

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-13395

**SONIC AUTOMOTIVE, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

28211  
(Zip Code)

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of April 24, 2017, there were 32,961,796 shares of Class A common stock and 12,029,375 shares of Class B common stock outstanding.

## Uncertainty of Forward-Looking Statements and Information

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

These forward-looking statements are based on our current estimates and assumptions and involve various risks and uncertainties. As a result, you are cautioned that these forward-looking statements are not guarantees of future performance, and that actual results could differ materially from those projected in these forward-looking statements. Factors which may cause actual results to differ materially from our projections include those risks described in “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016 and elsewhere in this report, as well as:

- the number of new and used vehicles sold in the United States as compared to our expectations and the expectations of the market;
- our ability to generate sufficient cash flows or obtain additional financing to fund our EchoPark expansion, our One Sonic-One Experience initiative, capital expenditures, our share repurchase program, dividends on our common stock, acquisitions and general operating activities;
- our business and growth strategies, including, but not limited to, our EchoPark initiative and our One Sonic-One Experience initiative;
- the reputation and financial condition of vehicle manufacturers whose brands we represent, the financial incentives vehicle manufacturers offer and their ability to design, manufacture, deliver and market their vehicles successfully;
- our relationships with manufacturers, which may affect our ability to obtain desirable new vehicle models in inventory or complete additional acquisitions;
- adverse resolution of one or more significant legal proceedings against us or our dealerships or EchoPark stores;
- changes in laws and regulations governing the operation of automobile franchises, accounting standards, taxation requirements and environmental laws;
- general economic conditions in the markets in which we operate, including fluctuations in interest rates, employment levels, the level of consumer spending and consumer credit availability;
- high competition in the automotive retailing industry, which not only creates pricing pressures on the products and services we offer, but also on businesses we may seek to acquire;
- our ability to successfully integrate potential future acquisitions; and
- the rate and timing of overall economic recovery or decline.

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

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SONIC AUTOMOTIVE, INC.  
FORM 10-Q  
FOR THE THREE MONTHS ENDED MARCH 31, 2017  
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Three Months Ended March 31,	
	2017	2016
(Dollars and shares in thousands, except per share amounts)		
<b>Revenues:</b>		
New vehicles	\$ 1,171,932	\$ 1,164,570
Used vehicles	634,474	598,355
Wholesale vehicles	46,310	44,374
Total vehicles	<u>1,852,716</u>	<u>1,807,299</u>
Parts, service and collision repair	352,043	346,054
Finance, insurance and other, net	83,063	81,273
Total revenues	<u>2,287,822</u>	<u>2,234,626</u>
<b>Cost of Sales:</b>		
New vehicles	(1,113,654)	(1,106,146)
Used vehicles	(593,641)	(557,824)
Wholesale vehicles	(47,482)	(45,452)
Total vehicles	<u>(1,754,777)</u>	<u>(1,709,422)</u>
Parts, service and collision repair	(182,699)	(180,054)
Total cost of sales	<u>(1,937,476)</u>	<u>(1,889,476)</u>
Gross profit	350,346	345,150
Selling, general and administrative expenses	(292,234)	(284,375)
Impairment charges	(510)	-
Depreciation and amortization	(21,153)	(18,470)
Operating income (loss)	36,449	42,305
<b>Other income (expense):</b>		
Interest expense, floor plan	(8,387)	(6,436)
Interest expense, other, net	(13,409)	(12,339)
Other income (expense), net	(14,501)	104
Total other income (expense)	<u>(36,297)</u>	<u>(18,671)</u>
Income (loss) from continuing operations before taxes	152	23,634
Provision for income taxes for continuing operations - benefit (expense)	(172)	(9,170)
Income (loss) from continuing operations	(20)	14,464
<b>Discontinued operations:</b>		
Income (loss) from discontinued operations before taxes	(868)	261
Provision for income taxes for discontinued operations - benefit (expense)	347	(101)
Income (loss) from discontinued operations	(521)	160
Net income (loss)	<u>\$ (541)</u>	<u>\$ 14,624</u>
<b>Basic earnings (loss) per common share:</b>		
Earnings (loss) per share from continuing operations	\$ -	\$ 0.31
Earnings (loss) per share from discontinued operations	(0.01)	-
Earnings (loss) per common share	<u>\$ (0.01)</u>	<u>\$ 0.31</u>
Weighted average common shares outstanding	<u>44,791</u>	<u>46,950</u>
<b>Diluted earnings (loss) per common share:</b>		
Earnings (loss) per share from continuing operations	\$ -	\$ 0.31
Earnings (loss) per share from discontinued operations	(0.01)	-
Earnings (loss) per common share	<u>\$ (0.01)</u>	<u>\$ 0.31</u>
Weighted average common shares outstanding	<u>44,791</u>	<u>47,122</u>
Dividends declared per common share	\$ 0.05	\$ 0.05

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2017	2016
	(In thousands)	
Net income (loss)	\$ (541 )	\$ 14,624
Other comprehensive income (loss) before taxes:		
Change in fair value of interest rate swap agreements	2,102	(4,878 )
Total other comprehensive income (loss) before taxes	2,102	(4,878 )
Provision for income tax benefit (expense) related to components of other comprehensive income (loss)	(799 )	1,853
Other comprehensive income (loss)	1,303	(3,025 )
Comprehensive income (loss)	\$ 762	\$ 11,599

See notes to condensed consolidated financial statements.

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

	<u>March 31,</u> 2017	<u>December 31,</u> 2016
<b>ASSETS</b>		
(Dollars in thousands)		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 6,565	\$ 3,108
Receivables, net	297,266	430,242
Inventories	1,600,602	1,570,701
Other current assets	41,902	26,993
Total current assets	1,946,335	2,031,044
Property and Equipment, net	1,062,716	1,010,380
Goodwill	472,393	472,437
Other Intangible Assets, net	80,072	80,233
Other Assets	46,119	45,242
Total Assets	\$ 3,607,635	\$ 3,639,336

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>Current Liabilities:</b>		
Notes payable - floor plan - trade	\$ 813,903	\$ 850,537
Notes payable - floor plan - non-trade	631,654	675,353
Trade accounts payable	125,279	117,740
Accrued interest	11,633	13,265
Other accrued liabilities	215,478	236,982
Current maturities of long-term debt	50,032	43,003
Total current liabilities	1,847,979	1,936,880
Long-Term Debt	897,352	839,675
Other Long-Term Liabilities	61,005	61,170
Deferred Income Taxes	79,021	76,447
Commitments and Contingencies		
<b>Stockholders' Equity:</b>		
Class A convertible preferred stock, none issued	-	-
Class A common stock, \$0.01 par value; 100,000,000 shares authorized; 63,389,463 shares issued and 32,948,735 shares outstanding at March 31, 2017; 62,967,061 shares issued and 32,703,865 shares outstanding at December 31, 2016	634	630
Class B common stock, \$0.01 par value; 30,000,000 shares authorized; 12,029,375 shares issued and outstanding at March 31, 2017 and December 31, 2016	121	121
Paid-in capital	724,276	721,695
Retained earnings	538,368	541,146
Accumulated other comprehensive income (loss)	(959)	(2,262)
Treasury stock, at cost; 30,440,728 Class A common stock shares held at March 31, 2017 and 30,263,196 Class A common stock shares held at December 31, 2016	(540,162)	(536,166)
Total Stockholders' Equity	722,278	725,164
Total Liabilities and Stockholders' Equity	\$ 3,607,635	\$ 3,639,336

See notes to condensed consolidated financial statements.

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

	Class A Common Stock		Class A Treasury Stock		Class B Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
(In thousands)										
Balance at December 31, 2016	62,967	\$ 630	(30,263)	\$ (536,166)	12,029	\$ 121	\$ 721,695	\$ 541,146	\$ (2,262)	\$ 725,164
Shares awarded under stock compensation plans	422	4	-	-	-	-	(4)	-	-	-
Purchases of treasury stock	-	-	(178)	(3,996)	-	-	-	-	-	(3,996)
Change in fair value of interest rate swap agreements, net of tax expense of \$799	-	-	-	-	-	-	-	-	1,303	1,303
Restricted stock amortization	-	-	-	-	-	-	2,585	-	-	2,585
Net income (loss)	-	-	-	-	-	-	-	(541)	-	(541)
Dividends declared (\$0.05 per share)	-	-	-	-	-	-	-	(2,237)	-	(2,237)
Balance at March 31, 2017	<u>63,389</u>	<u>\$ 634</u>	<u>(30,441)</u>	<u>\$ (540,162)</u>	<u>12,029</u>	<u>\$ 121</u>	<u>\$ 724,276</u>	<u>\$ 538,368</u>	<u>\$ (959)</u>	<u>\$ 722,278</u>

See notes to condensed consolidated financial statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In thousands)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (541 )	\$ 14,624
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization of property, plant and equipment	21,152	18,468
Provision for bad debt expense	399	141
Other amortization	162	162
Debt issuance cost amortization	605	622
Debt discount amortization, net of premium amortization	64	73
Stock-based compensation expense	2,585	2,895
Deferred income taxes	(789 )	4,141
Net distributions from equity investee	337	186
Asset impairment charges	510	-
Loss (gain) on disposal of dealerships and property and equipment	(39 )	(148 )
Loss (gain) on exit of leased dealerships	614	(409 )
(Gain) loss on retirement of debt	14,607	-
Changes in assets and liabilities that relate to operations:		
Receivables	132,679	101,436
Inventories	(29,900 )	5,849
Other assets	(16,708 )	44,433
Notes payable - floor plan - trade	(36,634 )	(82,055 )
Trade accounts payable and other liabilities	(9,628 )	(6,403 )
Total adjustments	80,016	89,391
Net cash provided by (used in) operating activities	79,475	104,015
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of land, property and equipment	(75,686 )	(41,382 )
Proceeds from sales of property and equipment	170	769
Net cash provided by (used in) investing activities	(75,516 )	(40,613 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net (repayments) borrowings on notes payable - floor plan - non-trade	(43,699 )	(16,440 )
Borrowings on revolving credit facilities	11,513	76,777
Repayments on revolving credit facilities	(11,513 )	(77,290 )
Proceeds from issuance of long-term debt	269,855	33,755
Debt issuance costs	(4,222 )	(152 )
Principal payments and repurchase of long-term debt	(5,289 )	(4,623 )
Repurchase of debt securities	(210,914 )	-
Purchases of treasury stock	(3,996 )	(74,415 )
Income tax benefit (expense) associated with stock compensation plans	-	(377 )
Issuance of shares under stock compensation plans	-	1
Dividends paid	(2,237 )	(1,873 )
Net cash provided by (used in) financing activities	(502 )	(64,637 )
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,457</b>	<b>(1,235 )</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>3,108</b>	<b>3,625</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 6,565</b>	<b>\$ 2,390</b>

**SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:**

Change in fair value of cash flow interest rate swap agreements (net of tax expense of \$799 and benefit of \$1,853 in the three months ended March 31, 2017 and 2016, respectively)	\$ 1,303	\$ (3,025 )
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**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**

Cash paid (received) during the period for:		
Interest, including amount capitalized	\$ 23,295	\$ 18,219
Income taxes	\$ 103	\$ 375

See notes to condensed consolidated financial statements.



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

**1. Summary of Significant Accounting Policies**

**Basis of Presentation** – The accompanying condensed consolidated financial statements of Sonic Automotive, Inc. and its wholly owned subsidiaries (“Sonic,” the “Company,” “we,” “us” and “our”) for the three months ended March 31, 2017 and 2016, are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and applicable rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These unaudited condensed consolidated financial statements reflect, in the opinion of management, all material normal recurring adjustments necessary to fairly state the financial position, results of operations and cash flows for the periods presented. The operating results for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year or future interim periods, because the first quarter normally contributes less operating profit than the second, third and fourth quarters. These interim financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in Sonic’s Annual Report on Form 10-K for the year ended December 31, 2016.

**Recent Accounting Pronouncements** – In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2014-09 to amend the accounting guidance on revenue recognition. The amendments in this ASU are intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices and improve disclosure requirements. The amendments in this ASU must be applied using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a modified retrospective approach with the cumulative effect of initially adopting the standard recognized at the date of adoption (which requires additional footnote disclosures). This ASU is effective for reporting periods beginning after December 15, 2017. Earlier application is permitted only as of reporting periods beginning after December 15, 2016. Sonic plans to adopt this ASU effective January 1, 2018 and anticipates adopting a full retrospective transition approach. While management is still evaluating the specific financial statement impact and quantitative and qualitative disclosure impact of the provisions of this ASU, based on preliminary analysis, management expects similar performance obligations to result under this update as compared with deliverables and separate units of accounting currently identified. As a result, management expects the amounts and timing of revenue recognition to generally remain the same.

In February 2016, the FASB issued ASU 2016-02 to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this ASU require that leases are classified as either finance or operating leases, a right-of-use asset and lease liability is recognized in the statement of financial position, and repayments are classified within operating activities in the statement of cash flows. The amendments in this ASU are to be applied using a modified retrospective approach and are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 (early adoption is permitted). Sonic plans to adopt this ASU effective January 1, 2019. While management is still evaluating the impact of adopting the provisions of this ASU, management expects that upon adoption of this ASU, the presentation of certain items in Sonic’s consolidated financial position, cash flows and other disclosures will be materially impacted, primarily due to the recognition of a right-of-use asset and an associated liability and a change in the timing and classification of certain items in Sonic’s results of operations as a result of the derecognition of the lease liability.

In March 2016, the FASB issued ASU 2016-09 to simplify several aspects of the accounting for share-based payment transactions. For public companies, this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 (early adoption is permitted). Sonic adopted this ASU effective January 1, 2017. Upon adoption of this ASU, interim period and annual period income tax expense is affected by stock option exercises and restricted stock and restricted stock unit vesting activity, potentially creating volatility in Sonic’s effective income tax rate from period to period. See the heading “Income Tax Expense” below for further discussion of the impact of the adoption of this ASU on Sonic’s effective income tax rate for the three months ended March 31, 2017.

In August 2016, the FASB issued ASU 2016-15 related to the classification of certain cash receipts and cash payments on the statement of cash flows. For public companies, this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 (early adoption is permitted). Sonic plans to adopt this ASU effective January 1, 2018. Upon adoption of this ASU, the presentation of certain items in Sonic’s cash flows and other disclosures may be impacted.

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

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

**Lease Exit Accruals** – Lease exit accruals relate to facilities Sonic has ceased using in its operations that remain subject to a current lease agreement. The accruals represent the present value of the lease payments, net of estimated or actual sublease proceeds, for the remaining life of the operating leases and other accruals necessary to satisfy the lease commitment to the landlord. These situations could include the relocation of an existing facility or the sale of a dealership where the buyer will not be subleasing the property for either the remaining term of the lease or for an amount of rent equal to Sonic’s obligation under the lease, or situations where a store is closed as a result of the associated franchise being terminated by Sonic or the manufacturer and no other operations continue on the leased property. See Note 12, “Commitments and Contingencies,” to the consolidated financial statements in Sonic’s Annual Report on Form 10-K for the year ended December 31, 2016 for further discussion.

A summary of the activity of these operating lease exit accruals consists of the following:

	<b>(In thousands)</b>
Balance at December 31, 2016	\$ 9,790
Lease exit expense (1)	614
Payments (2)	(1,189)
Other (3)	(885)
Balance at March 31, 2017	<u>\$ 8,330</u>

- (1) Expense of approximately \$0.6 million is recorded in income (loss) from discontinued operations before taxes, in the accompanying condensed consolidated statements of income.
- (2) Amount is recorded as an offset to rent expense, with approximately \$0.2 million recorded in selling, general and administrative expenses and approximately \$1.0 million recorded in income (loss) from discontinued operations before taxes, in the accompanying condensed consolidated statements of income.
- (3) Amount represents the cash settlement of accruals related to certain deferred maintenance costs and other liabilities related to lease termination.

**Income Tax Expense** – The overall effective tax rate from continuing operations was 113.3% and 38.8% for the three months ended March 31, 2017 and 2016, respectively. Sonic’s effective tax rate varies from year to year based on the distribution of taxable income between states in which Sonic operates and other tax adjustments. The effective tax rate for the three months ended March 31, 2017 was impacted by lower levels of income from continuing operations before taxes and the effect of a discrete charge related to uncertain tax positions in the three months ended March 31, 2017, offset partially by a discrete benefit related to the adoption of ASU 2016-09. Sonic expects the effective tax rate in future periods to fall within a range of 38.0% to 40.0% before the impact, if any, of changes in valuation allowances related to deferred income tax assets or discrete tax adjustments.

**2. Business Acquisitions and Dispositions**

Sonic did not acquire or dispose of any franchises during the three months ended March 31, 2017 and 2016.

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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In thousands)</b>	
Income (loss) from operations	\$ (1,165 )	\$ (194 )
Lease exit accrual adjustments and charges	297	455
Pre-tax income (loss)	<u>\$ (868 )</u>	<u>\$ 261</u>
Total revenues	\$ -	\$ -

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

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

	Three Months Ended March 31,	
	2017	2016
	(In thousands)	
Income (loss) from operations	\$ (27)	\$ (31)
Gain (loss) on disposal	(24)	(48)
Pre-tax income (loss)	\$ (51)	\$ (79)
Total revenues	\$ -	\$ 14

**3. Inventories**

Inventories consist of the following:

	March 31, 2017	December 31, 2016
		(In thousands)
New vehicles	\$ 1,122,919	\$ 1,088,814
Used vehicles	280,113	282,288
Service loaners	130,436	128,821
Parts, accessories and other	67,134	70,778
Net inventories	\$ 1,600,602	\$ 1,570,701

**4. Property and Equipment**

Property and equipment, net consists of the following:

	March 31, 2017	December 31, 2016
		(In thousands)
Land	\$ 335,407	\$ 306,457
Building and improvements	805,927	777,766
Software and computer equipment	132,874	128,366
Parts and service equipment	98,499	93,901
Office equipment and fixtures	88,894	86,216
Company vehicles	9,377	9,107
Construction in progress	66,793	62,982
Total, at cost	1,537,771	1,464,795
Less accumulated depreciation	(470,824)	(450,184)
Subtotal	1,066,947	1,014,611
Less assets held for sale (1)	(4,231)	(4,231)
Property and equipment, net	\$ 1,062,716	\$ 1,010,380

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

In the three months ended March 31, 2017 and 2016, capital expenditures were approximately \$75.7 million and \$41.4 million, respectively. Capital expenditures for the three months ended March 31, 2017 and 2016 were primarily related to real estate acquisitions, construction of new dealerships and EchoPark stores, building improvements and equipment purchased for use in Sonic's dealerships and EchoPark stores. Assets held for sale as of March 31, 2017 consists of vacant land that Sonic expects to dispose of in the next twelve months.

Impairment charges for the three months ended March 31, 2017 were approximately \$0.5 million, which include the write-off of capitalized costs associated with abandonment of certain construction projects. There were no impairment charges for the three months ended March 31, 2016.

**SONIC AUTOMOTIVE, INC.**  
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**5. Goodwill and Intangible Assets**

The carrying amount of goodwill was approximately \$472.4 million as of March 31, 2017 and December 31, 2016. The carrying amount of goodwill is net of accumulated impairment losses of approximately \$796.7 million as of March 31, 2017 and December 31, 2016. The carrying amount of franchise assets was approximately \$74.9 million as of March 31, 2017 and December 31, 2016.

At December 31, 2016, Sonic had approximately \$5.3 million of definite life intangibles related to favorable lease agreements. After the effect of amortization of the definite life intangibles, the balance recorded at March 31, 2017 was approximately \$5.2 million. Both franchise assets and favorable lease agreement assets are included in other intangible assets, net in the accompanying condensed consolidated balance sheets.

**6. Long-Term Debt**

Long-term debt consists of the following:

	March 31, 2017	December 31, 2016
	(In thousands)	
2016 Revolving Credit Facility (1)	\$ -	\$ -
7.0% Senior Subordinated Notes due 2022 (the "7.0% Notes")	-	200,000
5.0% Senior Subordinated Notes due 2023 (the "5.0% Notes")	289,273	289,273
6.125% Senior Subordinated Notes due 2027 (the "6.125% Notes")	250,000	-
Mortgage notes to finance companies-fixed rate, bearing interest from 3.51% to 7.03%	183,045	176,369
Mortgage notes to finance companies-variable rate, bearing interest at 1.25 to 2.80 percentage points above one-month or three-month LIBOR	235,317	227,342
Net debt discount and premium (2)	(93)	(1,258)
Debt issuance costs	(14,353)	(13,328)
Other	4,195	4,280
Total debt	\$ 947,384	\$ 882,678
Less current maturities	(50,032)	(43,003)
Long-term debt	<u>\$ 897,352</u>	<u>\$ 839,675</u>

- (1) The interest rate on the 2016 Revolving Credit Facility (as defined below) was 200 basis points and 225 basis points above LIBOR at March 31, 2017 and December 31, 2016, respectively.
- (2) March 31, 2017 includes a \$0.1 million discount associated with mortgage notes payable. December 31, 2016 includes a \$1.1 million discount associated with the 7.0% Notes and a \$0.2 million discount associated with mortgage notes payable.

**2016 Credit Facilities**

On November 30, 2016, Sonic entered into an amended and restated syndicated revolving credit facility (the "2016 Revolving Credit Facility") and amended and restated syndicated new and used vehicle floor plan credit facilities (the "2016 Floor Plan Facilities" and, together with the 2016 Revolving Credit Facility, the "2016 Credit Facilities"), which are scheduled to mature on November 30, 2021.

Availability under the 2016 Revolving Credit Facility is calculated as the lesser of \$250.0 million or a borrowing base calculated based on certain eligible assets, less the aggregate face amount of any outstanding letters of credit under the 2016 Revolving Credit Facility (the "2016 Revolving Borrowing Base"). The 2016 Revolving Credit Facility may be increased at Sonic's option up to \$300.0 million upon satisfaction of certain conditions. Based on balances as of March 31, 2017, the 2016 Revolving Borrowing Base was approximately \$204.8 million. As of March 31, 2017, Sonic had no outstanding borrowings and approximately \$17.3 million in outstanding letters of credit under the 2016 Revolving Credit Facility, resulting in total borrowing availability of \$187.5 million under the 2016 Revolving Credit Facility.

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**7.0% Notes**

On July 2, 2012, Sonic issued \$200.0 million in aggregate principal amount of unsecured senior subordinated 7.0% Notes which were scheduled to mature on July 15, 2022. The 7.0% Notes were issued at a price of 99.11% of the principal amount thereof, resulting in a yield to maturity of 7.125%. Interest on the 7.0% Notes was payable semi-annually in arrears on January 15 and July 15 of each year.

On March 27, 2017, Sonic repurchased all of the outstanding 7.0% Notes using net proceeds from the issuance of the 6.125% Notes. Sonic paid approximately \$213.7 million in cash, including an early redemption premium and accrued and unpaid interest, to extinguish the 7.0% Notes and recognized a loss of approximately \$14.6 million on the repurchase of the 7.0% Notes, recorded in other income (expense), net in the accompanying condensed consolidated statements of income.

**5.0% Notes**

On May 9, 2013, Sonic issued \$300.0 million in aggregate principal amount of unsecured senior subordinated 5.0% Notes which mature on May 15, 2023. The 5.0% Notes were issued at a price of 100.0% of the principal amount thereof. Interest on the 5.0% Notes is payable semi-annually in arrears on May 15 and November 15 of each year. On September 30, 2016, Sonic repurchased approximately \$10.7 million of its outstanding 5.0% Notes for approximately \$10.6 million in cash, plus accrued and unpaid interest related thereto. See Note 6, "Long-Term Debt," to the consolidated financial statements in Sonic's Annual Report on Form 10-K for the year ended December 31, 2016 for further discussion.

**6.125% Notes**

On March 10, 2017, Sonic issued \$250.0 million in aggregate principal amount of unsecured senior subordinated 6.125% Notes which mature on March 15, 2027. The 6.125% Notes were issued at a price of 100.0% of the principal amount thereof. Sonic used the net proceeds from the issuance of the 6.125% Notes to repurchase all of the outstanding 7.0% Notes during the three months ended March 31, 2017. Remaining proceeds from the issuance of the 6.125% Notes will be used for general corporate purposes. The 6.125% Notes are guaranteed by Sonic's domestic operating subsidiaries. Interest on the 6.125% Notes is payable semi-annually in arrears on March 15 and September 15 of each year. Sonic may redeem the 6.125% Notes, in whole or in part, at any time on or after March 15, 2022 at the following redemption prices, which are expressed as percentages of the principal amount:

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

Before March 15, 2022, Sonic may redeem all or a part of the 6.125% Notes at a redemption price equal to 100% of the principal amount of the 6.125% Notes redeemed plus the Applicable Premium (as defined in the indenture governing the 6.125% Notes) and any accrued and unpaid interest as of the redemption date. In addition, on or before March 15, 2020, Sonic may redeem up to 35% of the aggregate principal amount of the 6.125% Notes at 106.125% of the par value of the 6.125% Notes, plus accrued and unpaid interest, if any, with proceeds from certain equity offerings. The indenture governing the 6.125% Notes also provides that holders of the 6.125% Notes may require Sonic to repurchase the 6.125% Notes at 101% of the par value of the 6.125% Notes, plus accrued and unpaid interest, if any, if Sonic undergoes a change of control, as defined in the indenture governing the 6.125% Notes.

The indenture governing the 6.125% Notes contains certain specified restrictive covenants. Sonic has agreed not to pledge any assets to any third-party lender of senior subordinated debt except under certain limited circumstances. Sonic also has agreed to certain other limitations or prohibitions concerning the incurrence of other indebtedness, guarantees, liens, certain types of investments, certain transactions with affiliates, mergers, consolidations, issuance of preferred stock, cash dividends to stockholders, distributions, redemptions and the sale, assignment, lease, conveyance or disposal of certain assets. Specifically, the indenture governing the 6.125% Notes limits Sonic's ability to pay quarterly cash dividends on Sonic's Class A and Class B common stock in excess of \$0.12 per share. Sonic may only pay quarterly cash dividends on Sonic's Class A and Class B common stock if Sonic complies with the terms of the indenture governing the 6.125% Notes. Sonic was in compliance with all restrictive covenants in the indenture governing the 6.125% Notes as of March 31, 2017.

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

***Mortgage Notes***

During the three months ended March 31, 2017, Sonic obtained approximately \$19.9 million in mortgage financing related to four of its dealership properties. As of March 31, 2017, the weighted average interest rate was 3.95% and the total outstanding principal balance was approximately \$418.4 million, related to approximately 50% of Sonic's operating locations. These mortgage notes require monthly payments of principal and interest through their respective maturities and are secured by the underlying properties. Maturity dates for these mortgage notes range between 2017 and 2033.

***Covenants***

Sonic agreed under the 2016 Credit Facilities not to pledge any assets to any third party (other than those explicitly allowed under the amended terms of the 2016 Credit Facilities), including other lenders, subject to certain stated exceptions, including floor plan financing arrangements. In addition, the 2016 Credit Facilities contain certain negative covenants, including covenants which could restrict or prohibit the payment of dividends, capital expenditures and material dispositions of assets as well as other customary covenants and default provisions.

Sonic was in compliance with the covenants under the 2016 Credit Facilities as of March 31, 2017. Financial covenants include required specified ratios (as each is defined in the 2016 Credit Facilities) of:

	<b>Minimum Consolidated Liquidity Ratio</b>	<b>Covenant Minimum Consolidated Fixed Charge Coverage Ratio</b>	<b>Maximum Consolidated Total Lease Adjusted Leverage Ratio</b>
Required ratio	1.05	1.20	5.75
March 31, 2017 actual	1.17	1.90	4.25

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

After giving effect to the applicable restrictions on the payment of dividends under its debt agreements, as of March 31, 2017, Sonic had at least \$126.6 million of its net income and retained earnings free of such restrictions. Sonic was in compliance with all restrictive covenants as of March 31, 2017.

In addition, many of Sonic's facility leases are governed by a guarantee agreement between the landlord and Sonic that contains financial and operating covenants. The financial covenants under the guarantee agreement are identical to those under the 2016 Credit Facilities with the exception of one financial covenant related to the ratio of EBT DAR to Rent (as defined in the guarantee agreement) with a required ratio of no less than 1.50 to 1.00. As of March 31, 2017, the ratio was 3.96 to 1.00.

***Derivative Instruments and Hedging Activities***

Sonic has interest rate cash flow swap agreements to effectively convert a portion of its LIBOR-based variable rate debt to a fixed rate. Under the terms of these cash flow swaps, interest rates reset monthly. The fair value of these swap positions at March 31, 2017 was a net liability of approximately \$1.5 million, with \$2.8 million included in other accrued liabilities and \$1.6 million included in other long-term liabilities in the accompanying condensed consolidated balance sheets, offset partially by an asset of approximately \$0.2 million and \$2.7 million included in other current assets and other assets, respectively, in the accompanying condensed consolidated balance sheets. The fair value of these swap positions at December 31, 2016 was a net liability of approximately \$3.7 million, with \$4.1 million included in other accrued liabilities and \$2.4 million included in other long-term liabilities in the

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accompanying condensed consolidated balance sheets, offset partially by an asset of approximately \$2.8 million included in other current assets and other assets in the accompanying condensed consolidated balance sheets.

Under the terms of these cash flow swaps, Sonic will receive and pay interest based on the following:

Notional Amount (In millions)		Pay Rate	Receive Rate (1)	Maturing Date
\$ 2.2		7.100%	one-month LIBOR + 1.50%	July 10, 2017
\$ 7.1		4.655%	one-month LIBOR	December 10, 2017
\$ 6.5	(2)	6.860%	one-month LIBOR + 1.25%	August 1, 2017
\$ 5.9	(2)	6.410%	one-month LIBOR + 1.25%	September 12, 2017
\$ 100.0		2.065%	one-month LIBOR	June 30, 2017
\$ 100.0		2.015%	one-month LIBOR	June 30, 2017
\$ 50.0		1.320%	one-month LIBOR	July 1, 2017
\$ 250.0	(3)	1.887%	one-month LIBOR	June 30, 2018
\$ 25.0		2.080%	one-month LIBOR	July 1, 2017
\$ 100.0		1.560%	one-month LIBOR	July 1, 2017
\$ 125.0		1.303%	one-month LIBOR	July 1, 2017
\$ 125.0	(4)	1.900%	one-month LIBOR	July 1, 2018
\$ 50.0	(5)	2.320%	one-month LIBOR	July 1, 2019
\$ 200.0	(5)	2.313%	one-month LIBOR	July 1, 2019
\$ 100.0	(6)	1.384%	one-month LIBOR	July 1, 2020
\$ 125.0	(5)	1.158%	one-month LIBOR	July 1, 2019
\$ 150.0	(6)	1.310%	one-month LIBOR	July 1, 2020
\$ 125.0	(4)	1.020%	one-month LIBOR	July 1, 2018

- (1) The one-month LIBOR rate was approximately 0.983% at March 31, 2017.
- (2) Changes in fair value are recorded through earnings.
- (3) The effective date of this forward-starting swap is July 3, 2017.
- (4) The effective date of these forward-starting swaps is July 1, 2017.
- (5) The effective date of these forward-starting swaps is July 2, 2018.
- (6) The effective date of these forward-starting swaps is July 1, 2019.

For the interest rate swaps not designated as cash flow hedges, the changes in the fair value of these swaps are recognized through earnings and are included in interest expense, other, net in the accompanying condensed consolidated statements of income. For the three months ended March 31, 2017 and 2016, these items were an expense of approximately \$0.1 million.

For the interest rate swaps that qualify as cash flow hedges, the changes in the fair value of these swaps are recorded in other comprehensive income (loss) in the accompanying condensed consolidated statements of comprehensive income and are disclosed in the supplemental schedule of non-cash financing activities in the accompanying condensed consolidated statements of cash flows. The incremental interest expense (the difference between interest paid and interest received) related to these cash flow swaps was approximately \$1.2 million and \$1.3 million for the three months ended March 31, 2017 and 2016, respectively, and is included in interest expense, other, net in the accompanying condensed consolidated statements of income and the interest paid amount is disclosed in the supplemental disclosures of cash flow information in the accompanying condensed consolidated statements of cash flows. The estimated net expense expected to be reclassified out of accumulated other comprehensive income (loss) into results of operations during the next twelve months is approximately \$1.6 million.

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**7. Per Share Data and Stockholders' Equity**

The calculation of diluted earnings per share considers the potential dilutive effect of stock options and shares under Sonic's stock compensation plans. Certain of Sonic's non-vested restricted stock awards contain rights to receive non-forfeitable dividends and, thus, are considered participating securities and are included in the two-class method of computing earnings per share. The following tables illustrate the dilutive effect of such items on earnings per share for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31, 2017						
	Weighted Average Shares	Income (Loss) From Continuing Operations		Income (Loss) From Discontinued Operations		Net Income (Loss)	
		Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
Earnings (loss) and shares	44,791	\$ (20)		\$ (521)		\$ (541)	
Effect of participating securities:							
Non-vested restricted stock		-		-		-	
Basic earnings (loss) and shares	44,791	\$ (20)	\$ -	\$ (521)	\$ (0.01)	\$ (541)	\$ (0.01)
Effect of dilutive securities:							
Stock compensation plans	-						
Diluted earnings (loss) and shares	44,791	\$ (20)	\$ -	\$ (521)	\$ (0.01)	\$ (541)	\$ (0.01)

	Three Months Ended March 31, 2016						
	Weighted Average Shares	Income (Loss) From Continuing Operations		Income (Loss) From Discontinued Operations		Net Income (Loss)	
		Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
Earnings (loss) and shares	46,950	\$ 14,464		\$ 160		\$ 14,624	
Effect of participating securities:							
Non-vested restricted stock		(6)		-		(6)	
Basic earnings (loss) and shares	46,950	\$ 14,458	\$ 0.31	\$ 160	\$ -	\$ 14,618	\$ 0.31
Effect of dilutive securities:							
Stock compensation plans	172						
Diluted earnings (loss) and shares	47,122	\$ 14,458	\$ 0.31	\$ 160	\$ -	\$ 14,618	\$ 0.31

In addition to the stock options included in the tables above, options to purchase approximately 0.1 million and 0.4 million shares of Sonic's Class A common stock were outstanding at March 31, 2017 and 2016, respectively, but were not included in the computation of diluted earnings (loss) per share because the options were not dilutive.

**8. Contingencies**

**Legal and Other Proceedings**

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



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Included in other accrued liabilities and other long-term liabilities at March 31, 2017 was approximately \$2.5 million and \$0.2 million, respectively, in reserves that Sonic was holding for pending proceedings. Included in other accrued liabilities and other long-term liabilities at December 31, 2016 was approximately \$0.3 million and \$0.2 million, respectively, for such reserves. Except as reflected in such reserves, Sonic is currently unable to estimate a range of reasonably possible loss, or a range of reasonably possible loss in excess of the amount accrued, for pending proceedings.

***Guarantees and Indemnification Obligations***

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

In connection with dealership dispositions and facility relocations, certain of Sonic's subsidiaries have assigned or sublet to the buyer its interests in real property leases associated with such dealerships. In general, the subsidiaries retain responsibility for the performance of certain obligations under such leases, including rent payments, and repairs to leased property upon termination of the lease, to the extent that the assignee or sublessee does not perform. In the event the sublessees do not perform their obligations, Sonic remains liable for the lease payments. See Note 12, "Commitments and Contingencies," to the consolidated financial statements in Sonic's Annual Report on Form 10-K for the year ended December 31, 2016 for further discussion.

In accordance with the terms of agreements entered into for the sale of Sonic's dealerships, Sonic generally agrees to indemnify the buyer from certain liabilities and costs arising subsequent to the date of sale, including environmental exposure and exposure resulting from the breach of representations or warranties made in accordance with the agreement. While Sonic's exposure with respect to environmental remediation and repairs is difficult to quantify, Sonic's maximum exposure associated with these general indemnifications was approximately \$0.5 million at March 31, 2017 and December 31, 2016. These indemnifications typically expire within a period of one to three years following the date of sale. The estimated fair value of these indemnifications was not material and the amount recorded for this contingency was not significant at March 31, 2017.

Sonic also guarantees the floor plan commitments of its 50%-owned joint venture, the amount of which was approximately \$2.8 million at both March 31, 2017 and December 31, 2016.

**9. Fair Value Measurements**

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

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

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

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

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment required by Sonic in determining fair value is greatest for assets and liabilities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases,

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for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement is disclosed is determined based on the lowest level input (Level 3 being the lowest level) that is significant to the fair value measurement.

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

Assets and liabilities recorded at fair value in the accompanying condensed consolidated balance sheets as of March 31, 2017 and December 31, 2016 are as follows:

	<b>Fair Value Based on Significant Other Observable Inputs (Level 2)</b>	
	<b>March 31, 2017</b>	<b>December 31, 2016</b>
<b>(In thousands)</b>		
<b>Assets:</b>		
Cash surrender value of life insurance policies (1)	\$ 32,024	\$ 31,475
Cash flow swaps designated as hedges (2)	2,928	2,772
Total assets	<u>\$ 34,952</u>	<u>\$ 34,247</u>
<b>Liabilities:</b>		
Cash flow swaps designated as hedges (3)	\$ 4,189	\$ 6,135
Cash flow swaps not designated as hedges (4)	200	346
Deferred compensation plan (5)	15,808	14,824
Total liabilities	<u>\$ 20,197</u>	<u>\$ 21,305</u>

- (1) Included in other assets in the accompanying condensed consolidated balance sheets.
- (2) As of March 31, 2017, approximately \$0.2 million and \$2.7 million were included in other current assets and other assets, respectively, in the accompanying condensed consolidated balance sheets. As of December 31, 2016, approximately \$2.8 million was included in other assets in the accompanying condensed consolidated balance sheets.
- (3) As of March 31, 2017, approximately \$2.6 million and \$1.6 million were included in other accrued liabilities and other long-term liabilities, respectively, in the accompanying condensed consolidated balance sheets. As of December 31, 2016, approximately \$3.7 million and \$2.4 million were included in other accrued liabilities and other long-term liabilities, respectively, in the accompanying condensed consolidated balance sheets.
- (4) As of March 31, 2017, approximately \$0.2 million was included in other accrued liabilities in the accompanying condensed consolidated balance sheets. As of December 31, 2016, approximately \$0.3 million was included in other accrued liabilities in the accompanying condensed consolidated balance sheets.
- (5) Included in other long-term liabilities in the accompanying condensed consolidated balance sheets.

There were no instances in the three months ended March 31, 2017 which required a fair value measurement of assets ordinarily measured at fair value on a non-recurring basis. Therefore, the carrying value of assets measured at fair value on a non-recurring basis in the accompanying condensed consolidated balance sheets as of March 31, 2017 has not changed since December 31, 2016. These assets will be evaluated as of the annual valuation assessment date of October 1, 2017 or as events or changes in circumstances require.

As of March 31, 2017 and December 31, 2016, the fair values of Sonic's financial instruments, including receivables, notes receivable from finance contracts, notes payable – floor plan, trade accounts payable, borrowings under the revolving credit facilities and certain mortgage notes, approximated their carrying values due either to length of maturity or existence of variable interest rates that approximate prevailing market rates.

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At March 31, 2017 and December 31, 2016, the fair value and carrying value of Sonic's significant fixed rate long-term debt were as follows:

	March 31, 2017		December 31, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(In thousands)			
7.0% Notes (1)	\$ -	\$ -	\$ 211,000	\$ 198,871
5.0% Notes (1)	\$ 281,318	\$ 289,273	\$ 284,934	\$ 289,273
6.125% Notes (1)	\$ 249,375	\$ 250,000	\$ -	\$ -
Mortgage Notes (2)	\$ 189,383	\$ 183,045	\$ 185,979	\$ 176,369
Other (2)	\$ 3,982	\$ 4,196	\$ 4,057	\$ 4,280

- (1) As determined by market quotations as of March 31, 2017 and December 31, 2016, respectively (Level 1).  
(2) As determined by discounted cash flows (Level 3).

**10. Accumulated Other Comprehensive Income (Loss)**

The changes in accumulated other comprehensive income (loss) by component for the three months ended March 31, 2017 are as follows:

	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plan	Total Accumulated Other Comprehensive Income (Loss)
	(In thousands)		
Balance at December 31, 2016	\$ (2,085)	\$ (177)	\$ (2,262)
Other comprehensive income (loss) before reclassifications (1)	549	-	549
Amounts reclassified out of accumulated other comprehensive income (loss) (2)	754	-	754
Net current-period other comprehensive income (loss)	1,303	-	1,303
Balance at March 31, 2017	<u>\$ (782)</u>	<u>\$ (177)</u>	<u>\$ (959)</u>

- (1) Net of tax benefit of \$337.  
(2) Net of tax expense of \$462.

See the heading "Derivative Instruments and Hedging Activities" in Note 6, "Long-Term Debt," for further discussion of Sonic's cash flow hedges. For further discussion of Sonic's defined benefit pension plan, see Note 10, "Employee Benefit Plans," to the consolidated financial statements in Sonic's Annual Report on Form 10-K for the year ended December 31, 2016.

**11. Segment Information**

As of March 31, 2017, Sonic had two operating segments: Franchised Dealerships and EchoPark. The Franchised Dealerships segment is comprised of retail automotive franchises that sell new vehicles and buy and sell used vehicles, sell replacement parts, perform vehicle repair and maintenance services, and arrange finance and insurance products. The EchoPark segment is comprised of stand-alone specialty retail locations that provide customers an opportunity to search, buy, service, finance and sell pre-owned vehicles.

The operating segments identified above are the business activities of Sonic for which discrete financial information is available and for which operating results are regularly reviewed by Sonic's chief operating decision maker to assess operating performance and allocate resources. Sonic's chief operating decision maker is a group of three individuals consisting of the Company's Chief Executive Officer and President, Executive Vice President and Chief Financial Officer, and Executive Vice President of Operations. The Company has determined that its operating segments also represent its reportable segments.

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Reportable segment revenues and segment income (loss) are as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In thousands)</b>	
<b>Revenues:</b>		
Franchised Dealerships	\$ 2,246,025	\$ 2,210,586
EchoPark	41,797	24,040
Total consolidated revenues	<u>\$ 2,287,822</u>	<u>\$ 2,234,626</u>
	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In thousands)</b>	
<b>Segment income (loss) (1):</b>		
Franchised Dealerships	\$ 33,470	\$ 39,292
EchoPark	(5,408 )	(3,423 )
Total segment income (loss)	28,062	35,869
Interest expense, other, net	(13,409 )	(12,339 )
Other income (expense), net	(14,501 )	104
Income (loss) from continuing operations before taxes	<u>\$ 152</u>	<u>\$ 23,634</u>

(1) Segment income (loss) for each segment is defined as operating income (loss) less interest expense, floor plan.

**12. Subsequent Events**

Subsequent to March 31, 2017, we incurred storm damage to vehicle inventory at a group of our stores in Alabama and Texas. Preliminary estimates of the loss not covered by insurance total approximately \$5.0 million.

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Sonic Automotive, Inc. condensed consolidated financial statements and related notes thereto included elsewhere in this report, as well as the consolidated financial statements and related notes thereto, "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

**Overview**

We are one of the largest automotive retailers in the United States (as measured by total revenue). As of March 31, 2017, we operated 116 franchises in 13 states (representing 25 different brands of cars and light trucks) and 18 collision repair centers. For management and operational reporting purposes, we group certain franchises together that share management and inventory (principally used vehicles) into "stores." As of March 31, 2017, we operated 104 franchised dealership stores and eight EchoPark stores.

As a result of the way we manage our business, we had two operating segments as of March 31, 2017: Franchised Dealerships and EchoPark. Our franchised dealerships provide comprehensive services, including (1) sales of both new and used cars and light trucks; (2) sales of replacement parts and performance of vehicle maintenance, manufacturer warranty repairs, and paint and collision repair services (collectively, "Fixed Operations"); and (3) arrangement of extended warranties, service contracts, financing, insurance and other aftermarket products (collectively, "F&I") for our customers. EchoPark provides the same services (excluding new vehicles sales and manufacturer warranty repairs) in unique stand-alone specialty retail locations. Our EchoPark business operates independently from our franchised new and used dealership sales operations and offers customers an exciting shopping and buying experience. Sales operations in our first EchoPark market in Denver, Colorado began in the fourth quarter of 2014. As of March 31, 2017, we had five EchoPark stores in operation in Denver and we expect to open another store in Colorado in the first half of 2017. In addition, we are in the process of converting three existing stand-alone pre-owned stores in Florida to the EchoPark brand, which we anticipate completing in the second half of 2017. During the second quarter of 2016, we announced that we have begun the process of expanding EchoPark operations into additional markets in North Carolina, South Carolina and Texas with operations in these markets expected to begin in 2017 and 2018. We believe that our EchoPark business will provide long-term benefits to us, our stockholders and guests. However, in the short term, this initiative may negatively impact our overall operating results as we allocate management and capital resources to this business.

In the fourth quarter of 2013, we announced a new customer experience initiative known as "One Sonic-One Experience" ("OSOE"). This initiative includes several new processes and proprietary technologies from inventory management, electronic desking and pricing tools to a fully developed "customer-centric" Customer Relationship Management tool. We believe that the development of these processes and technologies will allow us to better serve our customers across our entire platform of stores. Our goal is to allow our guests to control the buying process and move at their pace so that once the vehicle has been selected our team can utilize these processes and technologies to allow our guests to complete a new or pre-owned vehicle sales transaction in less than an hour. During the latter half of 2014 and throughout 2015, we rolled out the OSOE initiative at our dealerships in Charlotte, North Carolina. During 2016, we introduced the technology component of the initiative to 14 additional stores in our Alabama, California and Tennessee markets, and, in the first quarter of 2017, we launched OSOE at our BMW dealership in Greenville, South Carolina. Additional market implementations will continue upon completion of migration activities and required market/brand specific technology modifications. We believe that our OSOE initiative will provide long-term benefits to us, our stockholders and guests. However, in the short term, this initiative may negatively impact our overall operating results as we allocate management and capital resources to this initiative.

**Executive Summary**

The U.S. retail automotive industry's total new vehicle seasonally adjusted annual rate of sales ("SAAR") increased 0.6%, to 17.2 million vehicles in the three months ended March 31, 2017, from 17.1 million vehicles in the three months ended March 31, 2016 according to Bloomberg Financial Markets, via Stephens Inc. For 2017, analysts' average industry expectation for the new vehicle SAAR is approximately 17.4 million to 17.6 million vehicles. We estimate the 2017 new vehicle SAAR will be between 17.0 million and 17.5 million vehicles. Changes in consumer confidence, availability of consumer financing or changes in the financial

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stability of the automotive manufacturers could cause actual 2017 new vehicle SAAR to vary from expectations. Many factors such as brand and geographic concentrations have caused our past results to differ from the industry's overall trend, as well as the industry sales mix between retail and fleet new vehicle sales volume. Our current operational goal focuses on growing our retail new vehicle sales, as opposed to fleet new vehicle sales which is a minimal part of our business, and, as a result, we believe it is appropriate to compare our retail new vehicle unit sales volume to the retail SAAR (which excludes fleet new vehicle sales). According to PIN from J.D. Power, retail SAAR was 13.6 million vehicles for the three months ended March 31, 2017, an increase of 1.5% from the prior year period.

Our significant exposure to the Houston market has created operational challenges in the past several quarters due to the downturn in the energy markets in that region. As a result, our Houston market has negatively impacted our overall new and used vehicle unit sales volume and gross profit across each of our business lines. While there are some signs that the energy market and Houston's economy are beginning to rebound, we believe that the Houston market may continue to negatively impact our results until the market gains sustained positive momentum and returns to previous operating levels.

Our same store retail new vehicle revenue decreased 1.4% during the three months ended March 31, 2017, driven by a 2.0% decrease in retail new vehicle unit sales volume. Retail new vehicle gross profit decreased 1.0% on lower retail new vehicle unit sales volume, partially offset by higher retail new vehicle gross profit per unit, which increased \$20 per unit, or 1.0%, to \$1,954 per unit. We believe gross profit per unit on retail new vehicles has benefited from a shift in mix to trucks and sport utility vehicles.

Our same store used vehicle unit revenue increased 2.8% during the three months ended March 31, 2017, driven by a 0.4% increase in used vehicle unit sales volume and a 2.4% increase in average selling price per unit as a result of a shift in brand and model sales mix. Used vehicle gross profit decreased 1.8%, driven by a decrease in used vehicle gross profit per unit of \$30 per unit, or 2.2%, to \$1,300 per unit. Our same store wholesale vehicle revenue increased approximately \$0.9 million, or 2.0%, during the three months ended March 31, 2017, driven primarily by an increase in wholesale unit price per unit of \$305, or 5.8%. As of March 31, 2017, we had approximately 600 "stop-sale" used vehicles in our inventory, which increased our used vehicle inventory days' supply by approximately one day. We focus on maintaining used vehicle inventory days' supply in the 30- to 35-day range in order to limit our exposure to market pricing volatility. Adjusted for "stop-sale" vehicles, our used vehicle inventory days' supply was approximately 35 days as of March 31, 2017, down three days compared to March 31, 2016.

Our same store Fixed Operations revenue increased 1.0% during the three months ended March 31, 2017, driving a 1.1% increase in Fixed Operations gross profit, primarily due to an increase in same store internal, sublet and other gross profit on higher levels of used vehicle reconditioning and hail damage repairs. Although vehicle sales and sales of associated finance, insurance and other aftermarket products are cyclical and are affected by many factors, including overall economic conditions, consumer confidence, levels of discretionary personal income, interest rates and available credit, our parts, service and collision repair services are not as closely tied to vehicle sales and are not as dependent upon near-term sales volume. However, significant changes to the level of manufacturer recall and warranty activity could negatively impact our Fixed Operations results in the future.

Our same store F&I revenue was flat during the three months ended March 31, 2017, driven by a 0.8% decrease in combined retail new and used vehicle unit sales volume, partially offset by an increase of 0.8% in F&I gross profit per retail unit, which increased \$11 per unit to \$1,370 per unit. We believe that our proprietary software applications, playbook processes and customer-centric selling approach continued to drive increases in gross profit per F&I contract. We believe we will continue to improve in this area as we refine our processes, train our associates and continue to sell high levels of retail new and used vehicles at our dealerships and EchoPark stores.

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The following is a detail of our new vehicle revenues by brand for the three months ended March 31, 2017 and 2016:

Brand	Percentage of New Vehicle Revenue	
	Three Months Ended March 31,	
	2017	2016
Luxury:		
BMW	19.5 %	20.7 %
Mercedes	10.6 %	10.1 %
Lexus	5.5 %	5.9 %
Audi	4.9 %	4.8 %
Land Rover	3.7 %	4.0 %
Cadillac	2.9 %	3.3 %
Porsche	2.3 %	1.9 %
MINI	1.3 %	1.7 %
Other luxury (1)	2.8 %	2.5 %
Total Luxury	53.5 %	54.9 %
Mid-line Import:		
Honda	18.9 %	17.3 %
Toyota	12.0 %	11.6 %
Volkswagen	1.6 %	1.4 %
Hyundai	1.5 %	1.2 %
Other imports (2)	1.5 %	1.7 %
Total Mid-line Import	35.5 %	33.2 %
Domestic:		
Ford	6.5 %	6.5 %
General Motors (3)	4.5 %	5.4 %
Total Domestic	11.0 %	11.9 %
Total	100.0 %	100.0 %

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

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

(3) Includes Buick, Chevrolet and GMC.

**Results of Operations**

Unless otherwise noted, all discussion of increases or decreases for the three months ended March 31, 2017 are compared to the same prior year period, as applicable. The following discussion of new vehicles, used vehicles, wholesale vehicles, parts, service and collision repair, and finance, insurance and other, net are on a same store basis, except where otherwise noted. All currently operating continuing operations stores (both franchised dealerships and EchoPark) are included within the same store group in the first full month following the first anniversary of the store's opening or acquisition.

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**New Vehicles**

The automobile retail industry uses the total new vehicle SAAR to measure the annual amount of expected new vehicle unit sales activity (both retail and fleet sales) within the United States. The total and retail SAAR below reflect all brands marketed or sold in the United States. The total and retail SAAR include brands we do not sell and markets in which we do not operate, therefore, our new vehicle sales may not trend directly in line with the total and retail SAAR. We believe that retail SAAR is a more meaningful metric for comparing our new vehicle sales volume to the industry due to our minimal fleet vehicle business.

(In millions of vehicles)	Three Months Ended March 31,		% Change
	2017	2016	
Retail SAAR (1)	13.6	13.4	1.5%
Fleet SAAR	3.6	3.7	(2.7%)
Total SAAR (2)	17.2	17.1	0.6%

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

(2) Source: Bloomberg Financial Markets, via Stephens Inc.

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

	Three Months Ended March 31,		Better / (Worse)	
	2017	2016	Change	% Change
(In thousands, except unit data)				
<b>Total new vehicle revenue:</b>				
Same store	\$ 1,158,115	\$ 1,164,570	\$ (6,455)	(0.6%)
Acquisitions and dispositions	13,817	-	13,817	100.0%
Total as reported	<u>\$ 1,171,932</u>	<u>\$ 1,164,570</u>	<u>\$ 7,362</u>	0.6%
<b>Total new vehicle gross profit:</b>				
Same store	\$ 57,558	\$ 58,375	\$ (817)	(1.4%)
Acquisitions and dispositions	720	49	671	1369.4%
Total as reported	<u>\$ 58,278</u>	<u>\$ 58,424</u>	<u>\$ (146)</u>	(0.2%)
<b>Total new vehicle units:</b>				
Same store	30,188	30,605	(417)	(1.4%)
Acquisitions and dispositions	307	-	307	100.0%
Total as reported	<u>30,495</u>	<u>30,605</u>	<u>(110)</u>	(0.4%)

Our reported new vehicle results (including fleet) are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2017	2016	Change	% Change
(In thousands, except units and per unit data)				
<b>Reported new vehicle:</b>				
Revenue	\$ 1,171,932	\$ 1,164,570	\$ 7,362	0.6%
Gross profit	\$ 58,278	\$ 58,424	\$ (146)	(0.2%)
Unit sales	30,495	30,605	(110)	(0.4%)
Revenue per unit	\$ 38,430	\$ 38,052	\$ 378	1.0%
Gross profit per unit	\$ 1,911	\$ 1,909	\$ 2	0.1%
Gross profit as a % of revenue	5.0%	5.0%	0	bps



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Our same store new vehicle results (including fleet) are as follows:

	<u>Three Months Ended March 31,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
<i>(In thousands, except units and per unit data)</i>				
<b>Same store new vehicle:</b>				
Revenue	\$ 1,158,115	\$ 1,164,570	\$ (6,455)	(0.6%)
Gross profit	\$ 57,558	\$ 58,375	\$ (817)	(1.4%)
Unit sales	30,188	30,605	(417)	(1.4%)
Revenue per unit	\$ 38,363	\$ 38,052	\$ 311	0.8%
Gross profit per unit	\$ 1,907	\$ 1,907	\$ -	0.0%
Gross profit as a % of revenue	5.0%	5.0%	0	bps

*Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016*

Excluding fleet sales, our retail new vehicle revenue decreased 1.4% and our retail new vehicle unit sales volume decreased 2.0%, driven primarily by decreases in retail new vehicle unit sales volume at our General Motors (excluding Cadillac), BMW and Ford dealerships, offset partially by an increase in retail new vehicle unit sales volume at our Honda dealerships. Excluding fleet sales, our retail new vehicle gross profit decreased approximately \$0.6 million, or 1.0%, primarily driven by decreases in retail new vehicle gross profit at our Lexus, Toyota and General Motors (excluding Cadillac) dealerships, offset partially by increases in retail new vehicle gross profit at our BMW, Honda and Ford dealerships. Our gross profit per retail new vehicle unit increased \$20 per unit, or 1.0%, primarily driven by increases in gross profit per retail new vehicle unit at our BMW, Honda and Ford dealerships, offset partially by decreases in gross profit per retail new vehicle unit at our Lexus, Toyota and General Motors (excluding Cadillac) dealerships.

Our Houston market continued to weigh on our retail new vehicle results, experiencing an 8.2% decrease in retail new vehicle unit sales volume and suppressing the overall increase in gross profit per retail new vehicle unit by \$18 per unit.

***Used Vehicles***

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

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

	Three Months Ended March 31,		Better / (Worse)	
	2017	2016	Change	% Change
(In thousands, except unit data)				
<b>Total used vehicle revenue:</b>				
Same store	\$ 615,391	\$ 598,355	\$ 17,036	2.8%
Acquisitions and dispositions	19,083	-	19,083	100.0%
Total as reported	<u>\$ 634,474</u>	<u>\$ 598,355</u>	<u>\$ 36,119</u>	<u>6.0%</u>
<b>Total used vehicle gross profit:</b>				
Same store	\$ 38,286	\$ 38,992	\$ (706)	(1.8%)
Acquisitions and dispositions	2,547	1,539	1,008	65.5%
Total as reported	<u>\$ 40,833</u>	<u>\$ 40,531</u>	<u>\$ 302</u>	<u>0.7%</u>
<b>Total used vehicle units:</b>				
Same store	29,458	29,333	125	0.4%
Acquisitions and dispositions	914	-	914	100.0%
Total as reported	<u>30,372</u>	<u>29,333</u>	<u>1,039</u>	<u>3.5%</u>

Our reported used vehicle results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2017	2016	Change	% Change
(In thousands, except units and per unit data)				
<b>Reported used vehicle:</b>				
Revenue	\$ 634,474	\$ 598,355	\$ 36,119	6.0%
Gross profit	\$ 40,833	\$ 40,531	\$ 302	0.7%
Unit sales	30,372	29,333	1,039	3.5%
Revenue per unit	\$ 20,890	\$ 20,399	\$ 491	2.4%
Gross profit per unit	\$ 1,344	\$ 1,382	\$ (38)	(2.7%)
Gross profit as a % of revenue	6.4%	6.8%	(40) bps	

Our same store used vehicle results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2017	2016	Change	% Change
(In thousands, except units and per unit data)				
<b>Same store used vehicle:</b>				
Revenue	\$ 615,391	\$ 598,355	\$ 17,036	2.8%
Gross profit	\$ 38,286	\$ 38,992	\$ (706)	(1.8%)
Unit sales	29,458	29,333	125	0.4%
Revenue per unit	\$ 20,890	\$ 20,399	\$ 491	2.4%
Gross profit per unit	\$ 1,300	\$ 1,329	\$ (29)	(2.2%)
Gross profit as a % of revenue	6.2%	6.5%	(30) bps	

During the three months ended March 31, 2017, manufacturer "stop-sale" instructions for safety recalls on certain models increased our inventory on-hand by approximately 600 vehicles at March 31, 2017 or approximately one day supply of used vehicles.

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In addition to the factors discussed below, incremental used vehicle unit sales volume in the three months ended March 31, 2017 contributed to additional Fixed Operations gross profit (via reconditioning) and F&I gross profit as discussed under the headings "Parts, Service and Collision Repair ("Fixed Operations")" and "Finance, Insurance and Other, Net ("F&I")" below.

*Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016*

Used vehicle revenue increased 2.8%, driven primarily by a 0.4% increase in used vehicle unit sales volume and a 2.4% increase in average selling price per unit as a result of a shift in brand and model sales mix. The increase in used vehicle unit sales volume was primarily driven by increases in used vehicle unit sales volume at our BMW and MINI dealerships and EchoPark stores, offset partially by decreases in used vehicle unit sales volume at our Ford and General Motors (excluding Cadillac) dealerships. Used vehicle gross profit decreased approximately \$0.7 million, or 1.8%, driven primarily by an 11.6% decrease in used vehicle unit sales volume in the Houston market. Used vehicle gross profit per unit decreased \$29 per unit, or 2.2%, driven primarily by a \$23 per unit decrease in used vehicle gross profit per unit in the Houston market.

**Wholesale Vehicles**

Wholesale vehicle revenues are highly correlated with retail new and used vehicle sales and the associated trade-in volume. Wholesale vehicle revenues are also significantly affected by our corporate inventory management policies, which are designed to optimize our total used vehicle inventory.

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

	Three Months Ended March 31,		Better / (Worse)	
	2017	2016	Change	% Change
(In thousands, except unit data)				
<b>Total wholesale vehicle revenue:</b>				
Same store	\$ 45,260	\$ 44,353	\$ 907	2.0%
Acquisitions and dispositions	1,050	21	1,029	4900.0%
Total as reported	<u>\$ 46,310</u>	<u>\$ 44,374</u>	<u>\$ 1,936</u>	4.4%
<b>Total wholesale vehicle gross profit (loss):</b>				
Same store	\$ (1,085)	\$ (1,076)	\$ (9)	(0.8%)
Acquisitions and dispositions	(87)	(2)	(85)	(4250.0%)
Total as reported	<u>\$ (1,172)</u>	<u>\$ (1,078)</u>	<u>\$ (94)</u>	(8.7%)
<b>Total wholesale vehicle units:</b>				
Same store	8,120	8,418	(298)	(3.5%)
Acquisitions and dispositions	187	5	182	3640.0%
Total as reported	<u>8,307</u>	<u>8,423</u>	<u>(116)</u>	(1.4%)

Our reported wholesale vehicle results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2017	2016	Change	% Change
(In thousands, except units and per unit data)				
<b>Reported wholesale vehicle:</b>				
Revenue	\$ 46,310	\$ 44,374	\$ 1,936	4.4%
Gross profit (loss)	\$ (1,172)	\$ (1,078)	\$ (94)	(8.7%)
Unit sales	8,307	8,423	(116)	(1.4%)
Revenue per unit	\$ 5,575	\$ 5,268	\$ 307	5.8%
Gross profit (loss) per unit	\$ (141)	\$ (128)	\$ (13)	(10.2%)
Gross profit (loss) as a % of revenue	(2.5%)	(2.4%)	(10) bps	

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Our same store wholesale vehicle results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2017	2016	Change	% Change
(In thousands, except units and per unit data)				
Same store wholesale vehicle:				
Revenue	\$ 45,260	\$ 44,353	\$ 907	2.0%
Gross profit (loss)	\$ (1,085)	\$ (1,076)	\$ (9)	(0.8%)
Unit sales	8,120	8,418	(298)	(3.5%)
Revenue per unit	\$ 5,574	\$ 5,269	\$ 305	5.8%
Gross profit (loss) per unit	\$ (134)	\$ (128)	\$ (6)	(4.7%)
Gross profit (loss) as a % of revenue	(2.4%)	(2.4%)	0	bps

*Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016*

Wholesale vehicle revenue increased, while wholesale gross loss was flat on lower wholesale unit sales volume, offset partially by higher average auction prices. Wholesale vehicle revenue and unit sales volume fluctuations are typically a result of retail new and used vehicle unit sales volumes that generate additional trade-in vehicle volume that we are not always able to sell as retail used vehicles and choose to sell at auction. Whenever possible, we prefer to sell a used vehicle through retail channels rather than wholesaling the vehicle at auction.

Wholesale unit sales volume as a percentage of total used vehicle unit sales volume (retail plus wholesale) decreased 70 basis points, as we continue to attempt to retail most vehicles before sending the vehicles to wholesale markets.

***Parts, Service and Collision Repair ("Fixed Operations")***

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

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

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

	Three Months Ended March 31,		Better / (Worse)	
	2017	2016	Change	% Change
(In thousands)				
<b>Total Fixed Operations revenue:</b>				
Same store	\$ 349,445	\$ 346,054	\$ 3,391	1.0 %
Acquisitions and dispositions	2,598	-	2,598	100.0 %
Total as reported	<u>\$ 352,043</u>	<u>\$ 346,054</u>	<u>\$ 5,989</u>	<u>1.7 %</u>
<b>Total Fixed Operations gross profit:</b>				
Same store	\$ 167,478	\$ 165,649	\$ 1,829	1.1 %
Acquisitions and dispositions	1,866	351	1,515	431.6 %
Total as reported	<u>\$ 169,344</u>	<u>\$ 166,000</u>	<u>\$ 3,344</u>	<u>2.0 %</u>

Our reported Fixed Operations results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2017	2016	Change	% Change
(In thousands)				
<b>Reported Fixed Operations:</b>				
<b>Revenue</b>				
Customer pay	\$ 138,134	\$ 147,394	\$ (9,260)	(6.3 %)
Warranty	69,919	57,559	12,360	21.5 %
Wholesale parts	43,281	45,309	(2,028)	(4.5 %)
Internal, sublet and other	100,709	95,792	4,917	5.1 %
Total revenue	<u>\$ 352,043</u>	<u>\$ 346,054</u>	<u>\$ 5,989</u>	<u>1.7 %</u>
<b>Gross profit</b>				
Customer pay	\$ 73,440	\$ 80,358	\$ (6,918)	(8.6 %)
Warranty	38,670	31,326	7,344	23.4 %
Wholesale parts	7,550	7,941	(391)	(4.9 %)
Internal, sublet and other	49,684	46,375	3,309	7.1 %
Total gross profit	<u>\$ 169,344</u>	<u>\$ 166,000</u>	<u>\$ 3,344</u>	<u>2.0 %</u>
<b>Gross profit as a % of revenue</b>				
Customer pay	53.2 %	54.5 %	(130)	bps
Warranty	55.3 %	54.4 %	90	bps
Wholesale parts	17.4 %	17.5 %	(10)	bps
Internal, sublet and other	49.3 %	48.4 %	90	bps
Total gross profit as a % of revenue	48.1 %	48.0 %	10	bps

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Our same store Fixed Operations results are as follows:

	Three Months Ended March 31,		Better / (Worse)	
	2017	2016	Change	% Change
(In thousands)				
<b>Same store Fixed Operations:</b>				
<b>Revenue</b>				
Customer pay	\$ 137,419	\$ 147,394	\$ (9,975)	(6.8%)
Warranty	69,589	57,559	12,030	20.9%
Wholesale parts	43,228	45,309	(2,081)	(4.6%)
Internal, sublet and other	99,209	95,792	3,417	3.6%
<b>Total revenue</b>	<b>\$ 349,445</b>	<b>\$ 346,054</b>	<b>\$ 3,391</b>	<b>1.0%</b>
<b>Gross profit</b>				
Customer pay	\$ 73,089	\$ 80,358	\$ (7,269)	(9.0%)
Warranty	38,439	31,282	7,157	22.9%
Wholesale parts	7,537	7,941	(404)	(5.1%)
Internal, sublet and other	48,413	46,068	2,345	5.1%
<b>Total gross profit</b>	<b>\$ 167,478</b>	<b>\$ 165,649</b>	<b>\$ 1,829</b>	<b>1.1%</b>
<b>Gross profit as a % of revenue</b>				
Customer pay	53.2%	54.5%	(130)	bps
Warranty	55.2%	54.3%	90	bps
Wholesale parts	17.4%	17.5%	(10)	bps
Internal, sublet and other	48.8%	48.1%	70	bps
<b>Total gross profit as a % of revenue</b>	<b>47.9%</b>	<b>47.9%</b>	<b>0</b>	<b>bps</b>

*Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016*

Our Fixed Operations revenue increased approximately \$3.4 million, or 1.0%, driven primarily by our BMW and Honda dealerships, while our Fixed Operations gross profit increased approximately \$1.8 million, or 1.1%, driven by our Honda and BMW dealerships. Internal, sublet and other gross profit increased approximately \$2.3 million, or 5.1%, on higher levels of used vehicle reconditioning and hail damage repairs.

**Finance, Insurance and Other, Net ("F&I")**

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

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

	<u>Three Months Ended March 31,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
<i>(In thousands, except per unit data)</i>				
<b>Total F&amp;I revenue:</b>				
Same store	\$ 80,860	\$ 80,852	\$ 8	0.0%
Acquisitions and dispositions	2,203	421	1,782	423.3%
Total as reported	<u>\$ 83,063</u>	<u>\$ 81,273</u>	<u>\$ 1,790</u>	2.2%
<b>Total F&amp;I gross profit per retail unit (excludes fleet):</b>				
Same store	\$ 1,370	\$ 1,359	\$ 11	0.8%
Total as reported	\$ 1,379	\$ 1,366	\$ 13	1.0%

*Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016*

F&I revenues and gross profit were flat primarily due to a decrease in total combined retail new and used vehicle unit sales volume, offset partially by an increase in F&I gross profit per retail unit of \$11 per unit, or 0.8%, to \$1,370 per unit.

Finance contract revenue decreased 6.7%, primarily due to a 180 basis point decrease in the combined new and used vehicle finance contract penetration rate and a 3.7% decrease in gross profit per finance contract. Finance contract revenue may be under pressure in future periods if manufacturers offer attractive financing rates from their captive finance affiliates because we tend to earn lower commissions under these programs. Service contract revenue increased 6.4% due primarily to a 12.3% increase in gross profit per service contract, offset partially by a 160 basis point decrease in the service contract penetration rate. Other aftermarket contract revenue increased 3.2%, driven primarily by an 8.3% increase in gross profit per aftermarket contract, offset partially by a 520 basis point decrease in the other aftermarket penetration rate. During the three months ended March 31, 2017, we began offering service and other aftermarket products from a new vendor, the transition to which disrupted our associates' selling processes and led to lower penetration rates and gross profit than we would expect going forward. We anticipate that our service contract penetration rate will return to previous levels once the transition period is complete and our associates are more comfortable explaining the benefits provided to our guests by the new product offerings.

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**Segment Results**

In the following table of financial data, total segment income (loss) of the operating segments is reconciled to consolidated operating income (loss).

	Three Months Ended March 31,		Better / (Worse)	
	2017	2016	Change	% Change
(In thousands, except unit data)				
<b>Revenues:</b>				
Franchised Dealerships	\$ 2,246,025	\$ 2,210,586	\$ 35,439	1.6%
EchoPark	41,797	24,040	17,757	73.9%
Total consolidated revenues	<u>\$ 2,287,822</u>	<u>\$ 2,234,626</u>	<u>\$ 53,196</u>	<u>2.4%</u>
<b>Segment income (loss) (1):</b>				
Franchised Dealerships	\$ 33,470	\$ 39,292	\$ (5,822)	(14.8%)
EchoPark	(5,408)	(3,423)	(1,985)	(58.0%)
Total segment income (loss)	28,062	35,869	(7,807)	(21.8%)
Interest expense, other, net	(13,409)	(12,339)	(1,070)	(8.7%)
Other income (expense), net	(14,501)	104	(14,605)	(14043.3%)
Income (loss) from continuing operations before taxes	<u>\$ 152</u>	<u>\$ 23,634</u>	<u>\$ (23,482)</u>	<u>(99.4%)</u>
<b>Retail new and used vehicle unit sales volume:</b>				
Franchised Dealerships	58,569	58,548	21	0.0%
EchoPark	1,673	941	732	77.8%
Total retail new and used vehicle unit sales volume	<u>60,242</u>	<u>59,489</u>	<u>753</u>	<u>1.3%</u>

*Franchised Dealerships*

See the previous headings "New Vehicles," "Used Vehicles," "Wholesale Vehicles," "Parts, Service and Collision Repair ("Fixed Operations")" and "Finance, Insurance and Other, Net ("F&I")" for further discussion of the operating results of our Franchised Dealerships and EchoPark segments. The previous tables and discussion include operating results for our EchoPark segment as the results for EchoPark are not individually material to the combined operating results.

*EchoPark*

We opened the first two EchoPark locations in November and December 2014, the third location in January 2015 and the fourth and fifth locations in June 2016. In addition, we are in the process of converting three existing stand-alone pre-owned stores in Florida to the EchoPark brand, which we anticipate completing in the second half of 2017. We expect to open an additional EchoPark store in Colorado in the first half of 2017, and we have begun the process of expanding EchoPark operations into additional markets in North Carolina, South Carolina and Texas with operations in certain of these markets expected to begin in 2017. Our EchoPark business operates independently from our previously existing new and used dealership sales operations and offers customers an exciting shopping and buying experience.

During the three months ended March 31, 2017, EchoPark generated approximately \$41.8 million of revenue, up \$17.8 million, or 73.9%, from the prior year period, and gross profit of approximately \$4.7 million, up \$1.4 million, or 43.6%, from the prior year period. EchoPark retail used vehicle unit sales volume was 1,673 units, up 732 units, or 77.8%, from the prior year period, and retail used vehicle gross profit per unit was \$1,045 per unit, a decrease of \$345 per unit, or 24.8%, from the prior year period, due primarily to higher costs of acquisition of inventory at auction as we ramped up inventory at our newest locations. EchoPark F&I gross profit per unit was \$1,176 per unit, down \$193 per unit, or 14.1%, from the prior year period, driven by lower F&I gross profit per unit at the stores opened in the last twelve months. We believe that as the operating runway at these stores grows, our training and playbook processes will enable our customer experience guides to more effectively provide F&I products to our customers and achieve targeted levels of F&I gross profit per unit. EchoPark incurred a \$5.6 million operating loss during the three months ended March 31, 2017, compared to a \$3.6 million operating loss in the prior year period, driven primarily by start-up costs associated with opening new stores and converting acquired stand-alone pre-owned stores to the EchoPark brand.



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

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

The following table sets forth information related to our reported SG&A expenses:

	<b>Three Months Ended March 31,</b>		<b>Better / (Worse)</b>	
	<b>2017</b>	<b>2016</b>	<b>Change</b>	<b>% Change</b>
<b>(In thousands)</b>				
<b>SG&amp;A expenses:</b>				
Compensation	\$ 176,547	\$ 169,041	\$ (7,506)	(4.4 %)
Advertising	15,257	15,347	90	0.6 %
Rent	18,487	18,720	233	1.2 %
Other	81,943	81,267	(676)	(0.8 %)
Total SG&A expenses	<u>\$ 292,234</u>	<u>\$ 284,375</u>	<u>\$ (7,859)</u>	<u>(2.8 %)</u>
<b>SG&amp;A expenses as a % of gross profit:</b>				
Compensation	50.4 %	49.0 %	(140)	bps
Advertising	4.4 %	4.4 %	0	bps
Rent	5.3 %	5.4 %	10	bps
Other	23.3 %	23.6 %	30	bps
Total SG&A expenses as a % of gross profit	<u>83.4 %</u>	<u>82.4 %</u>	<u>(100)</u>	<u>bps</u>

*Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016*

Overall SG&A expenses increased both in dollar amount and as a percentage of gross profit, primarily due to higher compensation and employee benefit-related expenses, IT expenses, customer-related costs, offset partially by lower storm-related physical damage costs and a net benefit from legal settlements in the current period. Overall SG&A expenses as a percentage of gross profit increased 100 basis points. Compensation expense increased both in dollar amount and as a percentage of gross profit, primarily due to higher levels of employee benefit-related expenses and sales compensation expenses related to manufacturer-awarded open points and new EchoPark locations. Advertising expense decreased in dollar amount and was flat as percentage of gross profit, as we focused on targeted advertising where we would expect the best returns for our business. Rent expense decreased both in dollar amount and as a percentage of gross profit due to the combined effects of our strategy to own more of our dealership properties, offset partially by higher rent expense for additional inventory storage locations. Other SG&A expenses increased in dollar amount and decreased as a percentage of gross profit due primarily to a decrease in storm-related physical damage costs and a net benefit from legal settlements in the current period, offset partially by higher customer-related costs and IT expenses.

On an adjusted basis, SG&A expenses as a percentage of gross profit was 83.1%, up 250 basis points from the prior year period. For the three months ended March 31, 2017, adjusted SG&A expenses exclude approximately \$2.4 million of expense due to storm-related physical damage, offset partially by a net benefit of approximately \$1.1 million related to legal settlements. For the three months ended March 31, 2016, adjusted SG&A expenses exclude approximately \$6.0 million of expense due to storm-related physical damage.

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**Impairment Charges**

Impairment charges for the three months ended March 31, 2017 and 2016 were approximately \$0.5 million and \$0, respectively. Impairment charges for the three months ended March 31, 2017 include the write-off of costs associated with abandonment of certain construction projects.

**Depreciation and Amortization**

Depreciation and amortization expense increased approximately \$2.7 million, or 14.5%, during the three months ended March 31, 2017, due primarily to completed construction projects and purchases of fixed assets that were placed in service subsequent to March 31, 2016.

**Interest Expense, Floor Plan**

Interest expense, floor plan for new vehicles increased approximately \$1.6 million, or 26.4%, in the three months ended March 31, 2017. The average new vehicle floor plan notes payable balance decreased approximately \$27.7 million in the three months ended March 31, 2017, resulting in a decrease in new vehicle floor plan interest expense of approximately \$0.1 million in the three months ended March 31, 2017. The average new vehicle floor plan interest rate was 2.20% in the three months ended March 31, 2017, compared to 1.71% in the three months ended March 31, 2016, resulting in an increase in new vehicle floor plan interest expense of approximately \$1.7 million in the three months ended March 31, 2017.

Interest expense, floor plan for used vehicles increased approximately \$0.4 million, or 75.5%, in the three months ended March 31, 2017. The average used vehicle floor plan notes payable balance increased approximately \$14.9 million in the three months ended March 31, 2017, resulting in an increase in used vehicle floor plan interest expense of approximately \$0.1 million in the three months ended March 31, 2017. The average used vehicle floor plan interest rate was 2.68% in the three months ended March 31, 2017, compared to 1.71% in the three months ended March 31, 2016, resulting in an increase in used vehicle floor plan interest expense of approximately \$0.3 million in the three months ended March 31, 2017.

**Interest Expense, Other, Net**

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

	Three Months Ended March 31,		Better / (Worse)	
	2017	2016	Change	% Change
	(In thousands)			
Stated/coupon interest	\$ 12,108	\$ 10,969	\$ (1,139)	(10.4%)
Discount/premium amortization	28	40	12	30.0%
Deferred loan cost amortization	605	622	17	2.7%
Cash flow swap interest	1,015	1,190	175	14.7%
Capitalized interest	(459)	(636)	(177)	(27.8%)
Other interest	112	154	42	27.3%
Total interest expense, other, net	<u>\$ 13,409</u>	<u>\$ 12,339</u>	<u>\$ (1,070)</u>	<u>(8.7%)</u>

Interest expense, other, net increased approximately \$1.1 million during the three months ended March 31, 2017, primarily due to higher stated/coupon interest related to approximately \$0.7 million of double-carry interest for the period during which the 7.0% Notes and the 6.125% Notes were both outstanding, additional mortgage notes payable balances and lower levels of interest capitalized in conjunction with construction projects, offset partially by a decrease in cash flow swap interest payments.

**Other Income (Expense)**

Other expense, net increased approximately \$14.6 million during the three months ended March 31, 2017, due to a charge of approximately \$14.6 million related to the extinguishment of the 7.0% Notes in the three months ended March 31, 2017.

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**Income Taxes**

The overall effective tax rate from continuing operations was 113.3% and 38.8% for the three months ended March 31, 2017 and 2016, respectively. Our effective tax rate varies from year to year based on the distribution of taxable income between states in which we operate and other tax adjustments. The effective tax rate for the three months ended March 31, 2017 was impacted by lower levels of income from continuing operations before taxes and the effect of a discrete charge related to uncertain tax positions in the three months ended March 31, 2017, offset partially by a discrete benefit related to the adoption of ASU 2016-09. We expect the effective tax rate to return to historical norms in 2017, and in future periods, and to fall within a range of 38.0% to 40.0% before the impact, if any, of changes in valuation allowances related to deferred income tax assets or discrete tax adjustments.

**Discontinued Operations**

Significant components of results from discontinued operations were as follows:

	Three Months Ended March 31,	
	2017	2016
	(In thousands)	
Income (loss) from operations	\$ (1,165 )	\$ (194 )
Lease exit accrual adjustments and charges	297	455
Pre-tax income (loss)	<u>\$ (868 )</u>	<u>\$ 261</u>
Total revenues	\$ -	\$ -

**Liquidity and Capital Resources**

We require cash to fund debt service, operating lease obligations, working capital requirements, facility improvements and other capital improvements, dividends on our common stock and to finance acquisitions and otherwise invest in our business. We rely on cash flows from operations, borrowings under our revolving credit and floor plan borrowing arrangements, real estate mortgage financing, asset sales and offerings of debt and equity securities to meet these requirements. We closely monitor our available liquidity and projected future operating results in order to remain in compliance with restrictive covenants under the 2016 Credit Facilities and other debt obligations and lease arrangements. However, our liquidity could be negatively affected if we fail to comply with the financial covenants in our existing debt or lease arrangements. There are no restrictions under our borrowing arrangements on retained earnings or net income. Cash flows provided by our dealerships are derived from various sources. The primary sources include individual consumers, automobile manufacturers, automobile manufacturers' captive finance subsidiaries and finance companies. Disruptions in these cash flows could have a material adverse impact on our operations and overall liquidity.

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

We had the following liquidity resources available as of March 31, 2017 and December 31, 2016:

	March 31, 2017	December 31, 2016
	(In thousands)	
Cash and cash equivalents	\$ 6,565	\$ 3,108
Availability under our revolving credit facility	187,525	207,053
Availability under our new and used vehicle floor plan facilities	70,608	46,423
Floor plan deposit balance	23,000	10,000
Total available liquidity resources	<u>\$ 287,698</u>	<u>\$ 266,584</u>

We participate in a program with two of our manufacturer-affiliated finance companies (the floor plan deposit balance in the table above) wherein we maintain a deposit balance with the lender that earns interest based on the agreed upon rate. This deposit balance is not designated as a pre-payment of notes payable – floor plan, nor is it our intent to use this amount to offset principal amounts owed under notes payable – floor plan in the future, although we have the right and ability to do so. The deposit balance of \$23.0 million and \$10.0 million as of March 31, 2017 and December 31, 2016, respectively, is classified in other current assets in the accompanying condensed consolidated balance sheets.

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***Floor Plan Facilities***

We finance our new and certain of our used vehicle inventory through standardized floor plan facilities with manufacturer captive finance companies and a syndicate of manufacturer-affiliated finance companies and commercial banks. These floor plan facilities are due on demand and bear interest at variable rates based on either LIBOR or the prime rate. The weighted average interest rate for our combined new and used vehicle floor plan facilities was 2.25% in the three months ended March 31, 2017, and 1.71% in the three months ended March 31, 2016.

We receive floor plan assistance from certain manufacturers. Floor plan assistance received is capitalized in inventory and charged against cost of sales when the associated inventory is sold. We received approximately \$10.9 million in floor plan assistance in the three months ended March 31, 2017, and approximately \$10.5 million in the three months ended March 31, 2016. We recognized manufacturer floor plan assistance in cost of sales for continuing operations of approximately \$9.9 million in the three months ended March 31, 2017, and approximately \$10.1 million in the three months ended March 31, 2016. Interest payments under each of our floor plan facilities are due monthly and we are not required to make principal repayments prior to the sale of the vehicles.

***Long-Term Debt and Credit Facilities***

On March 10, 2017, we issued \$250.0 million in aggregate principal amount of 6.125% Notes which mature on March 15, 2027. The 6.125% Notes were issued at a price of 100.0% of the principal amount thereof. We used the net proceeds from the issuance of the 6.125% Notes to repurchase all of the outstanding 7.0% Notes during the three months ended March 31, 2017. Remaining proceeds from the issuance of the 6.125% Notes will be used for general corporate purposes. The 6.125% Notes are our unsecured senior subordinated obligations and are guaranteed by our domestic operating subsidiaries. Interest on the 6.125% Notes is payable semi-annually in arrears on March 15 and September 15 of each year. See Note 6, "Long-Term Debt," to the accompanying condensed consolidated financial statements for discussion of our long-term debt and credit facilities and compliance with debt covenants.

***Capital Expenditures***

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

Capital expenditures in the three months ended March 31, 2017 were approximately \$75.7 million. Of this amount, \$28.4 million was related to facility construction projects and \$35.4 million was related to real estate acquisitions, while fixed assets utilized in our dealership operations accounted for the remaining \$11.9 million of capital expenditures.

Of the capital expenditures in the three months ended March 31, 2017, approximately \$19.9 million was funded through mortgage financing and approximately \$55.8 million was funded through cash from operations and use of our credit facilities. As of March 31, 2017, commitments for facility construction projects totaled approximately \$45.9 million. We expect investments related to capital expenditures to be partly dependent upon our overall liquidity position and the availability of mortgage financing to fund significant capital projects.

***Stock Repurchase Program***

Our Board of Directors has authorized us to repurchase shares of our Class A common stock. Historically, we have used our share repurchase authorization to offset dilution caused by the exercise of stock options or the vesting of equity compensation awards and to maintain our desired capital structure. During the three months ended March 31, 2017, our Board of Directors authorized an additional \$100.0 million to repurchase shares of our Class A common stock. During the three months ended March 31, 2017, we repurchased approximately 0.2 million shares of our Class A common stock for approximately \$4.0 million in connection with tax withholdings on the vesting of equity compensation awards. As of March 31, 2017, our total remaining repurchase authorization was approximately \$141.0 million. Under the 2016 Credit Facilities, share repurchases are permitted to the extent that no event of default exists.

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

***Dividends***

During the three months ended March 31, 2017, our Board of Directors approved a cash dividend of \$0.05 per share on all outstanding shares of Class A and Class B common stock as of March 15, 2017 to be paid on April 14, 2017. Subsequent to March 31, 2017, our Board of Directors approved a cash dividend of \$0.05 per share on all outstanding shares of Class A and Class B common stock as of June 15, 2017 to be paid on July 14, 2017. Under the 2016 Credit Facilities, dividends are permitted to the extent that no event of default exists and we are in compliance with the financial covenants contained therein. The indentures governing our outstanding 5.0% Notes and 6.125% Notes contain restrictions on our ability to pay dividends. The payment of any future dividend is subject to the business judgment of our Board of Directors, taking into consideration our historical and projected results of operations, financial condition, cash flows, capital requirements, covenant compliance, share repurchases, current economic environment and other factors considered relevant. These factors are considered each quarter and will be scrutinized as our Board of Directors determines our future dividend policy. There is no guarantee that additional dividends will be declared and paid at any time in the future. See Note 6, "Long-Term Debt," to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2016 for a description of restrictions on the payment of dividends.

***Cash Flows***

Net cash provided by operating activities in the three months ended March 31, 2017 was approximately \$79.5 million. This provision of cash was comprised primarily of cash inflows related to a decrease in receivables, offset partially by increases in inventories and other assets and a decrease in notes payable – floor plan – trade. In the three months ended March 31, 2016, net cash provided by operating activities was approximately \$104.0 million. This provision of cash was comprised primarily of cash inflows related to operating profits and decreases in receivables and other assets, offset partially by a decrease in notes payable – floor plan – trade.

Net cash used in investing activities in the three months ended March 31, 2017 was approximately \$75.5 million. This use of cash was comprised primarily of purchases of land, property and equipment. Net cash used in investing activities in the three months ended March 31, 2016 was approximately \$40.6 million. This use of cash was comprised primarily of purchases of land, property and equipment.

Net cash used in financing activities in the three months ended March 31, 2017 was approximately \$0.5 million. This use of cash was comprised primarily of a decrease in notes payable – floor plan – non-trade, payments on long-term debt and repurchase of debt securities, offset partially by proceeds from issuance of long-term debt. Net cash used in financing activities in the three months ended March 31, 2016 was approximately \$64.6 million. This use of cash was comprised primarily of cash outflows related to purchases of treasury stock and a decrease in notes payable – floor plan – non-trade, offset partially by proceeds from issuance of mortgage-related long-term debt.

We arrange our inventory floor plan financing through both manufacturer captive finance companies and a syndicate of manufacturer-affiliated finance companies and commercial banks. Our floor plan financed with manufacturer captives is recorded as trade floor plan liabilities (with the resulting change being reflected as operating cash flows). Our dealerships that obtain floor plan financing from a syndicate of manufacturer-affiliated finance companies and commercial banks record their obligation as non-trade floor plan liabilities (with the resulting change being reflected as financing cash flows). Due to the presentation differences for changes in trade floor plan and non-trade floor plan in the condensed consolidated statements of cash flows, decisions made by us to move dealership floor plan financing arrangements from one finance source to another may cause significant variations in operating and financing cash flows without affecting our overall liquidity, working capital or cash flow. Net cash used in combined trade and non-trade floor plan financing was approximately \$80.3 million and \$98.5 million in the three months ended March 31, 2017 and 2016, respectively. Accordingly, if all changes in floor plan notes payable were classified as an operating activity, the result would have been net cash provided by operating activities of approximately \$35.8 million and \$87.6 million in the three months ended March 31, 2017 and 2016, respectively.

***Guarantees and Indemnification Obligations***

In connection with the operation and disposition of dealership franchises, we have entered into various guarantees and indemnification obligations. See Note 8, "Contingencies," to the accompanying condensed consolidated financial statements. See also "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 12, "Commitments and Contingencies," to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2016.

***Future Liquidity Outlook***

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

***Off-Balance Sheet Arrangements***

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Off-Balance Sheet Arrangements" in our Annual Report on Form 10-K for the year ended December 31, 2016.

***Seasonality***

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

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

Our variable rate floor plan facilities, 2016 Revolving Credit Facility and other variable rate notes expose us to risks caused by fluctuations in the applicable interest rates. The total outstanding balance of such variable instruments, after considering the effect of our interest rate swaps (see below), was approximately \$1.2 billion at March 31, 2017. A change of 100 basis points in the underlying interest rate would have caused a change in interest expense of approximately \$3.0 million in the three months ended March 31, 2017. Of the total change in interest expense, approximately \$2.5 million would have resulted from the floor plan facilities.

In addition to our variable rate debt, certain of our dealership lease facilities have monthly lease payments that fluctuate based on LIBOR interest rates. An increase in interest rates of 100 basis points would not have had a significant impact on rent expense in the three months ended March 31, 2017 due to the leases containing LIBOR floors which were above the LIBOR rate during the three months ended March 31, 2017.

We also have interest rate cash flow swap agreements to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate. Under the terms of these cash flow swaps, interest rates reset monthly. The fair value of these swap positions at March 31, 2017 was a net liability of approximately \$1.5 million, with \$2.8 million included in other accrued liabilities and \$1.6 million included in other long-term liabilities in the accompanying condensed consolidated balance sheets, offset partially by an asset of approximately \$0.2 million and \$2.7 million included in other current assets and other assets, respectively, in the accompanying condensed consolidated balance sheets. The fair value of these swap positions at December 31, 2016 was a net liability of approximately \$3.7 million, with \$4.1 million included in other accrued liabilities and \$2.4 million included in other long-term liabilities in the accompanying condensed consolidated balance sheets, offset partially by an asset of approximately \$2.8 million included in other current assets and other assets in the accompanying condensed consolidated balance sheets. Under the terms of these cash flow swaps, we will receive and pay interest based on the following:

Notional Amount		Pay Rate	Receive Rate (1)	Maturing Date
(In millions)				
\$ 2.2		7.100%	one-month LIBOR + 1.50%	July 10, 2017
\$ 7.1		4.655%	one-month LIBOR	December 10, 2017
\$ 6.5	(2)	6.860%	one-month LIBOR + 1.25%	August 1, 2017
\$ 5.9	(2)	6.410%	one-month LIBOR + 1.25%	September 12, 2017
\$ 100.0		2.065%	one-month LIBOR	June 30, 2017
\$ 100.0		2.015%	one-month LIBOR	June 30, 2017
\$ 50.0		1.320%	one-month LIBOR	July 1, 2017
\$ 250.0	(3)	1.887%	one-month LIBOR	June 30, 2018
\$ 25.0		2.080%	one-month LIBOR	July 1, 2017
\$ 100.0		1.560%	one-month LIBOR	July 1, 2017
\$ 125.0		1.303%	one-month LIBOR	July 1, 2017
\$ 125.0	(4)	1.900%	one-month LIBOR	July 1, 2018
\$ 50.0	(5)	2.320%	one-month LIBOR	July 1, 2019
\$ 200.0	(5)	2.313%	one-month LIBOR	July 1, 2019
\$ 100.0	(6)	1.384%	one-month LIBOR	July 1, 2020
\$ 125.0	(5)	1.158%	one-month LIBOR	July 1, 2019
\$ 150.0	(6)	1.310%	one-month LIBOR	July 1, 2020
\$ 125.0	(4)	1.020%	one-month LIBOR	July 1, 2018

(1) The one-month LIBOR rate was approximately 0.983% at March 31, 2017.

(2) Changes in fair value are recorded through earnings.

(3) The effective date of this forward-starting swap is July 3, 2017.

(4) The effective date of these forward-starting swaps is July 1, 2017.

(5) The effective date of these forward-starting swaps is July 2, 2018.

(6) The effective date of these forward-starting swaps is July 1, 2019.

**Foreign Currency Risk**

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



**Item 4. Controls and Procedures.**

**Disclosure Controls and Procedures** – Under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), we evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of March 31, 2017. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2017.

**Changes in Internal Control over Financial Reporting** – There has been no change in our internal control over financial reporting during the three months ended March 31, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

PART II – OTHER INFORMATION

**Item 1. Legal Proceedings.**

We are involved, and expect to continue to be involved, in numerous legal and administrative proceedings arising out of the conduct of our business, including regulatory investigations and private civil actions brought by plaintiffs purporting to represent a potential class or for which a class has been certified. Although we vigorously defend ourselves in all legal and administrative proceedings, the outcomes of pending and future proceedings arising out of the conduct of our business, including litigation with customers, employment-related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities, cannot be predicted with certainty. Similarly, except as reflected in reserves we have provided for in other accrued liabilities and other long-term liabilities in the accompanying condensed consolidated balance sheets, we are currently unable to estimate a range of reasonably possible loss, or a range of reasonably possible loss in excess of the amount accrued, for pending proceedings. An unfavorable resolution of one or more of these matters could have a material adverse effect on our business, financial condition, results of operations, cash flows or prospects. Included in other accrued liabilities and other long-term liabilities at March 31, 2017 was approximately \$2.5 million and \$0.2 million, respectively, in reserves that we were holding for pending proceedings.

**Item 1A. Risk Factors.**

In addition to the information set forth in this report, you should carefully consider the risk factors discussed in “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016, which could materially affect our business, financial condition or future results.

**SONIC AUTOMOTIVE, INC.**

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

The following table sets forth information about the shares of Class A common stock we repurchased during the three months ended March 31, 2017:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
(In thousands, except per share data)				
January 2017	1	\$ 22.90	1	\$ 45,007
February 2017	115	\$ 24.37	115	\$ 142,280
March 2017	62	\$ 20.05	62	\$ 141,036
Total	<u>178</u>		<u>178</u>	

- (1) On February 13, 2017, we announced that our Board of Directors had increased the dollar amount authorized for us to repurchase shares of our Class A common stock pursuant to our share repurchase program that we previously announced on January 20, 2016. Our share repurchase program does not have an expiration date and current remaining availability under the program is as follows:

	(In thousands)
January 2016 authorization	\$ 100,000
February 2017 authorization	100,000
Total active program repurchases prior to March 31, 2017	<u>(58,964)</u>
Current remaining availability as of March 31, 2017	<u>\$ 141,036</u>

See “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional discussion of restrictions on share repurchases and payment of dividends.

SONIC AUTOMOTIVE, INC.

Item 6. Exhibits.

Exhibit No.	Description
3.1*	<a href="#">Amended and Restated Certificate of Incorporation of Sonic Automotive, Inc., dated August 7, 1997.</a>
3.2*	<a href="#">Certificate of Designation, Preferences and Rights of Class A Convertible Preferred Stock, dated March 20, 1998.</a>
3.3*	<a href="#">Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Sonic Automotive, Inc., dated June 16, 1999.</a>
3.4*	<a href="#">Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Sonic Automotive, Inc., dated April 18, 2017.</a>
4.1	<a href="#">Registration Rights Agreement, dated as of March 10, 2017, by and among Sonic Automotive, Inc., the guarantors set forth on the signature pages thereto and Merrill Lynch, Pierce, Fenner &amp; Smith Incorporated, as representative of the several initial purchasers (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed March 14, 2017 (File No. 001-13395)).</a>
4.2	<a href="#">Indenture, dated as of March 10, 2017, by and among Sonic Automotive, Inc., the guarantors named therein and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed March 14, 2017 (File No. 001-13395)).</a>
4.3	<a href="#">Form of 6.125% Senior Subordinated Notes due 2027 (incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K filed March 14, 2017 (File No. 001-13395)).</a>
10.1	<a href="#">Sonic Automotive, Inc. 2012 Formula Restricted Stock and Deferral Plan for Non-Employee Directors, amended and restated effective as of April 18, 2017 (incorporated by reference to Appendix B to the Definitive Proxy Statement on Schedule 14A filed March 6, 2017 (File No. 001-13395)). (1)</a>
10.2*	<a href="#">Sonic Automotive, Inc. 2012 Formula Restricted Stock and Deferral Plan for Non-Employee Directors Form of Restricted Stock Award Agreement. (1)</a>
10.3*	<a href="#">Sonic Automotive, Inc. 2012 Formula Restricted Stock and Deferral Plan for Non-Employee Directors Form of Deferred Restricted Stock Unit Award Agreement. (1)</a>
31.1*	<a href="#">Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1**	<a href="#">Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2**	<a href="#">Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.
*	Filed herewith.
**	Furnished herewith.
(1)	Indicates a management contract or compensatory plan or arrangement.



## SONIC AUTOMOTIVE, INC.

## EXHIBIT INDEX

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101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith.

\*\* Furnished herewith.

(1) Indicates a management contract or compensatory plan or arrangement.

**AMENDED AND RESTATED CERTIFICATE OF INCORPORATION  
OF  
SONIC AUTO WORLD, INC.**

Sonic Auto World, Inc., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The name of the corporation is Sonic Auto World, Inc. The date of filing of its original Certificate of Incorporation with the Secretary of State was January 30, 1997.
2. This Amended and Restated Certificate of Incorporation amends and restates the Certificate of Incorporation of this corporation in its entirety as follows:

**ARTICLE I**

**Name**

The name of the corporation is Sonic Automotive, Inc. (the "Corporation").

**ARTICLE II**

**Registered Office and Agent**

The address of the Corporation's registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of the Corporation's registered agent at such address is The Corporation Trust Company.

**ARTICLE III**

**Purpose**

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

**ARTICLE IV**

**Capital Stock**

**Section 4.01.** **Authorized Capital Stock.** The aggregate number of shares of capital stock which the Corporation shall have authority to issue is sixty-eight million (68,000,000) shares divided into the following classes:

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(a) Fifty million (50,000,000) shares of Class A Common Stock with a par value of one cent (\$0.01) per share (the “Class A Common Stock”);

(b) Fifteen million (15,000,000) shares of Class B Common Stock with a par value of one cent (\$0.01) per share (the “Class B Common Stock”); and

(c) Three million (3,000,000) shares of Preferred Stock with a par value of ten cents (\$0.10) per share (the “Preferred Stock”).

Each share of Class A Common Stock and each share of Class B Common Stock (collectively, the “Common Stock”) shall be identical in all respects and shall have equal voting powers, preferences and relative rights, except as otherwise provided in this Article IV.

**Section 4.02.                      Voting.**

(a) Each holder of Class A Common Stock shall have one (1) vote for each share of Class A Common Stock standing in such holder’s name on the stock transfer records of the Corporation with respect to each matter submitted to a vote of the stockholders. Except as otherwise provided in subparagraph (b) below, each holder of Class B Common Stock shall have ten (10) votes for each share of Class B Common Stock standing in such holder’s name on the stock transfer records of the Corporation with respect to each matter submitted to a vote of the stockholders. Except as otherwise required by law, the holders of the Class A Common Stock and the holders of the Class B Common Stock shall in all matters vote together as a single class; provided, however, that the affirmative vote of the holders of a majority of the shares of the Class A Common Stock and/or the holders of a majority of the shares of the Class B Common Stock, each voting separately as a class, as applicable, is required in order to increase or decrease the aggregate number of authorized shares of such class, increase or decrease the par value of the shares of such class, or modify or change the powers, preferences or special rights of the shares of such class so as to affect such class adversely.

(b) Each holder of Class A Common Stock and Class B Common Stock shall have one (1) vote for each share of Class A Common Stock or Class B Common Stock, as the case may be, standing in such holder’s name on the stock transfer records of the Corporation on the following matters proposed or approved by the Board of Directors of the Corporation or proposed by or on behalf of the holders of Class B Common Stock or as to which any member of the Smith Group (as hereinafter defined) or any affiliate thereof has a material financial interest other than as a then-existing stockholder of the Corporation:

(i) Any vote by the stockholders of the Corporation on any Rule 13e-3 transaction as such term is defined in Rule 13e-3 promulgated under the Securities Exchange Act of 1934;

(ii) Any vote by the stockholders of the Corporation on any sale or other disposition of all or substantially all of the assets of the Corporation to any other Person;

(iii) Any vote by the stockholders of the Corporation on any sale or transfer of assets which would cause the Corporation's business to no longer be primarily oriented toward automobile dealership operations and related activities; and

(iv) Any vote by the stockholders of the Corporation on any merger or consolidation of the Corporation in which the holders of the Corporation's Common Stock will own less than 50% of the Common Stock following such transaction.

An "affiliate" is defined as (1) any individual or entity who or that, directly or indirectly, controls, is controlled by, or is under common control with any member of the Smith Group, (2) any corporation or organization (other than the Corporation or a majority-owned subsidiary of the Corporation) of which any member of the Smith Group is an officer, partner or is, directly or indirectly, the beneficial owner of 10% or more of any class of voting securities, or in which any member of the Smith Group has a substantial beneficial interest, (3) a voting trust or similar arrangement pursuant to which any member of the Smith Group generally controls the vote of the shares of Common Stock held by or subject to such trust or arrangement, (4) any other trust or estate in which any member of the Smith Group has a substantial beneficial interest or as to which any member of the Smith Group serves as trustee or a similar fiduciary capacity, or (5) any relative or spouse of any member of the Smith Group or any relative of such spouse, who has the same residence as any member of the Smith Group.

**Section 4.03. Conversion of Class B Common Stock.** Each share of Class B Common Stock shall be convertible, at the option of the holder thereof, into one fully paid and nonassessable share of Class A Common Stock. Any such conversion may be effected by any holder of Class B Common Stock at any time, and from time to time, by surrendering such holder's certificate or certificates representing the Class B Common Stock to be converted, duly endorsed, at the office of the Corporation or any duly appointed and acting transfer agent for the Class B Common Stock, as applicable, together with a written notice to the Corporation at such office that such holder elects to convert all or a specified number of shares of Class B Common Stock represented by such certificate and stating the name or names in which such holder desires the certificate or certificates representing the Class A Common Stock to be issued. Any certificate for shares surrendered for conversion shall be accompanied by instruments of transfer, in form satisfactory to the Corporation, duly executed by the holder of such shares or the duly authorized representative of such holder. Promptly thereafter, the Corporation shall issue and deliver to such holder or such holder's nominee or nominees a certificate or certificates for the number of shares of Class A Common Stock to which such holder shall be entitled as herein provided. Such conversion shall be deemed to have been made immediately and automatically at the closing of business on the date of receipt by the Corporation or any such transfer agent, and the person or persons entitled to receive the Class A Common Stock issuable on such conversion shall be treated for all purposes as the record holder or holders of such Class A Common Stock at the close of business on that date. A number of shares of Class A Common Stock equal to the number of shares of Class B Common Stock outstanding from time to time shall be set aside and reserved for issuance upon conversion of shares of Class B Common Stock. Class A Common Stock shall have no conversion rights.

**Section 4.04.**

**Limitations on Transferability of Class B Common Stock; Deemed Conversions.**

(a) A member of the Smith Group who owns shares of Class B Common Stock (a “Class B Stockholder”) may transfer, directly or indirectly, shares of Class B Common Stock, whether by sale, assignment, gift or otherwise, only to another member of the Smith Group, and no Class B Stockholder may otherwise transfer beneficial ownership of any shares of Class B Common Stock. In the event of any attempted transfer of the beneficial ownership of any shares of Class B Common Stock in violation of the limitation provided in the preceding sentence, the shares of Class B Common Stock with respect to which the transfer of such beneficial ownership has been attempted shall be deemed to have been converted automatically, without further deed or action by or on behalf of any person, into shares of Class A Common Stock. Notwithstanding the foregoing, in the event of a deemed conversion of Class B Common Stock to Class A Common Stock pursuant to the provisions of this Section 4.04(a), the transfer resulting in such deemed conversion shall be effective with respect to the Class A Common Stock issued pursuant thereto.

(b) If the total number of shares of Common Stock held by members of the Smith Group is less than 15% of the total number of shares of Common Stock outstanding, all of the outstanding shares of Class B Common Stock shall automatically be deemed converted to Class A Common Stock.

A member of the Smith Group consists of the following persons:

- (i) Mr. O. Bruton Smith and his guardian, conservator, committee, or attorney in fact;
- (ii) Mr. William S. Egan and his guardian, conservator, committee, or attorney in fact;
- (iii) each lineal descendant of Messrs. Smith and Egan (each, a “Descendant”) and their respective guardians, conservators, committees, or attorneys in fact;
- (iv) each Family Controlled Entity (as hereinafter defined).

The term “Family Controlled Entity” means:

- (i) any not for profit corporation if at least 80% of its Board of Directors is composed of Mr. Smith, Mr. Egan and/or Descendants;
- (ii) any other corporation if at least 80% of the value of its outstanding equity is owned by members of the Smith Group;
- (iii) any partnership if at least 80% of the value of the partnership interests are owned by members of the Smith Group; and

(iv) any limited liability or similar company if at least 80% of the value of the company is owned by members of the Smith Group.

Notwithstanding anything to the contrary set forth herein, any holder of Class B Common Stock may pledge such shares to a pledgee pursuant to a bona fide pledge of such shares as collateral security for indebtedness due to the pledgee; provided, however, that such shares may not be transferred to or registered in the name of the pledgee unless such pledgee is a member of the Smith Group. In the event of foreclosure or other similar action by the pledgee, such pledged shares shall automatically, without any act or deed on the part of the Corporation or any other person, be deemed converted into shares of Class A Common Stock unless within five (5) business days after such foreclosure or similar event such pledged shares are returned to the pledgor or transferred to a member of the Smith Group. The foregoing provisions of this paragraph shall not be deemed to restrict or prevent any transfer of such shares by operation of law upon incompetence, death, dissolution or bankruptcy of any Class B Stockholder or any provision of law providing for, or judicial order of, forfeiture, seizure or impoundment.

(c) Any transferee of shares of Class B Common Stock pursuant to a transfer made in violation of this Section 4.04 or pursuant to the last sentence of Section 4.04(b) other than to a member of the Smith Group shall have no rights as a holder of Class B Common Stock and no other rights against or with respect to the Corporation except the right to receive, in accordance with this Section 4.04, shares of Class A Common Stock upon the conversion of such transferred shares.

(d) Shares of Class B Common Stock shall not be issuable to any person other than a member of the Smith Group. Notwithstanding any other provision of this Amended and Restated Certificate of Incorporation, the Corporation shall, to the fullest extent permitted by law, be entitled to issue shares of Class B Common Stock to any member of the Smith Group from time to time.

(e) The Corporation and any transfer agent of Class B Common Stock may, as a condition to the transfer or the registration of any transfer of shares of Class B Common Stock permitted by this Section 4.04 require the furnishing of such affidavits or other proof as they deem necessary to establish that such transferee is a member of the Smith Group.

(f) For purposes of this Section 4.04, the term “beneficial ownership” in respect of shares of Class B Common Stock shall mean possession of the power of authority, either singly or jointly with another, to vote or dispose of, or to direct the voting or disposition of, such shares and the term “beneficial owner” in respect of shares of Class B Common Stock shall mean the person or persons who possess such power and authority.

**Section 4.05. Dividends and Distributions on Common Stock.**

(a) Subject to the preferential rights, if any, of the holders of Preferred Stock, holders of Class A Common Stock and Class B Common Stock shall be entitled to share ratably as a single class in all dividends and other distributions of cash, shares of capital stock of the

Corporation, other securities of the Corporation or any other company, or any other right or property as may be declared thereon by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefor.

(b) Dividends may be paid in shares of Class A Common Stock or Class B Common Stock, but shares of Class A Common Stock may be paid only to holders of Class A Common Stock and shares of Class B Common Stock may be paid only to holders of Class B Common Stock and the same number of shares shall be paid in respect of each outstanding share of Class A Common Stock and Class B Common Stock.

(c) In the event the Corporation shall be liquidated (either partially or completely), dissolved or wound up, whether voluntarily or involuntarily, each share of Class A Common Stock and Class B Common Stock shall be entitled to an equal distribution of net assets.

(d) Whenever the Corporation shall (i) declare a dividend on shares of any class of Common Stock in shares of such class of Common Stock or in securities convertible into or exchangeable for shares of such class of Common Stock, (ii) subdivide the outstanding shares of any class of Common Stock, (iii) combine the outstanding shares of any class of Common Stock into a smaller number of shares, or (iv) issue any shares of any class of Common Stock upon reclassification of such shares, an identical dividend, subdivision, combination or other adjustment shall be made with respect to the outstanding shares of the other class or classes of Common Stock.

(e) In any merger, consolidation, or business combination involving the Corporation or any subsidiary of the Corporation, the consideration to be received per share by the holders of Class A Common Stock and Class B Common Stock must be identical for each class of stock, except that in any such transaction in which shares of Common Stock are to be distributed, such shares may differ as to voting rights to the extent that voting rights now differ among the Class A Common Stock and Class B Common Stock.

**Section 4.06.**

**Preferred Stock.**

The Preferred Stock may be issued from time to time in one or more series, each series to have distinctive designations. The powers, preferences and rights of each such series of Preferred Stock and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other series of Preferred Stock at any time outstanding. The Board of Directors is hereby expressly granted the authority to cause the Preferred Stock to be issued in one or more series and, with respect to each such series, to fix by resolutions, the following characteristics prior to the issuance thereof:

(a) The designation of the series, which may be by distinguishing number, letter or title;

(b) The number of shares of the series, which number the Board of Directors may (except as otherwise provided in the creation of the series) increase or decrease (but not below the number of shares thereof then outstanding);

(c) The voting rights of the shares of the series, which rights may be full or limited, or which shares may be without voting power;

(d) The dividend rights of the shares of the series, if any, including without limitation the dividend rates, the dividend payment dates, whether dividends will be cumulative, adding conditions for payment and any payment preferences in relation to the dividends payable on any other class or classes or series of stock of the Corporation;

(e) The redemption rights, if any, and the price or prices for the shares of the series;

(f) Sinking funds requirements, if any, for the purchase or redemption of shares of the series;

(g) Rights upon liquidation, dissolution, or winding up of the Corporation or upon the distribution of the assets of the Corporation;

(h) Whether the shares of the series shall be convertible into shares of any other class or classes or into shares of any other series of the same or of any other class or classes of stock, and if so, the conversion price, any adjustments thereof and all other terms and conditions upon which such conversion may be made; and

(i) Such other powers, preferences, rights, qualifications, limitations or restrictions as the Board of Directors shall determine;

all as shall be stated in the Resolution or Resolutions of the Board of Directors providing for the issuance of such series of preferred stock.

The relative powers, preferences and rights of each series of Preferred Stock in relation to the powers, preferences and rights of each other series of Preferred Stock shall, in each case, be as fixed from time to time by the Board of Directors in the resolution or resolutions adopted pursuant to the authority granted in this Section 4.06, and the consent, by class or series vote or otherwise, of the holders of Preferred Stock of such of the series of Preferred Stock as are from time to time outstanding shall not be required for the issuance by the Corporation, acting at the direction of the Board of Directors, of any other series of Preferred Stock, regardless of whether the powers, preferences and rights of such series shall be fixed by the Board of Directors as senior to, or on a parity with, the powers, preferences and rights of such outstanding series, or any of them, unless and to the extent that the Board of Directors may provide in such resolution or resolutions adopted with respect to any series of Preferred Stock that the consent of the holders of a majority (or such other proportions as shall be therein fixed) of the outstanding

shares of such series voting thereon shall be required for the issuance of any or all other series of Preferred Stock.

The shares of any series of Preferred Stock that (i) have been redeemed by the Corporation in accordance with the express terms thereof, (ii) are purchased in satisfaction of any sinking fund requirement provided for shares of such series, or (iii) are converted in accordance with the express terms thereof, in each case shall be cancelled and not reissued. Any shares of Preferred Stock otherwise acquired by the Corporation shall resume the status of authorized and unissued shares of Preferred Stock without series designation.

**Section 4.07.**                    **No Preemptive Rights.** No holder of shares of any class of stock of the Corporation shall, as such holder, have any preemptive right to purchase shares of any class of stock of the Corporation or shares or other securities convertible into or exchangeable for or carrying rights or options to purchase shares of any class of stock of the Corporation, whether such class of stock, shares or other securities are now or hereafter authorized, which at any time may be proposed to be issued by the Corporation or subjected to rights or options to purchase granted by the Corporation.

## ARTICLE V

### **Stockholder Action**

No action required to be taken or that may be taken at an annual or special meeting of stockholders of the Corporation may be taken without a meeting, and the power of stockholders to consent in writing, without a meeting, to the taking of any action is specifically denied.

## ARTICLE VI

### **Conflicts of Interest**

Transactions between the Corporation and its affiliates must be no less favorable to the Corporation than would be available to the Corporation in arm's-length transactions dealing with an unrelated third party. In addition, the Corporation may not enter into transactions between the Corporation and its affiliates involving aggregate payments in excess of \$500,000 unless (i) the transaction has been approved by a majority of the members of the Corporation's Board of Directors and a majority of the Corporation's independent directors, or (ii) the Corporation has received an opinion as to the financial fairness of the transaction from an investment banking or appraisal firm of national standing.

## ARTICLE VII

### **Amendment of Bylaws**

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to adopt, amend or repeal the Bylaws of the Corporation by a majority vote at any regular or special meeting of the Board of Directors or by written consent, subject to the power of the stockholders of the Corporation to amend or repeal any Bylaw whether adopted by the Board of Directors or the stockholders.

## **ARTICLE VIII**

### **Limitation of Liability**

No director of the Corporation shall be personally liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as director, except that the foregoing provision shall not eliminate or limit the liability of a director (i) for any breach of such director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which such director derived an improper personal benefit. If the Delaware General Corporation Law hereafter is amended to authorize the further elimination or limitation on personal liability of directors, then the liability of a director of the Corporation, in addition to the limitation on personal liability provided herein, shall be limited to the fullest extent permitted by the amended Delaware General Corporation Law.

## **ARTICLE IX**

### **Amendment of Certificate of Incorporation**

Any of the provisions of this Amended and Restated Certificate of Incorporation may, from time to time, be amended, altered or repealed, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted in the manner and at the time prescribed by said laws and subject to the provisions of Section 4.02 hereof, all rights at any time conferred upon the stockholders of the Corporation by this Amended and Restated Certificate of Incorporation are granted subject to the provisions of this Article IX.

## **ARTICLE X**

### **Elections of Directors**

Elections of directors need not be by written ballot unless and except to the extent that the Bylaws of the Corporation shall so require.



3. This Restated Certificate of Incorporation has been duly adopted by unanimous written consent of the stockholders in accordance with the applicable provisions of Sections 228, 242 and 245 of the General Corporation Law of the State of Delaware.
4. This Restated Certificate of Incorporation shall be effective on filing with the Secretary of State of the State of Delaware.

**IN WITNESS WHEREOF**, Sonic Auto World, Inc. has caused its corporate seal to be hereunto affixed and this Amended and Restated Certificate of Incorporation to be signed by Bryan Scott Smith, its President, and attested by Theodore M. Wright, its Secretary, this 7th day of August, 1997.

**SONIC AUTO WORLD, INC.**

By: /s/ BRYAN SCOTT  
SMITH

Bryan Scott Smith, President

ATTEST:

By: /s/ THEODORE M. WRIGHT  
Theodore M. Wright, Secretary

**CERTIFICATE OF DESIGNATION,  
PREFERENCES AND RIGHTS  
OF CLASS A CONVERTIBLE PREFERRED STOCK**

We, Bryan Scott Smith and Theodore M. Wright, being the President and the Secretary, respectively, of Sonic Automotive, Inc., a Delaware corporation (the "Corporation"), do hereby certify that, pursuant to authority conferred upon the Board of Directors by the Amended and Restated Certificate of Incorporation of the Corporation and the General Corporation Law of the State of Delaware, the Board of Directors, by unanimous written consent effective as of March 20, 1998, adopted the Resolutions Creating Class A Convertible Preferred Stock attached hereto as **Exhibit A**.

IN WITNESS WHEREOF, we have hereunto set our hands and seals as President and Secretary, respectively, of the Corporation this 20th day of March, 1998, and we hereby affirm that the foregoing Certificate is our act and deed and the act and deed of the Corporation and that the facts stated therein are true.

SONIC AUTOMOTIVE, INC.

By: /s/ BRYAN SCOTT  
SMITH

Name: Bryan Scott Smith  
Title: President

By: /s/ THEODORE M.  
WRIGHT

Name: Theodore M. Wright  
Title: Secretary

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**RESOLUTIONS CREATING CLASS A CONVERTIBLE PREFERRED STOCK**

**RESOLVED**, that, pursuant to the authority expressly granted to and vested in the Board of Directors of the Corporation by Section 4.06 of the Amended and Restated Certificate of Incorporation of the Corporation, there is hereby created a class of 300,000 shares of preferred stock, designated as Class A Convertible Preferred Stock, par value \$0.10 per share, which shall be divided into 100,000 shares of Series I Convertible Preferred Stock, par value \$0.10 per share (the “Series I Preferred Stock”), 100,000 shares of Series II Convertible Preferred Stock, par value \$0.10 per share (the “Series II Preferred Stock”), and 100,000 shares of Series III Convertible Preferred Stock, par value \$0.10 per share (the “Series III Preferred Stock” and, together with the Series I Preferred Stock and the Series II Preferred Stock, collectively, the “Class A Preferred Stock”). The Board of Directors reserves the right, at any time and from time to time, subject to the filing of a further Certificate or Certificates of Designation with respect thereto and to compliance with any other applicable legal requirements, to redivide or reclassify the Class A Preferred Stock into different numbers of shares of Series I Preferred Stock, Series II Preferred Stock and/or Series III Preferred Stock, or into other classes of preferred stock; provided however, that no such redivision or reclassification shall affect any shares of Series I Preferred Stock, Series II Preferred Stock or Series III Preferred Stock, as the case may be, then issued and outstanding. All capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Amended and Restated Certificate of Incorporation of the Corporation as in effect on the date hereof.

The powers, preferences and rights, and the qualifications, limitations or restrictions, of each such Series of Class A Preferred Stock, in relation to the other such Series of Class A Preferred Stock and in relation to the Common Stock, shall be as follows:

**Section 1.                    Liquidation Rights.**

(a)            **Treatment at Liquidation, Dissolution or Winding Up.** In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, the holders of each share of the Class A Preferred Stock shall, subject to the preferential rights, if any, of the holders of preferred stock other than the Class A Preferred Stock, be entitled to be paid first out of the assets of the Corporation available for distribution to holders of the Corporation’s capital stock of all classes an amount, and no other amount, equal to \$1,000 per share of Class A Preferred Stock. If the assets of the Corporation shall be insufficient to permit the payment in full to the holders of the Class A Preferred Stock of all amounts distributable to them under this Subsection 1(a) and to all other holders of preferred stock, if any, entitled to share in such assets with the holders of the Class A Preferred Stock, then the entire assets of the Corporation available for such distribution shall be distributed ratably among the holders of the Class A Preferred Stock and such other holders of preferred stock in proportion to the full preferential amount each such holder is otherwise entitled to receive. After such payments shall have been made in full to the holders of the Class A Preferred Stock and such other holders of

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preferred stock or funds necessary for such payments shall have been set aside by the Corporation in trust for the account of holders of Class A Preferred Stock and such other holders of preferred stock so as to be available for such payments, the remaining assets available for distribution shall be distributed among the holders of the Common Stock ratably in proportion to the number of shares of Common Stock held by them. Upon conversion of shares of Class A Preferred Stock into shares of Class A Common Stock pursuant to Section 2 below, the holder of such Class A Common Stock shall not be entitled to any preferential payment or distribution in case of any liquidation, dissolution or winding up, but shall share ratably as a holder of Class A Common Stock in any distribution of the assets of the Corporation to all the holders of Common Stock.

(b) **Distributions other than Cash.** Whenever the distribution provided for in this Section 1 shall be payable in property other than cash, the value of such distribution shall be the fair market value of such property, as determined in good faith by the Board of Directors of the Corporation, which determination shall be final.

**Section 2.** **Conversion.** The Class A Preferred Stock shall be convertible as follows:

(a) **Right of Holder to Convert; Conversion Amount.**

(i) **Definitions.** As used herein, the term “Market Price” shall mean the average of the daily closing prices for one share of Class A Common Stock for the twenty (20) consecutive trading days ending one (1) trading day immediately prior to the date of determination. The closing price for each day shall be the last regularly reported sales price, or in case no such reported sales took place on such day, the average of the last regularly reported bid and asked prices, in either case on the New York Stock Exchange or, if the shares of the Class A Common Stock are not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which such shares are listed or admitted to trading, or, if such shares are not so listed or admitted to trading, the average of the highest reported bid and lowest reported asked prices as furnished by the National Association of Securities Dealers, Inc. through NASDAQ or through a similar organization if NASDAQ is no longer reporting such information. If shares of the Class A Common Stock are not listed or admitted to trading on any exchange or quoted through NASDAQ or any similar organization, the Market Price shall be deemed to be the fair value thereof determined in good faith by the Corporation’s board of directors as expressed by a resolution of such board as of a date which is within fifteen days of the date as of which the determination is to be made, which determination shall be final. As used herein, the term “Applicable Conversion Amount” shall mean the Series I Conversion Amount, the Series II Conversion Amount or the Series III Conversion Amount (each as hereafter defined), as the case may be. As used herein, the term “business day” shall mean a day other than a Saturday, a Sunday or a day in which banks are required to be closed in the State of North Carolina.

(ii) **Series I Preferred Stock.** Subject to the other provisions of this Section 2, each share of Series I Preferred Stock shall be convertible, without the payment of any additional consideration by the holder thereof and at the option of the holder thereof, on any business day after the date of issuance of such share at the principal executive office of the Corporation or the

designated office of any transfer agent for the Class A Preferred Stock, into such number (rounded to four decimal places) of fully paid and nonassessable shares of Class A Common Stock as is determined by dividing \$1,000 by the Market Price as of the date of conversion provided in the last sentence of Section 2(b) below (such number of shares being the “Series I Conversion Amount”). The right of conversion with respect to any shares of Series I Preferred Stock which shall have been called for redemption under Section 5 shall terminate at the close of business on the date of the mailing of the notice of redemption with respect thereto; provided, however, if the Corporation shall default in the payment of the redemption price on the redemption date fixed in such notice of redemption, such right of conversion shall continue.

(iii) Series II Preferred Stock. Subject to the other provisions of this Section 2, each share of Series II Preferred Stock shall be convertible, without the payment of any additional consideration by the holder thereof and at the option of the holder thereof; on any business day after the date of issuance of such share, at the principal executive office of the Corporation or the designated office of any transfer agent for the Class A Preferred Stock, into such number (rounded to four decimal places) of fully paid and nonassessable shares of Class A Common Stock as is determined by dividing \$1,000 by the Market Price as of the date of issuance of such share of Series II Preferred Stock (such number of shares being the “Series II Conversion Amount”), subject to adjustment as provided in the following two sentences. If the Market Price as of the date of conversion (as provided in the last sentence of Section 2(b) below) of such share of Series II Preferred Stock is less than ninety percent (90%) of the Market Price as of the date of issuance of such share of Series II Preferred Stock, the Series II Conversion Amount shall be multiplied by a fraction, the numerator of which shall be an amount equal to ninety percent (90%) of such Market Price as of such date of issuance and the denominator of which shall be such Market Price as of such date of conversion, and the product obtained thereby shall be the Series II Conversion Amount. If the Market Price as of the date of conversion (as provided in the last sentence of Section 2(b) below) of such share of Series II Preferred Stock is more than one hundred ten percent (110%) of the Market Price as of the date of issuance of such share of Series II Preferred Stock, the Series II Conversion Amount shall be multiplied by a fraction, the numerator of which shall be an amount equal to one hundred ten percent (110%) of such Market Price as of such date of issuance and the denominator of which shall be such Market Price as of such date of conversion, and the product obtained thereby shall be the Series II Conversion Amount. The right of conversion with respect to any shares of Series II Preferred Stock which shall have been called for redemption under Section 5 shall terminate at the close of business on the date of the mailing of the notice of redemption with respect thereto; provided, however, if the Corporation shall default in the payment of the redemption price on the redemption date fixed in such notice of redemption, such right of conversion shall continue.

(iv) Series III Preferred Stock. Subject to the other provisions of this Section 2, each share of Series III Preferred Stock shall be convertible, without the payment of any additional consideration by the holder thereof and at the option of the holder thereof, on any business day after the date of issuance of such share, at the principal executive office of the Corporation or the designated office of any transfer agent for the Class A Preferred Stock, into such number (rounded to four decimal places) of fully paid and nonassessable shares of Class A Common Stock as is

determined by dividing \$1,000 by the Market Price as of the date of issuance of such shares of Series III Preferred Stock (such number of shares being the "Series III Conversion Amount") subject to adjustment as provided in the following two sentences. If the Market Price as of the date of conversion (as provided in the last sentence of Section 2(b) below) of such share of Series III Preferred Stock is less than the Market Price as of the date of issuance of such share of Series III Preferred Stock, the Series III Conversion Amount shall be multiplied by a fraction, the numerator of which shall be an amount equal to such Market Price as of such date of issuance and the denominator of which shall be such Market Price as of such date of conversion, and the product obtained thereby shall be the Series III Conversion Amount. If the Market Price as of the date of conversion (as provided in the last sentence of Section 2(b) below) of such share of Series III Preferred Stock is more than one hundred ten percent (110%) of the Market Price as of the date of issuance of such share of Series III Preferred Stock, the Series III Conversion Amount shall be multiplied by a fraction, the numerator of which shall be an amount equal to one hundred ten percent (110%) of such Market Price as of such date of issuance and the denominator of which shall be such Market Price as of such date of conversion, and the product obtained thereby shall be the Series III Conversion Amount. The right of conversion with respect to any shares of Series III Preferred Stock which shall have been called for redemption under Section 5 shall terminate at the close of business on the date of the mailing of the notice of redemption with respect thereto; provided, however, if the Corporation shall default in the payment of the redemption price on the redemption date fixed in such notice of redemption, such right of conversion shall continue.

(v) Conversion Cap. Prior to the date on which holders of the Common Stock approve the issuance of the Class A Preferred Stock, the Corporation may not issue, upon the conversion of shares of the Class A Preferred Stock, more than 2,249,999 shares of Class A Common Stock in the aggregate (the "Conversion Cap Amount"). In lieu of any shares of Class A Common Stock to which a holder of Class A Preferred Stock would otherwise be entitled upon conversion but for the Conversion Cap Amount (the "Excess Conversion Common Shares"), the Corporation shall pay cash equal to the number of such Excess Conversion Common Shares multiplied by the Market Price in effect at the time of conversion.

(vi) Conversion During First Year. The right of any holder to convert any of such holder's shares of the Class A Preferred Stock during the one (1) year period commencing with the date of issuance of such Class A Preferred Stock shall be subject to the Corporation's right of optional redemption under Section 5 hereof. The holder of such share of Class A Preferred Stock shall not exercise such holder's right to convert such share of Class A Preferred Stock during such one (1) year period unless such holder shall have first delivered to the Corporation, at its address at 5401 E. Independence Boulevard, Charlotte, North Carolina 28212, Attention: Chief Financial Officer, or at such other address as the Corporation may notify the holder in writing, written notice of such holder's intention to convert a specified number of shares of Class A Preferred Stock. For a period of ten (10) business days after receipt by the Corporation of such notice, the Corporation shall have the right to exercise its right of optional redemption under Section 5 hereof with respect to some or all of the shares of Class A Preferred Stock proposed to be converted by such holder. In the event that the Corporation shall not have exercised such right of redemption within such ten

(10) business day period, such holder shall be entitled to convert such shares of Class A Preferred Stock in accordance with the mechanics set forth in Subsection 2(b) below.

(b) **Mechanics of Optional Conversions.** In order for any holder of the Class A Preferred Stock to convert the same into full shares of Class A Common Stock pursuant to Subsection 2(a), such holder shall surrender the certificate or certificates therefor, duly endorsed, at the principal executive office of the Corporation or the designated office of any transfer agent for the Class A Preferred Stock, together with written notice to the Corporation at such office that such holder elects to convert the number of shares of Class A Preferred Stock set forth therein. No fractional shares of Class A Common Stock shall be issued upon conversion of the Class A Preferred Stock. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the Market Price as of the date of the conversion. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of the Class A Preferred Stock, and in the name or names shown on such surrendered certificate or certificates, a certificate or certificates for the number of shares of Class A Common Stock to which such holder shall be entitled as aforesaid, together with cash in lieu of any fraction of a share. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Class A Preferred Stock to be converted, and the person or persons entitled to receive the shares of Class A Common Stock issuable upon conversion shall be treated for all purposes as the record holder or holders of such shares of Class A Common Stock on such date.

(c) **Mandatory Conversion at the Option of the Corporation.** After the second anniversary of the date of its issuance, any share of the Class A Preferred Stock which has not been converted into Class A Common Stock shall be subject, at the option of the Corporation, to mandatory conversion as hereinafter provided. The Corporation may exercise its option to convert any such share of Class A Preferred Stock by giving notice in writing of such conversion to the holder of such share of Class A Preferred Stock (a "Mandatory Conversion Notice") at such holder's address set forth in the books and records of the Corporation. Upon the giving of a Mandatory Conversion Notice with respect thereto, each such share of Class A Preferred Stock referred to in such Mandatory Conversion Notice shall automatically and without any further action on the part of the holder of such Class A Preferred Stock be converted into the number of shares (rounded to four decimal places) of fully paid and nonassessable Class A Common Stock based upon the Applicable Conversion Amount as of the date of such Mandatory Conversion Notice. Until surrendered in accordance with the provisions of Subsection 2(d) below, the certificate or certificates evidencing the shares of Class A Preferred Stock so converted shall be deemed to represent the applicable number of shares of Class A Common Stock into which such shares of Class A Preferred Stock have been so converted.

(d) **Mechanics of Mandatory Conversion.** Upon mandatory conversion pursuant to Subsection 2(c) above, the Corporation shall not be obligated to issue certificates evidencing the shares of Class A Common Stock issuable upon such conversion unless the certificate or certificates evidencing such share or shares of the Class A Preferred Stock being converted are either delivered to the Corporation or its designated transfer agent for the Class A Preferred Stock,



or the holder notifies the Corporation or such transfer agent that such certificate or certificates have been lost, stolen, or destroyed and executes an agreement satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection therewith and, if the Corporation so elects, provides an appropriate indemnity bond. Upon the mandatory conversion of one or more shares of the Class A Preferred Stock, the holder or holders of such Class A Preferred Stock shall surrender the certificates representing such shares at the principal executive office of the Corporation or of its designated transfer agent for the Class A Preferred Stock. Thereupon, there shall be issued and delivered to such holder or holders, promptly at such office and in the name or names as shown on such surrendered certificate or certificates, a certificate or certificates for the number of shares of Class A Common Stock into which the shares of the Class A Preferred Stock surrendered were convertible as of the date of the applicable Mandatory Conversion Notice. No fractional shares of Class A Common Stock shall be issued upon such mandatory conversion of the Class A Preferred Stock. In lieu of any fractional share to which the holder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the Market Price as of the date of conversion. The right of the Corporation to effectuate mandatory conversion of the Class A Preferred Stock may be exercised by the Corporation, in its discretion, as to any or all shares of Class A Preferred Stock held by any or all of the holders of the Class A Preferred Stock; and the exercise (or non-exercise) of such right by the Corporation with respect to any shares of Class A Preferred Stock held by one holder shall not in any way imply any obligation or duty of the Corporation to exercise (or not to exercise) such right with respect to any shares of Class A Preferred Stock held by any other holder.

(e) **Adjustments for Stock Dividends, Stock Distributions, Subdivisions, Combinations or Consolidations of Common Stock.** In the event that all the outstanding shares of Class A Common Stock shall be increased by way of stock dividend, stock distribution or subdivision, the Applicable Conversion Amount in effect immediately prior to such stock dividend, stock distribution or subdivision shall, concurrently with the effectiveness of such stock dividend, stock distribution or subdivision, be proportionately increased. In the event that all the outstanding shares of Class A Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Class A Common Stock, the Applicable Conversion Amount in effect immediately prior to such combination or consolidation shall, concurrently with the effectiveness of such combination or consolidation, be proportionately decreased.

(f) **Adjustment for Reclassification, Exchange, or Substitution.** In the event that at any time or from time to time after the date of issuance of a share of Class A Preferred Stock, the Class A Common Stock issuable upon the conversion of such share of the Class A Preferred Stock shall be changed into the same or a different number of shares of any class or classes of stock, whether by capital reorganization, reclassification, or otherwise (other than a subdivision or combination of shares or stock dividend provided for above, or a merger, consolidation, or sale of assets provided for below), then and in each such event the holder of such share of Class A Preferred Stock shall have the right thereafter to convert such share into the kind and amount of shares of stock and other securities and property receivable upon such reorganization, reclassification, or other change, by holders of the number of shares of Class A Common Stock

into which such share of Class A Preferred Stock would have been converted immediately prior to such reorganization, reclassification, or change.

(g) **Adjustment for Merger, Consolidation or Sale of Assets.** In the event that at any time or from time to time after the date of issuance of a share of Class A Preferred Stock, the Corporation shall merge or consolidate with or into another entity or sell all or substantially all of its assets, such share of Class A Preferred Stock shall thereafter be convertible into the kind and amount of shares of stock or other securities or property to which a holder of the number of shares of Class A Common Stock deliverable upon conversion of such share of Class A Preferred Stock would have been entitled upon such consolidation, merger or sale; and, in such case, appropriate adjustment (as determined in good faith by the Board of Directors) shall be made in the application of the provisions of this Section 2 set forth with respect to the rights and interest thereafter of the holders of Class A Preferred Stock, to the end that the provisions set forth in this Section 2 (including provisions with respect to changes in and other adjustments of the Applicable Conversion Amount) shall thereafter be applicable, as nearly as reasonably may be, in relation to any shares of stock or other property thereafter deliverable upon the conversion of the Class A Preferred Stock.

(h) **Certificate as to Adjustments.** Upon the occurrence of each adjustment or readjustment pursuant to this Section 2, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each affected holder of Class A Preferred Stock a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based.

(i) **Common Stock Reserved.** The Corporation shall reserve and keep available out of its authorized but unissued Class A Common Stock such number of shares of Class A Common Stock as shall from time to time be sufficient to effect conversion of the Class A Preferred Stock.

### **Section 3. Voting Rights.**

(a) **Notice of Meeting.** Except as otherwise required by law or as hereinafter set forth, the holders of the Class A Preferred Stock shall be entitled to notice of any meeting of stockholders at which any matter is to be voted on by the holders of the Class A Common Stock.

(b) **Voting.** Except as otherwise required by law or as hereinafter set forth, the holders of the Class A Preferred Stock shall be entitled to vote with the holders of the Class A Common Stock on any matter which is to be voted on by the holders of the Class A Common Stock, whether such matter is to be voted on by the holders of the Class A Common Stock and the holders of the Class B Common Stock voting together as a single class, or by the holders of the Class A Common Stock voting separately as a class. Each holder of Class A Preferred Stock shall have that number of votes equal to the number of shares of Class A Common Stock into which the shares of Class A Preferred Stock held by such holder could be converted on the date for determination of stockholders entitled to vote at a meeting.

With respect to all questions as to which, under law, stockholders are entitled to vote by classes, the Class A Preferred Stock shall vote together as a single class separately from the Common Stock.

**Section 4.** **Dividend Rights.** The holders of the Class A Preferred Stock shall have no preferential dividend rights. Subject to the preferential rights, if any, of the holders of preferred stock other than the Class A Preferred Stock, each holder of the Class A Preferred Stock shall be entitled to receive all dividends and other distributions of cash and other property as may be declared on the Class A Common Stock by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefor, as if all shares of the Class A Preferred Stock held by such holder had been converted into the applicable number of shares of Class A Common Stock on the day any such dividend was declared.

**Section 5.** **Redemption.** The Class A Preferred Stock shall be subject to optional redemption by the Corporation as follows:

**(a) Right of Corporation to Redeem; Redemption Price.**

(i) **Series I Preferred Stock.** Any share of the Series I Preferred Stock which has not been surrendered for optional conversion by the holder thereof and as to which the Corporation has not issued a Mandatory Conversion Notice may be redeemed by the Corporation, at the option of the Corporation, at any time after the date on which such share of Series I Preferred Stock was first issued at a redemption price equal to \$1,000 per share.

(ii) **Series II Preferred Stock.** Any share of the Series II Preferred Stock which has not been surrendered for optional conversion by the holder thereof and as to which the Corporation has not issued a Mandatory Conversion Notice may be redeemed by the Corporation, at the option of the Corporation, at any time after the date on which such share of Series II Preferred Stock was first issued at a redemption price per share equal to (A) if the date of the mailing of the notice of redemption is on or before the second anniversary of the date of issuance of such share of Series II Preferred Stock, the greater of (I) \$1,000 or (II) the Market Price as of the date of the mailing of such notice of redemption multiplied by the number of shares of Class A Common Stock into which such share of Series II Preferred Stock could be converted as of the date of the mailing of such notice of redemption, or (B) if the date of the mailing of the notice of redemption is after the second anniversary of the date of issuance of such share of Series II Preferred Stock, the Market Price as of the date of the mailing of such notice of redemption multiplied by the number of shares of Class A Common Stock into which such share of Series II Preferred Stock could be converted as of the date of the mailing of such notice of redemption.

(iii) **Series III Preferred Stock.** Any share of the Series III Preferred Stock which has not been surrendered for optional conversion by the holder thereof and as to which the Corporation has not issued a Mandatory Conversion Notice may be redeemed by the Corporation, at the option of the Corporation, at any time after the date on which such share of Series III Preferred Stock was first issued at a redemption price per share equal to (A) if the date of the

mailing of the notice of redemption is on or before the second anniversary of the date of issuance of such share of Series III Preferred Stock, the greater of (I) \$1,000 or (II) the Market Price as of the date of the mailing of such notice of redemption multiplied by the number of shares of Class A Common Stock into which such share of Series III Preferred Stock could be converted as of the date of the mailing of such notice of redemption, or (B) if the date of the mailing of the notice of redemption is after the second anniversary of the date of issuance of such share of Series III Preferred Stock, the Market Price as of the date of the mailing of such notice of redemption multiplied by the number of shares of Class A Common Stock into which such share of Series III Preferred Stock could be converted as of the date of the mailing of such notice of redemption.

**(b) Notice of Redemption.** Notice of redemption shall be sent by first class mail, postage prepaid, to the holder of record of the Class A Preferred Stock to be redeemed, not less than 30 days nor more than 60 days prior to the redemption date set forth therein, at its address as it appears on the books of the Corporation. Such notice shall set forth (i) the date and place of redemption; and (ii) the number of shares to be redeemed and the redemption price with respect thereto. In the event that a notice of redemption is given under this Subsection 5(b), the Corporation shall be obligated to redeem the Class A Preferred Stock on the date and in the amounts set forth in the notice.

**(c)** If, on or before a redemption date, the funds necessary for such redemption shall have been set aside by the Corporation and deposited with a bank or trust company, in trust for the pro rata benefit of the holders of the Class A Preferred Stock that has been called for redemption, then, notwithstanding that any certificates for shares that have been called for redemption shall not have been surrendered for cancellation, the shares represented thereby shall no longer be deemed outstanding from and after such redemption date, and all rights of holders of such shares so called for redemption shall forthwith, after such redemption date, cease and terminate with respect to such shares, excepting only the right to receive the redemption funds therefor to which they are entitled, but without interest. Any interest accrued on funds so deposited and unclaimed by stockholders entitled thereto shall be paid to such stockholders at the time their respective shares are redeemed or to the Corporation at the time unclaimed amounts are paid to it.

**(d)** The right of the Corporation to redeem the Class A Preferred Stock may be exercised by the Corporation, in its discretion, as to any or all shares of Class A Preferred Stock held by any or all of the holders of the Class A Preferred Stock; and the exercise (or non-exercise) of such right by the Corporation with respect to any shares of Class A Preferred Stock held by one holder shall not in any way imply any obligation or duty of the Corporation to exercise (or not to exercise) such right with respect to any shares of Class A Preferred Stock held by any other holders.

**Section 7. Waiver.** Except to the extent prohibited by applicable law, the Corporation may waive any right it may have hereunder. Any such waiver shall be in writing; and no waiver of (or failure to waive) any such right by the Corporation in any one instance shall constitute a waiver (or non-waiver) by the Corporation of a similar or other right in any other instance.

**Section 8.** **Residual Rights.** Subject to the preferential rights, if any, of the holders of preferred stock other than the Class A Preferred Stock, all rights accruing to the outstanding shares of the Corporation not expressly provided for to the contrary herein shall be vested in the Common Stock.

**CERTIFICATE OF AMENDMENT  
TO  
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION  
OF  
SONIC AUTOMOTIVE, INC.**

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Adopted in accordance with the  
provisions of Section 242 of the General  
Corporation Law of the State of Delaware

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**SONIC AUTOMOTIVE, INC.**, a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), **DOES HEREBY CERTIFY** as follows:

**FIRST:** The Board of Directors of the Corporation adopted the resolution set forth below proposing the amendment to the Amended and Restated Certificate of Incorporation (the "Amendment") and directed that the Amendment be submitted to the holders of the issued and outstanding shares of capital stock of the Corporation entitled to vote thereon for their consideration and approval:

RESOLVED, that the Board of Directors hereby deems that Section 4.01 of the Corporation's Charter is proposed to be amended by deleting Section 4.01 in its entirety and inserting the following in lieu thereof:

**Section 4.01. Authorized Capital Stock.** The aggregate number of shares of capital stock which the Corporation shall have authority to issue is one hundred thirty-three million (133,000,000) shares divided into the following classes:

- (a) One hundred million (100,000,000) shares of Class A Common Stock with a par value of one cent (\$.01) per share (the "Class A Common Stock");



(b) Thirty million (30,000,000) shares of Class B Common Stock with a par value of one cent (\$.01) per share (the "Class B Common Stock"); and

(c) Three million (3,000,000) shares of Preferred Stock with a par value of ten cents (\$.10) per share (the "Preferred Stock").

Each share of Class A Common Stock and each share of Class B Common Stock (collectively, the "Common Stock") shall be identical in all respects and shall have equal voting powers, preferences and relative rights, except as otherwise provided in this Article IV.

**SECOND:** The Amendment was duly adopted in accordance with Section 242 of the General Corporation Law of the State of Delaware at the annual meeting of the stockholders of the Corporation held June 8, 1999, by the holders of a majority of the issued and outstanding shares of the Class A Common Stock, by the holders of a majority of the issued and outstanding shares of the Class B Common Stock; and by the holders of a majority of the votes entitled to be voted with respect to the Amendment.

\* \* \* \* \*

**IN WITNESS WHEREOF**, the Corporation has caused this Certificate of Amendment to be signed by one of its duly authorized officers this 16th day of June, 1999.

**SONIC AUTOMOTIVE, INC.**

By: /s/ THEODORE M. WRIGHT  
Theodore M. Wright  
Vice President – Finance and Chief  
Financial Officer

**CERTIFICATE OF AMENDMENT  
TO  
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION  
OF  
SONIC AUTOMOTIVE, INC.**

Sonic Automotive, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the “Corporation”), does hereby certify:

FIRST: The name of the Corporation is Sonic Automotive, Inc.

SECOND: This Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Corporation has been duly adopted by the Corporation in accordance with Section 242 of the General Corporation Law of the State of Delaware and the Amended and Restated Certificate of Incorporation of the Corporation.

THIRD: This Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Corporation has been duly approved by the required vote of the stockholders of the Corporation at the annual meeting of stockholders duly called and held on April 18, 2017, upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware.

FOURTH: The Amended and Restated Certificate of Incorporation of the Corporation is hereby amended by deleting Section 4.04(b) thereof in its entirety and inserting the following as Section 4.04(b):

“(b) If the total number of shares of Common Stock held by members of the Smith Group is less than 15% of the total number of shares of Common Stock outstanding, all of the outstanding shares of Class B Common Stock shall automatically be deemed converted to Class A Common Stock.

A member of the Smith Group consists of the following persons:

- (i) Mr. O. Bruton Smith and his guardian, conservator, committee or attorney in fact;
- (ii) Mr. William S. Egan and his guardian, conservator, committee or attorney in fact;
- (iii) each lineal descendant of Messrs. Smith and Egan (each, a “Descendant”) and their respective guardians, conservators, committees or attorneys in fact;
- (iv) each Family Controlled Entity (as hereinafter defined).

The term “Family Controlled Entity” means:

- (i) any not for profit corporation if at least 80% of its Board of Directors is composed of Mr. Smith, Mr. Egan and/or Descendants;
  - (ii) any other corporation if at least 80% of the value of its outstanding equity is owned by members of the Smith Group;
-



- (iii) any partnership if at least 80% of the value of the partnership interests are owned by members of the Smith Group;
- (iv) any limited liability or similar company if at least 80% of the value of the company is owned by members of the Smith Group; and
- (v) any trust if (A) at least 80% of the current beneficiaries of the trust are members of the Smith Group or (B) members of the Smith Group have sole dispositive power and sole voting power with respect to at least 80% of the shares of Class B Common Stock held by the trust.

Notwithstanding anything to the contrary set forth herein, any holder of Class B Common Stock may pledge such shares to a pledgee pursuant to a bona fide pledge of such shares as collateral security for indebtedness due to the pledgee; provided, however, that such shares may not be transferred to or registered in the name of the pledgee unless such pledgee is a member of the Smith Group. In the event of foreclosure or other similar action by the pledgee, such pledged shares shall automatically, without any act or deed on the part of the Corporation or any other person, be deemed converted into shares of Class A Common Stock unless within five (5) business days after such foreclosure or similar event such pledged shares are returned to the pledger or transferred to a member of the Smith Group. The foregoing provisions of this paragraph shall not be deemed to restrict or prevent any transfer of such shares by operation of law upon incompetence, death, dissolution or bankruptcy of any Class B Stockholder or any provision of law providing for, or judicial order of, forfeiture, seizure or impoundment.”

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IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed this 18<sup>th</sup> day of April, 2017.

SONIC AUTOMOTIVE, INC.

By: /s/ STEPHEN K.

COSS

Name:

Coss

Title:

President,

Counsel and Secretary

Stephen K.

Senior Vice

**SONIC AUTOMOTIVE, INC.**  
**2012 FORMULA RESTRICTED STOCK AND DEFERRAL PLAN**  
**FOR NON-EMPLOYEE DIRECTORS**  
**Amended and Restated Effective as of April 18, 2017**

**RESTRICTED STOCK AGREEMENT**

This Restricted Stock Agreement (the "Restricted Stock Agreement") is entered into as of **<Date Granted>** (the "Grant Date") between SONIC AUTOMOTIVE, INC., a Delaware corporation (the "Company"), and **<Name>** (the "Non-Employee Director").

**WHEREAS**, the Company has adopted the Sonic Automotive, Inc. 2012 Formula Restricted Stock and Deferral Plan for Non-Employee Directors, amended and restated effective as of April 18, 2017 (the "Plan"), pursuant to which the Company shall, from time to time, make grants of restricted shares of the Company's Class A Common Stock, par value \$0.01 per share (the "Common Stock"), or subject to a timely advance election, deferred restricted stock units representing the contingent right to receive a corresponding number of shares of the Common Stock, to eligible members of the Board of Directors of the Company (the "Board of Directors") who are not employees of the Company or any of its subsidiaries;

**NOW, THEREFORE**, in consideration of the promises and the mutual covenants and agreements hereinafter set forth, the parties hereby agree as follows:

Grant of Restricted Stock

. In consideration for the Non-Employee Director's service on the Board of Directors and subject to the terms and conditions set forth in this Restricted Stock Agreement and the Plan, the Company hereby grants to the Non-Employee Director ( ) shares of Common Stock (the "Restricted Stock").

Vesting and Termination of Service

(a) Except as otherwise provided in this Section 2, the Restricted Stock shall vest in full on the earlier of (i) the first anniversary of the Grant Date, or (ii) the day before the next annual meeting of the Company's stockholders following the Grant Date.

(b) Notwithstanding the foregoing, if this Restricted Stock Agreement pertains to a grant of Restricted Stock to the Non-Employee Director made in connection with his or her initial appointment to the Board of Directors but after the annual meeting of the Company's stockholders has been held for the calendar year in which such initial appointment occurs, then except as otherwise provided in this Section 2, the Restricted Stock shall vest in full on the first anniversary of the Grant Date.

(c) Vesting generally is subject to continued service as a member of the Board of Directors through the applicable vesting date. Except as provided in Section 2(d) below which shall apply in the event of a termination of service immediately prior to or upon a Change in Control, if the Non-Employee Director's service on the Board of Directors terminates for any reason other than the Non-Employee Director's death or Disability, all shares of Restricted Stock not vested at the time of such termination shall be immediately and automatically forfeited by the Non-Employee Director. If the Non-Employee Director's service on the Board of Directors terminates by reason of the Non-Employee Director's death or Disability, the Restricted Stock held by the Non-Employee Director shall vest in full as of the date of such termination.

(d) The Restricted Stock shall become fully vested in connection with a Change in Control in accordance with the terms of the Plan.

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### ***Restrictions on Transferability***

. The Non-Employee Director may not sell, assign, convey, pledge, exchange, hypothecate, alienate or otherwise dispose of or transfer the Restricted Stock in any manner to the extent it remains unvested. No assignment, pledge or transfer of the Restricted Stock, or of the rights represented thereby, whether voluntary or involuntary, by operation of law or otherwise, shall be effective, but immediately upon any such attempt to assign, pledge or otherwise transfer the Restricted Stock, the Restricted Stock shall be forfeited.

### **Company Policies**

. The Restricted Stock also shall be subject to the terms and conditions of any applicable policy regarding clawbacks, forfeitures, or recoupmets adopted by the Company. Without limiting the foregoing, by acceptance of the Restricted Stock, the Non-Employee Director agrees to repay to the Company any amount that may be required to be repaid under any such policy.

### **Forfeiture Procedure**

. In the event of any forfeiture of the Restricted Stock, such forfeiture shall be automatic and without further act or deed by the Non-Employee Director. Notwithstanding the foregoing, if requested by the Company (or its agent), the Non-Employee Director shall execute such documents (including, without limitation, a power of attorney in favor of the Company) and take such other action deemed necessary or desirable by the Company to evidence such forfeiture.

### **Tax Matters (Withholding and 83(b) Elections)**

. To the extent applicable, the Non-Employee Director shall pay or make provision for payment to the Company the amount necessary to satisfy any federal, state or local withholding requirements applicable to any taxable event arising in connection with the Restricted Stock. The determination of the withholding amounts due in such event shall be made by the Company and shall be binding upon the Non-Employee Director. The Company shall not be required to deliver or release any shares of Common Stock unless the Non-Employee Director has made acceptable arrangements to satisfy any such withholding requirements. Notwithstanding the foregoing, nothing in this Section shall be construed to impose on the Company a duty to withhold where applicable law does not require such withholding.

THE NON-EMPLOYEE DIRECTOR ACKNOWLEDGES THAT HE OR SHE IS RESPONSIBLE FOR, AND IS ADVISED TO CONSULT WITH THE NON-EMPLOYEE DIRECTOR'S OWN TAX ADVISORS REGARDING, THE TAX CONSEQUENCES TO THE NON-EMPLOYEE DIRECTOR THAT MAY ARISE IN CONNECTION WITH THE RESTRICTED STOCK, INCLUDING THE DECISION TO MAKE AND TIMELY FILE, AND THE CONSEQUENCES OF, ANY ELECTION UNDER SECTION 83(B) OF THE INTERNAL REVENUE CODE. THE NON-EMPLOYEE DIRECTOR ALSO SHALL TIMELY DELIVER A COPY OF ANY SUCH SECTION 83(B) FILING TO THE COMPANY.

### **Rights as Shareholder**

. Notwithstanding the foregoing vesting and transfer restrictions that apply to the Restricted Stock, but subject to the terms of this Restricted Stock Agreement and the Plan, the Non-Employee Director generally shall otherwise have the beneficial ownership of the Restricted Stock and shall be entitled to exercise the rights and privileges of a shareholder with respect to the Restricted Stock, including the right to receive dividends (if any) paid with respect to such shares and the right to vote such shares; provided, however, that (a) any dividend payments will be made no later than the end of the calendar year in which the dividends are paid to shareholders of the Common Stock or, if later, the fifteenth day of the third month following the date the dividends are paid to shareholders of the Common Stock; and (b) with respect to any shares of Common Stock that arise from dividends or adjustments under Section 9 with respect to the Restricted Stock, the Non-Employee Director shall have the same rights and privileges, and shall be subject to the same restrictions, that apply to the Restricted Stock under this Restricted Stock Agreement and the Plan.

### ***Book-Entry Form***

. The shares of Restricted Stock generally shall be evidenced in book-entry or similar form and maintained by or on behalf of the Company in such form. In such case, no stock certificates shall be issued and the applicable restrictions will be noted in the records of the Company and its transfer agent. Notwithstanding the foregoing, in the discretion of the Company, a certificate or certificates representing the Restricted Stock may be registered in the name of the Non-Employee Director and held in escrow or other custody by or on behalf of the Company. In either case, each certificate or book-entry record may bear such legends as the Company deems appropriate to reflect the applicable terms and conditions upon the Restricted Stock.

### **Adjustments**

. The Restricted Stock granted pursuant to this Restricted Stock Agreement may be subject to adjustment as provided in the Plan in the event of a reorganization, recapitalization, stock split, stock dividend, extraordinary dividend, spin-off, combination of shares, merger, consolidation or other relevant changes in the Company's capital structure in order to prevent the dilution or enlargement of rights. The existence of the Restricted Stock shall not affect in any way the authority of the Company and its stockholders to exercise their corporate rights and powers, including, but not by way of limitation, the right of the Company to authorize any adjustment, reclassification, reorganization, or other change in its capital or business structure, any merger or consolidation of the Company, the dissolution or liquidation of the Company, the issuance of securities with preference ahead of or affecting the Common Stock, or any sale or transfer of all or any part of its business or assets.

### **Securities Laws**

. Notwithstanding any provision herein to the contrary or in the Plan, the Company shall be under no obligation to issue any shares of Common Stock to the Non-Employee Director pursuant to this Restricted Stock Agreement unless and until the Company has determined that such issuance is either exempt from registration, or is registered, under the Securities Act of 1933, as amended, and is either exempt from registration and qualification, or is registered or qualified, as applicable, under all applicable state securities or "blue sky" laws. Nothing in this Restricted Stock Agreement shall be construed to obligate the Company at any time to file or maintain a registration statement under the Securities Act of 1933, as amended, or to effect similar compliance under any applicable state laws with respect to the Common Stock that may be issued pursuant to this Restricted Stock Agreement. The Company may require that the Non-Employee Director make such representations and agreements and furnish such information as the Company deems appropriate to assure compliance with applicable legal and regulatory requirements.

### **Resolution of Disputes; Interpretation**

. Subject to the Plan, the Board of Directors shall have the full and exclusive authority and discretion to resolve any question of interpretation, dispute or disagreement that arises under, or as a result of, this Restricted Stock Agreement, and any such determination or interpretation by the Board of Directors shall be final, binding and conclusive on all parties affected thereby. However, determinations made specifically with respect to the Non-Employee Director shall be made without the participation by the Non-Employee Director.

### **12. *Miscellaneous.***

(a) *Binding on Successors and Representatives.* Subject to the transfer restrictions applicable to the Non-Employee Director hereunder and other conditions hereof, this Restricted Stock Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company and the Non-Employee Director's heirs, executors, administrators, and personal representatives; and the parties agree, for themselves and their successors, representatives and assigns, to execute any instrument that may be necessary legally to effect the terms and conditions of this Restricted Stock Agreement.

(b) *No Service Rights.* Nothing contained in this Restricted Stock Agreement shall confer upon the Non-Employee Director any right to continue in the service of the Company nor interfere

with or limit in any way the right of the Company to terminate the Non-Employee Director's service for the Company.

(c) *Entire Agreement; Amendment.* This Restricted Stock Agreement together with the Plan constitute the entire agreement of the parties with respect to the Restricted Stock and supersede any previous agreement, whether written or oral, with respect thereto. This Restricted Stock Agreement has been entered into in compliance with the terms of the Plan; wherever a conflict may arise between the terms of this Restricted Stock Agreement and the terms of the Plan, the terms of the Plan shall control. Except as otherwise provided below or in the Plan, neither this Restricted Stock Agreement nor any of the terms and conditions herein set forth may be modified or amended except by a writing signed by both parties. Notwithstanding the foregoing, it is intended that this Restricted Stock Agreement be exempt from Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). The Board of Directors may, without obtaining the consent of the Non-Employee Director, amend this Restricted Stock Agreement in any respect it deems necessary or advisable to comply with applicable law, including, but not limited to, Section 409A of the Code and applicable regulations and guidance thereunder and/or to prevent this Restricted Stock Agreement from being subject to Section 409A of the Code.

(d) *Notices.* All notices required and permitted to be given hereunder shall be in writing and shall be deemed to have been given (i) if delivered by hand, when so delivered; (ii) if sent by Federal Express or other overnight express service, one (1) business day after delivery to such service; or (iii) if mailed by certified or registered mail, return receipt requested, three (3) days after delivery to the post office. In each case, all notices shall be addressed to the intended recipient as follows or at such other address as is provided by either party by notice to the other:

If to the Company:

Sonic Automotive, Inc.  
Attention: Chief Financial Officer  
4401 Colwick Road  
Charlotte, NC 28211

With a copy to:

Sonic Automotive, Inc.  
Attention: General Counsel  
4401 Colwick Road  
Charlotte, NC 28211

If to the Non-Employee Director:

To the Non-Employee Director's address appearing in the Company's records, or at such other address as the Non-Employee Director shall designate by notice.

(e) *Personal Data.* The Non-Employee Director acknowledges that Plan participation and receipt of awards under the Plan (including the Restricted Stock) may involve the use and transfer, in electronic or other form, of personal data about the Non-Employee Director between and among the Company, its Subsidiaries and third-party service providers. This data may include, but is not limited to, the Non-Employee Director's name, home address, telephone number, date of birth, social security number, information regarding securities of the Company held by such Non-Employee Director, and details of awards granted to the Non-Employee Director under the Plan, including the Restricted Stock. By accepting the Restricted Stock, the Non-Employee Director consents and agrees that the Company and its Subsidiaries may transfer such data to third parties assisting the Company in the administration and management of the Plan, the Restricted Stock and the Non-Employee Director's participation in the Plan, including any requisite transfer of such data to a broker or other third party with whom the Company or the Non-Employee Director may deposit any shares of Common Stock.

(f) *Governing Law.* This Restricted Stock Agreement shall be governed by, and construed in accordance with, the laws of the State of North Carolina, without regard to its principles of conflict of laws. The jurisdiction and venue for any disputes arising under, or any action brought to

enforce (or otherwise relating to) this Restricted Stock Agreement or the Plan will be exclusively in the courts of the State of North Carolina, County of Mecklenburg, including the federal courts located therein (should federal jurisdiction exist).

(g) *Construction of Terms and Definitions.* Any reference herein to the singular or plural shall be construed as plural or singular whenever the context requires. Capitalized terms not otherwise defined in this Restricted Stock Agreement shall have the meanings ascribed to them in the Plan.

(h) *Severability.* The invalidity or unenforceability of any particular provision of this Restricted Stock Agreement shall not affect the other provisions hereof, and the Board of Directors may elect in its discretion to construe such invalid or unenforceable provision in a manner which conforms to applicable law or as if such provision was omitted.

(i) *Electronic Delivery and Acknowledgement.* The Non-Employee Director also acknowledges and agrees that the Company may, in its discretion, deliver documents related to the Restricted Stock and participation in the Plan (including, without limitation, this Restricted Stock Agreement, Plan documents and disclosures that may be required by the Securities and Exchange Commission) by electronic means, including through an on-line or electronic system (including by posting them on a website) established and maintained by the Company or a third party designated by the Company, and the Non-Employee Director consents to receive documents in such manner. Regardless of whether the Company delivers and permits or requires acceptance of this Restricted Stock Agreement electronically, the Non-Employee Director agrees to be bound by all terms and provisions of this Restricted Stock Agreement and the Plan.

IN WITNESS WHEREOF, the parties hereto have executed this Restricted Stock Agreement effective as of the day and year first written above.

SONIC AUTOMOTIVE, INC.

NON-EMPLOYEE DIRECTOR:  
<NAME>

By:

Title:

**SONIC AUTOMOTIVE, INC.**  
**2012 FORMULA RESTRICTED STOCK AND DEFERRAL PLAN**  
**FOR NON-EMPLOYEE DIRECTORS**  
**Amended and Restated Effective as of April 18, 2017**

**DEFERRED RESTRICTED STOCK UNIT AGREEMENT**

This Deferred Restricted Stock Unit Agreement (the “Deferred RSU Agreement”) is entered into as of **<Date Granted>** (the “Grant Date”) between SONIC AUTOMOTIVE, INC., a Delaware corporation (the “Company”), and **<Name>** (the “Non-Employee Director”).

**WHEREAS**, the Company has adopted the Sonic Automotive, Inc. 2012 Formula Restricted Stock and Deferral Plan for Non-Employee Directors, amended and restated effective as of April 18, 2017 (the “Plan”), pursuant to which the Company shall, from time to time, make grants of restricted shares of the Company’s Class A Common Stock, par value \$0.01 per share (the “Common Stock”), or subject to a timely advance election, deferred restricted stock units representing the contingent right to receive a corresponding number of shares of the Common Stock, to eligible members of the Board of Directors of the Company (the “Board of Directors”) who are not employees of the Company or any of its subsidiaries;

**NOW, THEREFORE**, in consideration of the promises and the mutual covenants and agreements hereinafter set forth, the parties hereby agree as follows:

Grant of Deferred Restricted Stock

**Units.** In consideration for the Non-Employee Director’s service on the Board of Directors and subject to the terms and conditions set forth in this Deferred RSU Agreement and the Plan, the Company hereby grants to the Non-Employee Director ( ) deferred restricted stock units (the “Restricted Stock Units”).

Vesting

(a) Except as otherwise provided in this Section 2, the Restricted Stock Units shall vest in full on the earlier of (i) the first anniversary of the Grant Date, or (ii) the day before the next annual meeting of the Company’s stockholders following the Grant Date.

(b) Vesting generally is subject to continued service as a member of the Board of Directors through the applicable vesting date. Except as provided in Section 2(c) below which shall apply in the event of a termination of service immediately prior to or upon a Change in Control, if the Non-Employee Director’s service on the Board of Directors terminates for any reason other than the Non-Employee Director’s death or Disability, all Restricted Stock Units not vested at the time of such termination shall be immediately and automatically forfeited by the Non-Employee Director. If the Non-Employee Director’s service on the Board of Directors terminates by reason of the Non-Employee Director’s death or Disability, the Restricted Stock Units held by the Non-Employee Director shall vest in full as of the date of such termination.

(c) The Restricted Stock Units shall become fully vested in connection with a Change in Control in accordance with the terms of the Plan.

3. **Deferred RSU Account.** Upon the vesting of the Restricted Stock Units, the Company shall establish and maintain a Deferred RSU Account (a notional bookkeeping account) on behalf of the Non-Employee Director and credit such Deferred RSU Account with such number of vested Restricted Stock Units and any dividend equivalents (in accordance with Section 4 below) attributable to such Restricted Stock Units as of such vesting date. Thereafter, the Non-Employee Director’s Deferred RSU

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Account shall be credited with any additional applicable dividend equivalents attributable to such Restricted Stock Units in accordance with Section 4 below.

4. ***Dividend Equivalents.*** If the Board of Directors of the Company declares a cash dividend during a calendar year with respect to the Common Stock and the Non-Employee Director becomes vested in his Restricted Stock Units, the Non-Employee Director's Deferred RSU Account shall be credited with an amount equal to the dividend paid with respect to a share of Common Stock for each of his Restricted Stock Units that are outstanding on (and have not been forfeited or settled prior to) the applicable record date. Dividend equivalents shall be paid in a single cash lump sum at the same time that the vested Restricted Stock Units are settled in accordance with Section 5 below. Dividend equivalents credited to a Deferred RSU Account shall be credited and accumulate without interest.

5. ***Settlement of Restricted Stock Units and Payment of Dividend Equivalents.***

(a) A Non-Employee Director's vested Restricted Stock Units shall be settled in the form of a single lump sum payment of the equivalent number of shares of Common Stock, and any related dividend equivalents credited to his Deferred RSU Account shall become payable in the form of a single lump sum cash payment, upon the earliest to occur of the following: (i) the Non-Employee Director's Separation from Service, (ii) a Change in Control Event, (iii) a specified payment date designated by the Non-Employee Director in his timely advance deferral election (which date must be a permitted payment date under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code")), or (iv) the Non-Employee Director's death, with the applicable timing in each such case as provided below in this Section 5.

(b) If the Non-Employee Director's initial deferral election included a specified payment date as described above in Section 5(a)(iii), the Non-Employee Director may make a subsequent election to further defer settlement of such vested Restricted Stock Units and related dividend equivalents if such election is made at least one (1) year prior to the originally selected specified payment date and the subsequent specified payment date is at least five (5) years after the originally selected specified payment date. In such case, the specified payment date designated by the Non-Employee Director in his subsequent deferral election (which date must be a permitted payment date under Section 409A of the Code) shall be substituted for the originally selected specified date in Section 5(a)(iii).

(c) If a Non-Employee Director's vested Restricted Stock Units become payable upon a Separation from Service (other than due to death), then within sixty (60) days after the Director's Separation from Service, such Restricted Stock Units shall be settled in a single complete distribution and paid to the Director in the form of an equivalent number of whole shares of Common Stock and any dividend equivalents attributable to the Restricted Stock Units shall be paid to the Director in cash in a single lump sum. Notwithstanding the foregoing, if a Director is deemed by the Company at the time of the Director's Separation from Service to be a "specified employee" within the meaning of Section 409A of the Code (and determined in accordance with the provisions of the Company's Deferred Compensation Plan) for purposes of this Plan, the payment of his vested Restricted Stock Units (and any unpaid accumulated dividend equivalents) shall not be made until the first day of the seventh month after the Director's Separation from Service (or upon the Director's death, if earlier). Such a delay shall apply only to the extent required under Section 409A of the Code.

(d) If a Non-Employee Director's vested Restricted Stock Units become payable upon a Change in Control Event, then within thirty (30) days after the Change in Control Event, such Restricted Stock Units credited to a Non-Employee Director shall be settled in a single complete distribution and paid to the Director in the form of an equivalent number of whole shares of Common Stock and any dividend equivalents attributable to the Restricted Stock Units shall be paid to the Director in cash in a single lump sum.

(e) If a Non-Employee Director's vested Restricted Stock Units become payable upon a specified payment date, then within sixty (60) days after such specified payment date, such vested Restricted Stock Units shall be settled in a single complete distribution and paid to the Director in the form of an equivalent number of whole shares of Common Stock and any dividend equivalents attributable to the Restricted Stock Units shall be paid to the Director in cash in a single lump sum.

(f) If a Non-Employee Director's vested Restricted Stock Units become payable upon the Non-Employee Director's death, then within ninety (90) days after the Director's death, such Restricted Stock Units shall be settled in a single complete distribution in the form of an equivalent number of whole shares of Common Stock and any dividend equivalents attributable to the Restricted Stock Units shall be paid in cash in a single lump sum, in each case paid to the Director's designated beneficiary, or if there is no designated beneficiary, then to the Director's estate. If the Non-Employee Director's vested Restricted Stock Units become payable under Section 5(c), (d) or (e) above but the Non-Employee Director dies before complete payment with respect to his Deferred RSU Account is made, any remaining payment shall be made to the Director's designated beneficiary, or if there is no designated beneficiary, then to the Director's estate.

(g) At the time of settlement and payment of a Non-Employee Director's Deferred RSU Account, any fractional Restricted Stock Units then credited to the Non-Employee Director's Deferred RSU Account shall be paid in cash.

(h) A Director who experiences an Unforeseeable Emergency may submit a written request to the Board to receive payment of all or a portion of his vested Restricted Stock Units in the form of shares of Common Stock and accumulated but unpaid dividend equivalent amounts in the form of cash. Any such written request must set forth the circumstances constituting such Unforeseeable Emergency. An Unforeseeable Emergency means a severe financial hardship to the Director resulting from (i) an illness or accident of the Director, the Director's spouse or the Director's dependent (as defined in Section 152 of the Code, without regard to Section 152(b)(1), (b)(2), and (d)(1)(B)); (ii) loss of the Director's property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, as a result of a natural disaster); or (iii) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Director.

Whether a Director is faced with an Unforeseeable Emergency permitting an emergency payment and the amount payable shall be determined by the Board in its discretion based on the relevant facts and circumstances of each case, but, in any case, a distribution on account of Unforeseeable Emergency may not be made to the extent that such emergency is or may be reimbursed through insurance or otherwise, or by liquidation of the Director's assets, to the extent the liquidation of such assets would not cause severe financial hardship. If an emergency payment is approved by the Board, the amount of the payment shall not exceed the amount reasonably necessary to satisfy the need, including amounts necessary to pay any taxes or penalties that the Director reasonably anticipates will result from the payment. Emergency payments with respect to Restricted Stock Units and dividend equivalent amounts shall be made within sixty (60) days following the date the payment is approved by the Board (provided, however, that the Director is not permitted, directly or indirectly, to designate the taxable year of the payment).

#### Restrictions on Transferability

. The Non-Employee Director may not sell, assign, convey, pledge, exchange, hypothecate, alienate or otherwise dispose of or transfer the Restricted Stock Units, except with respect to the Non-Employee's death as provided in Section 5(f) above. No prohibited assignment, pledge or transfer of the Restricted Stock Units, or of the rights represented thereby, whether voluntary or involuntary, by operation of law or otherwise, shall be effective, but immediately upon any such attempt to assign, pledge or otherwise transfer the Restricted Stock Units, the Restricted Stock Units shall be forfeited.

## ***Company Policies***

. The Restricted Stock Units also shall be subject to the terms and conditions of any applicable policy regarding clawbacks, forfeitures, or recoupsments adopted by the Company. Without limiting the foregoing, by acceptance of the Restricted Stock Units, the Non-Employee Director agrees to repay to the Company any amount that may be required to be repaid under any such policy.

### **Forfeiture Procedure**

. In the event of any forfeiture of the Restricted Stock Units, such forfeiture shall be automatic and without further act or deed by the Non-Employee Director. Notwithstanding the foregoing, if requested by the Company (or its agent), the Non-Employee Director shall execute such documents (including, without limitation, a power of attorney in favor of the Company) and take such other action deemed necessary or desirable by the Company to evidence such forfeiture.

### **Tax Matters**

. To the extent applicable, the Non-Employee Director shall pay or make provision for payment to the Company the amount necessary to satisfy any federal, state or local withholding requirements applicable to any taxable event arising in connection with the Restricted Stock Units. The determination of the withholding amounts due in such event shall be made by the Company and shall be binding upon the Non-Employee Director. The Company shall not be required to deliver or release any shares of Common Stock unless the Non-Employee Director has made acceptable arrangements to satisfy any such withholding requirements. Notwithstanding the foregoing, nothing in this Section shall be construed to impose on the Company a duty to withhold where applicable law does not require such withholding.

### **No Rights as Stockholder**

***Prior to Settlement.*** The Non-Employee Director shall have no rights as a stockholder of the Company with respect to any shares of Common Stock represented by the Restricted Stock Units until the Non-Employee Director shall have become the holder of record of such Common Stock. Except to the extent provided in this Deferred RSU Agreement, no adjustments shall be made for distributions (whether in cash, units, securities or other property) by the Company or other rights for which the record date is prior to the date that the Non-Employee Director shall have become the holder of record of such shares of Common Stock.

### **Adjustments**

. The Restricted Stock Units granted pursuant to this Deferred RSU Agreement may be subject to adjustment as provided in the Plan in the event of a reorganization, recapitalization, stock split, stock dividend, extraordinary dividend, spin-off, combination of shares, merger, consolidation or other relevant changes in the Company's capital structure in order to prevent the dilution or enlargement of rights. The existence of the Restricted Stock Units shall not affect in any way the authority of the Company and its stockholders to exercise their corporate rights and powers, including, but not by way of limitation, the right of the Company to authorize any adjustment, reclassification, reorganization, or other change in its capital or business structure, any merger or consolidation of the Company, the dissolution or liquidation of the Company, the issuance of securities with preference ahead of or affecting the Common Stock, or any sale or transfer of all or any part of its business or assets.

12. ***Nature of Arrangement.*** The Non-Employee Director's rights under this Deferred RSU Agreement shall be only contractual in nature unsecured by any assets of the Company or any Subsidiary. The Company shall not be required to segregate any specific funds, assets or other property from its general assets with respect to the Restricted Stock Units. The Non-Employee Director shall have no rights under this Deferred RSU Agreement other than as an unsecured general creditor of the Company. This Restricted Stock Unit Agreement is intended to comply with Section 409A of the Code and shall be interpreted consistent with such intent. References in this Deferred RSU Agreement to Section 409A of the Code also shall be deemed to include reference to applicable regulations or other authoritative guidance thereunder, and any amendments or successor provisions to such section, regulations or guidance. Notwithstanding the foregoing, the Company does not guarantee to the Non-

Employee Director that this Deferred RSU Agreement complies with or is exempt from Section 409A of the Code, and shall not indemnify or hold harmless the Non-Employee Director with respect to any tax consequences that arise from any such failure under Section 409A of the Code.

#### Securities Laws

. Notwithstanding any provision herein to the contrary or in the Plan, the Company shall be under no obligation to issue any shares of Common Stock to the Non-Employee Director pursuant to this Deferred RSU Agreement unless and until the Company has determined that such issuance is either exempt from registration, or is registered, under the Securities Act of 1933, as amended, and is either exempt from registration and qualification, or is registered or qualified, as applicable, under all applicable state securities or “blue sky” laws. Nothing in this Deferred RSU Agreement shall be construed to obligate the Company at any time to file or maintain a registration statement under the Securities Act of 1933, as amended, or to effect similar compliance under any applicable state laws with respect to the Common Stock that may be issued pursuant to this Deferred RSU Agreement. The Company may require that the Non-Employee Director make such representations and agreements and furnish such information as the Company deems appropriate to assure compliance with applicable legal and regulatory requirements.

#### Resolution of Disputes; Interpretation

. Subject to the Plan, the Board of Directors shall have the full and exclusive authority and discretion to resolve any question of interpretation, dispute or disagreement that arises under, or as a result of, this Deferred RSU Agreement, and any such determination or interpretation by the Board of Directors shall be final, binding and conclusive on all parties affected thereby. However, determinations made specifically with respect to the Non-Employee Director shall be made without the participation by the Non-Employee Director.

#### 15. *Miscellaneous.*

(a) *Binding on Successors and Representatives.* Subject to the transfer restrictions applicable to the Non-Employee Director hereunder and other conditions hereof, this Deferred RSU Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company and the Non-Employee Director’s heirs, executors, administrators, and personal representatives; and the parties agree, for themselves and their successors, representatives and assigns, to execute any instrument that may be necessary legally to effect the terms and conditions of this Deferred RSU Agreement.

(b) *No Service Rights.* Nothing contained in this Deferred RSU Agreement shall confer upon the Non-Employee Director any right to continue in the service of the Company nor interfere with or limit in any way the right of the Company to terminate the Non-Employee Director’s service for the Company.

(c) *Entire Agreement; Amendment.* This Deferred RSU Agreement together with the Plan constitute the entire agreement of the parties with respect to the Restricted Stock Units and supersede any previous agreement, whether written or oral, with respect thereto. This Deferred RSU Agreement has been entered into in compliance with the terms of the Plan; wherever a conflict may arise between the terms of this Deferred RSU Agreement and the terms of the Plan, the terms of the Plan shall control. Except as otherwise provided below or in the Plan, neither this Deferred RSU Agreement nor any of the terms and conditions herein set forth may be modified or amended except by a writing signed by both parties. Notwithstanding the foregoing, the Board of Directors may, without obtaining the consent of the Non-Employee Director, amend this Deferred RSU Agreement in any respect it deems necessary or advisable to comply with applicable law, including, but not limited to, Section 409A of the Code.

(d) *Notices.* All notices required and permitted to be given hereunder shall be in writing and shall be deemed to have been given (i) if delivered by hand, when so delivered; (ii) if sent by Federal Express or other overnight express service, one (1) business day after delivery to such service; or

(iii) if mailed by certified or registered mail, return receipt requested, three (3) days after delivery to the post office. In each case, all notices shall be addressed to the intended recipient as follows or at such other address as is provided by either party by notice to the other:

If to the Company:

Sonic Automotive, Inc.  
Attention: Chief Financial Officer  
4401 Colwick Road  
Charlotte, NC 28211

With a copy to:

Sonic Automotive, Inc.  
Attention: General Counsel  
4401 Colwick Road  
Charlotte, NC 28211

If to the Non-Employee Director:

To the Non-Employee Director's address appearing in the Company's records, or at such other address as the Non-Employee Director shall designate by notice.

(e) *Personal Data.* The Non-Employee Director acknowledges that Plan participation and receipt of awards under the Plan (including the Restricted Stock Units) may involve the use and transfer, in electronic or other form, of personal data about the Non-Employee Director between and among the Company, its Subsidiaries and third-party service providers. This data may include, but is not limited to, the Non-Employee Director's name, home address, telephone number, date of birth, social security number, information regarding securities of the Company held by such Non-Employee Director, and details of awards granted to the Non-Employee Director under the Plan, including the Restricted Stock Units. By accepting the Restricted Stock Units, the Non-Employee Director consents and agrees that the Company and its Subsidiaries may transfer such data to third parties assisting the Company in the administration and management of the Plan, the Restricted Stock Units and the Non-Employee Director's participation in the Plan, including any requisite transfer of such data to a broker or other third party with whom the Company or the Non-Employee Director may deposit any shares of Common Stock.

(f) *Governing Law.* This Deferred RSU Agreement shall be governed by, and construed in accordance with, the laws of the State of North Carolina, without regard to its principles of conflict of laws. The jurisdiction and venue for any disputes arising under, or any action brought to enforce (or otherwise relating to) this Deferred RSU Agreement or the Plan will be exclusively in the courts of the State of North Carolina, County of Mecklenburg, including the federal courts located therein (should federal jurisdiction exist).

(g) *Construction of Terms and Definitions.* Any reference herein to the singular or plural shall be construed as plural or singular whenever the context requires. Capitalized terms not otherwise defined in this Deferred RSU Agreement shall have the meanings ascribed to them in the Plan.

(h) *Severability.* The invalidity or unenforceability of any particular provision of this Deferred RSU Agreement shall not affect the other provisions hereof, and the Board of Directors may elect in its discretion to construe such invalid or unenforceable provision in a manner which conforms to applicable law or as if such provision was omitted.

(i) *Electronic Delivery and Acknowledgement.* The Non-Employee Director also acknowledges and agrees that the Company may, in its discretion, deliver documents related to the Restricted Stock Units and participation in the Plan (including, without limitation, this Deferred RSU Agreement, Plan documents and disclosures that may be required by the Securities and Exchange Commission) by electronic means, including through an on-line or electronic system (including by posting them on a website) established and maintained by the Company or a third party designated by the Company, and the Non-Employee Director consents to receive documents in such manner. Regardless of

whether the Company delivers and permits or requires acceptance of this Deferred RSU Agreement electronically, the Non-Employee Director agrees to be bound by all terms and provisions of this Deferred RSU Agreement and the Plan.

IN WITNESS WHEREOF, the parties hereto have executed this Deferred RSU Agreement effective as of the day and year first written above.

SONIC AUTOMOTIVE, INC.

NON-EMPLOYEE DIRECTOR:  
<NAME>

By:

Title:

CERTIFICATION

I, Heath R. Byrd, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sonic Automotive, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2017

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

CERTIFICATION

I, B. Scott Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sonic Automotive, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2017

By: /s/ B. SCOTT SMITH  
B. Scott Smith  
Chief Executive Officer and President



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Sonic Automotive, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Heath R. Byrd, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

/s/ HEATH R. BYRD

Heath R. Byrd  
Executive Vice President and Chief Financial Officer

April 27, 2017

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Sonic Automotive, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, B. Scott Smith, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

/s/ B. SCOTT SMITH

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B. Scott Smith  
Chief Executive Officer and President

April 27, 2017