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

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 6, 2021

SONIC AUTOMOTIVE, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

1-13395	**56-2010790**
(Commission File Number)	**(IRS Employer Identification No.)**

4401 Colwick Road	
Charlotte, North Carolina	**28211**
(Address of principal executive offices)	**(Zip Code)**

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

Not Applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

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

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

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. ☐

Introductory Note

As previously disclosed, on December 6, 2021 (the "Closing Date"), Sonic Automotive, Inc. ("Sonic") completed the acquisition of RFJ Auto Partners, Inc. ("RFJ Auto") pursuant to the previously disclosed Agreement and Plan of Merger (the "Merger Agreement") dated as of September 17, 2021, by and among Sonic, a subsidiary of Sonic ("Merger Sub"), RFJ Auto and The Resolute Fund III, L.P., solely in its capacity as the representative of RFJ Auto's equityholders. On the Closing Date, pursuant to the Merger Agreement and upon the terms and subject to the conditions therein, RFJ Auto merged with and into Merger Sub, with RFJ Auto surviving the merger and becoming a direct, wholly owned subsidiary of Sonic.

This Amendment No. 1 to the Current Report on Form 8-K filed by the Company on December 9, 2021 (the "Original Form 8-K") amends the Original Form 8-K to include the financial statements required by Item 9.01(a) and the pro forma financial information required by Item 9.01(b). Except as provided herein, the disclosures made in the Original Form 8-K remain unchanged.

Item 9.01. Financial Statements and Exhibits.

(a) *Financial Statements of Businesses Acquired.*

The audited consolidated balance sheets of RFJ Auto Partners, Inc. and its subsidiaries as of December 31, 2020 and 2019, the related consolidated statements of operations, stockholders' equity and cash flows of RFJ Auto Partners, Inc. and its subsidiaries for each of the years in the two-year period ended December 31, 2020 and the notes related thereto, together with the report thereon of Dixon Hughes Goodman LLP included in the audited consolidated financial statements, are filed as Exhibit 99.1 hereto and are incorporated herein by reference.

The unaudited condensed consolidated balance sheet of RFJ Auto Partners, Inc. and its subsidiaries as of September 30, 2021 and 2020, the related condensed consolidated statements of operations, stockholders' equity and cash flows for the nine months ended September 30, 2021 and 2020, and the notes related thereto, are filed as Exhibit 99.2 hereto and are incorporated herein by reference.

(b) *Pro Forma Financial Information.*

The unaudited pro forma combined statement of operations of Sonic Automotive, Inc. for the year ended December 31, 2020 and condensed combined statements of operations of Sonic Automotive, Inc. for the nine months ended September 30, 2021, the unaudited pro forma condensed combined balance sheet of Sonic Automotive, Inc. as of September 30, 2021, and the notes related thereto, are filed as Exhibit 99.3 hereto and are incorporated herein by reference.

(d) *Exhibits.*

Exhibit No.	Description
23.1	Consent of Dixon Hughes Goodman LLP relating to the financial statements of RFJ Auto Partners, Inc.
99.1	Audited Consolidated Financial Statements of RFJ Auto Partners, Inc. and its subsidiaries as of December 31, 2020 and 2019, and for each of the years in the two year period ended December 31, 2020.
99.2	Unaudited Condensed Consolidated Financial Statements of RFJ Auto Partners, Inc. and its subsidiaries as of and for the nine months ended September 30, 2021 and 2020.
99.3	Unaudited Pro Forma Combined Statement of operations of Sonic Automotive, Inc. for the year ended December 31, 2020 and Condensed Combined Statement of operations of Sonic Automotive, Inc. for the nine months ended September 30, 2021 and Unaudited Pro Forma Condensed Combined Balance Sheet of Sonic Automotive, Inc. as of September 30, 2021.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

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 hereunto duly authorized.

SONIC AUTOMOTIVE, INC.

February 18, 2022

By: /s/ STEPHEN K. COSS
Stephen K. Coss
Senior Vice President and General Counsel

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statements on Forms S-8 (Nos. 333-81059, 333-81053, 333-69907, 333-69899, 333-65447, 333-49113, 333-69901, 333-95791, 333-46272, 333-46274, 333-102052, 333-102053, 333-109411, 333-117065, 333-124370, 333-142435, 333-142436, 333-159674, 333-159675, 333-180814, 333-180815, 333-204027, 333-217504, 333-232177, 333-256891), of Sonic Automotive, Inc. of our report dated February 11, 2022, with respect to the consolidated financial statements of RFJ Auto Partners, Inc. and Subsidiaries, as of and for the years ended December 31, 2020 and 2019, which report is included in Sonic Automotive Inc.'s current report on Form 8-K dated February 18, 2022. Our audit report contains an emphasis of a matter paragraph that refers to the change in the accounting method for goodwill and presentation of redeemable preferred shares to be in accordance with accounting principles generally accepted in the United States of America for public business entities.

/s/ Dixon Hughes Goodman LLP
Fort Worth, Texas
February 18, 2022

Exhibit 99.1

RFJ Auto Partners, Inc. and Subsidiaries
Consolidated Financial Statements
December 31, 2020 and 2019

RFJ AUTO PARTNERS, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

DECEMBER 31, 2020 AND 2019

Independent Auditors' Report

Stockholders
RFJ Auto Partners, Inc. and Subsidiaries
Plano, TX

We have audited the accompanying consolidated financial statements of RFJ Auto Partners, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RFJ Auto Partners, Inc. and Subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

accounting principles generally accepted in the United States of America.

DHG

Emphasis of Matter

As describe in Note A to the consolidated financial statements, the Company elected to change their accounting method related to goodwill and presentation of redeemable preferred shares effective January 1, 2019, in order for the consolidated financial statement presentation to be in accordance with accounting principles generally accepted in the United States of America for public business entities.

Dixon Hughes Goodman LLP

Fort Worth, TX
February 11, 2022

RFJ AUTO PARTNERS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2020 AND 2019

(IN THOUSANDS OF DOLLARS)

ASSETS	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	$18,389	$20,100
Contracts in transit	30,803	25,990
Receivables, net	55,524	34,327
Inventories, net	301,255	422,282
Rental and loan vehicles	2,864	5,507
Other current assets	3,101	2,393
TOTAL CURRENT ASSETS	**411,936**	**510,599**
Property and equipment, net	122,964	109,282
Goodwill (as adjusted)	104,575	58,140
Franchise rights	63,176	60,735
Deferred tax asset (as adjusted)	476	5,852
Other noncurrent assets	476	648
TOTAL NONCURRENT ASSETS (as adjusted)	**291,667**	**234,657**
TOTAL ASSETS (as adjusted)	**703,603**	**745,256**
LIABILITIES REDEEMABLE PREFERRED SHARES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Floor plan notes payable - trade	53,578	35,541
Floor plan notes payable - non-trade	266,478	399,315
Accounts payable	30,745	23,090
Accrued expenses	44,120	21,721
Current maturities of long-term debt	12,433	5,780
Allowance for contingent charges	9,266	7,068
TOTAL CURRENT LIABILITIES	**416,620**	**492,515**
Long-term debt, less current maturities	184,590	145,399
Allowance for contingent charges, less current portion	6,558	5,344
TOTAL NONCURRENT LIABLITIES (as adjusted)	**191,148**	**150,743**
REDEEMABLE PREFERRED SHARES (as adjusted)	**70,512**	**97,495**
STOCKHOLDERS' EQUITY		
Paid-in capital (as adjusted)	28,419	28,729
Notes receivable from stockholder	(3,482)	(3,482)
Retained earnings (as adjusted)	581	(20,549)
Treasury stock	(195)	(195)
TOTAL STOCKHOLDERS' EQUITY (as adjusted)	**25,323**	**4,503**
TOTAL LIABILITIES, REDEEMABLE PREFERRED SHARES AND STOCKHOLDERS' EQUITY (as adjusted)	**$703,603**	**$745,256**

See accompanying notes to the consolidated financial statements

RFJ AUTO PARTNERS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

DECEMBER 31, 2020 AND 2019

(IN THOUSANDS OF DOLLARS)

	2020	2019
SALES	$2,729,076	$2,180,143
COST OF SALES	2,551,942	2,060,065
GROSS PROFIT FROM SALES	**177,134**	**120,078**
FINANCING, INSURANCE, SERVICE CONTRACT AND OTHER INCOME, NET	105,516	71,110
GROSS PROFIT	**282,650**	**191,188**
EXPENSES		
Variable selling	70,082	48,618
Advertising	12,038	12,741
Floor plan interest	13,226	21,121
Personnel	62,547	49,891
Semi-fixed	29,872	21,386
Fixed	24,123	16,290
TOTAL EXPENSES	**211,888**	**170,047**
INCOME FROM OPERATIONS	**70,762**	**21,141**
OTHER EXPENSES		
Interest expense, other than floor plan	8,985	8,646
Other expense/(income) (as adjusted for 2019)	279	23,762
TOTAL OTHER EXPENSES (as adjusted)	**9,264**	**32,408**
INCOME (LOSS) BEFORE INCOME TAXES (as adjusted)	**61,498**	**(11,267)**
Income tax expense (as adjusted)	17,111	(5,286)
NET INCOME (LOSS) (as adjusted)	**$44,387**	**($5,981)**

See accompanying notes to the consolidated financial statements

RFJ AUTO PARTNERS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

DECEMBER 31, 2020 AND 2019

(IN THOUSANDS OF DOLLARS)

	Paid-in Capital	Notes Receivable from Stockholder	Retained Earnings	Treasury Stock	Total
Balance at January 1, 2019 (as adjusted)	**$27,771**	**($3,482)**	**($14,568)**	**($195)**	**$9,526**
Shares issued	930	-	-	-	930
Shares repurchased	(100)	-	-	-	(100)
Stock option compensation	128	-	-	-	128
Net loss (as adjusted)	-	-	(5,981)	-	(5,981)
Balance at December 31, 2019 (as adjusted)	**28,729**	**(3,482)**	**(20,549)**	**(195)**	**4,503**
Shares repurchased	(485)	-	-	-	(485)
Repurchase of preferred shares including accrued dividends	-	-	(23,257)	-	(23,257)
Stock option compensation	175	-	-	-	175
Net income (as adjusted)	-	-	44,387	-	44,387
Balance at December 31, 2020 (as adjusted)	**$28,419**	**($3,482)**	**$581**	**($195)**	**$25,323**

See accompanying notes to the consolidated financial statements

RFJ AUTO PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDING DECEMBER 31, 2020 AND 2019

(IN THOUSANDS OF DOLLARS)

CASH FLOWS FROM OPERATING ACTIVITIES	2020	2019
Net Income (loss) (as adjusted)	**$44,387**	**($5,981)**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (as adjusted)	5,867	5,269
Deferred income taxes (as adjusted)	5,376	(7,470)
Increase in reserve for contingent charges	(497)	887
Stock Option compensation	175	128
Franchise rights impairment	871	232
Goodwill impairment (as adjusted for 2019)	-	26,111
Gain on sale of dealerships (as adjusted for 2019)	-	(2,581)
Gain on sale of property and equipment	(21)	(24)
Change in operating assets and liabilities:		
Contracts in transit	9,932	17,539
Receivables	(19,322)	8,485
Inventories and rental and loan vehicles	184,732	(20,032)
Other assets	209	(60)
Floor plan notes payable - trade	14,052	(6,961)
Accounts payable	(6,773)	(5,529)
Accrued expenses	15,673	957
NET CASH PROVIDED BY OPERATING ACTIVITIES (as adjusted)	**254,661**	**10,970**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(12,490)	(2,823)
Proceeds from sale of property and equipment	54	220
Proceeds from sale of dealerships, net of cash sold	-	9,392
Acquisition of enterprises net of cash acquired	(48,199)	3,182
Acquisition of dealerships	(8,002)	(7,251)
NET CASH (USED)/PROVIDED BY INVESTMENT ACTIVITIES	**(68,637)**	**2,720**
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease)/Increase in floor plan notes payable - non-trade	(182,854)	10,269
Repurchase of preferred shares including accrued dividends	(50,000)	-
Principal payments on long-term debt	(19,729)	(15,938)
Proceeds from issuance of long-term debt	65,573	179
Payments on repurchase of stock	(725)	(500)
NET CASH USED BY FINANCING ACTIVITIES	**(187,735)**	**(5,990)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(1,711)**	**7,700**
CASH AND CASH EQUIVALENTS, BEGINNING	**20,100**	**12,400**
CASH AND CASH EQUIVALENTS, ENDING	**18,389**	**20,100**
Supplemental Cash Flow Information		
Cash paid during the year for:		
Interest	$18,640	$30,030

Income Taxes, Net (refund)	$932	($224)

See accompanying notes to the consolidated financial statements

NOTE A – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNT POLICIES

Organization and Nature of Business

RFJ Auto Partners Inc. and Subsidiaries, the "Company", a C Corporation was established on March 5, 2014. The Company is comprised of franchised dealerships with many different brands. Through the dealer agreements, the Company markets new vehicles, replacement parts, service, and financing and leasing. In addition, it also retails and wholesales used vehicles. The dealer agreement specifies the location of the dealership and designates the specific market area in which the dealer may operate; however, there is no guarantee of exclusivity within this market area. The specified market areas for the Company are in the states of Texas, Missouri, Idaho, Washington, Indiana, and New Mexico. Franchises include Alfa Romeo, Chrysler, Dodge, Jeep, Ram, GMC, Buick, Chevrolet, Cadillac, Ford, Hyundai, Nissan, Toyota, Maserati and Honda.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Subsidiaries. All significant intercompany balances and transactions have been eliminated and select items have been reclassified to conform with presentation adopted in the current year.

Changes in Accounting Principles

Goodwill

Previously, the Company had adopted the provisions of the accounting alternative provided by the Financial Accounting Standards Board (FASB) Account Standards Update (ASU) No. 2014-02 Accounting for Goodwill. This accounting alternative allows entities to elect to amortize goodwill over 10 years, or a shorter period if it is determined that another useful life is more appropriate. As such, the Company amortized goodwill using the straight-line method over 10 years, and evaluated goodwill for impairment for its reporting units whenever events occurred, or circumstances changed, that indicated that fair value of the Company may be below its carrying amount ("triggering events").

The Company elected to change the accounting method for goodwill effective January 1, 2019, in order for the consolidated financial statement presentation to be in accordance with accounting principles generally accepted in the United States of America ("GAAP") for public business entities. Accordingly, the Company retrospectively adjusted its financial statements to remove goodwill amortization, and evaluated whether the carrying amount of its reporting unit exceeded fair value for all periods since the previous election of ASU No. 2014-02.

Preferred Shares

Previously, the Company included the par value and additional paid in capital associated with its redeemable preferred shares as a component of stockholders' equity. In order to comply with GAAP requirements for public business entities, and in accordance with ASC 480-10-S99, effective January 1, 2019, the Company changed the presentation of these preferred shares to be included in temporary equity.

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

The changes in accounting principles were applied retrospectively. The effect on the consolidated financial statements is summarized below:

Consolidated Balance Sheet as of December 31, 2020:	As Previously Reported	Retrospective Adjustment	As Adjusted
Goodwill	100,339	4,236	104,575
Deferred tax asset	-	476	476
Total noncurrent assets	286,955	4,712	291,667
Total assets	698,891	4,712	703,603
Deferred tax liability	2,751	(2,751)	-
Total noncurrent liabilities	193,899	(2,751)	191,148
Redeemable preferred shares	-	70,512	70,512
Paid-in-capital	98,931	(70,512)	28,419
Retained (deficit) earnings	(6,882)	7,463	581
Total stockholders' equity	88,372	(63,049)	25,323
Total liabilities, redeemable preferred shares and stockholders' equity	698,891	4,712	703,603

Consolidated Statement of Operations for the year ended December 31, 2020:	As Previously Reported	Retrospective Adjustment	As Adjusted
Amortization expense	17,151	(17,151)	-
Total other expenses	26,415	(17,151)	9,264
Income before income taxes	44,347	17,151	61,498
Income tax expense	11,713	5,398	17,111
Net income	32,634	11,753	44,387

Consolidated Statement of Stockholders' Equity as of December 31, 2020:	As Previously Reported	Retrospective Adjustment	As Adjusted
Paid-in capital	98,931	(70,512)	28,419
Retained (deficit) earnings	(6,882)	7,463	581
Total stockholders' equity	88,372	(63,049)	25,323

Consolidated Statement of Cash Flows for the year ended December 31, 2020:	As Previously Reported	Retrospective Adjustment	As Adjusted
Net income	32,634	11,753	44,387
Depreciation and amortization	23,018	(17,151)	5,867
Deferred income taxes	(22)	5,398	5,376

RFJ AUTO PARTNERS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

Consolidated Balance Sheet as of December 31, 2019:	As Previously Reported	Retrospective Adjustment	As Adjusted
Goodwill	71,055	(12,915)	58,140
Deferred tax asset	-	5,852	5,852
Total noncurrent assets	241,720	(7,063)	234,657
Total assets	752,319	(7,063)	745,256
Deferred tax liability	2,773	(2,773)	-
Total noncurrent liabilities	153,516	(2,773)	150,743
Redeemable preferred shares	-	97,495	97,495
Paid-in-capital	126,224	(97,495)	28,729
Retained deficit	(16,259)	(4,290)	(20,549)
Total stockholders' equity	106,288	(101,785)	4,503
Total liabilities, redeemable preferred shares and stockholders' equity	752,319	(7,063)	745,256

Consolidated Statement of Operations for the year ended December 31, 2019:	As Previously Reported	Retrospective Adjustment	As Adjusted
Amortization expense	12,696	(12,696)	-
Goodwill impairment expense	-	26,111	26,111
Other expense/(income)	(3,078)	35,486	32,408
Total other expenses	18,264	14,144	32,408
Income before income taxes	2,877	(14,144)	(11,267)
Income tax expense	2,119	(7,405)	(5,286)
Net income (loss)	758	(6,739)	(5,981)

Consolidated Statement of Stockholders' Equity as of December 31, 2019:	As Previously Reported	Retrospective Adjustment	As Adjusted
Paid-in capital	126,224	(97,495)	28,729
Retained deficit	(16,259)	(4,290)	(20,549)
Total stockholders' equity	106,288	(101,785)	4,503

Consolidated Statement of Cash Flows for the year ended December 31, 2019:	As Previously Reported	Retrospective Adjustment	As Adjusted
Net Income (loss)	758	(6,739)	(5,981)
Depreciation and amortization	17,965	(12,696)	5,269
Goodwill impairment	-	26,111	26,111
Deferred income taxes	(65)	(7,405)	(7,470)
Gain on sale of dealerships	(3,310)	729	(2,581)

Consolidated Statement of Stockholders' Equity as of January 1, 2019:	As Previously Reported	Retrospective Adjustment	As Adjusted
Paid-in capital	125,666	(97,895)	27,771
Retained deficit	(17,017)	[illegible]	[illegible]

	(17,017)	2,449	(14,568)
Total stockholders' equity	104,972	(95,446)	9,526

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments that have an original maturity of three months or less at the date of purchase.

Contracts in Transit

Contracts in transit represent amounts due from customer contracts sold to financial institutions. These contracts are typically collected in 15 days.

Receivables

Receivables consist primarily of amounts due from other dealerships and auto auctions as a result of vehicle sales; amounts due from third parties for parts sold or services provided; and amounts due from manufacturers for incentives and warranty reimbursements. Receivables include commissions on aftermarket products. Receivables from the sale of vehicles are secured by the related vehicles. Receivables arising from the sale of parts and service are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date.

The carrying amount of receivables is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management reviews each receivable balance that exceeds 60 days from the invoice date, and, based on historical bad debt experience and management's evaluation of customer credit worthiness, estimates that portion, if any, of the balance that will not be collected. No interest is charged on delinquent receivables.

Inventories

The cost of new vehicles for a subsidiary acquired during 2015 is determined using the last-in, first-out (LIFO) method. All inventories are valued at the lower of cost or market. The cost of all other new vehicles, used vehicles, parts and accessories, and other inventories is determined on a specific identification basis.

Rental and Loan Vehicles

The Company purchases new vehicles from the manufacturers in connection with programs whereby the Company utilizes the vehicles as loan and rental vehicles for customers' use while their vehicles are being serviced by the dealerships.

The Company usually receives a subsidy, or discount, off of the manufacturer's invoice price and records such subsidies or discounts to lower the cost on the vehicles. Rental and loan vehicles are stated at cost, net of the subsidy, if any, and write-downs. The related liability is included in floor plan note payable - trade and floor plan notes payable – non-trade.

Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred. Major renewals and betterments are capitalized. Depreciation and amortization are provided using a straight-line method over the estimated useful lives of the assets of the life of the related lease, if shorter.

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

The useful lives of property and equipment for purposes of computing depreciation and amortization are as follows:

Buildings	40 years
Leasehold Improvements	Lesser of 10-39 years or underlying lease terms
Equipment, furniture and fixtures	5 – 10 years
Other	3 – 5 years

Goodwill and Franchise Rights

In connection with business acquisitions, the Company assigned a portion of the consideration paid to goodwill and franchise rights. Goodwill is the excess of cost over fair value of identifiable net assets acquired through business purchases. In accordance with ASC Topic 350, "Intangibles – Goodwill and Other", the Company is required to test goodwill and franchise rights with an indefinite life for impairment at least annually, or more frequently if indication of impairment exists. If these assets are considered to be impaired, they will be adjusted to fair value.

Long-Lived Assets

The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. There was no impairment of long-lived assets recorded in 2020 and 2019.

Factory Incentives

The Company receives various incentive payments from the manufacturers. These incentive payments are typically received on parts purchases and on new vehicle retail sales. The incentives are reported as reductions of cost of sales in the consolidated statements of operations.

Factory Assistance

The Company receives various assistance from the automobile manufacturers. The assistance is accounted for as a vehicle purchase price discount and is reflected as a reduction to inventory cost on the consolidated balance sheets and as a reduction to the cost of sales and advertising expense in the consolidated statements of operations as the vehicles are sold. At December 31, 2020 and 2019, inventory cost has been reduced by \$2,157 and \$2,707 for assistance received from the manufacturers, respectively. Cost of sales has been reduced by \$13,424 and \$14,097 for assistance received related to vehicles sold for the years ended December 31, 2020 and 2019, respectively. Advertising expense has been reduced by \$5,778 and \$5,960 for assistance received related to vehicles sold for the years ended December 31, 2020 and 2019, respectively.

Floor Plan Notes Payable

The Company classifies notes payable for new retail inventory purchased from a manufacturer that has a controlling interest in the respective floor plan lender as "floor plan notes payable – trade" and the remaining floor plan notes payable as "floor plan notes payable – non-trade" on the accompanying consolidated balance sheets.

The Company classifies borrowings and repayments on floor plan notes payable – trade as an operating activity on the consolidated statements of cash flows. Borrowings and repayments on the remaining floor plan notes payable have been classified as a net financing activity on the consolidated statements of cash flows.

Advertising Costs

Advertising costs are expensed in the period on which they are incurred.

Revenue Recognition

Revenues are recognized upon satisfaction of the Company's performance obligations under contracts with customers and are recognized in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services, as detailed below.

Revenues from vehicle sales are recorded at a point in time when vehicles are delivered, which is when transfer of title, risks and rewards of ownership, and control are considered passed to the customer.

Revenues from vehicle and parts sales and from service operations are recognized at the time the vehicle or parts are delivered to the customer or the service is completed. The Company satisfies its performance obligation over time for certain service work performed over time. The Company recognizes revenue for service work in process based on the labor hours expended and parts utilized to perform and complete the services to date, for which the Company has an enforceable right to payment.

The Company arranges financing for customers through various financial institutions and receives financing fees based on the difference between loan rates charged to customers and predetermined financing rates set by the financial institutions. The Company recognizes income from finance and insurance commissions as the contracts are sold and recognizes a reserve for anticipated losses of finance and insurance commission income resulting from early payoffs of customer loans and repossessions. The provision is based on management's evaluation of industry trends and historical experience.

The Company also receives commissions from the sale of non-recourse third-party extended service contracts to customers. Under these contracts, the third-party warranty company is directly liable for all warranties provided. Commission revenue is recorded net of estimated chargebacks at the time of sale. Commission expense related to the sale of warranties is charged to expense upon recognition of revenue.

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

The following table summarizes revenue from contracts with customers for the years ended December 31.

	2020	2019
New Vehicle Sales	$ 1,751,155	$ 1,542,353
Used Vehicle Sales	824,751	506,845
Parts and Service Sales	142,300	122,305
Other Sales	10,870	8,640
	2,729,076	2,180,143
Finance, insurance, service contract and other income, net	105,516	71,110
Total	$ 2,834,592	$ 2,251,253

Presentation of Certain Taxes

The Company collects various taxes from customers and remits these amounts to applicable taxing authorities. The Company's accounting policy is to exclude these taxes from revenue and cost of sales.

Accounting for Income Taxes

Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates.

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance if necessary. The factors used to assess the likelihood of realization include the Company's forecast of future table income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company's effective tax rate on future earnings.

The Company adheres to the provisions of ASC 740-10, *Income Taxes*, relating to accounting for uncertain tax positions. The Company recognizes the tax benefit from uncertain tax positions only if it more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Revenue from Contracts with Customers

The Company adheres to the May 2014 Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09. "Revenue from Contracts with Customers (Topic 606)". The core principle of this standard is that an entity should recognize revenue to depict the transfer of promised good or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The FASB issued four additional standards that amended and/or clarified certain guidance and provisions in ASU 2014-09, all of which were effective for the company January 1, 2020. The Company performed an assessment of the impact the new revenue recognition standard would have on the financial statements and have determined the impact to be immaterial.

Fair Value Measurements

In certain circumstances, specific assets and liabilities may be required to be recognized at fair value. Fair Value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability under a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1	Observable inputs such as quoted prices in active markets for identical assets or liabilities
Level 2	Inputs other than quoted prices in active markets that are either directly or indirectly observable.
Level 3	Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

Recently Issued Accounting Standards:

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases". Under the new standard, lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short term lease). The liability will be equal to the present value of lease payments. For income statement purposes, the FASB continued the dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied to current lease accounting. This guidance requires enhanced disclosures, must be adopted using a modified retrospective transition model, and provides for certain practical expedients. The Company is currently evaluating the impact on its financial statements upon the adoption of this new standard which is effective for the Company beginning in 2022.

NOTE B – ACQUISITIONS

On May 27, 2020, in accordance with the Dealership Asset Purchase Agreement (the "Asset Agreement"), the Company acquired all assets and assumed certain liabilities of a Lexus Dealership in Mishawaka, Indiana. The aggregate purchase price of the acquisition was $11,987.

The acquisition has been accounted for as a business combination and the purchase price was allocated primarily to franchise rights and other tangible assets. Actual results of operations of the Lexus Dealership are in included in the consolidated financial statements of the Company from the date of acquisition.

The Company, through its subsidiary RFJ Auto T-Properties, LLC, acquired the property associated with the dealership.

The final allocation of the purchase price to assets and liabilities based upon fair value determinations was as follows:

Inventories	$	3,301
Rental and loan vehicles		926
Property and equipment		3,373
Goodwill		1,087
Franchise rights		3,312
Other assets and liabilities, net		(12)
Total net assets acquired	$	11,987

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

The fair value of consideration paid as of the acquisition date was as follows:

Cash	$	5,032
Floor plan financed by the Company's Lender		3,985
Real estate long-term debt		2,970
Total consideration paid	$	11,987

On February 29, 2020, in accordance with the Unit Purchase Agreement (the "Unit Agreement"), the Company acquired certain assets and assumed certain liabilities, as well as all of the outstanding membership units of 11 used car dealerships in the state of Washington for an aggregate purchase price of $48,422. The acquisition allowed the Company to expand its brand presence in the Pacific Northwest.

The acquisition has been accounted for as a business combination and the purchase price was allocated primarily to goodwill and other tangible assets. Actual results of operations of Northwest Motorsports are in included in the consolidated financial statements of the Company from the date of acquisition.

The final allocation of the purchase price to assets and liabilities based upon fair value determinations was as follows:

Cash	$	223
Contracts in transit		14,745
Receivables, net		1,875
Inventories, net		56,835
Other current assets		748
Property and equipment		3,719
Goodwill		45,348
Floor plan notes payable - non-trade		(50,017)
Accounts payable		(14,427)
Accrued expenses		(6,718)
Allowance for contingent charges		(3,909)
Total net assets acquired	$	48,422

The fair value of consideration paid as of the acquisition date was as follows:

Cash consideration	$	43,000
Fair vale of Seller Note		5,422
Total consideration paid	$	48,422

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

On October 1, 2019, the Company acquired two Toyota franchises, one in Paris, Texas, and the other in Mt Pleasant, Texas, for $24,096. The acquisition allowed the Company to expand its brand presence in Northeast Texas. The purchase method was used to account for the acquisition and the purchase price was allocated based on the fair value as follows:

Assets acquired:		
Inventories	$	11,543
Property and equipment		301
Other assets and liabilities		(5)
Goodwill		7,359
Franchise Rights		4,898
Total net assets acquired	$	24,096

The fair value of consideration paid as of the acquisition date was as follows:

Consideration paid		
Cash	$	7,251
Capital Loan		6,262
Floor plan financed by the Company's lender		10,583
Total consideration paid	$	24,096

The amortization of goodwill will be deductible for tax purposes.

On April 30, 2019, the Company acquired a consolidated position in a captive insurance company. The purchase method was used to account for the acquisition and the purchase price was allocated based on the fair value as follows:

Assets acquired:		
Cash	$	4,723
Goodwill		1,150
Unearned Premiums		(3,383)
Other current assets and liabilities (net)		(19)
Total net assets acquired	$	2,471

The fair value of consideration paid as of the acquisition date was as follows:

Consideration paid		
Cash	$	1,541
Common Stock issued		246
Preferred Stock issued		684
Total consideration paid		

Total consideration paid	$ 2,471

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

NOTE C – RECEIVABLES

Receivables consisted of the following at December 31:

	2020	2019
Fleet	$ 23,531	$ 2,591
Vehicles	7,402	6,695
Customers	545	887
Factory	11,891	14,194
Finance commissions	3,728	2,403
Related party	1,713	1,743
Other	8,538	8,273
	57,348	36,786
Allowance for doubtful accounts	(1,824)	(2,459)
Receivables, net	$ 55,524	$ 34,327

NOTE D – INVENTORIES

Inventories consisted of the following at December 31:

	2020	2019
New vehicles	$ 185,260	$ 349,498
LIFO reserve	(6,141)	(6,365)
New vehicles, net	179,119	343,133
Used vehicles	114,558	71,466
Parts, accessories and other	7,578	7,683
Inventories, net	$ 301,255	$ 422,282

If the LIFO method of inventory valuation had not been used in the accompanying financial statements for new vehicles Stockholders' Equity would have increased to $29,823 net of income tax expense of $4,500 as of December 31, 2020 and the net income would have decreased to $44,223 net of income tax benefit of $164 for the year ended December 31, 2020.

If the LIFO method of inventory valuation had not been used in the accompanying financial statements for new vehicles Stockholders' Equity would have increased to $9,167 net of income tax expense of $1,337, as of December 31, 2019 and the net loss would have decreased to $5,260 net of income tax benefit of $192 for the year ended December 31, 2019.

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2020	2019
Land	$ 33,837	$ 29,302
Buildings	68,159	57,630
Equipment	9,225	8,551
Leaseholds improvements	21,487	19,463
Furniture and fixtures	8,901	7,404
Vehicles	3,149	2,717
Property and equipment, gross	144,758	125,067
Accumulated depreciation and amortization	(22,097)	(16,334)
	122,661	108,733
Construction in progress	303	549
Property and equipment, net	$ 122,964	$ 109,282

Depreciation expense relating to property and equipment held or disposed of during the year was $5,867 and $5,269 for the years ended December 31, 2020 and December 31, 2019, respectively.

NOTE F – GOODWILL AND FRANCHISE RIGHTS

As part of the purchases in 2020, the Company acquired goodwill in the amount of $46,435. As part of the purchases in 2019, the Company acquired goodwill in the amount of $8,509. As part of the divestments in 2019, the Company wrote off goodwill in the amount of $1,493. During 2019, the Company recognized goodwill impairment loss in other expense of $26,111. Changes in the carrying amount of goodwill for the years ended December 31, 2020 and 2019 are as follows:

Goodwill:

	2020	2019
Balance at beginning of year	$ 58,140	$ 77,260
Adjustments	-	(25)
Additions	46,435	8,509
Disposals	-	(1,493)
Impairment		(26,111)
	$ 104,575	$ 58,140

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

At December 31, 2020 and 2019, franchise rights were tested for impairment by comparing the fair value to the carrying value. During 2020 and 2019, the Company recognized a franchise rights impairment loss in other expenses of \$871 and \$232, respectively. Changes in carrying amount of franchise rights for the years ended December 31, 2020 and 2019 are as follows:

Franchise Rights:

	2020	2019
Balance at beginning of year	$ 60,735	$ 56,821
Impairment loss	(871)	(232)
Additions	3,312	4,898
Disposals	-	(752)
	$ 63,176	$ 60,735

NOTE G – FLOOR PLAN NOTES PAYABLE

The Company has a floor plan financing agreement with Ally Bank, which has a stated limit of \$378,044 for new vehicles and \$168,897 for used vehicles. From time to time total borrowings exceed stated limits due to the timing of floor plan draws for vehicle shipments from the manufacturer. These limits may vary from year to year as stores are acquired or divested.

The agreement is collateralized by all property and equipment, inventories and all other accounts, collateral rights, chattel paper and general intangibles, and proceeds of any and all of the foregoing, whether owned now or hereafter acquired by the Company. The interest rate under the agreement at December 31, 2020 and 2019 was 1-month LIBOR (0.14% and 1.76% at December 31, 2020 and 2019, respectively) plus 2.75%, which was 2.89% and 4.51% respectively.

The Company has two floor plan financing agreements with Toyota Financial Services, which have a combined stated limit of \$15,650 for new vehicles and \$5,975 for used vehicles. From time to time total borrowings exceed stated limits due to the timing of floor plan draws for vehicle shipments from the manufacturer. The agreement is collateralized by all property and equipment, inventories, and all other accounts, contract rights, chattel paper and general intangibles, and proceeds of any and all of the foregoing, whether owned now or hereafter acquired by the Company. The interest rate under the agreement at December 31, 2020 and 2019 was 3-month LIBOR (0.24% and 1.91% at December 31, 2020 and 2019, respectively) plus 1.75% for new which was 1.99% and 3.66% respectively. The interest rate under the agreement at December 31, 2020 and 2019 for used cars was 3-month LIBOR plus from 1.75% to 2.00%, which was between 1.99% and 2.24% and between 3.66% and 3.91% respectively.

The company has three additional financing agreements with Toyota Financial Services In connection with 2019 and 2020 acquisitions, which have a combined stated limit of \$19,800 for new vehicles and \$4,680 for used vehicles. From time to time total borrowings exceed stated limits due to the timing of floor plan draws for vehicle shipments from the manufacturer. The agreement is collateralized by all property and equipment, inventories, and all other accounts, contract rights, chattel paper and general intangibles, and proceeds of any and all of the foregoing, whether owned now or hereafter acquired by the Company. The interest rate under the agreement at December 31, 2020 and 2019 was 3-month LIBOR plus 1.50%

agreement at December 31, 2020 and 2019 was 3-month LIBOR plus 1.50% for new and used vehicles, which was 1.74% and 3.41% respectively.

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

The Company has a floor plan financing agreement with Ford Motor Credit Company, which has a stated limit of $15,850 for new vehicles and $3,100 for used vehicles. From time to time total borrowings exceed stated limits due to the timing of floor plan draws for vehicle shipments from the manufacturer. The agreement is collateralized by all property and equipment, inventories, and all other accounts, contract rights, chattel paper and general intangibles, and proceeds of any and all of the foregoing whether owned now or hereafter acquired by the Company. The interest rate under the agreement was Prime plus 1.5% for a total of 4.75% and 6.25% at December 31, 2020 and December 31, 2019 respectively for both new and used vehicles.

Floorplan notes payable are due upon the sale of the related inventory. Vehicles securing floor plan notes of approximately $17,854 were sold in December 2020, but the related notes were not paid off until January 2021.

NOTE H – INCOME TAXES

The income tax expense (benefit) is summarized as follows for the year ended December 31:

		2020		2019
Current income tax expense				
Federal	$	9,278	$	1,866
State & Local		2,457		318
Total current income tax expense	$	11,735	$	2,184
Deferred income tax expense (benefit):				
Federal	$	4,596	$	(6,371)
State & Local		780		(1,099)
Total deferred income tax expense (benefit)	$	5,376	$	(7,470)
Total income tax expense				
Federal	$	13,874	$	(4,505)
State & Local		3,237		(781)
Total income tax expense	$	17,111	$	(5,286)

Deferred income taxes reflect the temporary differences between the amounts at which assets and liabilities are recorded for financial reporting purposes and the amounts utilized for tax purposes. The primary components of the temporary differences that gave rise to the Company's deferred tax assets and are as follows as of December 31:

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

	2020	2019
Deferred Tax Assets		
Amortization of Intangible Assets	8,036	9,874
Allowance for Contingent Charges	3,869	3,055
Allowance for Bad Debt	446	605
Inventory Reserves	260	624
Other	974	1,954
Deferred Tax Liabilities		
Prepaid expenses	(370)	-
Inventory valuation	(2,825)	(3,412)
Property and equipment	(951)	(203)
Franchise rights	(8,963)	(6,645)
Net Deferred Tax Asset	$ 476	$ 5,852

The Company has not recognized any expense for unrecognized tax benefits in 2020 and 2019 and does not expect unrecognized tax positions to change significantly over the next 12 months.

The Company has not recorded any liabilities for uncertain tax positions. The Company analyzes filing positions in all of the federal and state jurisdictions where it is required to file income tax returns to determine in order to identify any certain tax positions. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits in its provision for income taxes if incurred.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. In evaluating the need for a valuation allowance, management considers all available evidence, both positive and negative. After reviewing the appropriate information, Management believes it is more likely than not that the Company will realize the benefit of its deferred tax assets.

At December 31, 2020, federal and state income tax overpayments of $490 are included in other current assets and federal and state income taxes payable of $11,548 is included in accrued expenses.

At December 31, 2019, federal and state income tax overpayments of $440 are included in other current assets and federal and state income taxes payable of $694 is included in accrued expenses.

The Company is subject to examinations by federal and state taxing authorities for the tax years 2017 - 2020.

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

NOTE I – LEASE COMMITMENTS

The Company leases its operating facilities under non-cancelable agreements, having initial or remaining terms of more than one year. Total minimum rental commitments under non-cancelable operating leases at December 31, 2020 are:

Year Ending December 31,		
2021	$	4,757
2022		4,405
2023		4,006
2024		3,532
2025		925
Thereafter		1,583
	$	19,208

Total rent expense amounted to $5,046 and $1,395 for the years ended December 31, 2020 and December 31, 2019, respectively. Rent expense included $232 paid to related parties for the year ended December 31, 2019.

NOTE J – LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

		2020		2019
Commercial Loan and Security Agreement notes payable	$	57,551	$	59,536
Mortgage notes		84,205		68,585
Working capital notes		24,038		23,058
Term Loan		26,550		-
Seller's note		4,679		-
Total debt		197,023		151,179
Less current portion of debt		(12,433)		(5,780)
Total long-term debt	$	184,590	$	145,399

Commercial Loan and Security Agreement

In July of 2014, the Company entered into a Commercial Loan and Security Agreement (the "CLSA") with the Lender. The proceeds from the CLSA were used for working capital, general corporate expenses, capital expenditures, and acquisition purposes. On November 15, 2019, the Company amended the CLSA, paid down $5,385 of certain Working Capital Notes, and extended the maturity date of the CLSA to November 2024. The amended stated fixed rate of the CLSA is 5.47% per annum and is secured by certain asset of the Company. As of December 31, 2020 and 2019, the balance was $57,551 and $59,536 respectively.

of December 31, 2020 and 2019, the balance was $57,551 and $59,536 respectively.

Mortgage Notes

The Company has multiple mortgage agreements with finance companies affiliated with the Company's vehicle manufacturers and the Lender. In June 2020, the Company refinanced certain mortgage agreements extending the maturity date and adding additional borrowings. As of December 31, 2020, and 2019, the Company had total mortgage notes payable outstanding of \$84,205 and \$68,585, respectively, which are collateralized by the associated real estate. The stated fixed and variable rates of the mortgage agreements range from 2.62% to 5.62% and have a maturity date ranging from April 2022 to July 2039.

Working Capital Notes

As of December 31, 2020, the Company has two working capital notes with a finance company affiliated with the Company's vehicle manufacturer and one with the Lender. The proceeds of the working capital notes were used for working capital, general corporate expenses and acquisition purposes. The stated fixed and variable interest rates of the working capital notes range from 2.80% to 4.47%. As of December 31, 2020 and 2019, the balance was \$23,677 and \$22,619 with the finance company and \$361 and \$439 with the Lender, respectively.

Term Loan

On February 29, 2020, the Company entered into a Commercial Loan and Security Agreement (the "Ally Loan Agreement") between Ally Bank and RFJ Auto Partners Holdings, Inc., for which a new term loan (the "Ally Term Loan") was entered into amounting to \$34,000. The principal of \$34,000 had a payment due of \$7,000 ("the Bridge Repayment") on July 1, 2020 and quarterly principal payments of \$450 commencing on July 1, 2020, with a balloon payment on its maturity date of March 1, 2025. The Ally Term Loan is secured by certain asset of the Company and bears interest at 5.68% until the Bridge Repayment is paid and 5.18% thereafter. The proceeds from the Ally Term Loan was used by the Company to fund part of the purchase consideration paid for the acquisition of the Washington dealerships. As of December 31, 2020, the balance was \$26,550.

Seller Note

On February 29, 2020, in connection with the Unit Agreement, the Company issued a promissory note in the principal amount of \$5,155 with a maturity date of March 1, 2025 to the Seller (the "Seller Note"). On June 12, 2020, the amount due under the Seller Note was amended and increased to \$5,422. The stated interest rate on the amended Seller Note was 5.25% per annum with monthly principal and interest payments totaling \$103 per month. The Seller Note is an unsecured obligation of the Company and is guaranteed by a subsidiary of the Company. As of December 31, 2020, the balance was \$4,679.

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

Principal maturities of installment notes payables are as follows:

Year Ending December 31:		
2021	$	12,433
2022		14,945
2023		32,941
2024		57,691
2025		72,392
Thereafter		6,621
	$	197,023

The Company is subject to financial covenants. At December 31, 2020 and 2019, the Company was in compliance with all financial covenants.

NOTE K – STOCKHOLDERS' EQUITY AND REDEEMABLE PREFERRED SHARES

The Company had 200,000 shares of Series A preferred stock authorized and 70,512.11 shares issued and outstanding at a par value of $0.001 (actual) at December 31, 2020. The Company had 100,000 shares of common stock authorized with 27,986.62 shares issued and outstanding at a par value of $0.001 (actual) at December 31, 2020. An additional 100,000 shares of preferred stock with no series designation have been authorized and are outstanding as of December 31, 2020. The Company had 2,000 shares of Series B preferred stock authorized at a par value of $0.001 and had 761.61 shares issued and outstanding at December 31, 2020. Of the shares of common stock issued and outstanding, 3,482.42 shares are restricted as to transfer and forfeiture at December 31, 2020. The preferred shares have liquidation preference over the common shares whereby the preferred shares are mandatorily redeemable upon change in control at the liquidation value of $1 per share. In addition, the holders of the preferred stock shall be entitled to receive, when, as and if declared by the Board of Directors, annual dividends of 10%, compounded semi-annually, of the liquidation value. The preferred shares have accumulated $51,565 and $59,286 of dividends at December 31, 2020 and December 31, 2019 respectively. On December 16, 2020 the Company repurchased 26,743.09 preferred shares at the liquidation value including accrued dividends for a total of $50,000. No additional dividends have been declared as of December 31, 2020, therefore, no provision for the preferred dividends have been recorded.

NOTE L - RELATED PARTY TRANSACTIONS

The Company paid success-based fees of $1,880 and $398, and consulting fees of $4,010 and $490 in 2020 and 2019 respectively which are included in semi-fixed expenses on the accompanying consolidated income statement, to related parties in connection with acquisitions made and in connection with services rendered. In addition, the Company paid management fees to a related party totaling $2,039 and $735 for the years ended December 31, 2020 and 2019, respectively, which are included in other expense on the accompanying consolidated statements of operations. The Company also paid insurance commissions of $458 and $292 in 2020 and 2019, respectively, to a related party which are reflected in financing, insurance, service contract and other income, net, on the accompanying consolidated statements of operations. See additional related party disclosures in Note I.

NOTE M – DISCRETIONARY CONTRIBUTION 401(K) PLAN

The Company participates in a discretionary contribution 401(K) plan. All employees who meet certain age and length of service requirements are eligible to participate in their designated plan. Matching contributions are made on a discretionary basis by the Company and are recorded net of any forfeitures by individuals that terminated employment with the Company before the required vesting period. Matching contributions, net of forfeitures, included in operating expense for the years ended December 31, 2020 and 2019, were $904 and $1,085, respectively.

NOTE N – COMMITMENTS AND CONTINGENCIES

The Company sells customer installment contracts to financial institutions without recourse and sells extended warranties without recourse. Some buyers of the contracts and warranties retain portions of the commissions as reserves against early payoffs. These amounts are normally recorded on the consolidated balance sheets as finance commission receivable. As of December 31, 2020, substantially all the recourse contracts have been collected by the financial institutions. The allowance for contingent changes at December 31, 2020 and 2019 was $15,824 and $12,412 respectively.

The Company facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the Company expect such compliance to have, any material effect upon the capital expenditures, net income, financial condition or competitive position of the Company. Management believes that its current practices and procedures for the control and disposition of such materials comply with the applicable federal and state requirements.

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

The Company purchases substantially all its new vehicles and parts from the manufacturer at the prevailing prices charged by the automobile manufacturer to all franchised dealers. The Company's sales volume could be adversely impacted by the manufacturer's inability to supply it with an adequate supply of vehicles and/or parts due to unforeseen circumstances or as a result of an unfavorable allocation of vehicles. As a part of the Company's relationship with the manufacturer, it participates in various programs with regard to vehicle allocation, advertising, interest and other incentive programs. These programs are generally on a "turn-to-turn" basis, which rewards new vehicle volume, and are subject to change by the manufacturer at any time. In addition, the manufacturer's sales and service agreements contain provisions which generally limit, without consent off the manufacturer, changes in dealership management and ownership, dealership location, place certain financial restrictions, and provide for termination of the franchise agreement by the manufacturer in certain instances.

The Company is involved in certain legal matters that it considers incidental to its business. In management's opinion, none of these legal matters will have a material effect on the Company's financial position or the results of operations.

NOTE O – CONCENTRATIONS OF CREDIT RISK

The Company sells to individuals and commercial businesses located primarily in the states of Texas, Indiana, Missouri, Idaho, Washington, and New Mexico. Receivables arising from vehicle sales are secured by the related vehicles. Receivables arising from all other sales are unsecured open accounts. Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of receivables and cash deposits in excess of federally insured limits and contracts in transit ("CIT"). Credit risk consists principally of receivables and cash deposits in excess of federally insured limits and contracts.

NOTE P – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts are estimated fair values of the Company's financial instruments, none of which are held for trading purposes, as of December 31, 2020 are as follows:

	Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 18,389	$ 18,389
Financial liabilities:		
Floor plan notes payable, trade	53,578	53,578
Floor plan notes payable, non-trade	266,478	266,478
Long-term debt	197,023	173,957

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

The carrying amounts are estimated fair values of the Company's financial instruments, none of which are held for trading purposes, as of December 31, 2019 are as follows:

	Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 20,100	$ 20,100
Financial liabilities:		
Floor plan notes payable, trade	35,541	35,541
Floor plan notes payable, non-trade	399,315	399,315
Long-term debt	151,179	122,266

The carrying amounts shown in the above table are included in the consolidated balance sheets under the indicted captions. The carrying amount of cash and cash equivalents, and floor plan notes payable, trade and non-trade, approximate fair value because the interest rates fluctuate with market rates. The fair value of long-term debt is based on the discounted cash flows from management's estimate of the Company's marginal borrowing rates as of December 31, 2020 and 2019.

NOTE Q – NON-QUALIFIED STOCK OPTION PLANS

The Board of Directors approved the adoption of the 2014 Non-qualified Stock Option Plan (the "Plan"). The Plan authorizes the grant of options to purchase an aggregate of 1,055 shares of the Company's common stock to certain directors, and key employees of the Company and its Subsidiaries. The plan is administered by a committee consisting of the Board or such individual Directors who shall from time to time be designated by the Board. Under the plan, certain options vest based on the passage of time and continued employment, while other options vest based on the attainment of specific performance criteria. The Company granted 73 and 244 performance vesting options to certain employees at an exercise price of $1 and $4 respectively during 2020. The company granted 65 performance vesting options to certain employees of the company at an exercise price of $1 during the year ended December 31, 2019.

Using the Black-Scholes option pricing model, management has determined that the options have a fair value of $5,805 per share for the time vested options and $5,792 per share for the performance vested options at December 31, 2020. Because the performance vested options are based on a change in control event, which is not reasonably foreseeable, no compensation expense was recorded for these options during the years ended December 31, 2020 and December 31, 2019.

Compensation cost related to the time vested options will be recognized using the straight-line method over the requisite service period. Stock option compensation expense of $175 and $128 was recognized in operations for the year ended December 31, 2020, and 2019, respectively. The remaining $954 compensation cost will be recognized straight line over the applicable remaining vesting period.

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

The assumptions used and the calculated fair value of options are as follows:

Risk-free interest rate	0.16
Expected life in years	2.1
Expected volatility	67.50%
Discount of lack of marketability	25.98%

NOTE R – DISPOSALS AND FORFEITURES

In September 2020 the Board authorized management to sell all of the assets of its captive insurance companies to a third-party purchaser, and thereafter to liquidate or otherwise dispose of any such assets remaining unsold. In connection with the divestiture, which was substantially completed in September 2020 , the Company sold $2,509 of net assets, resulting in no impact to the Company's statement of operations.

RFJ Auto Partners sold substantially all assets of three operating entities in 2019, which consisted of the following: Sulphur Springs CJD, LLC effective May 21, 2019, Rockwall AA, LLC and its Real Estate effective July 5, 2019, Lamesa CBGC, LLC and its Real Estate effective July 31, 2019, and all remaining Waco Real Estate effective December 27, 2019. The combined effect of these sales was as follows:

Inventories	$	17,647
Property and equipment		2,722
Real Estate		6,182
Goodwill		1,493
Franchise rights		752
Total assets sold		28,796
Total liabilities assumed		(16,774)
Net assets sold	$	12,022
Note Retirement		5,211
Cash Proceeds on Sale		9,392
Gain on disposal	$	2,581

NOTE S – EVALUATION OF SUBSEQUENT EVENTS

The Company has evaluated the effect subsequent events would have on the consolidated financial statements through February 11, 2022 which is the date the consolidated financial statements were available to be issued.

On September 17, 2021, Sonic Automotive, Inc., a Delaware corporation ("Sonic"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with RFJMS, Inc., a Delaware corporation and a direct, wholly owned subsidiary of Sonic ("Merger Sub"), the Company, and The Resolute Fund III, L.P., a Delaware limited partnership, solely in its capacity as the representative of the Company's equity holders, pursuant to which Merger Sub will merge with and into the Company (the "Merger"), with the Company surviving the Merger and becoming a direct, wholly owned subsidiary of Sonic.

Subject to the terms and conditions of the Merger Agreement and other customary adjustments set forth in the Merger Agreement, the purchase price payable by Sonic pursuant to the Merger Agreement is expected to be (i) approximately $700 million for the goodwill and other intangible assets and real estate assets of the Company and each of its subsidiaries (collectively, the "Company Entities") plus (ii) the sum of the values, as determined in accordance with the terms of the Merger Agreement, of each the parts and accessories inventory, the fixed assets and equipment, the supplies and the repair work-in-process of the Company Entities, plus (iii) the value of the new and used vehicle inventories of the Company Entities. Additional information related to the agreement is contained in a Form 8-K filed by Sonic with the United States Securities and Exchange Commission on September 22, 2021.

On December 6, 2021 The Company completed the Merger pursuant to the previously referenced Merger Agreement with Sonic Automotive, Inc. ("Sonic"). Details of this Merger agreement are as filed by Sonic under Exhibit 2.1 to Sonic's Current Report on Form 8-K filed on September 22, 2021.

NOTE T – COVID 19

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (H.R. 748) (the "Act"). Among the changes to the U.S. federal income tax rules, the Act restored net operating loss carryback rules that were eliminated by 2017 Tax Cuts and Jobs Act, modified the limit on the deduction for net interest expense and accelerated the timeframe for refunds of AMT credits.

The Company has evaluated the effects of the Act on their cash tax liability and consolidated financial statements but currently does not anticipate the income tax provisions of the Act to have a material effect on the Company.

The Company has not been adversely affected by the outbreak of the Coronavirus COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020. It is possible, while this pandemic unfolds that there could be future disruptions or restrictions on the ability to distribute the Company's products, temporary closures and suspension of operations of the Company's facilities or the facilities of the Company's suppliers or customers, and resulting impacts on sourcing and customer demand. While the disruption caused by the pandemic is currently expected to be temporary, the duration is uncertain. Therefore, the Company cannot reasonably estimate at this time the impact to the Company's operating results.

RFJ Auto Partners, Inc. and Subsidiaries
Condensed Consolidated Financial Statements
(Unaudited)
SEPTEMBER 30, 2021 and 2020

RFJ AUTO PARTNERS, INC. AND SUBSIDIARIES
TABLE OF CONTENTS
SEPTEMBER 30, 2021 AND 2020

RFJ AUTO PARTNERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
SEPTEMBER 30, 2021 AND DECEMBER 31, 2020
(IN THOUSANDS OF DOLLARS)

ASSETS	**September 30, 2021**	**December 31, 2020**
CURRENT ASSETS		
Cash and cash equivalents	$57,862	$18,389
Contracts in transit	24,171	30,803
Receivables, net	47,441	55,524
Inventories, net	227,801	301,255
Rental and loan vehicles	2,662	2,864
Other current assets	2,429	3,101
TOTAL CURRENT ASSETS	**362,366**	**411,936**
Property and equipment, net	119,556	122,964
Goodwill (as adjusted for 2020)	104,575	104,575
Franchise rights	62,593	63,176
Deferred tax asset (as adjusted for 2020)	476	476
Other noncurrent assets	529	476
TOTAL NONCURRENT ASSETS (as adjusted for 2020)	**287,729**	**291,667**
TOTAL ASSETS (as adjusted for 2020)	**$650,095**	**$703,603**
LIABILITIES, REDEEMABLE PREFERRED SHARES AND STOCKHOLDERS' EQUITY (as adjusted for 2020)		
CURRENT LIABILITIES		
Floor plan notes payable - trade	$23,149	$53,578
Floor plan notes payable - non-trade	201,186	266,478
Accounts payable	23,624	30,745
Accrued expenses	44,960	44,120
Current maturities of long-term debt	14,849	12,433
Allowance for contingent charges	9,375	9,266
TOTAL CURRENT LIABILITIES	**317,143**	**416,620**
Long-term debt, less current maturities	167,578	184,590
Allowance for contingent charges, less current portion	6,495	6,558
Deferred tax liability (as adjusted for 2020)	-	-
TOTAL NONCURRENT LIABILITIES (as adjusted for 2020)	**174,073**	**191,148**
REDEEMABLE PREFERRED SHARES (as adjusted for 2020)	**70,512**	**70,512**
STOCKHOLDERS' EQUITY		
Paid-in capital (as adjusted for 2020)	28,549	28,419
Notes receivable from stockholder	(3,482)	(3,482)
Retained earnings (as adjusted for 2020)	63,495	581
Treasury stock	(195)	(195)
TOTAL STOCKHOLDERS' EQUITY (as adjusted for 2020)	**$88,367**	**$25,323**
TOTAL LIABILITIES, REDEEMABLE PRFERRED SHARES AND STOCKHOLDERS' EQUITY (as adjusted for 2020)	**$650,095**	**$703,603**

RFJ AUTO PARTNERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
NINE MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020
(IN THOUSANDS OF DOLLARS)

	2021	**2020**
SALES	$2,266,222	$1,877,211
COST OF SALES	2,089,171	1,743,391
GROSS PROFIT FROM SALES	**177,051**	**133,820**
FINANCING, INSURANCE, SERVICE CONTRACT AND OTHER INCOME, NET	96,721	79,003
GROSS PROFIT	**273,772**	**212,823**
EXPENSES		
Variable selling	67,028	54,230
Advertising	10,594	9,244
Floor plan interest	5,342	10,459
Personnel	56,050	47,146
Semi-fixed	23,515	21,421
Fixed	20,172	18,618
TOTAL EXPENSES	**182,701**	**161,118**
INCOME FROM OPERATIONS	**91,071**	**51,705**
OTHER EXPENSES		
Interest expense, other than floor plan	6,474	6,916
Other income	(861)	(567)
TOTAL OTHER EXPENSES	**5,613**	**6,349**
INCOME BEFORE INCOME TAXES	**85,458**	**45,356**
Income tax expense	22,544	12,667
NET INCOME	**$62,914**	**$32,689**

RFJ AUTO PARTNERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
NINE MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020
(IN THOUSANDS OF DOLLARS)

	Paid-in Capital	Notes Receivable from Stockholder	Retained (Deficit)/ Earnings	Treasury Stock	Total
Balance at December 31, 2019 (as adjusted)	**$28,729**	**($3,482)**	**($20,549)**	**($195)**	**$4,503**
Shares repurchased	(300)	-	-	-	(300)
Stock option compensation	130	-	-	-	130
Net Income	-	-	32,689	-	32,689
Balance at September 30, 2020	**$28,559**	**($3,482)**	**$12,140**	**($195)**	**$37,022**

	Paid-in Capital	Notes Receivable from Stockholder	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2020 (as adjusted)	**$28,419**	**($3,482)**	**$581**	**($195)**	**$25,323**
Stock option compensation	130	-		-	130
Net income	-	-	62,914	-	62,914
Balance at September 30, 2021	**$28,549**	**($3,482)**	**$63,495**	**($195)**	**$88,367**

RFJ AUTO PARTNERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
NINE MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020
(IN THOUSANDS OF DOLLARS)

CASH FLOWS FROM OPERATING ACTIVITIES	**2021**	**2020**
Net Income	**$62,914**	**$32,689**
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,436	4,452
Increase/(decrease) in reserve for contingent charges	46	(369)
Stock option compensation	130	130
Franchise rights impairment	493	-
Gain on sale of property and equipment	(1,234)	(21)
Change in operating assets and liabilities:		
Contracts in transit	6,632	11,375
Receivables	8,083	(10,907)
Inventories and rental and loan vehicles	72,283	153,583
Other assets	618	132
Floor plan notes payable - trade	(30,429)	(524)
Accounts payable	(7,043)	(8,084)
Accrued expenses	870	21,140
NET CASH PROVIDED BY OPERATING ACTIVITIES	**117,799**	**203,596**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(3,726)	(1,841)
Proceeds from sale of property and equipment	1,897	54
Proceeds from sale of dealerships, net of cash sold	110	-
Acquisition of dealerships	-	(56,201)
NET CASH USED IN INVESTING ACTIVITIES	**(1,719)**	**(57,988)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in floor plan notes payable - non-trade	(63,928)	(145,626)
Proceeds on (principal payments)/refinancing on long-term debt	(12,679)	41,591
Payments on repurchase of stock	-	(300)
NET CASH USED BY FINANCING ACTIVITIES	**(76,607)**	**(104,335)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**39,473**	**41,273**
CASH AND CASH EQUIVALENTS, BEGINNING	**18,389**	**20,100**
CASH AND CASH EQUIVALENTS, ENDING	**$57,862**	**$61,373**

Supplemental Cash Flow Information		
Cash paid during the year for:		
Interest	$14,863	$11,967
Income taxes, net	$28,168	$929

See accompanying notes to the unaudited condensed consolidated financial statements

NOTE A – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNT POLICIES

Organization and Nature of Business

RFJ Auto Partners Inc. and Subsidiaries, the "Company", a C Corporation was established on March 5, 2014. The Company is comprised of franchised dealerships with many different brands. Through the dealer agreements, the Company markets new vehicles, replacement parts, service, and financing and leasing. In addition, it also retails and wholesales used vehicles. The dealer agreement specifies the location of the dealership and designates the specific market area in which the dealer may operate; however, there is no guarantee of exclusivity within this market area. The specified market areas for the Company are in the states of Texas, Missouri, Idaho, Washington, Indiana, Montana and New Mexico. Franchises include Alfa Romeo, Chrysler, Dodge, Jeep, Ram, GMC, Buick, Chevrolet, Cadillac, Ford, Hyundai, Nissan, Toyota, Lexus, Mazda, Maserati and Honda.

On September 17, 2021, Sonic Automotive, Inc., a Delaware corporation ("Sonic"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with RFJMS, Inc., a Delaware corporation and a direct, wholly owned subsidiary of Sonic ("Merger Sub"), the Company, and The Resolute Fund III, L.P., a Delaware limited partnership, solely in its capacity as the representative of the Company's equity holders, pursuant to which Merger Sub will merge with and into the Company (the "Merger"), with the Company surviving the Merger and becoming a direct, wholly owned subsidiary of Sonic.

Subject to the terms and conditions of the Merger Agreement and other customary adjustments set forth in the Merger Agreement, the purchase price payable by Sonic pursuant to the Merger Agreement is expected to be (i) approximately $700 million for the goodwill and other intangible assets and real estate assets of the Company and each of its subsidiaries (collectively, the "Company Entities") plus (ii) the sum of the values, as determined in accordance with the terms of the Merger Agreement, of each the parts and accessories inventory, the fixed assets and equipment, the supplies and the repair work-in-process of the Company Entities, plus (iii) the value of the new and used vehicle inventories of the Company Entities. Additional information related to the agreement is contained in a Form 8-K filed by Sonic with the United States Securities and Exchange Commission on September 22, 2021.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and the Subsidiaries. All significant intercompany balances and transactions have been eliminated and select items have been reclassified to conform with presentation adopted in the current year.

Changes in Accounting Principles

Goodwill

Previously, the Company had adopted the provisions of the accounting alternative provided by the Financial Accounting Standards Board (FASB) Account Standards Update (ASU) No. 2014-02 Accounting for Goodwill. This accounting alternative allows entities to elect to amortize goodwill over 10 years, or a shorter period if it is determined that another useful life is more appropriate. As such, the Company amortized goodwill using the straight-line method over 10 years, and evaluated goodwill for impairment for its reporting units whenever events occurred, or circumstances changed, that indicated that fair value of the Company may be below its carrying amount ("triggering events").

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

The Company elected to change the accounting method for goodwill effective January 1, 2019, in order for the consolidated financial statement presentation to be in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for public business entities. Accordingly, the Company retrospectively adjusted its financial statements to remove goodwill amortization, and evaluated whether the carrying amount of its reporting unit exceeded fair value for all periods since the previous election of ASU No. 2014-02.

Preferred Shares

Previously, the Company included the par value and additional paid in capital associated with its redeemable preferred shares as a component of stockholders’ equity. In order to comply with GAAP requirements for public business entities, and in accordance with ASC 480-10-S99, effective January 1, 2019, the Company changed the presentation of these preferred shares to be included in temporary equity.

The changes in accounting principles were applied retrospectively. The effect on the consolidated financial statements is summarized below:

Consolidated Balance Sheet as of December 31, 2020:	As Previously Reported	Retrospective Adjustment	As Adjusted
Goodwill	100,339	4,236	104,575
Deferred tax asset	—	476	476
Total noncurrent assets	286,955	4,712	291,667
Total assets	698,891	4,712	703,603
Deferred tax liability	2,751	(2,751)	—
Total noncurrent liabilities	193,899	(2,751)	191,148
Redeemable preferred shares	—	70,512	70,512
Paid-in-capital	98,931	(70,512)	28,419
Retained (deficit) earnings	(6,882)	7,463	581
Total stockholders' equity	88,372	(63,049)	25,323
Total liabilities, redeemable preferred shares stockholders' equity	698,891	4,712	703,603

Consolidated Statement of Stockholders' Equity as of December 31, 2020:	As Previously Reported	Retrospective Adjustment	As Adjusted
Paid-in capital	98,931	(70,512)	28,419
Retained (deficit) earnings	(6,882)	7,463	581
Total stockholders' equity	88,372	(63,049)	25,323

Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements for the nine month periods ended September 30, 2021 and 2020, are unaudited and have been prepared in accordance with generally accepted accounting principals for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the nine month period ended September 30, 2021, are not necessarily indicative of the results that may be expected for the year ended December 31, 2021. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto for the years ended December 31, 2020 and 2019.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the Untied States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ form those estimates.

Inventories

The cost of new vehicles for a subsidiary acquired during 2015 is determined using the last-in, first-out (LIFO) method. All inventories are valued at the lower of cost or net realizable value. The cost of all other new vehicles, used vehicles, parts and accessories, and other inventories is determined on a specific identification basis.

Goodwill and Franchise Rights

In connection with business acquisitions, the Company assigned a portion of the consideration paid to goodwill and franchise rights. Goodwill is the excess of cost over fair value of identifiable net assets acquired through business purchases. In accordance with ASC Topic 350, “Intangibles – Goodwill and Other”, the Company is required to test goodwill and franchise rights with an indefinite life for impairment at least annually, or more frequently if indication of impairment exists. If these assets are considered to be impaired, they will be adjusted to fair value.

Revenue Recognition

Revenues are recognized upon satisfaction of the Company's performance obligations under contracts with customers and are recognized in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services, as detailed below.

Revenues from vehicle sales are recorded at a point in time when vehicles are delivered, which is when transfer of title, risks and rewards of ownership, and control are considered passed to the customer.

Revenues from vehicle and parts sales and from service operations are recognized at the time the vehicle or parts are delivered to the customer or the service is completed. The Company satisfies its performance obligation over time for certain service work performed over time. The Company recognizes revenue for service work in process based on the labor hours expended and parts utilized to perform and complete the services to date, for which the Company has an enforceable right to payment.

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

The Company arranges financing for customers through various financial institutions and receives financing fees based on the difference between loan rates charged to customers and predetermined financing rates set by the financial institutions. The Company recognizes income from finance and insurance commissions as the contracts are sold and recognizes a reserve for anticipated losses of finance and insurance commission income resulting from early payoffs of customer loans and repossessions. The provision is based on management's evaluation of industry trends and historical experience.

The Company also receives commissions from the sale of non-recourse third-party extended service contracts to customers. Under these contracts, the third-party warranty company is directly liable for all warranties provided. Commission revenue is recorded net of estimated chargebacks at the time of sale. Commission expense related to the sale of warranties is charged to expense upon recognition of revenue.

The following table summarizes revenue and cost of sales with customers for the nine month periods ended September 30:

	2021	2020
New Vehicle Sales	$ 1,303,798	$ 1,139,827
Used Vehicle Sales	833,159	622,385
Parts and Service Sales	118,871	106,773
Other Sales	10,394	8,226
	2,266,222	1,877,211
Finance, insurance, service contract and other income, net	96,721	79,003
Total	$ 2,362,943	$ 1,956,214

	2021	2020
New Vehicle Cost of Sales	$ 1,239,615	$ 1,097,047
Used Vehicle Cost of Sales	779,334	584,242
Parts and Service Cost of Sales	70,222	62,102
Total	$ 2,089,171	$ 1,743,391

Fair Value Measurements

In certain circumstances, specific assets and liabilities may be required to be recognized at fair value. Fair Value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability under a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1	Observable inputs such as quoted prices in active markets for identical assets or liabilities
Level 2	Inputs other than quoted prices in active markets that are either directly or indirectly observable
Level 3	Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions

<u>Recently Issued Accounting Standards:</u>

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases". Under the new standard, lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short term lease). The liability will be equal to the present value of lease payments. For income statement purposes, the FASB continued the dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied to current lease accounting. This guidance requires enhanced disclosures, must be adopted using a modified retrospective transition model, and provides for certain practical expedients. The Company is currently evaluating the impact on its financial statements upon the adoption of this new standard which is not required before January 1, 2022.

Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The ASU provides optional expedients and exceptions for companies that have contracts, hedging relationships and other transactions that reference LIBOR or other reference rates expected to be discontinued because of reference rate reform. The optional expedients and exceptions are intended to ease the financial reporting burdens mainly related to contract modification accounting, hedge accounting and lease accounting. In January 2021, the FASB issued ASU 2021-01 which clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The guidance is effective for all entities as of March 12, 2020 and will apply through December 31, 2022. LIBOR is used as an interest rate "benchmark" in the majority of the Company's floor plan notes payable. The Company will apply the relief described as its arrangements are modified and does not expect the adoption will have an impact on the Company's consolidated financial statements due to the relief provided.

NOTE B – ACQUISITIONS

On May 27, 2020, the Company entered into a Dealership Asset Purchase Agreement (the "Asset Agreement") to acquire all assets and assume certain liabilities of a Lexus Dealership in Mishawaka, Indiana. The aggregate purchase price of the acquisition was $11,987. The transaction closed on July 30, 2020.

The acquisition has been accounted for as a business combination and the purchase price was allocated primarily to franchise rights and other tangible assets. Actual results of operations of the Lexus Dealership are in included in the consolidated financial statements of the Company from the date of acquisition.

The Company, through its subsidiary RFJ Auto T-Properties, LLC, acquired the property associated with the dealership.

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

The final allocation of the purchase price to assets and liabilities based upon fair value determinations was as follows:

Inventories	$	3,301
Rental and loan vehicles		926
Property and equipment		3,373
Goodwill		1,087
Franchise rights		3,312
Other assets and liabilities, net		(12)
Total net assets acquired	$	11,987

The fair value of consideration paid as of the acquisition date was as follows:

Cash	$ 5,032
Floor plan financed by the Company's Lender	3,985
Real estate long-term debt	2,970
Total net assets acquired	$ 11,987

On February 29, 2020, in accordance with the Unit Purchase Agreement (the "Unit Agreement"), the Company acquired certain assets and assumed certain liabilities, as well as all of the outstanding membership units of 11 used car dealerships in the state of Washington for an aggregate purchase price of $48,422. The acquisition allowed the Company to expand its brand presence in the Pacific Northwest.

The acquisition has been accounted for as a business combination and the purchase price was allocated primarily to goodwill and other tangible assets. Actual results of operations of Northwest Motorsports are in included in the consolidated financial statements of the Company from the date of acquisition.

The final allocation of the purchase price to asset and liabilities based upon fair value determinations was as follows:

Cash	$ 223
Contracts in transit	14,745
Receivables, net	1,875
Inventories, net	56,835
Other current assets	748
Property and equipment	3,719
Goodwill	45,348
Floor plan notes payable - non-trade	(50,017)
Accounts payable	(14,427)
Accrued expenses	(6,718)
Allowance for contingent charges	(3,909)
Total net assets acquired	$ 48,422

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

The fair value of consideration paid as of the acquisition date was as follows:

Cash consideration	$ 43,000
Fair value of seller note	5,422
Total purchase consideration	$ 48,422

NOTE C – RECEIVABLES

Receivables consisted of the following at:

	September 30, 2021	December 31, 2020
Fleet	$ 12,425	$ 23,531
Vehicles	9,819	7,402
Customers	469	545
Factory	6,339	11,891
Finance commissions	3,041	3,728
Related party	1,787	1,713
Other	15,343	8,538
	49,222	57,348
Allowance for doubtful accounts	(1,781)	(1,824)
Receivables, net	$ 47,441	$ 55,524

NOTE D – INVENTORIES

Inventories consisted of the following at:

	September 30, 2021	December 31, 2020
New vehicles	$ 75,438	$ 185,260
LIFO reserve	(4,435)	(6,141)
New vehicles, net	71,003	179,119
Used vehicles	148,893	114,558
Parts, accessories and other	7,905	7,578
Inventories, net	$ 227,801	$ 301,255

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at:

	September 30, 2021	December 31, 2020
Land	$ 31,578	$ 33,837
Buildings	68,232	68,159
Equipment	9,264	9,225
Leaseholds improvements	22,204	21,487
Furniture and fixtures	9,393	8,901
Vehicles	3,438	3,149
Property and equipment, gross	144,109	144,758
Accumulated depreciation and amortization	(26,079)	(22,097)
	118,030	122,661
Construction in progress	1,526	303
Property and equipment, net	$ 119,556	$ 122,964

NOTE F – GOODWILL AND FRANCHISE RIGHTS

As part of the purchase in the nine months ended September 30, 2020, the Company acquired goodwill and franchise rights totaling $46,435 and $3,312, respectively.

During the nine month period ended September 30, 2021, the Company recognized a franchise rights impairment loss in other expenses of $493.

NOTE G – FLOOR PLAN NOTES PAYABLE

The Company has a floor plan financing agreement with Ally Bank, which has a stated limit of $378,044 for new vehicles and $168,897 for used vehicles. From time to time total borrowings exceed stated limits due to the timing of floor plan draws for vehicle shipments from the manufacturer. These limits may vary from year to year as stores are acquired or divested.

The agreement is collateralized by all property and equipment, inventories and all other accounts, collateral rights, chattel paper and general intangibles, and proceeds of any and all of the foregoing, whether owned now or hereafter acquired by the Company. The interest rate under the agreement at September 30, 2021 and December 31, 2020, was 1-month LIBOR (0.08% and 0.14% at September 30, 2021 and December 31, 2020, respectively) plus 2.75%, which was 2.83% and 2.89%, respectively.

The Company has a number of floorplan financing agreements with Toyota Financial Services, which have a combined stated limit of $37,450 for new vehicles and $11,405 for used vehicles. From time to time total borrowings exceed stated limits due to the timing of floor plan draws for vehicle shipments from the manufacturer. The agreement is collateralized by all property and equipment, inventories, and all other accounts, contract rights, chattel paper and general intangibles, and proceeds of any and all of the foregoing, whether owned now or hereafter acquired by the Company. The interest rate under the agreement at September 30,
2021 and December 31, 2020 was 3-month LIBOR (0.13% and 0.24% at September 30, 2021 and December
31, 2020, respectively) plus 1.50% to 2.00% for new vehicles which was between 1.63% and 2.13% and between 1.74% and 2.24% respectively. The interest rate under the agreement at September 30, 2021 and

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

December 31, 2020, for used vehicles was 3-month LIBOR plus from 1.50% to 2.50%, which was between 1.63% and 2.63% and between 1.74% and 2.74%, respectively.

The Company has a floor plan financing agreement with Ford Motor Credit Company, which has a stated limit of $15,850 for new vehicles and $3,100 for used vehicles. From time to time total borrowings exceed stated limits due to the timing of floor plan draws for vehicle shipments from the manufacturer. The agreement is collateralized by all property and equipment, inventories, and all other accounts, contract rights, chattel paper and general intangibles, and proceeds of any and all of the foregoing whether owned now or hereafter acquired by the Company. The interest rate under the agreement was Prime plus 1.50% for a total of 4.75% at September 30, 2021 and December 31, 2020, for both new and used vehicles.

NOTE H – INCOME TAXES

The Company files a consolidated federal income tax return with the IRS and file tax returns in various state and local jurisdictions. The Company is subject to examination by federal and state taxing authorities for the tax years 2017-2020.

NOTE I – LONG TERM DEBT

Long-term debt consisted of the following at:

	September 30, 2021	December 31, 2020
Commercial Loan and Security Agreement notes payable	$ 51,051	$ 57,551
Mortgage notes	79,911	84,205
Working capital notes	22,224	24,038
Term Loan	25,313	26,550
Seller's note	3,928	4,679
Total debt	182,427	197,023
Less current portion of debt	(14,849)	(12,433)
Total long-term debt	$ 167,578	$ 184,590

Commercial Loan and Security Agreement

The Company's interim tax provision is determined using an estimated annual effective tax rate (“AETR”) and is adjusted for discrete taxable events and/or adjustments that occurred during the reporting period. The Company recognized income tax expense of $22,544 or 26.4%, for the nine month period ended September 30, 2021 and income tax expense of $12,667, or 27.9%, for the nine month period ended September 30, 2020. The Company did not have any discrete taxable events requiring adjustments to the tax expense in the current period.

In July of 2014, the Company entered into a Commercial Loan and Security Agreement (the “CLSA”) with the lender. The proceeds from the CLSA were used for working capital, general corporate expenses, capital expenditures, and acquisition purposes. On November 15, 2019, the Company amended the CLSA, paid down $5,385 of certain Working Capital Notes, and extended the maturity date of the CLSA to November 2024. The amended stated fixed rate of the CLSA is 5.47% per annum and is secured by certain asset of the Company. As of September 30, 2021 and December 31, 2020, the balance was $51,051 and $57,551, respectively.

Mortgage Notes

The Company has multiple mortgage agreements with finance companies affiliated with the Company's vehicle manufacturers and the lender. In June 2020, the Company refinanced certain mortgage agreements extending the maturity date and adding additional borrowings. As of September 30, 2021 and December 31, 2020, the Company had total mortgage notes payable outstanding of $79,911 and $84,205, respectively, which are collateralized by the associated real estate. The stated fixed and variable rates of the mortgage agreements range from 2.52% to 5.62% and have a maturity date ranging from April 2022 to July 2039.

Working Capital Notes

The Company has two working capital notes with a finance company affiliated with the Company's vehicle manufacturer and one with the lender. The proceeds of the working capital notes were used for working capital, general corporate expenses and acquisition purposes. The stated fixed and variable interest rates of the working capital notes range from 2.69% to 4.47%. As of September 30, 2021 and December 31, 2020, the balance was $21,951 and $23,677 with the finance company and $273 and $361 with the lender, respectively.

Term Loan

On February 29, 2020, the Company entered into a Commercial Loan and Security Agreement (the "Ally Loan Agreement") between Ally Bank and RFJ Auto Partners Holdings, Inc., for which a new term loan (the "Ally Term Loan") was entered into amounting to $34,000. The principal of $34,000 had a payment due of $7,000 ("the Bridge Repayment") on July 1, 2020 and quarterly principal payments of $450 commencing on July 1, 2020, with a balloon payment on its maturity date of March 1, 2025. The Ally Term Loan is secured by certain asset of the Company and bears interest at 5.68% until the Bridge Repayment is paid and 5.18% thereafter. The proceeds from the Ally Term Loan was used by the Company to fund part of the purchase consideration paid for the acquisition of the Washington dealerships. As of As of September 30, 2021 and December 31, 2020, the balance was $25,313 and $26,550, respectively.

Seller Note

On February 29, 2020, in connection with the Unit Agreement, the Company issued a promissory note in the principal amount of $5,155 with a maturity date of March 1, 2025 to the seller (the "Seller Note"). On June 12,
2020, the amount due under the Seller Note was amended and increased to $5,422. The stated interest rate on the amended Seller Note was 5.25% per annum with monthly principal and interest payments totaling $103 per month. The Seller Note is an unsecured obligation of the Company and is guaranteed by a subsidiary of the Company. As of September 30, 2021 and December 31, 2020, the balance was $3,927 and $4,679, respectively.

The Company is subject to financial covenants. At September 30, 2021 and December 31, 2020, the Company was in compliance with all financial covenants.

NOTE J – STOCKHOLDERS' EQUITY AND REDEEMABLE PREFERRED SHARES

The Company had 200,000 shares of Series A preferred stock authorized and 70,512.11 shares issued and outstanding at a par value of $0.001 (actual) at September 30, 2021 and December 31, 2020. The Company had 100,000 shares of common stock authorized with 27,986.62 shares issued and outstanding at a par value of $0.001 (actual) at September 30, 2021 and December 31, 2020. An additional 100,000 shares of preferred stock with no series designation have been authorized and are outstanding as of September 30, 2021 and December 31, 2020. The Company had 2,000 shares of Series B preferred stock authorized at a par value of $0.001 and had 761.61 shares issued and outstanding at September 30, 2021 and December 31, 2020. Of the shares of common stock issued and outstanding, 3,482.42 shares are restricted as to transfer and forfeiture at September 30, 2021 and December 31, 2020. The preferred shares have liquidation preference over the common shares whereby the preferred shares are mandatorily redeemable upon change in control at the liquidation value of $1 per share. In addition, the holders of the preferred stock shall be entitled to receive, when, as and if declared by the Board of Directors, annual dividends of 10%, compounded semi-annually, of the liquidation value. The preferred shares have accumulated $61,266 and $51,565 of dividends at September 30, 2021 and December 31, 2020, respectively. On December 16, 2020, the Company repurchased 26,743.09 preferred shares at the liquidation value including accrued dividends for a total of $50,000. No additional dividends have been declared as of September 30, 2021, therefore, no provision for the preferred dividends have been recorded.

NOTE K – DISCRETIONARY CONTRIBUTION 401(K) PLAN

The Company participates in a discretionary contribution 401(k) plan. All employees who meet certain age and length of service requirements are eligible to participate in their designated plan. Matching contributions are made on a discretionary basis by the Company and are recorded net of any forfeitures by individuals that terminated employment with the Company before the required vesting period. Matching contributions, net of forfeitures, included in operating expense for the nine month periods ended September 30, 2021 and 2020, were
$1,044 and $768, respectively.

NOTE L – COMMITMENTS AND CONTINGENCIES

The Company sells customer installment contracts to financial institutions without recourse and sells extended warranties without recourse. Some buyers of the contracts and warranties retain portions of the commissions as reserves against early payoffs. These amounts are normally recorded on the condensed consolidated balance sheets as finance commission receivable. As of September 30, 2021, substantially all the recourse contracts have been collected by the financial institutions. The allowance for contingent charges at September, 2021 and December 31, 2020, was $15,870 and $15,824, respectively.

The Company facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the Company expect such compliance to have, any material effect upon the capital expenditures, net income, financial condition or competitive position of the Company. Management believes that its current practices and procedures for the control and disposition of such materials comply with the applicable federal and state requirements.

(IN THOUSANDS OF DOLLARS, EXCEPT UNIT DATA)

The Company purchases substantially all its new vehicles and parts from the manufacturer at the prevailing prices charged by the automobile manufacturer to all franchised dealers. The Company's sales volume could be adversely impacted by the manufacturer's inability to supply it with an adequate supply of vehicles and/or parts due to unforeseen circumstances or as a result of an unfavorable allocation of vehicles. As a part of the Company's relationship with the manufacturer, it participates in various programs with regard to vehicle allocation, advertising, interest and other incentive programs. These programs are generally on a "turn-to-turn" basis, which rewards new vehicle volume, and are subject to change by the manufacturer at any time. In addition, the manufacturer's sales and service agreements contain provisions which generally limit, without consent off the manufacturer, changes in dealership management and ownership, dealership location, place certain financial restrictions, and provide for termination of the franchise agreement by the manufacturer in certain instances.

The Company is involved in certain legal matters that it considers incidental to its business. In management's opinion, none of these legal matters will have a material effect on the Company's financial position or the results of operations.

NOTE M – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts are estimated fair values of the Company's financial instruments, none of which are held for trading purposes, as of September 30, 2021 are as follows:

	Amount	Fair value
Financial assets:		
Cash and cash equivalents	$ 57,862	$ 57,862
Financial liabilities:		
Floor plan notes payable, trade	23,149	23,149
Floor plan notes payable, non-trade	201,186	201,186
Long-term debt	182,427	166,173

The carrying amounts are estimated fair values of the Company's financial instruments, none of which are held for trading purposes, as of December 31, 2020 are as follows:

	Amount	Fair value
Financial assets:		
Cash and cash equivalents	$ 18,389	$ 18,389
Financial liabilities:		
Floor plan notes payable, trade	53,579	53,578
Floor plan notes payable, non-trade	266,478	266,478
Long-term debt	197,023	173,957

The carrying amounts shown in the above table are included in the condensed consolidated balance sheets under the indicted captions. The carrying amount of cash and cash equivalents, and floor plan notes payable, trade and non-trade, approximate fair value because the interest rates fluctuate with market rates. The fair value of long-term debt is based on the discounted cash flows from management's estimate of the Company's marginal borrowing rates as of September 30, 2021 and December 31, 2020.

NOTE N – NON QUALIFIED STOCK OPTION PLANS

The Board of Directors approved the adoption of the 2014 Non-qualified Stock Option Plan (the "Plan). The Plan authorizes the grant of options to purchase an aggregate of 1,055 shares of the Company's common stock to certain directors and key employees of the Company and its Subsidiaries. The plan is administered by a committee consisting of the Board or such individual Directors who shall from time to time be designated by the Board. Under the plan certain options vest based on the passage of time and continued employment, while other options vest based on the attainment of specific performance criteria.

Management has used the Black-Scholes option pricing model to determine the options' fair value. Because the performance vested options are based on a change in control event, which has not occurred as of September 30, 2021 no compensation expense was recorded for these options related to a change in control. Compensation cost related to the time vested options is recognized using the straight-line method over the requisite period of service.

NOTE O – EVALUATION OF SUBSEQUENT EVENTS

The Company has evaluated the effect subsequent events would have on the condensed consolidated financial statements through February 16, 2022 which is the date the condensed consolidated financial statements were available to be issued.

On December 6, 2021 The Company completed the Merger pursuant to the previously referenced Merger Agreement with Sonic Automotive, Inc. ("Sonic"). Details of this Merger agreement are as filed by Sonic under Exhibit 2.1 to Sonic's Current Report on Form 8-K filed on September 22, 2021.

NOTE P – COVID 19

In March 2020, the World Health Organization declared the outbreak of COVID-19, a novel strain of Coronavirus, a pandemic. The Coronavirus outbreak has had far reaching and unpredictable impacts on the global economy, supply chains, financial markets, and global business operations in a variety of industries. Governments have taken substantial action to contain the spread of the virus including mandating social distancing, suspension of certain gatherings, and shuttering of certain nonessential businesses. The extent to which it will impact the Company going forward will depend on a variety of factors, including the duration and continued spread of the outbreak, its impact on customers, employees and vendors, as well as governmental, regulatory and private sector responses. Furthermore, the pandemic may have a significant impact on management's accounting estimates and assumptions. The financial statements do not reflect any adjustments as a result of the increase in economic uncertainty.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The unaudited pro forma condensed combined financial statements (referred to as the "pro forma financial statements") presented below are derived from the historical consolidated financial statements of Sonic Automotive, Inc. and its subsidiaries (collectively, the "Company" or "Sonic"), and RFJ Auto Partners, Inc. (collectively with its subsidiaries, "RFJ Auto"), as adjusted to reflect (i) the issuance and sale on October 27, 2021 of (a) $650,000,000 aggregate principal amount of Sonic's 4.625% Senior Notes due 2029 (the "2029 Notes") and (b) $500,000,000 aggregate principal amount of Sonic's 4.875% Senior Notes due 2031 (the "2031 Notes" and, together with the 2029 Notes, the "2021 Notes"), (ii) the redemption (the "Redemption") of $250,000,000 aggregate principal amount of Sonic's previously outstanding 6.125% Senior Subordinated Notes due 2027 (the "6.125% Notes") and (iii) the acquisition of RFJ Auto pursuant to an Agreement and Plan of Merger (the "Merger Agreement"), dated as of September 17, 2021, by and among Sonic, RFJ Auto and the other parties thereto, pursuant to which on December 6, 2021 Sonic acquired the new and used automotive retail business of RFJ Auto, together with the associated real estate, inventory and other related assets (the "Acquisition" and, collectively with the issuance and sale of the 2021 Notes and the Redemption, the "Transactions").

The unaudited pro forma condensed combined balance sheet as of September 30, 2021, assumes that the Transactions occurred on September 30, 2021.

The unaudited pro forma condensed combined statements of income for the twelve months ended December 31, 2021 and the nine months ended September 30, 2021 and September 30, 2020, assume that the Transactions occurred on January 1, 2020.

The following unaudited pro forma condensed combined financial information should be read in conjunction with the following financial statements:

- the audited consolidated financial statements of Sonic as of December 31, 2020 and for the three years ended December 31, 2020;
- the unaudited consolidated financial statements of Sonic as of and for the nine months ended September 30, 2021 and 2020;
- the audited combined and consolidated financial statements of RFJ Auto as of and for the two years ended December 31, 2020; and
- the unaudited combined and consolidated financial statements of RFJ Auto as of and for the nine months ended September 30, 2021 and 2020

The pro forma adjustments reported in these unaudited pro forma condensed combined financial statements are based upon available information and certain assumptions that the Company's management believes are reasonable. The unaudited pro forma condensed combined financial information of Sonic, after giving effect to the Acquisition (the "Combined Company") is presented for informational purposes only and is not intended to represent or be indicative of what the results of operations or financial condition would have been had the Transactions actually occurred on the dates indicated, nor is it meant to be indicative of future results of operations or financial condition for any future period or as of any future date. Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the unaudited pro forma condensed combined financial statements.

COMBINED COMPANY
Pro Forma Condensed Combined Balance Sheet
As of September 30, 2021
(in thousands)
(unaudited)

	Sonic	RFJ Auto Reported	Reclass	RFJ Auto Reclassed	Pro Forma Adjustments		Pro Forma Combined
ASSETS							
Current Assets:							
Cash and cash equivalents	$ 220,082	$ 57,862		$ 57,862	$ 112,711	a	$ 390,655
Contracts in transit	—	24,171	(24,171)	—	—		—
Receivables, net	278,008	47,441	24,171	71,612	13,102	b	338,551
Inventories	850,469	230,463		230,463	4,566	b	1,085,498
Other current assets	123,404	2,429		2,429	(57)	b	125,776
Total current assets	1,471,963	362,366		362,366	106,151		1,940,480
Property and Equipment, net	1,232,236	119,556		119,556	9,976	c	1,361,768
Goodwill	237,575	104,575		104,575	470,701	c	812,851
Other Intangible Assets, net	77,500	62,593		62,593	(62,593)	c	77,500
Operating Right-of-Use Lease Assets	313,425	—		—	56,587	d	370,012
Finance Right-of-Use Lease Assets	84,267	—		—	—		84,267
Other Assets	88,997	1,005		1,005	—		90,002
Total assets	$ 3,505,963	$ 650,095		$ 650,095	$ 580,822		$ 4,736,880
LIABILITIES AND STOCKHOLDERS' EQUITY							
Current Liabilities:							
Notes payable - floor plan - trade	$ 28,605	$ 23,149		$ 23,149	$ —		$ 51,754
Notes payable - floor plan - non-trade	867,152	201,186		201,186	(1,890)	b	1,066,448
Trade accounts payable	105,181	23,624		23,624	(2,745)	b	126,060
Operating short-term lease liabilities	39,684	—		—	37,433	d	77,117
Finance short-term lease liabilities	35,684	—		—	—		35,684
Accrued interest	3,431	—	1,127	1,127	(638)	e	2,793
Other accrued liabilities	295,282	44,960	8,248	53,208	2,328	b	342,570
Allowance for contingent charges	—	9,375	(9,375)	—	—		—
Current maturities of long-term debt	53,383	14,849		14,849	(14,849)	a	53,383
Total current liabilities	1,428,402	317,143		317,143	10,264		1,755,809
Long-Term Debt	637,774	167,578		167,578	720,907	a f	1,526,259
Other Long-Term Liabilities	96,420	6,495		6,495	—		102,915
Operating Long-Term Lease Liabilities	278,315	—		—	19,154	d	297,469
Finance Long-Term Lease Liabilities	59,303	—		—	—		59,303
Deferred Income Taxes	—	—		—	—		—
Commitments and Contingencies							
Stockholders' Equity:							
Total Stockholders' Equity	1,005,749	158,879		158,879	(169,503)	f	995,125
Total Liabilities and Stockholders' Equity	$ 3,505,963	$ 650,095		$ 650,095	$ 580,822		$ 4,736,880

COMBINED COMPANY
Pro Forma Condensed Statements of Income
For the Nine Months Ended September 30, 2021
(in thousands, except per share amounts)
(unaudited)

	Sonic For the Nine Months Ended September 30, 2021	RFJ Auto Reported For the Nine Months Ended September 30, 2021	Reclasses	RFJ Auto Reclassed For the Nine Months Ended September 30, 2021	Pro Forma Adjustments		Pro Forma Combined Company For the Nine Months Ended September 30, 2021
Revenues:							
Revenues	$ —	$ 2,266,222	$ (2,266,222)	$ —	$ —		$ —
New vehicles	3,766,133		1,309,664	1,309,664	(26,075)	b	5,049,722
Used vehicles	3,666,286		734,963	734,963	(13,288)	b	4,387,961
Wholesale vehicles	256,701		102,724	102,724	(6,919)	b	352,506
Total vehicles	7,689,120			2,147,351	(46,282)		9,790,189
Parts, service and collision repair	1,036,736		118,871	118,871	(2,846)	b	1,152,761
Finance, insurance and other, net	486,000	96,721	—	96,721	(909)	b	581,812
Total revenues	9,211,856			2,362,943	(50,037)		11,524,762
Cost of Sales:							
Cost of sales		(2,089,171)	2,089,171	—			
New vehicles	(3,462,795)	—	(1,239,615)	(1,239,615)	24,821	b	(4,677,589)
Used vehicles	(3,580,944)	—	(677,057)	(677,057)	12,285	b	(4,245,716)
Wholesale vehicles	(250,072)	—	(102,277)	(102,277)	6,986	b	(345,363)
Total vehicles	(7,293,811)			(2,018,949)	44,092		(9,268,668)
Parts, service and collision repair	(534,325)	—	(70,222)	(70,222)	1,613	b	(602,934)
Total cost of sales	(7,828,136)	(2,089,171)		(2,089,171)	45,705		(9,871,602)
Gross profit	1,383,720	273,772		273,772	(4,332)		1,653,160
Total expenses		(182,701)	182,701	—			
Selling, general and administrative expenses	(931,349)	—	(172,534)	(172,534)	3,563	b d	(1,100,320)
Impairment charges	—	—	—	—	(493)	g	(493)
Depreciation and amortization	(73,687)	—	(4,436)	(4,436)	(606)	b	(78,729)
Operating income (loss)	378,684	91,071		96,802	(1,868)		473,618
Other income (expense):							
Interest expense, floor plan	(12,781)	—	(5,731)	(5,731)	296	b e	(18,216)
Interest expense, other, net	(30,180)	(6,474)	—	(6,474)	(24,035)	e	(60,689)
Amortization expense		—	—	—			
Other income (expense), net	100	861	—	861	—		961
Total other income (expense)	(42,861)	(5,613)		(11,344)	(23,739)		(77,944)
Income (loss) from continuing operations before taxes	335,823	85,458		85,458	(25,607)		395,674
Provision for income taxes for continuing operations - benefit (expense)	(83,452)	(22,544)		(22,544)	6,244	h	(99,752)
Income (loss) from continuing operations	252,371	62,914		62,914	(19,363)		295,922
Discontinued operations:							—
Income (loss) from discontinued operations before taxes	241	—		—	—		241
Provision for income taxes for discontinued operations - benefit (expense)	(60)	—		—	—		(60)
Income (loss) from discontinued operations	181	—		—	—		181
Net income (loss)	$ 252,552	$ 62,914		$ 62,914	$ (19,363)		$ 296,103
Basic earnings (loss) per common share:							
Earnings (loss) per share from continuing operations	$ 6.07						$ 7.12
Earnings (loss) per share from discontinued operations	0.01						0
Earnings (loss) per common share	$ 6.08						$ 7.12
Weighted average common shares outstanding	41,561						41,561
Diluted earnings (loss) per common share:							
Earnings (loss) per share from continuing operations	$ 5.81						$ 6.82
Earnings (loss) per share from discontinued operations	0.01						0
Earnings (loss) per common share	$ 5.82						$ 6.82
Weighted average common shares outstanding	43,416						43,416

COMBINED COMPANY
Pro Forma Condensed Statements of Income
For the Nine Months Ended September 30, 2020
(in thousands, except per share amounts)
(unaudited)

	Sonic For the Nine Months Ended September 30, 2020	RFJ Auto Reported For the Nine Months Ended September 30, 2020	Reclasses	RFJ Auto Reclassed For the Nine Months Ended September 30, 2020	Pro Forma Adjustments		Pro Forma Combined Company For the Nine Months Ended September 30, 2020
Revenues:							
Revenues	$ —	$ 1,877,211	$ (1,877,211)	$ —	$ —		$ —
New vehicles	2,957,794	—	1,144,262	1,144,262	(34,362)	b	4,067,694
Used vehicles	2,604,957	—	556,685	556,685	(12,827)	b	3,148,815
Wholesale vehicles	138,221	—	69,491	69,491	(2,832)	b	204,880
Total vehicles	5,700,972			1,770,438	(50,021)		7,421,389
Parts, service and collision repair	914,667	—	106,773	106,773	(3,429)	b	1,018,011
Finance, insurance and other, net	352,848	79,003	—	79,003	(858)	b	430,993
Total revenues	6,968,487			1,956,214	(54,308)		8,870,393
Cost of Sales:							
Cost of sales	—	(1,743,391)	1,743,391	—			
New vehicles	(2,804,314)	—	(1,097,047)	(1,097,047)	33,786	b	(3,867,575)
Used vehicles	(2,517,421)	—	(513,478)	(513,478)	12,160	b	(3,018,739)
Wholesale vehicles	(136,260)	—	(70,763)	(70,763)	2,934	b	(204,089)
Total vehicles	(5,457,995)			(1,681,288)	48,880		(7,090,403)
Parts, service and collision repair	(475,964)	—	(62,103)	(62,103)	2,118	b	(535,949)
Total cost of sales	(5,933,959)	(1,743,391)		(1,743,391)	50,998		(7,626,352)
Gross profit	1,034,528	212,823		212,823	(3,310)		1,244,041
Total expenses	—	(161,118)	161,118	—			
Selling, general and administrative expenses	(769,688)	—	(146,207)	(146,207)	3,372	b d	(912,524)
Impairment charges	(268,859)	—	—	—	—		(268,859)
Depreciation and amortization	(67,879)	—	(4,452)	(4,452)	(592)	b	(72,923)
Operating income (loss)	(71,898)	51,705		62,164	(531)		(10,265)
Other income (expense):							
Interest expense, floor plan	(21,821)	—	(10,459)	(10,459)	629	b e	(31,651)
Interest expense, other, net	(31,523)	(6,916)	—	(6,916)	(39,156)	e	(77,595)
Amortization expense		—	—	—			
Other income (expense), net	100	567	—	567	—		667
Total other income (expense)	(53,244)	(6,349)		(16,808)	(38,527)		(108,579)
Income (loss) from continuing operations before taxes	(125,142)	45,356		45,356	(39,058)		(118,844)
Provision for income taxes for continuing operations - benefit (expense)	16,995	(12,667)	—	(12,667)	10,011	h	14,339
Income (loss) from continuing operations	(108,147)	32,689		32,689	(29,047)		(104,505)
Discontinued operations:							—
Income (loss) from discontinued operations before taxes	(808)	—	—	—	—		(808)
Provision for income taxes for discontinued operations - benefit (expense)	231	—	—	—	—		231
Income (loss) from discontinued operations	(577)	—		—	—		(577)
Net income (loss)	$ (108,724)	$ 32,689		$ 32,689	$ (29,047)		$ (105,082)
Basic earnings (loss) per common share:							
Earnings (loss) per share from continuing operations	$ (2.53)						$ (2.45)
Earnings (loss) per share from discontinued operations	(0.02)						(0.01)
Earnings (loss) per common share	$ (2.55)						$ (2.46)
Weighted average common shares outstanding	42,687						42,687
Diluted earnings (loss) per common share:							
Earnings (loss) per share from continuing operations	$ (2.53)						$ (2.45)
Earnings (loss) per share from discontinued operations	(0.02)						(0.01)
Earnings (loss) per common share	$ (2.55)						$ (2.46)
Weighted average common shares outstanding	42,687						42,687

COMBINED COMPANY
Pro Forma Condensed Statements of Income
For the Twelve Months Ended December 31, 2020
(in thousands, except per share amounts)
(unaudited)

	Sonic For the Year Ended December 31, 2020	RFJ Auto Reported For the Year Ended December 31, 2020	Reclasses	RFJ Auto Reclassed For the Year Ended December 31, 2020	Pro Forma Adjustments		Pro Forma Combined Company For the Year Ended December 31, 2020
Revenues:							
Revenues	$ —	$ 2,729,076	$ (2,729,076)	$ —	$ —		$ —
New vehicles	4,281,223	—	1,755,603	1,755,603	(48,764)	b	5,988,062
Used vehicles	3,564,832	—	734,591	734,591	(16,594)	b	4,282,829
Wholesale vehicles	197,378	—	96,582	96,582	(4,693)	b	289,267
Total vehicles	8,043,433	—		2,586,776	(70,051)		10,560,158
Parts, service and collision repair	1,233,735	—	142,300	142,300	(4,485)	b	1,371,550
Finance, insurance and other, net	489,874	105,516	—	105,516	(1,135)	b	594,255
Total revenues	9,767,042			2,834,592	(75,671)		12,525,963
Cost of Sales:							
Cost of sales	—	(2,551,942)	2,551,942	—			
New vehicles	(4,047,132)		(1,692,621)	(1,692,621)	47,500	b	(5,692,253)
Used vehicles	(3,458,834)		(678,968)	(678,968)	15,783	b	(4,122,019)
Wholesale vehicles	(198,249)		(98,183)	(98,183)	4,815	b	(291,617)
Total vehicles	(7,704,215)			(2,469,772)	68,098		(10,105,889)
Parts, service and collision repair	(639,182)		(82,170)	(82,170)	2,688	b	(718,664)
Total cost of sales	(8,343,397)	2,551,942		(2,551,942)	70,786		(10,824,553)
Gross profit	1,423,645	282,650		282,650	(4,885)		1,701,410
Total expenses	—	(211,888)	211,888	—			
Selling, general and administrative expenses	(1,028,666)		(191,053)	(191,924)	3,815	b d	(1,216,775)
Impairment charges	(270,017)		(871)	(871)	—		(270,888)
Depreciation and amortization	(91,023)		(5,867)	(5,867)	(807)	b	(97,697)
Operating income (loss)	33,939	70,762		83,988	(1,877)		116,050
Other income (expense):							
Interest expense, floor plan	(27,228)	—	(13,226)	(13,226)	585	b e	(39,869)
Interest expense, other, net	(41,572)	(8,985)	—	(8,985)	(46,924)	e	(97,481)
Amortization expense	—	—	—	—			
Other income (expense), net	97	(279)	—	(279)	—		(182)
Total other income (expense)	(68,703)	(9,264)		(22,490)	(46,339)		(137,532)
Income (loss) from continuing operations before taxes	(34,764)	61,498		61,498	(48,216)		(21,482)
Provision for income taxes for continuing operations - benefit (expense)	(15,900)	(17,111)	—	(17,111)	12,295	h	(20,716)
Income (loss) from continuing operations	(50,664)	44,387		44,387	(35,921)		(42,198)
Discontinued operations:							—
Income (loss) from discontinued operations before taxes	(1,002)	—		—	—		(1,002)
Provision for income taxes for discontinued operations - benefit (expense)	281	—		—	—		281
Income (loss) from discontinued operations	(721)	—		—	—		(721)
Net income (loss)	$ (51,385)	$ 44,387		$ 44,387	$ (35,921)		$ (42,919)
Basic earnings (loss) per common share:							
Earnings (loss) per share from continuing operations	$ (1.19)						$ (0.99)
Earnings (loss) per share from discontinued operations	(0.02)						(0.02)
Earnings (loss) per common share	$ (1.21)						$ (1.01)
Weighted average common shares outstanding	42,483						42,483
Diluted earnings (loss) per common share:							
Earnings (loss) per share from continuing operations	$ (1.19)						$ (0.99)
Earnings (loss) per share from discontinued operations	(0.02)						(0.02)
Earnings (loss) per common share	$ (1.21)						$ (1.01)
Weighted average common shares outstanding	42,483						42,483

1. Basis of Presentation

The unaudited pro forma condensed combined financial information includes pro forma adjustments that are (1) directly attributable to the Transactions, (2) factually supportable and (3) with respect to the unaudited pro forma condensed combined statements of income, expected to have a continuing impact on the operating results of the Combined Company.

The Acquisition was accounted for by Sonic as a business combination using the acquisition method of accounting under ASC Topic 805, Business Combinations. Under the acquisition method of accounting, the purchase price was allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair values at the date of acquisition, with any excess purchase price allocated to goodwill. To date, Sonic has estimated a preliminary allocation of the purchase price to the assets acquired and liabilities assumed in the Transactions, and the final allocation of such purchase price will be determined as further information becomes available. The final purchase price allocation may differ from that reflected in the following unaudited pro forma condensed combined financial statements, and these differences may be material.

The unaudited pro forma condensed combined consolidated balance sheet as of September 30, 2021, assumes that the Transactions occurred on September 30, 2021. The unaudited pro forma condensed combined statements of income for the twelve months ended December 30, 2020 and the nine months ended September 30, 2021 and 2020, assume that the Transactions occurred on January 1, 2020.

The pro forma adjustments reported in these unaudited pro forma condensed combined financial statements are based upon available information and certain assumptions that the Company's management believes are reasonable. The unaudited pro forma condensed combined financial information is presented for informational purposes only and is not intended to represent or be indicative of what the results of operations or financial condition would have been had the Transactions actually occurred on the dates indicated, nor is it meant to be indicative of future results of operations or financial condition for any future period or as of any future date. The unaudited pro forma condensed combined financial information of the Combined Company should be read in conjunction with the audited and unaudited historical financial statements and related notes of the Company and of RFJ Auto.

Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the unaudited pro forma condensed combined financial information.

2. Sources of Purchase Price

The Company acquired substantially all of the assets of, and certain real property related to, RFJ Auto, including goodwill and franchise rights intangible assets, real estate and leaseholds, and parts and fixed assets, and assume substantially all of the liabilities of RFJ Auto, in each case subject to certain adjustments described in the Merger Agreement. We paid approximately $968.7 million to fund the purchase consideration for the Acquisition (including vehicle inventory that we acquired), which includes approximately $18.5 million in transaction fees and expenses related to the Acquisition. We financed the Acquisition using (1) a portion of the net proceeds of the issuance and sale of the 2021 Notes, borrowings under the Company's amended and restated syndicated new and used vehicle floor plan credit facilities (the "2021 Floor Plan Facilities"), and cash on hand. The consideration is subject to customary post close adjustments.

3. Purchase Price Allocation

Under the acquisition method of accounting, the purchase price is allocated to the tangible and intangible assets acquired and liabilities assumed. The following allocation of the preliminary purchase price to acquired identifiable assets and assumed liabilities is based on the preliminary valuation of the tangible and identifiable intangible assets acquired and liabilities assumed in the Acquisition as of September 30, 2021, used by management to prepare the unaudited pro forma condensed combined financial information. The following table summarizes the allocation of the estimated purchase price based on preliminary estimates of fair value:

		(in millions)
Cash	$	23.6
Receivables		31.4
Inventories		235
Other current assets		4.4
Property and equipment		129.7
Goodwill and intangible franchise assets		574.2
Total assets acquired		998.3
Trade accounts payable		(11.2)
Other accrued liabilities		(36.9)
Total liabilities assumed		(48.1)
Net assets acquired	$	950.2

The fair value of the property and equipment acquired is summarized below:

		Fair Value (in millions)	Estimated Life
Land	$	31.7	N/A
Buildings		89	20 years
Furniture, fixtures and equipment		8.8	3–10 years
Total	$	129.5	

The final purchase price allocation will be determined once the Company has completed the detailed valuations and necessary calculations, and is subject to customary post close consideration adjustments pursuant to the Merger Agreement. New and used vehicle inventories at the RFJ Auto dealerships vary significantly from time to time. The estimated inventories shown in the purchase price allocation above was derived from the unaudited historical financial statements for RFJ Auto as of September 30, 2021, and the actual value of vehicle inventories acquired will depend on the actual new and used vehicle inventories at the RFJ Auto dealerships on the closing date of the Acquisition.

The estimated fair values of assets acquired and liabilities assumed were based upon preliminary analysis performed for the preparation of the unaudited pro forma condensed combined financial information and are subject to the final valuations that will be completed after consummation of the Acquisition. These estimates and assumptions are subject to change within the measurement period as additional information is obtained. A decrease in the fair value of the assets acquired or liabilities assumed in the Acquisition from the preliminary valuations presented would result in a dollar-for-dollar corresponding increase in the amount of goodwill resulting from the Acquisition. In addition, if the value of the property and equipment and other intangible assets is higher than the amount included in these unaudited pro forma condensed combined financial statements, it may result in higher depreciation and amortization expense than is presented herein. Any such increases could be material and could result in the Company's actual future financial condition or results of operations differing materially from that presented herein. As a result, the final purchase price allocation may differ materially from the preliminary purchase price allocation.

4. Reclassifications

After the Acquisition, the accounting policies applicable to RFJ Auto will be conformed to those of the Company. The Company has identified preliminary adjustments to the presentation of the historical financial statements of RFJ Auto to those of the Company based upon currently available information and assumptions management believes to be reasonable. The following reclassifications were made in the "Reclasses" column of the unaudited pro forma condensed statements of income in order to conform with the corresponding treatment for the Company's financial reporting:

- Contracts in transit of $24.2 million were reclassified to receivables, net to conform to RFJ Auto reported amounts to the Company's presentation.
- Accrued interest of $1.1 million was reclassified from other accrued liabilities to accrued interest to conform RFJ Auto reported amounts to the Company's presentation.
- Allowance for contingent charges of $9.4 million were reclassified from allowance for contingent charges to other accrued liabilities to conform RFJ Auto reported amounts to the Company's presentation.
- RFJ Auto's revenues and cost of sales were reclassified to conform with the Company's presentation to separately reflect revenues and cost of sales from new vehicles, used vehicles, wholesale vehicles, parts, and service and collision repair. Revenues from the arrangement of extended warranties, service contracts, financing, insurance and other aftermarket products were reclassified to be a separate caption within total revenues.
- RFJ Auto's total expenses were reclassified to selling, general and administrative expenses, impairment, depreciation and amortization, and interest expense, floor plan to conform with the Company's presentation as follows:

(in thousands)	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	Twelve Months Ended December 31, 2020
Selling, general and administrative expenses	$ 172,534	$ 146,207	$ 191,924
Impairment charges	—	—	871
Depreciation and Amortization	4,436	4,452	5,867
Interest expense, floor plan	5,731	10,459	13,226
RFJ Auto total expenses, as presented	$ 182,701	$ 161,118	$ 211,888

- RFJ Auto's amortization expense was reclassified to depreciation and amortization to conform with the Company's presentation.

Management of the Company is currently in the process of conducting a more detailed review of accounting policies used in the historical financial statements of RFJ Auto to determine if differences in accounting policies require any further reclassification to conform to the Company's accounting policies and classifications. As a result, we may identify additional differences between the accounting policies of the Company and RFJ Auto that, when conformed, could have a material impact on these unaudited pro forma condensed combined financial statements.

5. Pro forma adjustments

The pro forma adjustments set forth in the unaudited pro forma condensed combined financial information reflect the following:

a. Cash provided by the Transactions of $170.6 million less RFJ Auto's cash and cash equivalents of $57.9 million not included in the Transactions and RFJ Auto's long-term debt $167.6 million and current maturities of long-term debt of $14.8 million not assumed by the Company have been eliminated from the proforma condensed combined proforma balance sheet as of September 30, 2021.

b. Two RFJ Auto dealerships were divested by RFJ Auto prior to the closing of the Acquisition and, therefore, were excluded from the Merger Agreement. The financial position and results of operations of these disposed dealerships have been eliminated from the pro forma condensed combined financial statements for all periods presented.

c. The preliminary estimate of fair value of assets acquired and liabilities assumed, as described in Footnote 3 to the unaudited pro forma condensed combined financial statements, and the elimination of the historical intangible assets and goodwill of RFJ Auto of $62.6 million and $104.6 million, respectively.

d. The historical financial statements of RFJ Auto do not reflect the adoption of ASC 842, *Leases*. In order to conform the presentation of lease accounting, these unaudited pro forma condensed consolidated financial statements reflect the right of use assets and lease liabilities for operating leases and related incremental rent expense of RFJ Auto.

e. Adjustments to indebtedness as a result of the issuance of $1,150.0 million aggregate principal amount of 2021 Notes, a portion of the net proceeds of which were used to fund the Acquisition, and related debt issuance costs of $14.2 million less the redemption of the of the Company's 6.125% Notes of $247.3 million and related elimination of accrued interest of $0.6 million.

The resulting interest expense adjustments related to the financing transactions, including interest on incremental borrowings, amortization of estimated debt issuance costs, write-off of costs associated with the 6.125% Notes and reductions as a result of the RFJ Auto indebtedness which were not assumed by the Company.

The impact on interest includes the following:

(in thousands)	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	Twelve Months Ended December 31, 2020
Premium on redemption of 6.125% Notes and other costs	$ —	$ (15,544)	$ (15,5
Elimination of interest on 6.125% Notes	11,786	11,767	15,6
Interest on RFJ Auto indebtedness not assumed	6,474	6,916	8,9
Interest on new borrowings	(40,828)	(40,828)	(54,4
Amortization of deferred financing costs of new borrowings	(1,467)	(1,467)	(1,6
Total pro forma adjustment to interest expense, other, net	$ (24,035)	$ (39,156)	$ (46,9

f. Represents the elimination of RFJ Auto’s stockholders’ equity, the premium on redemption of the 6.125% Notes and other transaction costs, net of tax of $12.1 million.

g. Represents the reclass of impairment charges included in RFJ Auto’s selling, general and administrative expenses.

h. Tax impact of applicable pro forma adjustments affecting income utilizing a fully blended rate of 25%.