%
Gross profit (loss)	\$ (83)	\$ (1,204)	\$ 1,121	93.1 %
Unit sales	6,910	8,148	(1,238)	(15.2)%
Revenue per unit	\$ 6,142	\$ 6,447	\$ (305)	(4.7)%
Gross profit (loss) per unit	\$ (12)	\$ (148)	\$ 136	91.9 %
Gross profit (loss) as a % of revenue	(0.2)%	(2.3)%	210	bps

Our Franchised Dealerships Segment same store wholesale vehicle results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Same store wholesale vehicle:				
Revenue	\$ 42,440	\$ 49,767	\$ (7,327)	(14.7)%
Gross profit (loss)	\$ (83)	\$ (1,020)	\$ 937	91.9 %
Unit sales	6,910	7,473	(563)	(7.5)%
Revenue per unit	\$ 6,142	\$ 6,660	\$ (518)	(7.8)%
Gross profit (loss) per unit	\$ (12)	\$ (136)	\$ 124	91.2 %
Gross profit (loss) as a % of revenue	(0.2)%	(2.0)%	180	bps

We generally focus on maintaining used vehicle inventory days' supply in the 30- to 35- day range, which may fluctuate seasonally, in order to limit our exposure to market pricing volatility. Our reported franchised dealerships used vehicle inventory days' supply was approximately 29 and 27 days as of March 31, 2020 and 2019, respectively. Wholesale vehicle revenue and wholesale vehicle unit sales volume fluctuations are typically a result of retail new and used vehicle unit sales volumes that generate additional trade-in vehicle volume that we are not always able to sell as retail used vehicles and choose to sell at auction. Whenever possible, we prefer to sell a used vehicle through retail channels rather than wholesaling the vehicle at auction due to the opportunity to sell F&I products and to avoid auction and transportation fees.

Same Store Franchised Dealerships Segment Wholesale Vehicles – Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

Wholesale vehicle revenue decreased 14.7%, driven primarily by a 7.5% decrease in wholesale vehicle unit sales volume, as well as a 7.8% decrease in wholesale vehicle revenue per unit. The decrease in wholesale vehicle revenue is due in part to a reduction in wholesale auction activity due to the economic shutdown caused by the outbreak of COVID-19. Wholesale vehicle gross loss and gross loss per unit decreased 91.9% and 91.2%, respectively, primarily due to a prior year initiative to tighten a policy of wholesaling aged or undesirable units at auction in a more timely manner, thereby achieving a better wholesale vehicle gross loss per unit and improved inventory levels and quality.

Fixed Operations – Franchised Dealerships Segment

Parts, service and collision repair revenues consist of customer pay repairs, warranty repairs, wholesale parts and internal, sublet and other. Parts and service revenue is driven by the mix of warranty repairs versus customer pay repairs, available service capacity, vehicle quality, manufacturer recalls, customer loyalty and prepaid or manufacturer-paid maintenance programs. Internal, sublet and other primarily relates to preparation and reconditioning work performed on vehicles that are later sold to customers. When that work is performed by one of our dealerships, the work is classified as internal. In the event the work is performed by a third party on our behalf, it is classified as sublet.

We believe that, over time, vehicle quality will continue to improve, but vehicle complexity and the associated demand for repairs by qualified technicians at franchised dealerships will offset any revenue lost from improvement in vehicle quality. We also believe that, over the long term, we have the ability to continue to add service capacity at our dealerships to further

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increase Fixed Operations revenues. Manufacturers continue to extend new vehicle warranty periods and have also begun to include regular maintenance items in the warranty or complimentary maintenance program coverage. These factors, over the long term, combined with the extended manufacturer warranties on certified pre-owned vehicles, should facilitate long-term growth in our parts and service business. Barriers to long-term growth may include reductions in the rate paid by manufacturers to dealers for warranty work performed, as well as the improved quality of vehicles that may affect the level and frequency of future customer pay or warranty-related revenues.

The following table provides a reconciliation of Franchised Dealerships Segment reported basis and same store basis for Fixed Operations:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands)				
Total Fixed Operations revenue:				
Same store	\$ 327,151	\$ 322,358	\$ 4,793	1.5 %
Acquisitions, open points and dispositions	(2,650)	13,867	(16,517)	NM
Total as reported	<u>\$ 324,501</u>	<u>\$ 336,225</u>	<u>\$ (11,724)</u>	<u>(3.5)%</u>
Total Fixed Operations gross profit:				
Same store	\$ 159,213	\$ 156,060	\$ 3,153	2.0 %
Acquisitions, open points and dispositions	(1,117)	7,386	(8,503)	NM
Total as reported	<u>\$ 158,096</u>	<u>\$ 163,446</u>	<u>\$ (5,350)</u>	<u>(3.3)%</u>

NM = Not Meaningful

Our Franchised Dealerships Segment reported Fixed Operations results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands)				
Reported Fixed Operations:				
Revenue				
Customer pay	\$ 134,798	\$ 137,569	\$ (2,771)	(2.0)%
Warranty	60,760	68,973	(8,213)	(11.9)%
Wholesale parts	38,706	39,297	(591)	(1.5)%
Internal, sublet and other	90,237	90,386	(149)	(0.2)%
Total revenue	<u>\$ 324,501</u>	<u>\$ 336,225</u>	<u>\$ (11,724)</u>	<u>(3.5)%</u>
Gross profit				
Customer pay	\$ 74,593	\$ 74,324	\$ 269	0.4 %
Warranty	33,746	38,407	(4,661)	(12.1)%
Wholesale parts	6,667	6,796	(129)	(1.9)%
Internal, sublet and other	43,090	43,919	(829)	(1.9)%
Total gross profit	<u>\$ 158,096</u>	<u>\$ 163,446</u>	<u>\$ (5,350)</u>	<u>(3.3)%</u>
Gross profit as a % of revenue				
Customer pay	55.3 %	54.0 %	130	bps
Warranty	55.5 %	55.7 %	(20)	bps
Wholesale parts	17.2 %	17.3 %	(10)	bps
Internal, sublet and other	47.8 %	48.6 %	(80)	bps
Total gross profit as a % of revenue	48.7 %	48.6 %	10	bps

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Our Franchised Dealerships Segment same store Fixed Operations results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands)				
Same store Fixed Operations:				
Revenue				
Customer pay	\$ 136,913	\$ 133,081	\$ 3,832	2.9 %
Warranty	61,313	65,474	(4,161)	(6.4)%
Wholesale parts	38,706	38,157	549	1.4 %
Internal, sublet and other	90,219	85,646	4,573	5.3 %
Total revenue	<u>\$ 327,151</u>	<u>\$ 322,358</u>	<u>\$ 4,793</u>	<u>1.5 %</u>
Gross profit				
Customer pay	\$ 75,728	\$ 71,926	\$ 3,802	5.3 %
Warranty	33,907	36,525	(2,618)	(7.2)%
Wholesale parts	6,667	6,565	102	1.6 %
Internal, sublet and other	42,911	41,044	1,867	4.5 %
Total gross profit	<u>\$ 159,213</u>	<u>\$ 156,060</u>	<u>\$ 3,153</u>	<u>2.0 %</u>
Gross profit as a % of revenue				
Customer pay	55.3 %	54.0 %	130	bps
Warranty	55.3 %	55.8 %	(50)	bps
Wholesale parts	17.2 %	17.2 %	—	bps
Internal, sublet and other	47.6 %	47.9 %	(30)	bps
Total gross profit as a % of revenue	48.7 %	48.4 %	30	bps

Same Store Franchised Dealerships Segment Fixed Operations— Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

Fixed Operations revenue increased approximately \$4.8 million, or 1.5%, and Fixed Operations gross profit increased approximately \$3.2 million, or 2.0%, driven primarily by an increase in customer pay gross profit of approximately \$3.8 million, or 5.3%, as a result of a strategic emphasis on maximizing growth opportunities in the customer pay business. In addition, warranty gross profit decreased approximately \$2.6 million, or 7.2%, wholesale parts gross profit increased approximately \$0.1 million, or 1.6%, and internal, sublet and other gross profit increased approximately \$1.9 million, or 4.5%. While Fixed Operations business is not restricted by state and local shelter-in-place or stay-at-home orders, consumer behavior has temporarily changed as a result of COVID-19 and we experienced a decrease in Fixed Operations activity in the second half of March 2020.

F&I – Franchised Dealerships Segment

Finance, insurance and other, net revenues include commissions for arranging vehicle financing and insurance, sales of third-party extended warranties and service contracts for vehicles, and sales of other aftermarket products. In connection with vehicle financing, extended warranties and service contracts, other aftermarket products and insurance contracts, we receive commissions from the providers for originating contracts. F&I revenues are recognized net of estimated chargebacks and other costs associated with originating contracts (as a result, F&I revenues and F&I gross profit are the same amount). F&I revenues are affected by the level of new and used vehicle unit sales, the age and average selling price of vehicles sold, the level of manufacturer financing specials or leasing incentives and our F&I penetration rate. The F&I penetration rate represents the number of finance contracts, extended warranties and service contracts, other aftermarket products or insurance contracts that we are able to originate per vehicle sold, expressed as a percentage.

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The following table provides a reconciliation of Franchised Dealerships Segment reported basis and same store basis for F&I:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Total F&I revenue:				
Same store	\$ 78,830	\$ 73,737	\$ 5,093	6.9 %
Acquisitions, open points and dispositions	4,199	6,784	(2,585)	NM
Total as reported	<u>\$ 83,029</u>	<u>\$ 80,521</u>	<u>\$ 2,508</u>	<u>3.1 %</u>
Total F&I gross profit per retail unit (excludes fleet):				
Same store	\$ 1,671	\$ 1,521	\$ 150	9.9 %
Reported	\$ 1,760	\$ 1,539	\$ 221	14.4 %
Total combined new and used retail unit sales:				
Same store	47,177	48,495	(1,318)	(2.7)%
Acquisitions, open points and dispositions	—	3,835	(3,835)	NM
Total as reported	<u>47,177</u>	<u>52,330</u>	<u>(5,153)</u>	<u>(9.8)%</u>

NM = Not Meaningful

Our consolidated reported F&I results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Reported F&I:				
Revenue	\$ 83,029	\$ 80,521	\$ 2,508	3.1 %
Unit sales	47,177	52,330	(5,153)	(9.8)%
Gross profit per retail unit (excludes fleet)	\$ 1,760	\$ 1,539	\$ 221	14.4 %

Our consolidated same store F&I results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Same store F&I:				
Revenue	\$ 78,830	\$ 73,737	\$ 5,093	6.9 %
Unit sales	47,177	48,495	(1,318)	(2.7)%
Gross profit per retail unit (excludes fleet)	\$ 1,671	\$ 1,521	\$ 150	9.9 %

Same Store Franchised Dealerships Segment F&I— Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

F&I revenues increased approximately \$5.1 million, or 6.9%, and F&I gross profit per retail unit increased \$150 per unit, or 9.9%, to \$1,671 per unit. The growth in F&I revenues and F&I gross profit per retail unit was primarily due to an increase in retail used vehicle unit sales volume combined with an increase in gross profit per finance contract.

Finance contract revenue increased 3.6%, primarily due to a 7.5% increase in gross profit per finance contract, partially offset by a 3.6% decrease in finance contract volume as a result of lower retail new vehicle unit sales volume and a 70-basis point decrease in the finance contract penetration rate. Service contract revenue increased 4.1%, primarily due to a 5.5% increase in service contract volume as a result of higher retail used vehicle unit sales volume and a 280-basis point increase in the service contract penetration rate, partially offset by a 1.3% decrease in gross profit per service contract. Other aftermarket contract revenue remained flat due to a 2.1% increase in other aftermarket contact volume offset by a 2.0% decrease in gross profit per other aftermarket contract. The other aftermarket contract penetration rate increased 670-basis points. Consistent with

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other revenue and gross profit streams, F&I revenue and gross profit were adversely impacted by the effect on lower new and used vehicle sales of the COVID-19 pandemic in the second half of March 2020.

Results of Operations – EchoPark Segment

Unless otherwise noted, all discussion of increases or decreases are for the three months ended March 31, 2020 and are compared to the same prior year period. The following discussion of used vehicles and F&I, wholesale vehicles, and parts, service and collision repair are on a same store basis, except where otherwise noted. All currently operating stores are included within the same store group in the first full month following the first anniversary of the store's opening or acquisition.

The EchoPark Segment same store results consist of the results of eight EchoPark stores, four in Texas, three in Colorado and one in North Carolina, for the three months ended March 31, 2020 compared to the same prior year period, as applicable. Due to the ongoing expansion of our EchoPark Segment, same store results may vary significantly from reported results due to stores that began operations in the last 12 months.

Used Vehicles and F&I – EchoPark Segment

Based on the way we manage the EchoPark Segment, our operating strategy focuses on maximizing total used-related gross profit (based on a combination of retail used vehicle unit sales volume, front-end retail used vehicle gross profit per unit and F&I gross profit per unit) rather than realizing traditional levels of front-end retail used vehicle gross profit per unit. As such, we believe the best per unit measure of gross profit performance at our EchoPark stores is a combined total gross profit per unit, which includes both front-end retail used vehicle gross profit and F&I gross profit per unit sold.

See the discussion in Franchised Dealerships Segment Results of Operations for a discussion of the macro drivers of used vehicle revenues and F&I revenues.

The following table provides a reconciliation of EchoPark Segment reported basis and same store basis for retail used vehicles:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit data)				
Total used vehicle revenue:				
Same store	\$ 265,301	\$ 216,417	\$ 48,884	22.6 %
Acquisitions, open points and closures	17,863	—	17,863	NM
Total as reported	<u>\$ 283,164</u>	<u>\$ 216,417</u>	<u>\$ 66,747</u>	<u>30.8 %</u>
Total used vehicle gross profit (loss):				
Same store	\$ (1,844)	\$ (257)	\$ (1,587)	(617.5)%
Acquisitions, open points and closures	1,660	527	1,133	NM
Total as reported	<u>\$ (184)</u>	<u>\$ 270</u>	<u>\$ (454)</u>	<u>(168.1)%</u>
Total used vehicle unit sales:				
Same store	13,067	11,051	2,016	18.2 %
Acquisitions, open points and closures	919	—	919	NM
Total as reported	<u>13,986</u>	<u>11,051</u>	<u>2,935</u>	<u>26.6 %</u>

NM = Not Meaningful

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The following table provides a reconciliation of EchoPark Segment reported basis and same store basis for F&I:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands)				
Total F&I revenue:				
Same store	\$ 30,224	\$ 25,647	\$ 4,577	17.8 %
Acquisitions, open points and closures	2,039	70	1,969	NM
Total as reported	<u>\$ 32,263</u>	<u>\$ 25,717</u>	<u>\$ 6,546</u>	25.5 %

NM = Not Meaningful

Our EchoPark Segment reported retail used vehicle and F&I results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Reported used vehicle and F&I:				
Used vehicle revenue	\$ 283,164	\$ 216,417	\$ 66,747	30.8 %
Used vehicle gross profit (loss)	\$ (184)	\$ 270	\$ (454)	(168.1)%
Used vehicle unit sales	13,986	11,051	2,935	26.6 %
Used vehicle revenue per unit	\$ 20,246	\$ 19,583	\$ 663	3.4 %
F&I revenue	\$ 32,263	\$ 25,717	\$ 6,546	25.5 %
Combined used vehicle gross profit and F&I revenue	\$ 32,079	\$ 25,987	\$ 6,092	23.4 %
Total used vehicle and F&I gross profit per unit	\$ 2,294	\$ 2,352	\$ (58)	(2.5)%

Our EchoPark Segment same store retail used vehicle and F&I results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Same store used vehicle and F&I:				
Used vehicle revenue	\$ 265,301	\$ 216,417	\$ 48,884	22.6 %
Used vehicle gross profit (loss)	\$ (1,844)	\$ (257)	\$ (1,587)	(617.5)%
Used vehicle unit sales	13,067	11,051	2,016	18.2 %
Used vehicle revenue per unit	\$ 20,303	\$ 19,583	\$ 720	3.7 %
F&I revenue	\$ 30,224	\$ 25,647	\$ 4,577	17.8 %
Combined used vehicle gross profit and F&I revenue	\$ 28,380	\$ 25,390	\$ 2,990	11.8 %
Total used vehicle and F&I gross profit per unit	\$ 2,172	\$ 2,298	\$ (126)	(5.5)%

Same Store EchoPark Segment Used Vehicles and F&I— Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

Because our EchoPark stores do not provide customer-facing vehicle repair services, in certain markets, EchoPark has not been deemed an essential business under state and local restrictive orders. As such, EchoPark retail used vehicle unit sales volume has been negatively impacted by COVID-19 and related shelter-in-place or stay-at-home orders. However, we are permitted to complete online vehicle sales transactions with no-contact home deliveries in such markets.

Retail used vehicle revenue increased approximately \$48.9 million, or 22.6%, driven primarily by an 18.2% increase in retail used vehicle unit sales volume and a 3.7% increase in retail used vehicle revenue per unit. Retail used vehicle gross loss increased approximately \$1.6 million, or 617.5%, offset partially by an increase in F&I revenue of approximately \$4.6 million, and an 11.8% increase in combined used vehicle gross profit and F&I revenue, driven primarily by higher retail used vehicle unit sales volume. Service contract gross profit increased 7.6% due primarily to a 240-basis point increase in the service

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contract penetration rate. Other aftermarket contract gross profit increased 4.8%, driven primarily by a 750-basis point increase in the other aftermarket contract penetration rate. F&I penetration rates are generally higher in our EchoPark Segment than for used vehicle sales in our Franchised Dealerships Segment. Overall gross profit from front-end sales and F&I were negatively impacted by the reduction in sales that occurred in the second half of March 2020 that was precipitated by the impact of the COVID-19 pandemic.

Wholesale Vehicles – EchoPark Segment

See the discussion in Franchised Dealerships Segment Results of Operations for a discussion of the macro drivers of wholesale vehicle revenues.

The following table provides a reconciliation of EchoPark Segment reported basis and same store basis for wholesale vehicles:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit data)				
Total wholesale vehicle revenue:				
Same store	\$ 5,873	\$ 2,237	\$ 3,636	162.5 %
Acquisitions, open points and closures	230	—	230	NM
Total as reported	<u>\$ 6,103</u>	<u>\$ 2,237</u>	<u>\$ 3,866</u>	<u>172.8 %</u>
Total wholesale vehicle gross profit (loss):				
Same store	\$ (71)	\$ (63)	\$ (8)	(12.7)%
Acquisitions, open points and closures	(3)	—	(3)	NM
Total as reported	<u>\$ (74)</u>	<u>\$ (63)</u>	<u>\$ (11)</u>	<u>(17.5)%</u>
Total wholesale vehicle unit sales:				
Same store	1,676	499	1,177	235.9 %
Acquisitions, open points and closures	89	—	89	NM
Total as reported	<u>1,765</u>	<u>499</u>	<u>1,266</u>	<u>253.7 %</u>

NM = Not Meaningful

Our EchoPark Segment reported wholesale vehicle results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Reported wholesale vehicle:				
Revenue	\$ 6,103	\$ 2,237	\$ 3,866	172.8 %
Gross profit (loss)	\$ (74)	\$ (63)	\$ (11)	(17.5)%
Unit sales	1,765	499	1,266	253.7 %
Revenue per unit	\$ 3,458	\$ 4,483	\$ (1,025)	(22.9)%
Gross profit (loss) per unit	\$ (42)	\$ (126)	\$ 84	66.7 %
Gross profit (loss) as a % of revenue	(1.2)%	(2.8)%	160	bps

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Our EchoPark Segment same store wholesale vehicle results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands, except unit and per unit data)				
Same store wholesale vehicle:				
Revenue	\$ 5,873	\$ 2,237	\$ 3,636	162.5 %
Gross profit (loss)	\$ (71)	\$ (63)	\$ (8)	(12.7)%
Unit sales	1,676	499	1,177	235.9 %
Revenue per unit	\$ 3,504	\$ 4,483	\$ (979)	(21.8)%
Gross profit (loss) per unit	\$ (42)	\$ (126)	\$ 84	66.7 %
Gross profit (loss) as a % of revenue	(1.2)%	(2.8)%	160	bps

Same Store EchoPark Segment Wholesale Vehicles— Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

Wholesale vehicle revenue increased due to increased wholesale vehicle unit sales volume, partially offset by a decrease in wholesale vehicle revenue per unit. Wholesale vehicle gross loss was flat. Given EchoPark's retail inventory mix, the majority of vehicles acquired from customers on trade-ins cannot be sold as retail at our EchoPark stores and are subsequently sold at auction, affecting our wholesale gross profit (loss). However, a successful acquisition of a customer's trade-in vehicle often facilitates a retail used vehicle sale transaction that otherwise may not have occurred, driving higher overall gross profit. Our overall EchoPark inventory acquisition and pricing strategy reduces the risk of aged inventory that must be sold at auction (which would typically have a higher gross loss per unit) and increases the volume of trade-ins that we obtain from customers. We generally focus on maintaining used vehicle inventory days' supply in the 30- to 35-day range, which may fluctuate seasonally, in order to limit out exposure to market pricing volatility. Our used vehicle days' supply at our EchoPark stores was approximately 34 and 29 days as of March 31, 2020 and 2019, respectively.

Fixed Operations – EchoPark Segment

Parts, service and collision repair revenues primarily consist of internal, sublet and other work related to inventory preparation and reconditioning performed on vehicles that are later sold to customers. When that work is performed by one of our stores, the work is classified as internal. In the event the work is performed by a third party on our behalf, it is classified as sublet. Our EchoPark stores do not currently perform warranty or customer pay repairs or maintenance work.

The following table provides a reconciliation of EchoPark Segment reported basis and same store basis for Fixed Operations:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands)				
Total Fixed Operations revenue:				
Same store	\$ 9,574	\$ 5,204	\$ 4,370	84.0 %
Acquisitions, open points and closures	605	1	604	NM
Total as reported	\$ 10,179	\$ 5,205	\$ 4,974	95.6 %
Total Fixed Operations gross profit (loss):				
Same store	\$ (158)	\$ (209)	\$ 51	24.4 %
Acquisitions, open points and closures	(40)	(1)	(39)	NM
Total as reported	\$ (198)	\$ (210)	\$ 12	5.7 %

NM = Not Meaningful

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Our EchoPark Segment reported Fixed Operations results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands)				
Total reported Fixed Operations:				
Revenue	\$ 10,179	\$ 5,205	\$ 4,974	95.6 %
Gross profit (loss)	\$ (198)	\$ (210)	\$ 12	5.7 %
Gross profit (loss) as a % of revenue	(1.9)%	(4.0)%	210	bps

Our EchoPark Segment same store Fixed Operations results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands)				
Total same store Fixed Operations:				
Revenue	\$ 9,574	\$ 5,204	\$ 4,370	84.0 %
Gross profit (loss)	\$ (158)	\$ (209)	\$ 51	24.4 %
Gross profit (loss) as a % of revenue	(1.7)%	(4.0)%	230	bps

Same Store EchoPark Segment Fixed Operations – Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

Fixed Operations revenue increased approximately \$4.4 million, or 84.0%, primarily due to higher vehicle unit sales volume (and resulting inventory reconditioning requirements).

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Segment Results Summary

In the following table of financial data, total segment income of the reportable segments is reconciled to consolidated income (loss) from continuing operations before taxes and impairment charges. See above for tables and discussion of results by reportable segment.

	Three Months Ended March 31,		Better / Worse	
	2020	2019	Change	% Change
Segment Revenues:				
(In thousands, except unit data)				
Franchised Dealerships Segment revenues:				
New vehicles	\$ 959,489	\$ 1,066,334	\$ (106,845)	(10.0)%
Used vehicles	566,888	603,949	(37,061)	(6.1)%
Wholesale vehicles	42,440	52,533	(10,093)	(19.2)%
Parts, service and collision repair	324,501	336,225	(11,724)	(3.5)%
Finance, insurance and other, net	83,029	80,521	2,508	3.1 %
Franchised Dealerships Segment revenues	<u>\$ 1,976,347</u>	<u>\$ 2,139,562</u>	<u>\$ (163,215)</u>	<u>(7.6)%</u>
EchoPark Segment revenues:				
Used vehicles	\$ 283,164	\$ 216,417	\$ 66,747	30.8 %
Wholesale vehicles	6,103	2,237	3,866	172.8 %
Parts, service and collision repair	10,179	5,205	4,974	95.6 %
Finance, insurance and other, net	32,263	25,717	6,546	25.5 %
EchoPark Segment revenues	<u>\$ 331,709</u>	<u>\$ 249,576</u>	<u>\$ 82,133</u>	<u>32.9 %</u>
Total consolidated revenues	<u><u>\$ 2,308,056</u></u>	<u><u>\$ 2,389,138</u></u>	<u><u>\$ (81,082)</u></u>	<u><u>(3.4)%</u></u>
Segment Income (Loss) (1):				
Franchised Dealerships Segment (2)	\$ 22,656	\$ 61,182	\$ (38,526)	(63.0)%
EchoPark Segment	2,096	2,106	(10)	(0.5)%
Total segment income (loss)	\$ 24,752	\$ 63,288	\$ (38,536)	(60.9)%
Impairment charges (3)	(268,000)	(1,952)	(266,048)	(13629.5)%
Income (loss) from continuing operations before taxes	<u>\$ (243,248)</u>	<u>\$ 61,336</u>	<u>\$ (304,584)</u>	<u>(496.6)%</u>
Retail New and Used Vehicle Unit Sales Volume:				
Franchised Dealerships Segment	47,762	52,609	(4,847)	(9.2)%
EchoPark Segment	13,986	11,051	2,935	26.6 %
Total retail new and used vehicle unit sales volume	<u>61,748</u>	<u>63,660</u>	<u>(1,912)</u>	<u>(3.0)%</u>

- (1) Segment income (loss) for each segment is defined as income (loss) from continuing operations before taxes and impairment charges.
- (2) For the three months ended March 31, 2019, the above amount includes a pre-tax net gain on the disposal of franchised dealerships of approximately \$46.7 million, offset partially by approximately \$6.3 million of pre-tax executive transition costs.
- (3) For the three months ended March 31, 2020, the above amount includes a pre-tax impairment charge of approximately \$268.0 million related to adjustments in fair value of goodwill for the Franchised Dealerships Segment as a result of the economic disruptions due to the worldwide spread of COVID-19 which has adversely affected our business. For the three months ended March 31, 2019, the above amount includes approximately \$1.9 million of pre-tax fair value adjustments to real estate at former EchoPark locations classified as held for sale.

Selling, General and Administrative ("SG&A") Expenses – Consolidated

Consolidated SG&A expenses are comprised of four major groups: compensation expense, advertising expense, rent expense and other expense. Compensation expense primarily relates to store personnel who are paid a commission or a salary plus commission and support personnel who are paid a fixed salary. Commissions paid to store personnel typically vary depending on gross profits realized and sales volume objectives. Due to the salary component for certain store and corporate personnel, gross profits and compensation expense do not change in direct proportion to one another. Advertising expense and other expense vary based on the level of actual or anticipated business activity and the number of dealerships in operation. Rent expense typically varies with the number of store locations owned, investments made for facility improvements and interest rates. Other expense includes various fixed and variable expenses, including gain on disposal of franchises, certain customer-related costs such as gasoline and service loaners, insurance, training, legal and IT expenses, which may not change in proportion to gross profit levels.

The following tables set forth information related to our consolidated reported SG&A expenses:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
(In thousands)				
SG&A expenses:				
Compensation	\$ 174,422	\$ 184,185	\$ 9,763	5.3 %
Advertising	14,135	15,050	915	6.1 %
Rent	13,865	15,250	1,385	9.1 %
Other	79,734	32,610	(47,124)	(144.5)%
Total SG&A expenses	<u>\$ 282,156</u>	<u>\$ 247,095</u>	<u>\$ (35,061)</u>	<u>(14.2)%</u>
SG&A expenses as a % of gross profit:				
Compensation	49.8 %	51.3 %	150	bps
Advertising	4.0 %	4.2 %	20	bps
Rent	4.0 %	4.2 %	20	bps
Other	22.7 %	9.1 %	(1,360)	bps
Total SG&A expenses as a % of gross profit	<u>80.5 %</u>	<u>68.8 %</u>	<u>(1,170)</u>	<u>bps</u>

Overall SG&A expenses increased both in dollar amount and as a percentage of gross profit, primarily due to an increase in variable other SG&A expense, offset partially by a decrease in fixed compensation expense. Compensation expense decreased both in dollar amount and as a percentage of gross profit, primarily due to a lower level of variable compensation expense due to lower levels of sales activity and related gross profit. Advertising expense decreased both in dollar amount and as a percentage of gross profit, due primarily to decreased marketing needs as a result of lower vehicle sales volume due to COVID-19. Rent expense decreased both in dollar amount and as a percentage of gross profit, primarily due to the disposal of several franchised dealerships year-over-year. Other SG&A expenses increased both in dollar amount and as a percentage of gross profit due primarily to a net benefit from the gain on disposal of franchised dealerships in the prior year. For the three months ended March 31, 2019, SG&A expenses include a net gain on the disposal of franchised dealerships of approximately \$46.7 million, offset partially by approximately \$6.3 million of executive transition costs.

Impairment Charges – Consolidated

Impairment charges increased approximately \$266.0 million during the three months ended March 31, 2020. Impairment charges for the three months ended March 31, 2020 were related to fair value adjustments to goodwill. Impairment charges for the three months ended March 31, 2019 are related to fair value adjustments of real estate at former EchoPark locations classified as held for sale.

Depreciation and Amortization – Consolidated

Depreciation expense decreased approximately \$0.4 million, or 1.6% during the three months ended March 31, 2020, due primarily to the disposition and aging of assets.

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Interest Expense, Floor Plan – Consolidated

Interest expense, floor plan for new vehicles decreased approximately \$2.8 million, or 23.8%. The average new vehicle floor plan notes payable balance increased approximately \$0.3 million, which did not significantly impact new vehicle floor plan interest expense. The average new vehicle floor plan interest rate was 2.58%, down from 3.39% in the three months ended March 31, 2019, resulting in a decrease in new vehicle floor plan interest expense of approximately \$2.8 million.

Interest expense, floor plan for used vehicles increased approximately \$0.1 million, or 4.5%. The average used vehicle floor plan notes payable balance increased approximately \$34.6 million, resulting in an increase in used vehicle floor plan interest expense of approximately \$0.3 million. The average used vehicle floor plan interest rate was 2.73%, down from 3.07% in the three months ended March 31, 2019, resulting in an increase in used vehicle floor plan interest expense of approximately \$0.2 million.

Interest Expense, Other, Net – Consolidated

Interest expense, other, net is summarized in the tables below:

	Three Months Ended March 31,		Better / (Worse)	
	2020	2019	Change	% Change
	(In thousands)			
Stated/coupon interest	\$ 9,214	\$ 12,439	\$ 3,225	25.9 %
Deferred loan cost amortization	557	591	34	5.8 %
Interest rate hedge expense (benefit)	(427)	(597)	(170)	(28.5)%
Capitalized interest	(420)	(679)	(259)	(38.1)%
Interest on finance lease liabilities	1,344	1,176	(168)	(14.3)%
Other interest	697	(77)	(774)	(1,005.2)%
Total interest expense, other, net	<u>\$ 10,965</u>	<u>\$ 12,853</u>	<u>\$ 1,888</u>	<u>14.7 %</u>

Interest expense, other, net decreased approximately \$1.9 million during the three months ended March 31, 2020, primarily due to lower stated/coupon interest related to the repurchase of the remaining 5.0% Senior Subordinated Notes due 2023 (the "5.0% Notes") on December 30, 2019, offset partially by an increase in other interest and capitalized interest.

Income Taxes

The overall effective tax rate from continuing operations was 18.2% for the three months ended March 31, 2020, and 31.0% for the three months ended March 31, 2019. Income tax expense for the three months ended March 31, 2020 includes a \$51.3 million benefit related to the \$268.0 million goodwill impairment charge and a \$0.5 million discrete benefit related to vested or exercised stock compensation awards, offset partially by a \$0.1 million discrete charge related to changes in uncertain tax positions. Income tax expense for the three months ended March 31, 2019 includes a \$1.5 million discrete charge for non-deductible executive officer compensation related to executive transition costs, a \$0.2 million discrete charge related to changes in uncertain tax positions, and a \$0.2 million discrete charge related to vested or exercised stock compensation awards. Sonic's effective tax rate varies from year to year based on the level of taxable income, the distribution of taxable income between states in which the Company operates and other tax adjustments.

Liquidity and Capital Resources

We require cash to fund debt service, lease obligations, working capital requirements, facility improvements and other capital improvements, and dividends on our common stock and to finance acquisitions and otherwise invest in our business. We rely on cash flows from operations, borrowings under our revolving credit and floor plan borrowing arrangements, real estate mortgage financing, asset sales and offerings of debt and equity securities to meet these requirements. We were in compliance with all restrictive covenants under our debt agreements as of March 31, 2020 and expect to be in compliance for at least the next twelve months. We closely monitor our available liquidity and projected future operating results in order to remain in compliance with the restrictive covenants under the 2016 Credit Facilities, the 2019 Mortgage Facility, the indenture governing the 6.125% Notes and our other debt obligations and lease arrangements. However, our liquidity could be negatively affected if we fail to comply with the financial covenants in our existing debt or lease arrangements. After giving effect to the applicable restrictions on the payment of dividends under our debt agreements, as of March 31, 2020, we had approximately \$274.1 million of net income and retained earnings free of such restrictions. Cash flows provided by our dealerships are derived from various sources. The primary sources include individual consumers, automobile manufacturers, automobile manufacturers.

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captive finance subsidiaries and other financial institutions. Disruptions in these cash flows could have a material adverse impact on our operations and overall liquidity.

Because the majority of our consolidated assets are held by our dealership subsidiaries, the majority of our cash flows from operations are generated by these subsidiaries. As a result, our cash flows and our ability to service our obligations depend to a substantial degree on the results of operations of these subsidiaries and their ability to provide us with cash.

We had the following liquidity resources available as of March 31, 2020 and December 31, 2019:

	March 31, 2020	December 31, 2019
	(In thousands)	
Cash and cash equivalents	\$ 181,780	\$ 29,103
Availability under the 2016 Revolving Credit Facility	—	230,689
Availability under our used vehicle floor plan facilities	26,613	17,090
Availability under the 2019 Mortgage Facility	3,090	3,090
Floor plan deposit balance	100,000	—
Total available liquidity resources	<u>\$ 311,483</u>	<u>\$ 279,972</u>

We participate in a program with two of our manufacturer-affiliated finance companies wherein we maintain a deposit balance (included in the table above) with the lender that earns interest based on the agreed upon rate. This deposit balance is not designated as a prepayment of notes payable – floor plan, nor is it our intent to use this amount to offset principal amounts owed under notes payable – floor plan in the future, although we have the right and ability to do so. The deposit balance of approximately \$100.0 million as of March 31, 2020 is classified in other current assets in the accompanying unaudited condensed consolidated balance sheet as of March 31, 2020. There was no deposit balance as of December 31, 2019.

Floor Plan Facilities

We finance our new and certain of our used vehicle inventory through standardized floor plan facilities with manufacturer captive finance companies and a syndicate of manufacturer-affiliated finance companies and commercial banks. These floor plan facilities are due on demand and bear interest at variable rates based on either LIBOR or the prime rate. The weighted-average interest rate for our combined new and used vehicle floor plan facilities was 2.60% and 3.38% in the three months ended March 31, 2020 and 2019, respectively.

We receive floor plan assistance from certain manufacturers. Floor plan assistance received is capitalized in inventory and charged against cost of sales when the associated inventory is sold. We received approximately \$10.0 million and \$9.3 million in floor plan assistance in the three months ended March 31, 2020 and 2019, respectively. We recognized in cost of sales approximately \$9.0 million in manufacturer floor plan assistance in both the three months ended March 31, 2020 and 2019. Interest payments under each of our floor plan facilities are due monthly and we generally are not required to make principal repayments prior to the sale of the associated vehicles.

Long-Term Debt and Credit Facilities

See Note 6, “Long-Term Debt,” to the accompanying unaudited condensed consolidated financial statements for a discussion of our long-term debt and credit facilities and compliance with debt covenants.

Capital Expenditures

Our capital expenditures include the purchase of land and buildings, the construction of new franchised dealerships, EchoPark stores and collision repair centers, building improvements and equipment purchased for use in our franchised dealerships and EchoPark stores. We selectively construct new or improve existing dealership facilities to maintain compliance with manufacturers’ image requirements. We typically finance these projects through cash flows from operations, new mortgages or our credit facilities.

Capital expenditures in the three months ended March 31, 2020 were approximately \$19.8 million, including approximately \$17.2 million related to our Franchised Dealerships Segment and approximately \$2.6 million related to our EchoPark Segment, all of which was funded through cash flows from operations. Of this amount, approximately \$14.9 million was related to facility construction projects, while fixed assets utilized in our store operations accounted for the remaining \$4.9 million. As of March 31, 2020, commitments for facility construction projects totaled approximately \$25.4 million. We expect investments related to capital expenditures to be partly dependent upon our overall liquidity position and the availability of mortgage financing to fund significant capital projects.

Share Repurchase Program

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Our Board of Directors has authorized us to repurchase shares of our Class A Common Stock. Historically, we have used our share repurchase authorization to offset dilution caused by the exercise of stock options or the vesting of equity compensation awards and to maintain our desired capital structure. During the three months ended March 31, 2020, we repurchased approximately 0.7 million shares of our Class A Common Stock for approximately \$21.3 million in open-market transactions at prevailing market prices and in connection with tax withholding on the vesting of equity compensation awards. As of March 31, 2020, our total remaining repurchase authorization was approximately \$59.9 million. Under the 2016 Credit Facilities, share repurchases are permitted to the extent that no event of default exists and we do not exceed the restrictions set forth in our debt agreements. After giving effect to the applicable restrictions on share repurchases and certain other transactions under our debt agreements, as of March 31, 2020, we had approximately \$274.1 million of net income and retained earnings free of such restrictions.

Our share repurchase activity is subject to the business judgment of our Board of Directors and management, taking into consideration our historical and projected results of operations, financial condition, cash flows, capital requirements and covenant compliance, the current economic environment and other factors considered relevant. These factors are considered each quarter and will be scrutinized as our Board of Directors and management determine our share repurchase policy in the future.

Dividends

During the three months ended March 31, 2020, our Board of Directors approved a cash dividend of \$0.10 per share on all outstanding shares of Class A and Class B Common Stock as of March 13, 2020, which was paid on April 15, 2020. Subsequent to March 31, 2020, our Board of Directors approved a cash dividend of \$0.10 per share on all outstanding shares of Class A and Class B Common Stock as of June 15, 2020 to be paid on July 15, 2020. Under the 2016 Credit Facilities, dividends are permitted to the extent that no event of default exists and we are in compliance with the financial covenants contained therein. The indenture governing the 6.125% Notes also contain restrictions on our ability to pay dividends. After giving effect to the applicable restrictions on share repurchases and certain other transactions under our debt agreements, as of March 31, 2020, we had approximately \$274.1 million of net income and retained earnings free of such restrictions. The payment of any future dividend is subject to the business judgment of our Board of Directors, taking into consideration our historical and projected results of operations, financial condition, cash flows, capital requirements, covenant compliance and share repurchases, the current economic environment and other factors considered relevant. These factors are considered each quarter and will be scrutinized as our Board of Directors determines our future dividend policy. There is no guarantee that additional dividends will be declared and paid at any time in the future. See Note 6, "Long-Term Debt," to the accompanying unaudited condensed consolidated financial statements for a description of restrictions on the payment of dividends.

Cash Flows

Net cash used in operating activities in the three months ended March 31, 2020 was approximately \$47.2 million. This use of cash was comprised primarily of an increase in other assets and an increase in receivables, offset partially by increases in notes payable – floor plan – trade and inventories and a decrease in cash inflows related to operating profits. In the three months ended March 31, 2019, net cash used in operating activities was approximately \$94.3 million. This use of cash was comprised primarily of an increase in other assets and a decrease in notes payable – floor plan – trade, offset partially by decreases in receivables and cash inflows related to operating profits.

Net cash used in investing activities in the three months ended March 31, 2020 was approximately \$19.6 million. This use of cash was comprised primarily of purchases of land, property and equipment, offset partially by proceeds from sales of property and equipment. Net cash provided by investing activities in the three months ended March 31, 2019 was approximately \$92.2 million. This provision of cash was comprised primarily of proceeds from the sale of franchised dealerships and property and equipment, offset partially by purchases of land, property and equipment.

Net cash provided by financing activities in the three months ended March 31, 2020 was approximately \$219.5 million. This provision of cash was comprised primarily of proceeds from net borrowings on revolving credit facilities and net borrowings of notes payable – floor plan – non-trade, offset partially by purchases of treasury stock and payments on long-term debt. Net cash used in financing activities in the three months ended March 31, 2019 was approximately \$1.0 million. This use of cash was comprised primarily of net borrowings of notes payable – floor plan – non-trade, offset partially by payments on long-term debt and purchases of treasury stock.

We arrange our inventory floor plan financing through both manufacturer captive finance companies and a syndicate of manufacturer-affiliated finance companies and commercial banks. Our floor plan financed with manufacturer captives is recorded as trade floor plan liabilities (with the resulting change being reflected as operating cash flows). Our dealerships that obtain floor plan financing from a syndicate of manufacturer-affiliated finance companies and commercial banks record their obligation as non-trade floor plan liabilities (with the resulting change being reflected as financing cash flows). Due to the presentation differences for changes in trade floor plan financing and non-trade floor plan financing in the accompanying

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unaudited condensed consolidated statements of cash flows, decisions made by us to move dealership floor plan financing arrangements from one finance source to another may cause significant variations in operating and financing cash flows without affecting our overall liquidity, working capital or cash flows. Net cash provided by combined trade and non-trade floor plan financing used in combined trade and non-trade floor plan financing was approximately \$7.6 million in the three months ended March 31, 2020. Net cash used in combined trade and non-trade floor plan financing was approximately \$48.1 million in the three months ended March 31, 2019. Accordingly, if all changes in floor plan notes payable were classified as an operating activity, the result would have been net cash used in operating activities of approximately \$6.0 million and \$84.5 million in the three months ended March 31, 2020 and 2019, respectively.

One factor that management uses to measure cash flow generation or use is Adjusted EBITDA, a non-GAAP financial measure, for each of the Company's reportable segments. That measure is provided and reconciled to the nearest comparable GAAP financial measure in the table below:

	Three Months Ended March 31, 2020				Three Months Ended March 31, 2019			
	Franchised Dealerships Segment	EchoPark Segment	Discontinued Operations	Total	Franchised Dealerships Segment	EchoPark Segment	Discontinued Operations	Total
(In thousands)								
Net income (loss)				\$ (199,333)				\$ 42,221
Provision for income taxes				(44,200)				18,935
Income (loss) before taxes	\$ (245,344)	\$ 2,096	\$ (285)	\$ (243,533)	\$ 61,156	\$ 180	\$ (180)	\$ 61,156
Non-floor plan interest (1)	10,043	365	—	10,408	11,829	433	—	12,262
Depreciation & amortization (2)	20,144	2,708	—	22,852	20,824	2,418	—	23,242
Stock-based compensation expense	2,427	—	—	2,427	2,814	—	—	2,814
Loss (gain) on exit of leased dealerships	—	—	—	—	(170)	—	—	(170)
Asset impairment charges	268,000	—	—	268,000	26	1,926	—	1,952
Loss (gain) on franchise disposals	—	—	—	—	(46,750)	—	—	(46,750)
Adjusted EBITDA (3)	\$ 55,270	\$ 5,169	\$ (285)	\$ 60,154	\$ 49,729	\$ 4,957	\$ (180)	\$ 54,506

- (1) Includes the following line items from the accompanying unaudited condensed consolidated statements of income, net of any amortization of debt issuance costs or net debt discount/premium included in (2) below: interest expense, other, net; interest expense, non-cash, convertible debt; and interest expense/amortization, non-cash, cash flow swaps.
- (2) Includes the following line items from the accompanying unaudited condensed consolidated statements of cash flows: depreciation and amortization of property and equipment; debt issuance cost amortization; and net debt discount/premium amortization and other amortization.
- (3) Adjusted EBITDA is a non-GAAP financial measure.

Future Liquidity Outlook

We believe our best sources of liquidity for operations and debt service remain cash flows generated from operations combined with the availability of borrowings under our floor plan facilities (or any replacements thereof), the 2016 Credit Facilities (or any replacements thereof), the 2019 Mortgage Facility (or any replacements thereof), real estate mortgage financing, selected dealership and other asset sales and our ability to raise funds in the capital markets through offerings of debt or equity securities. Because the majority of our consolidated assets are held by our dealership subsidiaries, the majority of our cash flows from operations are generated by these subsidiaries. As a result, our cash flows and our ability to service our obligations depend to a substantial degree on the results of operations of these subsidiaries and their ability to provide us with cash.

We believe the second quarter of 2020 will be challenging from an operational standpoint due to the anticipated lower level of sales activity resulting from the COVID-19 pandemic. We have taken actions to increase overall liquidity by ensuring all vehicles that are available for flooring are floored, negotiating with landlords and other vendors for payment abatements or deferrals, reviewing our portfolio of unencumbered owned real estate for mortgage opportunities, taking advantage of certain federal and state programs for the deferral of payment of certain types of taxes (income, payroll, sales, withholding and property), seeking amendments to our outstanding credit facilities and exploring sources of liquidity provided through various governmental programs.

Currently, the effects of the COVID-19 pandemic have not affected our cost of or access to capital and funding sources. We do not anticipate any materially negative changes to our cost of or access to capital over the near or longer term other than

the expectation that operating results for the second quarter of 2020 will be significantly less than those from the prior year period.

Off-Balance Sheet Arrangements

Guarantees and Indemnification Obligations

In accordance with the terms of our operating lease agreements, our dealership subsidiaries, acting as lessees, generally agree to indemnify the lessor from certain exposure arising as a result of the use of the leased premises, including environmental exposure and repairs to leased property upon termination of the lease. In addition, we have generally agreed to indemnify the lessor in the event of a breach of the lease by the lessee.

In connection with dealership dispositions and facility relocations, certain of our subsidiaries have assigned or sublet to the buyer their interests in real property leases associated with such dealerships. In general, the subsidiaries retain responsibility for the performance of certain obligations under such leases, including rent payments and repairs to leased property upon termination of the lease, to the extent that the assignee or sublessee does not perform. In the event an assignee or a sublessee does not perform its obligations, we remain liable for such obligations.

In accordance with the terms of agreements entered into for the sale of our dealerships, we generally agree to indemnify the buyer from certain liabilities and costs arising subsequent to the date of sale, including environmental exposure and exposure resulting from the breach of representations or warranties made in accordance with the agreements. While our exposure with respect to environmental remediation and repairs is difficult to quantify, our maximum exposure associated with these general indemnifications was approximately \$43.3 million and \$46.5 million at March 31, 2020 and December 31, 2019, respectively. These indemnifications typically expire within a period of one to three years following the date of sale. The estimated fair value of these indemnifications was not material and the amount recorded for this contingency was not significant at March 31, 2020.

We also guarantee the floor plan commitments of our 50%-owned joint venture, the amount of which was approximately \$4.3 million at both March 31, 2020 and December 31, 2019.

See Note 7, "Commitments and Contingencies," to the accompanying unaudited condensed consolidated financial statements and Note 12, "Commitments and Contingencies," to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2019 for further discussion regarding these guarantees and indemnification obligations.

Seasonality

Our operations are subject to seasonal variations. The first quarter historically has contributed less operating profit than the second and third quarters, while the fourth quarter historically has contributed the highest operating profit of any quarter. Weather conditions, the timing of manufacturer incentive programs and model changeovers cause seasonality and may adversely affect vehicle demand and, consequently, our profitability. Comparatively, parts and service demand remains stable throughout the year.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.**Interest Rate Risk**

Our variable rate floor plan facilities, the 2016 Revolving Credit Facility, the 2019 Mortgage Facility and our other variable rate notes expose us to risks caused by fluctuations in the applicable interest rates. The total outstanding balance of such variable instruments, after considering the effect of our interest rate caps (see below), was approximately \$1.5 billion at March 31, 2020. An increase in interest rates of 100 basis points would have caused a change in interest expense of approximately \$5.0 million in the three months ended March 31, 2020. Of the total change in interest expense, approximately \$4.0 million would have resulted from our floor plan facilities.

In addition to our variable rate debt, certain of our dealership lease facilities have monthly lease payments that fluctuate based on LIBOR interest rates. An increase in interest rates of 100 basis points would not have had a significant impact on rent expense in the three months ended March 31, 2020 due to the leases containing LIBOR floors which were above the LIBOR rate during the three months ended March 31, 2020.

We also have interest rate cap agreements designated as hedging instruments to limit our exposure to increases in LIBOR rates above certain levels. Under the terms of these interest rate caps, interest rates reset monthly. The fair value of the outstanding interest rate cap positions at March 31, 2020 was an asset of approximately \$0.1 million, included in other assets in the accompanying unaudited condensed consolidated balance sheet as of such date. During 2018, we terminated all of our previously outstanding interest rate cash flow swap agreements for net cash proceeds of approximately \$4.8 million, which is being amortized into income as a reduction of interest expense, other, net in the accompanying unaudited condensed consolidated statements of income on a ratable basis over the original term of the agreements (through July 1, 2020). The fair value of the outstanding interest rate cap positions at December 31, 2019 was a net asset of approximately \$0.1 million, included in other assets in the accompanying unaudited condensed consolidated balance sheet as of such date. See Note 6, "Long-Term Debt," to the accompanying unaudited condensed consolidated financial statements for a discussion of our outstanding interest rate instruments.

Foreign Currency Risk

We purchase certain of our new vehicle and parts inventories from foreign manufacturers. Although we purchase our inventories in U.S. Dollars, our business is subject to foreign exchange rate risk that may influence automobile manufacturers' ability to provide their products at competitive prices in the United States. To the extent that we cannot recapture this exchange rate volatility in prices charged to customers or if this volatility negatively impacts consumer demand for our products, this volatility could adversely affect our future operating results.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures – Under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), we evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of March 31, 2020. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2020.

Changes in Internal Control over Financial Reporting – There has been no change in our internal control over financial reporting during the three months ended March 31, 2020, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting can provide only reasonable assurance that the objectives of the control system are met and may not prevent or detect misstatements. In addition, any evaluation of the effectiveness of internal control over financial reporting in future periods is subject to risk that those internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved, and expect to continue to be involved, in various legal and administrative proceedings arising out of the conduct of our business, including regulatory investigations and private civil actions brought by plaintiffs purporting to represent a potential class or for which a class has been certified. Although we vigorously defend ourselves in all legal and administrative proceedings, the outcomes of pending and future proceedings arising out of the conduct of our business, including litigation with customers, employment-related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities, cannot be predicted with certainty. An unfavorable resolution of one or more of these matters could have a material adverse effect on our business, financial condition, results of operations, cash flows or prospects.

Included in other accrued liabilities and other long-term liabilities in the accompanying unaudited condensed consolidated balance sheet as of March 31, 2020 was approximately \$0.4 million and \$0.2 million, respectively, in reserves that we were holding for pending proceedings. Except as reflected in such reserves, we are currently unable to estimate a range of reasonably possible loss, or a range of reasonably possible loss in excess of the amount accrued, for pending proceedings.

Item 1A. Risk Factors.

There have been no material changes in our risk factors from those included in “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019, except as noted below.

Our business could be adversely affected by the effects of widespread public health epidemics.

The automotive manufacturing supply chain spans the globe. As such, supply chain disruptions resulting from natural disasters, adverse weather and other events may affect the flow of inventory or parts to us or our manufacturing partners. For example, in early 2020, the worldwide spread of COVID-19 led to widespread disruptions to travel and economic activity, including automobile manufacturing and supply chain shut-downs. The extent to which COVID-19 may continue to adversely impact our business depends on future developments, which are highly uncertain and unpredictable, depending upon the severity and duration of the outbreak and the effectiveness of actions taken globally to contain or mitigate its effects. Any resulting financial impact cannot be estimated reasonably at this time, but may materially adversely affect our business, results of operations, financial condition and cash flows. Even after the COVID-19 pandemic has subsided, we may experience materially adverse impacts to our business due to any resulting economic recession or depression. Additionally, concerns over the economic impact of COVID-19 have caused extreme volatility in financial and other capital markets which has and may continue to adversely impact our stock price and our ability to access capital markets.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

See Note 6, "Long-Term Debt," to the accompanying unaudited condensed consolidated financial statements for a description of restrictions on the payment of dividends.

Item 6. Exhibits.

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Sonic Automotive, Inc., dated August 7, 1997 (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-13395)).
3.2	Certificate of Designation, Preferences and Rights of Class A Convertible Preferred Stock, dated March 20, 1998 (incorporated by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-13395)).
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Sonic Automotive, Inc., dated June 16, 1999 (incorporated by reference to Exhibit 3.3 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-13395)).
3.4	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Sonic Automotive, Inc., dated April 18, 2017 (incorporated by reference to Exhibit 3.4 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-13395)).
3.5	Amended and Restated Bylaws of Sonic Automotive, Inc., dated July 27, 2017 (incorporated by reference to Exhibit 3.5 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 (File No. 001-13395)).
101.1*	Amendment No. 1 to Third Amended and Restated Syndicated New and Used Vehicle Floorplan Credit Agreement, dated as of March 31, 2020, among Sonic Automotive, Inc.; the subsidiaries of Sonic Automotive, Inc. named therein; each lender a party thereto; Bank of America, N.A., as administrative agent, new vehicle swing line lender and used vehicle swing line lender; and Bank of America, N.A., as revolving administrative agent.
31.1*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

** Furnished herewith.

SONIC AUTOMOTIVE, INC.

SIGNATURES

Pursuant to the requirements 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.

SONIC AUTOMOTIVE, INC.

May 11, 2020

By: _____ /s/ DAVID BRUTON SMITH
David Bruton Smith
Chief Executive Officer

May 11, 2020

By: _____ /s/ HEATH R. BYRD
Heath R. Byrd
Executive Vice President and Chief Financial Officer

**AMENDMENT NO. 1 TO
THIRD AMENDED AND RESTATED SYNDICATED NEW AND USED
VEHICLE FLOORPLAN CREDIT AGREEMENT**

This **AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT** (this “*Agreement*”) dated as of April 2, 2020 and effective as of March 31, 2020 (the “*Effective Date*”) is made by and among **SONIC AUTOMOTIVE, INC.**, a Delaware corporation (the “*Company*”), certain Subsidiaries of the Company (together with the Company, and collectively with any other Person that becomes a Borrower from time to time, the “*Borrowers*” and each individually a “*Borrower*”), the Lenders from time to time party thereto, **BANK OF AMERICA, N.A.**, as Administrative Agent, in its capacity as administrative agent for the Lenders (in such capacity, the “*Administrative Agent*”) signatory hereto.

WITNESSETH:

WHEREAS, the Company, certain subsidiaries of the Company party thereto pursuant to Section 2.19 thereof (each a “*New Vehicle Borrower*” and together with the Company, the “*Borrowers*” and each individually a “*Borrower*”), Bank of America, as Administrative Agent, New Vehicle Swing Line Lender and Used Vehicle Swing Line Lender, Bank of America, as Revolving Administrative Agent (in the capacity of collateral agent) and the lenders from time to time party thereto (collectively, the “*Lenders*” and individually, a “*Lender*”) have entered into that certain Third Amended and Restated Syndicated New and Used Vehicle Floorplan Credit Agreement dated as of November 30, 2016 (as hereby amended and as from time to time further amended, modified, supplemented, restated, or amended and restated, the “*Credit Agreement*”; capitalized terms used in this Agreement and not otherwise defined herein shall have the respective meanings given thereto in the Credit Agreement), pursuant to which the Lenders have made available to the Company a new vehicle floorplan revolving credit facility (including a swing line subfacility) and a used vehicle floorplan revolving credit facility (including a swing line subfacility); and

WHEREAS, the Company has entered into the Company Guaranty pursuant to which it has guaranteed the payment and performance of the obligations of each New Vehicle Borrower under the Credit Agreement and the other Loan Documents; and

WHEREAS, each of the other Guarantors has entered into a Subsidiary Guaranty pursuant to which it has guaranteed the payment and performance of the obligations of each Borrower under the Credit Agreement and the other Loan Documents; and

WHEREAS, the Company and the respective Loan Parties that are parties thereto have entered into the Security Agreement and other Security Instruments, securing the Obligations under the Credit Agreement and other Loan Documents; and

WHEREAS, the Company has requested that the Administrative Agent and the Lenders amend certain provisions of the Credit Agreement and the Security Agreement as set forth

below, and the Administrative Agent and the Lenders signatory hereto are willing to effect such amendment on the terms and conditions contained in this Agreement;

NOW, THEREFORE, in consideration of the premises and further valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Amendments to Credit Agreement**. Subject to the terms and conditions set forth herein, the Credit Agreement is hereby amended as follows:

(a) The definition of “Used Vehicle Borrowing Base” in Section 1.01 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

“Used Vehicle Borrowing Base” means, as of any date of calculation, 85% of the Net Book Value of Eligible Used Vehicle Inventory; provided, however, that for the period commencing on the Amendment No. 1 Effective Date through that day which is ninety (90) days following the Amendment No. 1 Effective Date, the “Used Vehicle Borrower Base” shall mean, as of any date of calculation during such period, 95% of the Net Book Value of Eligible Used Vehicle Inventory.

(b) The definitions below are hereby added to Section 1.01 of the Credit Agreement in the appropriate alphabetical order:

“Amendment No. 1 Effective Date” means March 31, 2020.

“Beneficial Ownership Certification” means a certification regarding beneficial ownership required by the Beneficial Ownership Regulation.

“Beneficial Ownership Regulation” means 31 C.F.R. § 1010.230.

(c) Section 2.11(a)(iii)(A) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

(iii)(A)

(X) The New Vehicle Borrowers (jointly and severally) shall pay in full an amount equal to the New Vehicle Floorplan Loan with respect to any New Vehicle (including without limitation, any New Vehicles that are dealer trades, Rental Vehicles, Demonstrators, and Service Loaner Vehicles) that has been sold or leased (other than the ordinary course lease of a Rental Vehicle) by any New Vehicle Borrower: (A) (1) with respect to New Vehicles (other than Fleet Vehicles), the earliest to occur of (x) fifteen (15) days after such sale or lease thereof or (y) with respect any New Vehicle for which cash has been received upon such sale or lease thereof, within five (5) days of the receipt of such cash, and (2) with respect to Fleet Vehicles, upon the earliest to occur of (aa) thirty (30) days after the

date of such sale or lease (other than the ordinary course lease of a Rental Vehicle) and (bb) two (2) Business Days following receipt of proceeds from such sale or lease thereof.

(Y) With respect to each New Vehicle that has not been sold, the New Vehicle Borrowers (jointly and severally) shall pay in full an amount equal to (i) in the case of any such New Vehicle held as Inventory, beginning 12 months after the date such New Vehicle is Deemed Floored, monthly payments of 10% of the original amount of the New Vehicle Floorplan Loan relating to such New Vehicle (each such required payment, an “NV Monthly Curtailment Payment”), with the final payment for all amounts then outstanding under such New Vehicle Floorplan Loan due 15 months after the date such New Vehicle is Deemed Floored (each such required payment, an “NV Final Curtailment Payment”), and (ii) in the case of each Demonstrator, Rental Vehicle, Service Loaner Vehicle and other mileage Vehicle, beginning the date such New Vehicle is Deemed Floored, monthly payments of 2% of the original amount of the New Vehicle Floorplan Loan relating to such New Vehicle (each such required payment, a “Mileaged Monthly Curtailment Payment”), with the final payment for all amounts then outstanding under such New Vehicle Floorplan Loan due 24 months after the date such New Vehicle is Deemed Floored (each such required payment, a “Mileaged Final Curtailment Payment”);

provided that, payments which are required to be made under this clause (Y) with respect to the period from March 1, 2020 through May 31, 2020 (and are required to be made on the Interest Payments Dates for April, 2020, May, 2020 and June, 2020) shall (1) with respect to NV Monthly Curtailment Payments and Mileaged Monthly Curtailment Payments, be temporarily waived for such period and such payment requirements will resume without waiver on the Interest Payment Date for July, 2020 (with respect to the month of June 2020) and thereafter shall continue to be due and payable as described in this Section and (2) with respect to NV Final Curtailment Payments and Mileaged Final Curtailment Payments, be deferred for ninety (90) days and such payment requirements will resume without deferral on the Interest Payment Date for July, 2020 (with respect to the month of June 2020) and thereafter shall continue to be due and payable as described in this Section. By way of example, an NV Final Curtailment Payment which would have come due during the month of May 2020 shall be deferred until August 2020 (and paid on the Interest Payment Date for September 2020) but an NV Final Curtailment Payment which comes due during the month of June 2020 shall not be deferred and shall be paid on the Interest Payment Date for July 2020.

(Z) Upon the funding thereof, any New Vehicle Floorplan Overdraft shall be due and payable in full by the New Vehicle Borrowers on the next following Business Day.

- (d) The first sentence of Section 2.18 of the Credit Agreement is hereby amended to add the following at the end thereof:

and (x) upon the reasonable request of any Lender made at least ten (10) days prior to the Increase Effective Date, the Company shall have provided to such Lender, and such Lender shall be reasonably satisfied with, the documentation and other information so requested in connection with applicable “know your customer” and anti-money-laundering rules and regulations, including, without limitation, the PATRIOT Act, in each case at least five (5) Business Days prior to the Increase Effective Date and (y) at least ten (10) days prior to the Increase Effective Date, any Loan Party that qualifies as a “legal entity customer” under the Beneficial Ownership Regulation shall have delivered, to each Lender that so requests, a Beneficial Ownership Certification in relation to such Loan Party.

- (e) Section 5.15 of the Credit Agreement is hereby amended to add the following at the end thereof:

As of the Amendment No. 1 Effective Date, the information included in the Beneficial Ownership Certification, if applicable, is true and correct in all respects.

- (f) Section 6.02(j) of the Credit Agreement is hereby amended and restated in its entirety to read as follows

(j) promptly following any request therefor, provide information and documentation reasonably requested by the Administrative Agent or any Lender for purposes of compliance with applicable “know your customer” and anti-money-laundering rules and regulations, including, without limitation, the PATRIOT Act and the Beneficial Ownership Regulation; and

- (g) The following Section 10.21 is hereby added to the Credit Agreement:

10.21 Acknowledgement Regarding Any Supported QFCs. To the extent that the Loan Documents provide support, through a guarantee or otherwise, for any Swap Contract or any other agreement or instrument that is a QFC (such support, “QFC Credit Support”, and each such QFC, a “Supported QFC”), the parties acknowledge and agree as follows with respect to the resolution power of the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (together with the regulations promulgated thereunder, the “U.S. Special Resolution Regimes”)

in respect of such Supported QFC and QFC Credit Support (with the provisions below applicable notwithstanding that the Loan Documents and any Supported QFC may in fact be stated to be governed by the laws of the State of New York and/or of the United States or any other state of the United States):

(a) In the event a Covered Entity that is party to a Supported QFC (each, a “Covered Party”) becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer of such Supported QFC and the benefit of such QFC Credit Support (and any interest and obligation in or under such Supported QFC and such QFC Credit Support, and any rights in property securing such Supported QFC or such QFC Credit Support) from such Covered Party will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if the Supported QFC and such QFC Credit Support (and any such interest, obligation and rights in property) were governed by the laws of the United States or a state of the United States. In the event a Covered Party or a BHC Act Affiliate of a Covered Party becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under the Loan Documents that might otherwise apply to such Supported QFC or any QFC Credit Support that may be exercised against such Covered Party are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if the Supported QFC and the Loan Documents were governed by the laws of the United States or a state of the United States. Without limitation of the foregoing, it is understood and agreed that rights and remedies of the parties with respect to a Defaulting Lender shall in no event affect the rights of any Covered Party with respect to a Supported QFC or any QFC Credit Support.

(b) As used in this Section 10.21, the following terms have the following meanings:

“BHC Act Affiliate” of a party means an “affiliate” (as such term is defined under, and interpreted in accordance with, 12 U.S.C. 1841(k)) of such party.

“Covered Entity” means any of the following: (i) a “covered entity” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 252.82(b); (ii) a “covered bank” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 47.3(b); or (iii) a “covered FSI” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 382.2(b).

“Default Right” has the meaning assigned to that term in, and shall be interpreted in accordance with, 12 C.F.R. §§ 252.81, 47.2 or 382.1, as applicable.

“QFC” has the meaning assigned to the term “qualified financial contract” in, and shall be interpreted in accordance with, 12 U.S.C. 5390(c)(8)(D).

1. **Effectiveness; Conditions Precedent.** This Agreement and the amendments to the Credit Agreement herein provided shall become effective as of the Effective Date at the time when each of the following conditions has been satisfied:

(a) the Administrative Agent shall have received counterparts of this Agreement, duly executed by each Borrower, Bank of America, as Administrative Agent, New Vehicle Swing Line Lender and Used Vehicle Swing Line Lender, each Guarantor and each Lender;

(b) Upon the reasonable request of any Lender made at least ten (10) days prior to the date hereof, the Company shall have provided to such Lender, and such Lender shall be reasonably satisfied with, the documentation and other information so requested in connection with applicable “know your customer” and anti-money-laundering rules and regulations, including, without limitation, the PATRIOT Act, in each case at least five (5) Business Days prior to the date hereof and (ii) at least ten (10) days prior to the date hereof, any Loan Party that qualifies as a “legal entity customer” under the Beneficial Ownership Regulation shall have delivered, to each Lender that so requests, a Beneficial Ownership Certification in relation to such Loan Party.

(c) all fees and expenses payable to the Administrative Agent, the Arranger and the Lenders (including the fees and expenses of counsel to the Administrative Agent) to the extent invoiced on or prior to the date hereof shall have been paid in full (without prejudice to final settling of accounts for such fees and expenses).

2. **Consent of the Loan Parties.** The Company hereby consents, acknowledges and agrees to the amendments set forth herein and hereby confirms and ratifies in all respects the Company Guaranty (including without limitation the continuation of the Company’s payment and performance obligations thereunder upon and after the effectiveness of this Agreement and the amendments contemplated hereby) and the enforceability of the Company Guaranty against the Company in accordance with its terms. Each Subsidiary Guarantor hereby consents, acknowledges and agrees to the amendments set forth herein and hereby confirms and ratifies in all respects the Subsidiary Guaranty (including without limitation the continuation of such Subsidiary Guarantor’s payment and performance obligations thereunder upon and after the effectiveness of this Agreement and the amendments contemplated hereby) and the enforceability of such Subsidiary Guaranty against such Subsidiary Guarantor in accordance with its terms. Each Loan Party hereby consents, acknowledges and agrees to the amendments set forth herein and hereby confirms and ratifies in all respects each Security Instrument to which such Loan Party is a party (including without limitation the continuation of the perfection and priority of each Lien thereunder upon and after the effectiveness of this Agreement and the amendments contemplated hereby) and the enforceability of such Security Instrument against such Loan Party in accordance with its terms.

3. **Representations and Warranties.** In order to induce the Administrative Agent and the Lenders to enter into this Agreement, each Loan Party represents and warrants to the Administrative Agent and the Lenders as follows:

(a) The representations and warranties made by each Loan Party in Article V of the Credit Agreement and in each of the other Loan Documents to which such Loan Party is a party are true and correct on and as of the date hereof, both before and after giving effect to this Agreement, in each case except to the extent that such representations and warranties expressly relate to an earlier date in which case they are true and correct as of such earlier date, and except that the representations and warranties contained in subsections (a) and (b) of Section 5.05 of the Credit Agreement will be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01 of the Credit Agreement;

(b) The Persons appearing as Subsidiary Guarantors on the signature pages to this Agreement constitute all Persons who are required to be Subsidiary Guarantors pursuant to the terms of the Credit Agreement and the other Loan Documents, including without limitation all Persons who became Subsidiaries or were otherwise required to become Subsidiary Guarantors after the Closing Date, and each of such Persons has become and remains a party to a Subsidiary Guaranty as a guarantor thereunder;

(c) This Agreement has been duly authorized, executed and delivered by the Company and each of the other Loan Parties party hereto and constitutes a legal, valid and binding obligation of each such party, except as may be limited by general principles of equity or by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally; and

(d) No Default or Event of Default has occurred and is continuing.

4. **Entire Agreement.** This Agreement, together with all the Loan Documents (collectively, the "**Relevant Documents**"), sets forth the entire understanding and agreement of the parties hereto in relation to the subject matter hereof and supersedes any prior negotiations and agreements among the parties relating to such subject matter. No promise, condition, representation or warranty, express or implied, not set forth in the Relevant Documents shall bind any party hereto, and no such party has relied on any such promise, condition, representation or warranty. Each of the parties hereto acknowledges that, except as otherwise expressly stated in the Relevant Documents, no representations, warranties or commitments, express or implied, have been made by any party to the other in relation to the subject matter hereof or thereof. None of the terms or conditions of this Agreement may be changed, modified, waived or canceled orally or otherwise, except in writing and in accordance with Section 10.01 of the Credit Agreement.

5. **Full Force and Effect of Agreement.** Except as hereby specifically amended, modified or supplemented, the Credit Agreement and all other Loan Documents are hereby confirmed and ratified in all respects and shall be and remain in full force and effect according to their respective terms.

6. **Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. Delivery of an executed

counterpart of a signature page of this Agreement by telecopy or electronic delivery (including by .pdf) shall be effective as delivery of a manually executed counterpart of this Agreement.

7. **Governing Law.** This Agreement shall in all respects be governed by, and construed in accordance with, the laws of the State of North Carolina applicable to contracts executed and to be performed entirely within such State, and shall be further subject to the provisions of Section 10.14 of the Credit Agreement.

8. **Enforceability.** Should any one or more of the provisions of this Agreement be determined to be illegal or unenforceable as to one or more of the parties hereto, all other provisions nevertheless shall remain effective and binding on the parties hereto.

9. **References.** All references in any of the Loan Documents to the “Credit Agreement” shall mean the Credit Agreement, as amended hereby and as further amended, modified, supplemented, restated, or amended and restated from time to time. All references in any of the Loan Documents to the “Security Agreement” shall mean the Security Agreement, as amended hereby and as further amended, modified, supplemented, restated, or amended and restated from time to time.

10. **Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the Company, each of the other Loan Parties, the Administrative Agent, the Lenders, and their respective successors, legal representatives, and assignees to the extent such assignees are permitted assignees as provided in Section 10.06 of the Credit Agreement.

11. **Loan Document.** This Agreement shall be deemed to be a “Loan Document” under and as defined in the Credit Agreement, for all purposes.

[Signature pages follow.]

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be made, executed and delivered by their duly authorized officers as of the day and year first above written.

COMPANY:

SONIC AUTOMOTIVE, INC.

By:____
Typed Name:____
Typed Title:____

NEW VEHICLE BORROWERS:

**ARNGAR, INC.
FAA CONCORD H, INC.
FAA LAS VEGAS H, INC.
FAA POWAY H, INC.
FAA SERRAMONTE H, INC.
FRANCISCAN MOTORS, INC.
KRAMER MOTORS INCORPORATED
PHILPOTT MOTORS, LTD.
SAI CHAMBLEE V, LLC
SAI CHATTANOOGA N, LLC
SAI CLEVELAND N, LLC
SAI COLUMBUS MOTORS, LLC
SAI COLUMBUS VWK, LLC
SAI DS, LLC
SAI FORT MYERS H, LLC
SAI IRONDALE IMPORTS, LLC
SAI MONTGOMERY BCH, LLC
SAI MONTGOMERY CH, LLC
SAI NASHVILLE CSH, LLC
SAI NASHVILLE H, LLC
SAI NASHVILLE MOTORS, LLC
SAI ORLANDO CS, LLC
SAI PENSACOLA A, LLC
SAI ROARING FORK LR, INC.
SAI ROCKVILLE IMPORTS, LLC
SAI S ATLANTA JLR LLC
SAI TYSONS CORNER H, LLC**

By:____
Typed Name:____
Typed Title:____

AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED
SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT
(Sonic Automotive, Inc.)
Signature Page

NEW VEHICLE BORROWERS, continued:

**SANTA CLARA IMPORTED CARS, INC.
SONIC – CADILLAC D, L.P.
SONIC – LAS VEGAS C WEST, LLC
SONIC – LS CHEVROLET, L.P.
SONIC – LUTE RILEY, L.P.
SONIC – NEWSOME CHEVROLET WORLD, INC.
SONIC – SHOTTENKIRK, INC.
SONIC ADVANTAGE PA, L.P.
SONIC AUTOMOTIVE – 3401 N. MAIN, TX, L.P.
SONIC AUTOMOTIVE-9103 E. INDEPENDENCE, NC, LLC
SONIC HOUSTON JLR, LP
SONIC HOUSTON LR, L.P.
SONIC MOMENTUM JVP, L.P.
SONIC MOMENTUM VWA, L.P.
SONIC-2185 CHAPMAN RD., CHATTANOOGA, LLC
SONIC–BUENA PARK H, INC.
SONIC–CAPITOL IMPORTS, INC.
SONIC–HARBOR CITY H, INC.
SONIC–VOLVO LV, LLC
STEVENS CREEK CADILLAC, INC.
WINDWARD, INC.**

By:____
Typed Name: ____
Typed Title: ____

AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED
SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT
(Sonic Automotive, Inc.)
Signature Page

SUBSIDIARY GUARANTORS:

**AM GA, LLC
ARNGAR, INC.
ECHOPARK NC, LLC
ECHOPARK SC, LLC
ECHOPARK TX, LLC
FAA CONCORD H, INC.
FAA LAS VEGAS H, INC.
FAA POWAY H, INC.
FAA SERRAMONTE H, INC.
FRANCISCAN MOTORS, INC.
KRAMER MOTORS INCORPORATED
PHILPOTT MOTORS, LTD.
SAI AM FLORIDA, LLC
SAI CHAMBLEE V, LLC
SAI CHATTANOOGA N, LLC
SAI CLEVELAND N, LLC
SAI COLUMBUS MOTORS, LLC
SAI COLUMBUS VWK, LLC
SAI DS, LLC
SAI FORT MYERS H, LLC
SAI IRONDALE IMPORTS, LLC
SAI MONTGOMERY BCH, LLC
SAI MONTGOMERY CH, LLC
SAI NASHVILLE CSH, LLC
SAI NASHVILLE H, LLC
SAI NASHVILLE MOTORS, LLC
SAI ORLANDO CS, LLC
SAI PENSACOLA A, LLC
SAI ROARING FORK LR, INC.
SAI ROCKVILLE IMPORTS, LLC
SAI TYSONS CORNER H, LLC
SANTA CLARA IMPORTED CARS, INC.
SONIC – CADILLAC D, L.P.
SONIC – LAS VEGAS C WEST, LLC
SONIC – LS CHEVROLET, L.P.
SONIC – LUTE RILEY, L.P.**

By:____
Typed Name:____
Typed Title:____

SUBSIDIARY GUARANTORS, continued:

SONIC – NEWSOME CHEVROLET WORLD, INC.
SONIC – SHOTTENKIRK, INC.
SONIC ADVANTAGE PA, L.P.
SONIC AUTOMOTIVE – 3401 N. MAIN, TX, L.P.
SONIC AUTOMOTIVE-9103 E. INDEPENDENCE, NC, LLC
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SONIC HOUSTON LR, L.P.
SONIC MOMENTUM JVP, L.P.
SONIC MOMENTUM VWA, L.P.
SONIC-2185 CHAPMAN RD., CHATTANOOGA, LLC
SONIC–BUENA PARK H, INC.
SONIC–CAPITOL IMPORTS, INC.
SONIC–HARBOR CITY H, INC.
SONIC–VOLVO LV, LLC
STEVENS CREEK CADILLAC, INC.
TT DENVER, LLC
WINDWARD, INC.

By:____
Typed Name:____
Typed Title:____

AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED
SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT
(Sonic Automotive, Inc.)
Signature Page

BANK OF AMERICA, N.A.,
as Administrative Agent

By:____
Typed Name:____
Typed Title:____

BANK OF AMERICA, N.A.,
as Revolving Administrative Agent
(in its capacity as collateral agent for the Secured Parties under the Loan Documents)

By:____
Typed Name:____
Typed Title:____

AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED
SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT
(Sonic Automotive, Inc.)
Signature Page

LENDERS:

BANK OF AMERICA, N.A., as a Lender, New Vehicle Swing Line Lender and Used Vehicle Swing Line Lender

By:____
Typed Name:____
Typed Title:____

AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED
SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT
(Sonic Automotive, Inc.)
Signature Page

JPMORGAN CHASE BANK, N.A., as a Lender

By:____
Typed Name:____
Typed Title:____

AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED
SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT

(Sonic Automotive, Inc.)
Signature Page

U.S. BANK NATIONAL ASSOCIATION, as a Lender

By:____
Typed Name:____
Typed Title:____

AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED
SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT
(Sonic Automotive, Inc.)

Signature Page

MERCEDES-BENZ FINANCIAL SERVICES USA LLC, as a Lender

By:____
Typed Name:____
Typed Title:____

AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED
SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT
(Sonic Automotive, Inc.)

Signature Page

WELLS FARGO BANK, NATIONAL ASSOCIATION, as a Lender

By:____
Typed Name:____
Typed Title:____

AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED
SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT
(Sonic Automotive, Inc.)

Signature Page

COMERICA BANK, as a Lender

By:____
Typed Name:____
Typed Title:____

AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED
SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT
(Sonic Automotive, Inc.)

Signature Page

CAPITAL ONE, N.A., as a Lender

By:____
Typed Name:____
Typed Title:____

AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED
SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT
(Sonic Automotive, Inc.)

Signature Page

AMERICAN HONDA FINANCE CORPORATION, as a Lender

By:____
Typed Name:____
Typed Title:____

AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED
SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT
(Sonic Automotive, Inc.)

Signature Page

MASSMUTUAL ASSET FINANCE LLC, as a Lender

By:____
Typed Name:____
Typed Title:____

AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED
SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT
(Sonic Automotive, Inc.)

Signature Page

PNC BANK, NATIONAL ASSOCIATION, as a Lender

By:____
Typed Name:____
Typed Title:____

AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED
SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT
(Sonic Automotive, Inc.)

Signature Page

TD BANK, N.A., as a Lender

By:____
Typed Name:____
Typed Title:____

AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED
SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT
(Sonic Automotive, Inc.)

Signature Page

TOYOTA MOTOR CREDIT CORPORATION, as a Lender

By:____
Typed Name:____
Typed Title:____

AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED
SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT
(Sonic Automotive, Inc.)

Signature Page

VW CREDIT, INC., as a Lender

By:____
Typed Name:____
Typed Title:____

AMENDMENT NO. 1 TO THIRD AMENDED AND RESTATED
SYNDICATED NEW AND USED VEHICLE FLOORPLAN CREDIT AGREEMENT
(Sonic Automotive, Inc.)
Signature Page

**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 Quarterly Report of Sonic Automotive, Inc. (the Company) on Form 10-Q for the period ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Heath R. Byrd, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ HEATH R. BYRD

Heath R. Byrd

Executive Vice President and Chief Financial Officer

May 11, 2020

**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 Quarterly Report of Sonic Automotive, Inc. (the Company) on Form 10-Q for the period ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, David Bruton Smith, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DAVID BRUTON SMITH

David Bruton Smith
Chief Executive Officer
May 11, 2020