

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 June 30, 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 July 25, 2017, there were 31,832,131 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 franchised 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.

SONIC AUTOMOTIVE, INC.
FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
(Dollars and shares in thousands, except per share amounts)				
Revenues:				
New vehicles	\$ 1,275,069	\$ 1,286,464	\$ 2,447,001	\$ 2,451,034
Used vehicles	641,891	622,186	1,276,364	1,220,540
Wholesale vehicles	40,765	38,245	87,076	82,620
Total vehicles	1,957,725	1,946,895	3,810,441	3,754,194
Parts, service and collision repair	361,113	351,329	713,156	697,384
Finance, insurance and other, net	86,908	84,088	169,971	165,361
Total revenues	2,405,746	2,382,312	4,693,568	4,616,939
Cost of Sales:				
New vehicles	(1,212,547)	(1,220,598)	(2,326,201)	(2,326,744)
Used vehicles	(601,856)	(585,217)	(1,195,497)	(1,143,041)
Wholesale vehicles	(42,682)	(40,084)	(90,163)	(85,537)
Total vehicles	(1,857,085)	(1,845,899)	(3,611,861)	(3,555,322)
Parts, service and collision repair	(188,043)	(183,108)	(370,742)	(363,162)
Total cost of sales	(2,045,128)	(2,029,007)	(3,982,603)	(3,918,484)
Gross profit	360,618	353,305	710,965	698,455
Selling, general and administrative expenses	(293,931)	(277,204)	(586,165)	(561,580)
Impairment charges	(2,605)	(151)	(3,115)	(151)
Depreciation and amortization	(21,911)	(18,905)	(43,065)	(37,374)
Operating income (loss)	42,171	57,045	78,620	99,350
Other income (expense):				
Interest expense, floor plan	(9,144)	(6,690)	(17,531)	(13,126)
Interest expense, other, net	(12,764)	(12,205)	(26,172)	(24,544)
Other income (expense), net	7	6	(14,495)	110
Total other income (expense)	(21,901)	(18,889)	(58,198)	(37,560)
Income (loss) from continuing operations before taxes	20,270	38,156	20,422	61,790
Provision for income taxes for continuing operations - benefit (expense)	(7,956)	(15,113)	(8,128)	(24,283)
Income (loss) from continuing operations	12,314	23,043	12,294	37,507
Discontinued operations:				
Income (loss) from discontinued operations before taxes	(301)	(362)	(1,168)	(100)
Provision for income taxes for discontinued operations - benefit (expense)	119	141	465	39
Income (loss) from discontinued operations	(182)	(221)	(703)	(61)
Net income (loss)	\$ 12,132	\$ 22,822	\$ 11,591	\$ 37,446
Basic earnings (loss) per common share:				
Earnings (loss) per share from continuing operations	\$ 0.28	\$ 0.50	\$ 0.27	\$ 0.81
Earnings (loss) per share from discontinued operations	(0.01)	-	(0.01)	-
Earnings (loss) per common share	\$ 0.27	\$ 0.50	\$ 0.26	\$ 0.81
Weighted average common shares outstanding	44,570	45,731	44,680	46,340
Diluted earnings (loss) per common share:				
Earnings (loss) per share from continuing operations	\$ 0.27	\$ 0.50	\$ 0.27	\$ 0.81
Earnings (loss) per share from discontinued operations	-	-	(0.01)	(0.01)
Earnings (loss) per common share	\$ 0.27	\$ 0.50	\$ 0.26	\$ 0.80
Weighted average common shares outstanding	44,810	45,924	44,976	46,523
Dividends declared per common share	\$ 0.05	\$ 0.05	\$ 0.10	\$ 0.10

See notes to condensed consolidated financial statements.

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	(In thousands)			
Net income (loss)	\$ 12,132	\$ 22,822	\$ 11,591	\$ 37,446
Other comprehensive income (loss) before taxes:				
Change in fair value of interest rate swap agreements	42	(2,798)	2,144	(7,676)
Provision for income tax benefit (expense) related to components of other comprehensive income (loss)	(16)	1,063	(815)	2,916
Other comprehensive income (loss)	26	(1,735)	1,329	(4,760)
Comprehensive income (loss)	<u>\$ 12,158</u>	<u>\$ 21,087</u>	<u>\$ 12,920</u>	<u>\$ 32,686</u>

See notes to condensed consolidated financial statements.

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

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
ASSETS		
(Dollars in thousands)		
Current Assets:		
Cash and cash equivalents	\$ 4,380	\$ 3,108
Receivables, net	289,820	430,242
Inventories	1,622,338	1,570,701
Other current assets	43,622	26,993
Total current assets	1,960,160	2,031,044
Property and Equipment, net	1,087,369	1,010,380
Goodwill	471,493	472,437
Other Intangible Assets, net	79,911	80,233
Other Assets	46,223	45,242
Total Assets	<u>\$ 3,645,156</u>	<u>\$ 3,639,336</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Notes payable - floor plan - trade	\$ 802,255	\$ 850,537
Notes payable - floor plan - non-trade	679,075	675,353
Trade accounts payable	123,010	117,740
Accrued interest	11,924	13,265
Other accrued liabilities	221,389	236,982
Current maturities of long-term debt	67,231	43,003
Total current liabilities	1,904,884	1,936,880
Long-Term Debt	887,327	839,675
Other Long-Term Liabilities	63,037	61,170
Deferred Income Taxes	76,498	76,447
Commitments and Contingencies		
Stockholders' Equity:		
Class A convertible preferred stock, none issued	-	-
Class A common stock, \$0.01 par value; 100,000,000 shares authorized; 63,455,509 shares issued and 31,832,131 shares outstanding at June 30, 2017; 62,967,061 shares issued and 32,703,865 shares outstanding at December 31, 2016	635	630
Class B common stock, \$0.01 par value; 30,000,000 shares authorized; 12,029,375 shares issued and outstanding at June 30, 2017 and December 31, 2016	121	121
Paid-in capital	727,459	721,695
Retained earnings	548,242	541,146
Accumulated other comprehensive income (loss)	(933)	(2,262)
Treasury stock, at cost; 31,623,378 Class A common stock shares held at June 30, 2017 and 30,263,196 Class A common stock shares held at December 31, 2016	(562,114)	(536,166)
Total Stockholders' Equity	713,410	725,164
Total Liabilities and Stockholders' Equity	<u>\$ 3,645,156</u>	<u>\$ 3,639,336</u>

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	489	5	-	-	-	-	41	-	-	46
Purchases of treasury stock	-	-	(1,360)	(25,948)	-	-	-	-	-	(25,948)
Change in fair value of interest rate swap agreements, net of tax expense of \$815	-	-	-	-	-	-	-	-	1,329	1,329
Restricted stock amortization	-	-	-	-	-	-	5,723	-	-	5,723
Net income (loss)	-	-	-	-	-	-	-	11,591	-	11,591
Dividends declared	-	-	-	-	-	-	-	(4,495)	-	(4,495)
Balance at June 30, 2017	<u>63,456</u>	<u>\$ 635</u>	<u>(31,623)</u>	<u>\$ (562,114)</u>	<u>12,029</u>	<u>\$ 121</u>	<u>\$ 727,459</u>	<u>\$ 548,242</u>	<u>\$ (933)</u>	<u>\$ 713,410</u>

See notes to condensed consolidated financial statements.

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

	<u>Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 11,591	\$ 37,446
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization of property, plant and equipment	43,062	37,371
Provision for bad debt expense	495	248
Other amortization	325	325
Debt issuance cost amortization	1,193	1,250
Debt discount amortization, net of premium amortization	99	150
Stock-based compensation expense	5,723	5,634
Deferred income taxes	182	11,192
Net distributions from equity investee	190	35
Asset impairment charges	3,115	151
Loss (gain) on disposal of dealerships and property and equipment	(67)	(149)
Loss (gain) on exit of leased dealerships	1,827	(139)
(Gain) loss on retirement of debt	14,607	-
Changes in assets and liabilities that relate to operations:		
Receivables	144,029	70,389
Inventories	(51,637)	9,365
Other assets	(19,837)	46,560
Notes payable - floor plan - trade	(48,282)	(106,336)
Trade accounts payable and other liabilities	(13,732)	(6,773)
Total adjustments	81,292	69,273
Net cash provided by (used in) operating activities	92,883	106,719
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of land, property and equipment	(121,222)	(108,970)
Proceeds from sales of property and equipment	291	887
Net cash provided by (used in) investing activities	(120,931)	(108,083)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (repayments) borrowings on notes payable - floor plan - non-trade	3,722	29,915
Borrowings on revolving credit facilities	44,017	155,208
Repayments on revolving credit facilities	(44,017)	(159,411)
Proceeds from issuance of long-term debt	282,458	76,409
Debt issuance costs	(4,512)	(293)
Principal payments and repurchase of long-term debt	(11,051)	(9,633)
Repurchase of debt securities	(210,914)	-
Purchases of treasury stock	(25,948)	(87,504)
Income tax benefit (expense) associated with stock compensation plans	-	(364)
Issuance of shares under stock compensation plans	46	6
Dividends paid	(4,481)	(4,175)
Net cash provided by (used in) financing activities	29,320	158
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,272	(1,206)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,108	3,625
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 4,380	\$ 2,419

SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:

Change in fair value of cash flow interest rate swap agreements (net of tax expense of \$815 and benefit of \$2,916 in the six months ended June 30, 2017 and 2016, respectively)	\$ 1,329	\$ (4,760)
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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid (received) during the period for:		
Interest, including amount capitalized	\$ 44,897	\$ 37,576
Income taxes	\$ 12,664	\$ 10,875

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 and six months ended June 30, 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 ASU 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 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 and six months ended June 30, 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 when 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 in which 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:

	(In thousands)
Balance at December 31, 2016	\$ 9,790
Lease exit expense (1)	1,827
Payments (2)	(1,877)
Other (3)	(1,377)
Balance at June 30, 2017	<u>\$ 8,363</u>

- (1) Expense of approximately \$1.1 million is recorded in selling, general and administrative expenses in the accompanying condensed consolidated statements of income and expense of approximately \$0.7 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 \$0.4 million recorded in selling, general and administrative expenses in the accompanying condensed consolidated statements of income and approximately \$1.5 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 39.3% and 39.8% for the three and six months ended June 30, 2017, respectively, and was 39.6% and 39.3% for the three and six months ended June 30, 2016, respectively. Income tax expense for the three and six months ended June 30, 2017 includes a benefit of approximately \$0.2 million and \$0.5 million, respectively, as a result of the adoption of ASU 2016-09 discussed above. 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. 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 and six months ended June 30, 2017 and 2016.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Income (loss) from operations	\$ (162)	\$ (135)	\$ (441)	\$ (327)
Lease exit accrual adjustments and charges	(139)	(227)	(727)	227
Pre-tax income (loss)	<u>\$ (301)</u>	<u>\$ (362)</u>	<u>\$ (1,168)</u>	<u>\$ (100)</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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Income (loss) from operations	\$ (16)	\$ (241)	\$ (43)	\$ (273)
Gain (loss) on disposal	-	(11)	(24)	(58)
Pre-tax income (loss)	\$ (16)	\$ (252)	\$ (67)	\$ (331)
Total revenues	\$ -	\$ -	\$ -	\$ -

3. Inventories

Inventories consist of the following:

	June 30, 2017	December 31, 2016
	(In thousands)	
New vehicles	\$ 1,116,708	\$ 1,088,814
Used vehicles	301,283	282,288
Service loaners	133,552	128,821
Parts, accessories and other	70,795	70,778
Net inventories	\$ 1,622,338	\$ 1,570,701

4. Property and Equipment

Property and equipment, net consists of the following:

	June 30, 2017	December 31, 2016
	(In thousands)	
Land	\$ 335,238	\$ 306,457
Building and improvements	836,976	777,766
Software and computer equipment	138,250	128,366
Parts and service equipment	102,301	93,901
Office equipment and fixtures	92,050	86,216
Company vehicles	9,542	9,107
Construction in progress	67,211	62,982
Total, at cost	1,581,568	1,464,795
Less accumulated depreciation	(490,710)	(450,184)
Subtotal	1,090,858	1,014,611
Less assets held for sale (1)	(3,489)	(4,231)
Property and equipment, net	\$ 1,087,369	\$ 1,010,380

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

In the three and six months ended June 30, 2017, capital expenditures were approximately \$45.5 million and \$121.2 million, respectively, and in the three and six months ended June 30, 2016, capital expenditures were approximately \$67.6 million and \$109.0 million, respectively. Capital expenditures in all periods were primarily related to real estate acquisitions, construction of new franchised dealerships and EchoPark stores, building improvements and equipment purchased for use in Sonic's franchised dealerships and EchoPark stores. Assets held for sale as of June 30, 2017 consists of vacant land that Sonic expects to dispose of in the next twelve months.

Impairment charges for the three and six months ended June 30, 2017 were approximately \$2.6 million and \$3.1 million, respectively, which include the write-off of goodwill and property and equipment as part of the closure of two stand-alone pre-owned stores that were purchased in 2016, and the write-off of costs associated with the abandonment of certain construction projects.

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Impairment charges for both the three and six months ended June 30, 2016 were approximately \$0.2 million related to the write-off of costs associated with the abandonment of certain construction projects.

5. Goodwill and Intangible Assets

The carrying amount of goodwill was approximately \$471.5 million and \$472.4 million, respectively, as of June 30, 2017 and December 31, 2016. Sonic impaired approximately \$0.9 million of goodwill in the three and six months ended June 30, 2017 related to the closure of two stand-alone pre-owned stores that were purchased in 2016. The carrying amount of goodwill is net of accumulated impairment losses of approximately \$797.6 million and \$796.7 million, respectively, as of June 30, 2017 and December 31, 2016. The carrying amount of franchise assets was approximately \$74.9 million as of both June 30, 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 June 30, 2017 was approximately \$5.0 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:

	June 30, 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%	199,856	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	225,427	227,342
Net debt discount and premium (2)	(58)	(1,258)
Debt issuance costs	(14,055)	(13,328)
Other	4,115	4,280
Total debt	\$ 954,558	\$ 882,678
Less current maturities	(67,231)	(43,003)
Long-term debt	\$ 887,327	\$ 839,675

- (1) The interest rate on the 2016 Revolving Credit Facility (as defined below) was 200 basis points and 225 basis points above LIBOR at June 30, 2017 and December 31, 2016, respectively.
- (2) June 30, 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 June 30, 2017, the 2016 Revolving Borrowing Base was approximately \$211.4 million. As of June 30, 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 \$194.1 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. The 5.0% Notes are guaranteed by Sonic's domestic operating subsidiaries. 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 six months ended June 30, 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:

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

Before March 15, 2022, Sonic may redeem all or a part of the 6.125% Notes at a redemption price equal to 100.0% 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, if any, to 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 a redemption price equal to 106.125% of the par value of the 6.125% Notes redeemed, plus accrued and unpaid interest, if any, to the redemption date 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 a purchase price equal to 101.0% of the par value of the 6.125% Notes, plus accrued and unpaid interest, if any, to the date of purchase 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

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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 June 30, 2017.

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 six months ended June 30, 2017, Sonic obtained approximately \$32.5 million in mortgage financing related to six of its dealership properties. As of June 30, 2017, the weighted average interest rate was 4.01% and the total outstanding principal balance was approximately \$425.3 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 June 30, 2017. Financial covenants include required specified ratios (as each is defined in the 2016 Credit Facilities) of:

	Minimum Consolidated Liquidity Ratio	Covenant Minimum Consolidated Fixed Charge Coverage Ratio	Maximum Consolidated Total Lease Adjusted Leverage Ratio
Required ratio	1.05	1.20	5.75
June 30, 2017 actual	1.14	1.95	4.38

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 June 30, 2017, Sonic had approximately \$113.5 million of its net income and retained earnings free of such restrictions. Sonic was in compliance with all restrictive covenants as of June 30, 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 June 30, 2017, the ratio was 3.88 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 June 30, 2017 was a net liability of approximately \$1.3 million, with \$1.8 million included in other accrued liabilities and \$1.9 million included in other long-term liabilities in the accompanying condensed consolidated balance sheets, offset partially by an asset of approximately \$2.4 million included in other assets in the accompanying condensed consolidated balance sheets. The fair value of these swap

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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, Sonic 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
\$ 7.0		4.655%	one-month LIBOR	December 10, 2017
\$ 6.4	(2)	6.860%	one-month LIBOR + 1.25%	August 1, 2017
\$ 5.9	(2)	6.410%	one-month LIBOR + 1.25%	September 12, 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 1.224% at June 30, 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 and six months ended June 30, 2017, these items were a benefit of approximately \$0.1 million and \$0.3 million, respectively, and for the three and six months ended June 30, 2016, these items were a benefit of approximately \$0.1 million and \$0.2 million, respectively.

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 \$0.7 million and \$1.9 million for the three and six months ended June 30, 2017, respectively, and \$1.3 million and \$2.5 million for the three and six months ended June 30, 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 \$1.1 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 and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30, 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
			(In thousands, except per share amounts)				
Earnings (loss) and shares	44,570	\$ 12,314		\$ (182)		\$ 12,132	
Effect of participating securities:							
Non-vested restricted stock		(9)		-		(9)	
Basic earnings (loss) and shares	44,570	\$ 12,305	\$ 0.28	\$ (182)	\$ (0.01)	\$ 12,123	\$ 0.27
Effect of dilutive securities:							
Stock compensation plans	240						
Diluted earnings (loss) and shares	44,810	\$ 12,305	\$ 0.27	\$ (182)	\$ -	\$ 12,123	\$ 0.27

	Three Months Ended June 30, 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
			(In thousands, except per share amounts)				
Earnings (loss) and shares	45,731	\$ 23,043		\$ (221)		\$ 22,822	
Effect of participating securities:							
Non-vested restricted stock		(13)		-		(13)	
Basic earnings (loss) and shares	45,731	\$ 23,030	\$ 0.50	\$ (221)	\$ -	\$ 22,809	\$ 0.50
Effect of dilutive securities:							
Stock compensation plans	193						
Diluted earnings (loss) and shares	45,924	\$ 23,030	\$ 0.50	\$ (221)	\$ -	\$ 22,809	\$ 0.50

	Six Months Ended June 30, 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
			(In thousands, except per share amounts)				
Earnings (loss) and shares	44,680	\$ 12,294		\$ (703)		\$ 11,591	
Effect of participating securities:							
Non-vested restricted stock		(9)		-		(9)	
Basic earnings (loss) and shares	44,680	\$ 12,285	\$ 0.27	\$ (703)	\$ (0.01)	\$ 11,582	\$ 0.26
Effect of dilutive securities:							
Stock compensation plans	296						
Diluted earnings (loss) and shares	44,976	\$ 12,285	\$ 0.27	\$ (703)	\$ (0.01)	\$ 11,582	\$ 0.26

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	Six Months Ended June 30, 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
	(In thousands, except per share amounts)						
Earnings (loss) and shares	46,340	\$ 37,507		\$ (61)		\$ 37,446	
Effect of participating securities:							
Non-vested restricted stock		(21)		-		(21)	
Basic earnings (loss) and shares	46,340	\$ 37,486	\$ 0.81	\$ (61)	\$ -	\$ 37,425	\$ 0.81
Effect of dilutive securities:							
Stock compensation plans	183						
Diluted earnings (loss) and shares	46,523	\$ 37,486	\$ 0.81	\$ (61)	\$ (0.01)	\$ 37,425	\$ 0.80

In addition to the stock options included in the tables above, options to purchase approximately 0.2 million shares of Sonic's Class A common stock were outstanding at June 30, 2016, 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 various legal and administrative proceedings arising out of the conduct of its business, including regulatory investigations and private civil actions brought by plaintiffs purporting to represent a potential class or for which a class has been certified. Although Sonic vigorously defends itself in all legal and administrative proceedings, the outcomes of pending and future proceedings arising out of the conduct of Sonic's business, including litigation with customers, employment-related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities, cannot be predicted with certainty. An unfavorable resolution of one or more of these matters could have a material adverse effect on Sonic's business, financial condition, results of operations, cash flows or prospects.

Included in other accrued liabilities and other long-term liabilities at June 30, 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 their interests in real property leases associated with such dealerships. In general, the subsidiaries retain responsibility for the performance of certain obligations under such leases, including rent payments and repairs to leased property upon termination of the lease, to the extent that the assignee or sublessee does not perform. In the event a sublessee does not perform its 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 agreements. While Sonic's exposure with respect to environmental remediation and repairs is difficult to quantify, Sonic's maximum exposure associated with these general indemnifications was approximately \$0.5 million at both June 30, 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 June 30, 2017.

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Sonic also guarantees the floor plan commitments of its 50%-owned joint venture, the amount of which was approximately \$2.8 million at both June 30, 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, 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.

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Assets and liabilities recorded at fair value in the accompanying condensed consolidated balance sheets as of June 30, 2017 and December 31, 2016 are as follows:

	Fair Value Based on Significant Other Observable Inputs (Level 2)	
	June 30, 2017	December 31, 2016
	(In thousands)	
Assets:		
Cash surrender value of life insurance policies (1)	\$ 32,383	\$ 31,475
Cash flow swaps designated as hedges (2)	2,428	2,772
Total assets	\$ 34,811	\$ 34,247
Liabilities:		
Cash flow swaps designated as hedges (3)	\$ 3,646	\$ 6,135
Cash flow swaps not designated as hedges (4)	68	346
Deferred compensation plan (5)	16,578	14,824
Total liabilities	\$ 20,292	\$ 21,305

- (1) Included in other assets in the accompanying condensed consolidated balance sheets.
- (2) As of June 30, 2017, approximately \$2.4 million was included in other assets 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 June 30, 2017, approximately \$1.7 million and \$1.9 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 June 30, 2017, approximately \$0.1 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.

During the three months ended September 30, 2016, Sonic acquired three stand-alone pre-owned businesses and related real estate. As a result of continued operating losses at these locations, management decided to cease operations of two of these businesses during the three months ended June 30, 2017. As these businesses were never integrated into the reporting unit after acquisition, and thus the benefits of acquired goodwill were never realized by the rest of the reporting unit, Sonic determined that it was appropriate to impair approximately \$0.9 million of goodwill related to the closure of these two businesses. In addition, Sonic impaired approximately \$0.8 million of property and equipment related to the two closed businesses' operating locations. Other than these items, there were no instances in the six months ended June 30, 2017 which required a fair value measurement of assets ordinarily measured at fair value on a non-recurring basis. 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 June 30, 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 June 30, 2017 and December 31, 2016, the fair value and carrying value of Sonic's significant fixed rate long-term debt were as follows:

	June 30, 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)	\$ 276,256	\$ 289,273	\$ 284,934	\$ 289,273
6.125% Notes (1)	\$ 247,500	\$ 250,000	\$ -	\$ -
Mortgage Notes (2)	\$ 206,220	\$ 199,856	\$ 185,979	\$ 176,369
Other (2)	\$ 3,910	\$ 4,114	\$ 4,057	\$ 4,280

- (1) As determined by market quotations as of June 30, 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 six months ended June 30, 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)	(38)	-	(38)
Amounts reclassified out of accumulated other comprehensive income (loss) (2)	1,367	-	1,367
Net current-period other comprehensive income (loss)	1,329	-	1,329
Balance at June 30, 2017	<u>\$ (756)</u>	<u>\$ (177)</u>	<u>\$ (933)</u>

- (1) Net of tax benefit of \$23.
(2) Net of tax expense of \$838.

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 June 30, 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.

SONIC AUTOMOTIVE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Reportable segment revenues and segment income (loss) for the three and six months ended June 30, 2017 and 2016 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Revenues:				
Franchised Dealerships	\$ 2,356,692	\$ 2,352,840	\$ 4,602,717	\$ 4,563,425
EchoPark	49,054	29,472	90,851	53,514
Total consolidated revenues	<u>\$ 2,405,746</u>	<u>\$ 2,382,312</u>	<u>\$ 4,693,568</u>	<u>\$ 4,616,939</u>
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Segment income (loss) (1):				
Franchised Dealerships	\$ 40,544	\$ 53,561	\$ 74,013	\$ 92,854
EchoPark	(7,517)	(3,206)	(12,924)	(6,630)
Total segment income (loss)	33,027	50,355	61,089	86,224
Interest expense, other, net	(12,764)	(12,205)	(26,172)	(24,544)
Other income (expense), net	7	6	(14,495)	110
Income (loss) from continuing operations before taxes	<u>\$ 20,270</u>	<u>\$ 38,156</u>	<u>\$ 20,422</u>	<u>\$ 61,790</u>

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

12. Subsequent Events

Subsequent to June 30, 2017, we incurred storm damage to vehicle inventory at a group of our stores in Ohio. Preliminary estimates of the loss not covered by insurance total approximately \$1.0 million.

SONIC AUTOMOTIVE, INC.
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 June 30, 2017, we operated 117 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 June 30, 2017, we operated 105 Franchised Dealership stores and seven EchoPark stores.

As a result of the way we manage our business, we had two operating segments as of June 30, 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 vehicle 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 June 30, 2017, we had six EchoPark stores in operation in Colorado. During 2017 and 2018 we expect to break ground on approximately 15 EchoPark locations in the Florida, Georgia, North Carolina, South Carolina and Texas markets. We believe that our EchoPark business will provide long-term benefits to us, our stockholders and our 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 our 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") decreased 2.9%, to 16.6 million vehicles in the three months ended June 30, 2017, from 17.1 million vehicles in the three months ended June 30, 2016 according to Bloomberg Financial Markets, via Stephens Inc. The SAAR decreased 1.2% to 16.9 million vehicles in the six months ended June 30, 2017, compared to 17.1 million vehicles in the six months ended June 30, 2016, according to Bloomberg Financial Markets, via Stephens Inc. For 2017, analysts' average industry expectation for the new vehicle SAAR is approximately 17.0 million vehicles. We currently estimate the 2017 new vehicle SAAR will be between 16.5 million and 17.0 million vehicles. Changes in consumer confidence, availability of consumer financing, manufacturer inventory production levels or incentive levels from the automotive manufacturers could cause actual 2017 new vehicle SAAR to vary from expectations. Many factors such as brand and

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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 13.5 million vehicles for the three months ended June 30, 2017, a decrease of 0.7% from the prior year period, and 13.6 million vehicles for the six months ended June 30, 2017, an increase of 0.7% 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 3.1% and 2.3% during the three and six months ended June 30, 2017, respectively, driven by a 3.4% and 2.7% decrease in retail new vehicle unit sales volume, respectively. Retail new vehicle gross profit decreased 5.3% and 3.2% during the three and six months ended June 30, 2017, respectively, driven primarily by lower retail new vehicle unit sales volume. Retail new vehicle gross profit per unit decreased \$37, or 1.9%, to \$1,940 in the three months ended June 30, 2017, and decreased \$10, or 0.5%, to \$1,947 in the six months ended June 30, 2017. We believe that the recent trend of suppressed retail new vehicle gross margins is a result of downward pressure on pricing due to increased competition for sales between similar branded dealerships and higher overall inventory levels. We anticipate that this trend may continue to impact new vehicle gross margins throughout 2017.

Our same store retail used vehicle revenue decreased 0.6% during the three months ended June 30, 2017, driven by a 1.0% decrease in average selling price per unit as a result of a shift in brand and model sales mix. Retail used vehicle unit revenue increased 1.1% during the six months ended June 30, 2017, driven by a 0.4% increase in retail used vehicle unit sales volume and a 0.7% increase in average selling price per unit. Retail used vehicle gross profit increased 3.6% and 0.8% during the three and six months ended June 30, 2017, respectively, driven by an increase in retail used vehicle gross profit per unit of \$39, or 3.2%, to \$1,266 in the three months ended June 30, 2017 and increased \$5, or 0.4%, to \$1,283 in the six months ended June 30, 2017. Our same store wholesale vehicle gross loss increased approximately \$0.1 million, or 3.8%, during the three months ended June 30, 2017, driven primarily by a 5.1% increase in wholesale unit sales volume. Our same store wholesale vehicle gross loss increased approximately \$0.1 million, or 2.7%, during the six months ended June 30, 2017, driven primarily by an increase in wholesale gross loss per unit of 2.3%. We focus on maintaining used vehicle inventory days' supply in the 30- to 40-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 39 days as of June 30, 2017, up one day compared to June 30, 2016.

Our same store Fixed Operations revenue increased 1.5% and 1.2% during the three and six months ended June 30, 2017, respectively, driving a 1.8% and 1.4% increase in Fixed Operations gross profit, respectively. Our Fixed Operations gross profit increase was driven primarily by our Lexus, Honda and Audi dealerships. 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 increased 0.7% and 0.4% during the three and six months ended June 30, 2017, respectively, driven by a 2.4% and 1.6% increase in F&I gross profit per retail unit, respectively. F&I gross profit per retail unit increased \$32 to \$1,374 in the three months ended June 30, 2017 and increased \$22 to \$1,372 in the six months ended June 30, 2017. 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 franchised dealerships and EchoPark stores.

Impairment charges increased approximately \$2.4 million and \$3.0 million during the three and six months ended June 30, 2017, respectively. Impairment charges for the three and six months ended June 30, 2017 include the write-off of goodwill and property and equipment related to the closure of two stand-alone pre-owned stores that were purchased in 2016, in addition to the write-off of capitalized costs associated with abandonment of certain construction projects. Impairment charges for the three and six months ended June 30, 2016 include the write-off of capitalized costs associated with abandonment of certain construction projects. Depreciation and amortization expense increased approximately \$3.0 million and \$5.7 million during the three and six months ended

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June 30, 2017, respectively, due primarily to completed construction projects and purchases of fixed assets for use in our franchised dealerships and EchoPark stores. Interest expense, floor plan increased approximately \$2.5 million and \$4.4 million for the three and six months ended June 30, 2017, respectively, due primarily to higher effective interest rates on floor plan notes payable. Interest expense, other, net during the three and six months ended June 30, 2017 includes the effects of 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. For the six months ended June 30, 2017, other income (expense), net includes a charge of approximately \$14.6 million related to the extinguishment of the 7.0% Notes.

Income from continuing operations before taxes for the three months ended June 30, 2017 decreased approximately \$17.9 million and was impacted by certain unusual pre-tax charges, including approximately \$4.6 million of expense due to storm-related physical damage, approximately \$1.0 million related to legal accruals, approximately \$1.0 million of lease exit charges and approximately \$2.6 million of impairment charges. There were no similar one-time items during the three months ended June 30, 2016. Income from continuing operations before taxes for the six months ended June 30, 2017 decreased approximately \$41.4 million and was impacted by certain pre-tax charges, including approximately \$7.0 million of expense due to storm-related physical damage, approximately \$1.0 million of lease exit charges and approximately \$3.1 million of impairment charges, offset partially by a net benefit of approximately \$0.1 million related to legal settlements. Income from continuing operations before taxes for the six months ended June 30, 2016 was impacted by certain pre-tax charges which include approximately \$6.0 million of expense due to storm-related physical damage.

The following table depicts the breakdown of our new vehicle revenues from continuing operations by brand for the three and six months ended June 30, 2017 and 2016:

Brand	Percentage of New Vehicle Revenue		Percentage of New Vehicle Revenue	
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Luxury:				
BMW	18.7%	20.0%	19.1%	20.3%
Mercedes	10.5%	9.9%	10.6%	10.0%
Lexus	5.9%	5.5%	5.7%	5.7%
Audi	5.7%	5.5%	5.3%	5.1%
Land Rover	3.2%	3.3%	3.5%	3.7%
Cadillac	2.8%	3.3%	2.8%	3.3%
Porsche	2.8%	2.7%	2.5%	2.3%
MINI	1.6%	1.8%	1.5%	1.8%
Other luxury (1)	2.6%	2.8%	2.7%	2.8%
Total Luxury	53.8%	54.8%	53.7%	55.0%
Mid-line Import:				
Honda	18.4%	17.7%	18.6%	17.5%
Toyota	13.1%	11.2%	12.6%	11.4%
Volkswagen	1.7%	1.5%	1.7%	1.5%
Hyundai	1.7%	1.3%	1.6%	1.2%
Other imports (2)	1.3%	1.7%	1.3%	1.6%
Total Mid-line Import	36.2%	33.4%	35.8%	33.2%
Domestic:				
Ford	6.0%	6.4%	6.2%	6.4%
General Motors (3)	4.0%	5.4%	4.3%	5.4%
Total Domestic	10.0%	11.8%	10.5%	11.8%
Total	100.0%	100.0%	100.0%	100.0%

- (1) Includes Volvo, Acura, Infiniti and Jaguar.
(2) Includes Nissan, Kia, Scion and Subaru.
(3) Includes Buick, Chevrolet and GMC.

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Results of Operations

Unless otherwise noted, all discussion of increases or decreases for the three and six months ended June 30, 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 our franchised dealerships and EchoPark stores) are included within the same store group in the first full month following the first anniversary of the store's opening or acquisition.

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 June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Retail SAAR (1)	13.5	13.6	(0.7 %)	13.6	13.5	0.7 %
Fleet SAAR	3.1	3.5	(11.4 %)	3.3	3.6	(8.3 %)
Total SAAR (2)	16.6	17.1	(2.9 %)	16.9	17.1	(1.2 %)

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

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

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

	Three Months Ended June 30,		Better / (Worse)	
	2017	2016	Change	% Change
(In thousands, except unit data)				
Total new vehicle revenue:				
Same store	\$ 1,258,531	\$ 1,286,464	\$ (27,933)	(2.2 %)
Acquisitions and dispositions	16,538	-	16,538	NM
Total as reported	\$ 1,275,069	\$ 1,286,464	\$ (11,395)	(0.9 %)
Total new vehicle gross profit:				
Same store	\$ 61,477	\$ 65,842	\$ (4,365)	(6.6 %)
Acquisitions and dispositions	1,045	24	1,021	NM
Total as reported	\$ 62,522	\$ 65,866	\$ (3,344)	(5.1 %)
Total new vehicle units:				
Same store	32,767	33,782	(1,015)	(3.0 %)
Acquisitions and dispositions	381	-	381	NM
Total as reported	33,148	33,782	(634)	(1.9 %)

NM = Not Meaningful

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	<u>Six Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except unit data)				
Total new vehicle revenue:				
Same store	\$ 2,416,646	\$ 2,451,034	\$ (34,388)	(1.4 %)
Acquisitions and dispositions	30,355	-	30,355	NM
Total as reported	<u>\$ 2,447,001</u>	<u>\$ 2,451,034</u>	<u>\$ (4,033)</u>	<u>(0.2 %)</u>
Total new vehicle gross profit:				
Same store	\$ 119,034	\$ 124,217	\$ (5,183)	(4.2 %)
Acquisitions and dispositions	1,766	73	1,693	NM
Total as reported	<u>\$ 120,800</u>	<u>\$ 124,290</u>	<u>\$ (3,490)</u>	<u>(2.8 %)</u>
Total new vehicle units:				
Same store	62,955	64,387	(1,432)	(2.2 %)
Acquisitions and dispositions	688	-	688	NM
Total as reported	<u>63,643</u>	<u>64,387</u>	<u>(744)</u>	<u>(1.2 %)</u>

NM = Not Meaningful

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

	<u>Three Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except units and per unit data)				
Reported new vehicle:				
Revenue	\$ 1,275,069	\$ 1,286,464	\$ (11,395)	(0.9 %)
Gross profit	\$ 62,522	\$ 65,866	\$ (3,344)	(5.1 %)
Unit sales	33,148	33,782	(634)	(1.9 %)
Revenue per unit	\$ 38,466	\$ 38,081	\$ 385	1.0 %
Gross profit per unit	\$ 1,886	\$ 1,950	\$ (64)	(3.3 %)
Gross profit as a % of revenue	4.9%	5.1%	(20)	bps

	<u>Six Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except units and per unit data)				
Reported new vehicle:				
Revenue	\$ 2,447,001	\$ 2,451,034	\$ (4,033)	(0.2 %)
Gross profit	\$ 120,800	\$ 124,290	\$ (3,490)	(2.8 %)
Unit sales	63,643	64,387	(744)	(1.2 %)
Revenue per unit	\$ 38,449	\$ 38,067	\$ 382	1.0 %
Gross profit per unit	\$ 1,898	\$ 1,930	\$ (32)	(1.7 %)
Gross profit as a % of revenue	4.9%	5.1%	(20)	bps

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

	<u>Three Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except units and per unit data)				
Same store new vehicle:				
Revenue	\$ 1,258,531	\$ 1,286,464	\$ (27,933)	(2.2 %)
Gross profit	\$ 61,477	\$ 65,842	\$ (4,365)	(6.6 %)
Unit sales	32,767	33,782	(1,015)	(3.0 %)
Revenue per unit	\$ 38,408	\$ 38,081	\$ 327	0.9 %
Gross profit per unit	\$ 1,876	\$ 1,949	\$ (73)	(3.7 %)
Gross profit as a % of revenue	4.9%	5.1%	(20)	bps

	<u>Six Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except units and per unit data)				
Same store new vehicle:				
Revenue	\$ 2,416,646	\$ 2,451,034	\$ (34,388)	(1.4 %)
Gross profit	\$ 119,034	\$ 124,217	\$ (5,183)	(4.2 %)
Unit sales	62,955	64,387	(1,432)	(2.2 %)
Revenue per unit	\$ 38,387	\$ 38,067	\$ 320	0.8 %
Gross profit per unit	\$ 1,891	\$ 1,929	\$ (38)	(2.0 %)
Gross profit as a % of revenue	4.9%	5.1%	(20)	bps

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Excluding fleet sales, our retail new vehicle revenue decreased 3.1% and our retail new vehicle unit sales volume decreased 3.4%, 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 Toyota dealerships. Excluding fleet sales, our retail new vehicle gross profit decreased approximately \$3.5 million, or 5.3%, primarily driven by decreases in retail new vehicle gross profit at our General Motors (excluding Cadillac), Cadillac and Lexus dealerships. Our gross profit per retail new vehicle unit decreased \$37, or 1.9%, primarily driven by decreases in gross profit per retail new vehicle unit at our General Motors (excluding Cadillac), Cadillac and Lexus dealerships, offset partially by increases in gross profit per retail new vehicle unit at our Honda, BMW and Mercedes dealerships. Our Houston market continued to weigh on our retail new vehicle results, experiencing a 14.5% decrease in retail new vehicle unit sales volume and contributing to the overall decrease in gross profit per retail new vehicle unit by \$51.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Excluding fleet sales, our retail new vehicle revenue decreased 2.3% and our retail new vehicle unit sales volume decreased 2.7%, 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 Toyota and Honda dealerships. Excluding fleet sales, our retail new vehicle gross profit decreased approximately \$4.0 million, or 3.2%, primarily driven by decreases in retail new vehicle gross profit at our General Motors (excluding Cadillac), Lexus and 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 decreased \$10, or 0.5%, primarily driven by decreases in gross profit per retail new vehicle unit at our General Motors (excluding Cadillac), Lexus and Cadillac dealerships, offset partially by increases in gross profit per retail new vehicle unit at our BMW, Honda and Ford dealerships. Our Houston market continued to weigh on our retail new vehicle results, experiencing an 11.5% decrease in retail new vehicle unit sales volume and contributing to the overall decrease in gross profit per retail new vehicle unit by \$35.

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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.

The following tables provide a reconciliation of same store basis and reported basis for retail used vehicles:

	<u>Three Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except unit data)				
Total used vehicle revenue:				
Same store	\$ 618,082	\$ 621,748	\$ (3,666)	(0.6%)
Acquisitions and dispositions	23,809	438	23,371	NM
Total as reported	<u>\$ 641,891</u>	<u>\$ 622,186</u>	<u>\$ 19,705</u>	3.2%
Total used vehicle gross profit:				
Same store	\$ 37,209	\$ 35,919	\$ 1,290	3.6%
Acquisitions and dispositions	2,826	1,050	1,776	NM
Total as reported	<u>\$ 40,035</u>	<u>\$ 36,969</u>	<u>\$ 3,066</u>	8.3%
Total used vehicle units:				
Same store	29,388	29,267	121	0.4%
Acquisitions and dispositions	1,148	20	1,128	NM
Total as reported	<u>30,536</u>	<u>29,287</u>	<u>1,249</u>	4.3%

NM = Not Meaningful

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

	<u>Six Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except unit data)				
Total used vehicle revenue:				
Same store	\$ 1,233,476	\$ 1,220,103	\$ 13,373	1.1 %
Acquisitions and dispositions	42,888	437	42,451	NM
Total as reported	<u>\$ 1,276,364</u>	<u>\$ 1,220,540</u>	<u>\$ 55,824</u>	4.6 %
Total used vehicle gross profit:				
Same store	\$ 75,495	\$ 74,910	\$ 585	0.8 %
Acquisitions and dispositions	5,372	2,589	2,783	NM
Total as reported	<u>\$ 80,867</u>	<u>\$ 77,499</u>	<u>\$ 3,368</u>	4.3 %
Total used vehicle units:				
Same store	58,846	58,600	246	0.4 %
Acquisitions and dispositions	2,062	20	2,042	NM
Total as reported	<u>60,908</u>	<u>58,620</u>	<u>2,288</u>	3.9 %

NM = Not Meaningful

Our reported used vehicle results are as follows:

	<u>Three Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except units and per unit data)				
Reported used vehicle:				
Revenue	\$ 641,891	\$ 622,186	\$ 19,705	3.2 %
Gross profit	\$ 40,035	\$ 36,969	\$ 3,066	8.3 %
Unit sales	30,536	29,287	1,249	4.3 %
Revenue per unit	\$ 21,021	\$ 21,244	\$ (223)	(1.0 %)
Gross profit per unit	\$ 1,311	\$ 1,262	\$ 49	3.9 %
Gross profit as a % of revenue	6.2 %	5.9 %	30 bps	

	<u>Six Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except units and per unit data)				
Reported used vehicle:				
Revenue	\$ 1,276,364	\$ 1,220,540	\$ 55,824	4.6 %
Gross profit	\$ 80,867	\$ 77,499	\$ 3,368	4.3 %
Unit sales	60,908	58,620	2,288	3.9 %
Revenue per unit	\$ 20,956	\$ 20,821	\$ 135	0.6 %
Gross profit per unit	\$ 1,328	\$ 1,322	\$ 6	0.5 %
Gross profit as a % of revenue	6.3 %	6.3 %	0 bps	

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

Our same store used vehicle results are as follows:

	Three Months Ended June 30,		Better / (Worse)	
	2017	2016	Change	% Change
(In thousands, except units and per unit data)				
Same store used vehicle:				
Revenue	\$ 618,082	\$ 621,748	\$ (3,666)	(0.6 %)
Gross profit	\$ 37,209	\$ 35,919	\$ 1,290	3.6 %
Unit sales	29,388	29,267	121	0.4 %
Revenue per unit	\$ 21,032	\$ 21,244	\$ (212)	(1.0 %)
Gross profit per unit	\$ 1,266	\$ 1,227	\$ 39	3.2 %
Gross profit as a % of revenue	6.0 %	5.8 %	20	bps

	Six Months Ended June 30,		Better / (Worse)	
	2017	2016	Change	% Change
(In thousands, except units and per unit data)				
Same store used vehicle:				
Revenue	\$ 1,233,473	\$ 1,220,103	\$ 13,370	1.1 %
Gross profit	\$ 75,495	\$ 74,910	\$ 585	0.8 %
Unit sales	58,846	58,600	246	0.4 %
Revenue per unit	\$ 20,961	\$ 20,821	\$ 140	0.7 %
Gross profit per unit	\$ 1,283	\$ 1,278	\$ 5	0.4 %
Gross profit as a % of revenue	6.1 %	6.1 %	0	bps

In addition to the factors discussed below, incremental used vehicle unit sales volume in the three and six months ended June 30, 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 June 30, 2017 Compared to Three Months Ended June 30, 2016

Used vehicle revenue decreased 0.6%, as a result of a shift in brand and model sales mix, in spite of a 0.4% increase in used vehicle unit sales volume. This 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 increased approximately \$1.3 million, or 3.6%, driven primarily by higher used vehicle unit sales volume and used vehicle gross profit per unit at our Lexus, Honda and BMW dealerships. Used vehicle gross profit per unit increased \$39, or 3.2%, with the Houston market improving from the first quarter of 2017, contributing a \$12 increase in used vehicle gross profit per unit.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Used vehicle revenue increased 1.1%, driven by a 0.4% increase in used vehicle unit sales volume and a 0.7% 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 increased approximately \$0.6 million, or 0.8%, driven primarily by increases in used vehicle unit sales volume in the California market. Used vehicle gross profit per unit increased \$5, or 0.4%, driven primarily by higher used vehicle gross profit per unit at our Audi and Lexus dealerships.

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.

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

The following tables provide a reconciliation of same store basis and reported basis for wholesale vehicles:

	<u>Three Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except unit data)				
Total wholesale vehicle revenue:				
Same store	\$ 39,524	\$ 38,246	\$ 1,278	3.3 %
Acquisitions and dispositions	1,241	(1)	1,242	NM
Total as reported	<u>\$ 40,765</u>	<u>\$ 38,245</u>	<u>\$ 2,520</u>	6.6 %
Total wholesale vehicle gross profit (loss):				
Same store	\$ (1,909)	\$ (1,840)	\$ (69)	(3.8 %)
Acquisitions and dispositions	(8)	1	(9)	NM
Total as reported	<u>\$ (1,917)</u>	<u>\$ (1,839)</u>	<u>\$ (78)</u>	(4.2 %)
Total wholesale vehicle units:				
Same store	7,577	7,212	365	5.1 %
Acquisitions and dispositions	206	-	206	NM
Total as reported	<u>7,783</u>	<u>7,212</u>	<u>571</u>	7.9 %

NM = Not Meaningful

	<u>Six Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except unit data)				
Total wholesale vehicle revenue:				
Same store	\$ 84,784	\$ 82,599	\$ 2,185	2.6 %
Acquisitions and dispositions	2,292	21	2,271	NM
Total as reported	<u>\$ 87,076</u>	<u>\$ 82,620</u>	<u>\$ 4,456</u>	5.4 %
Total wholesale vehicle gross profit (loss):				
Same store	\$ (2,994)	\$ (2,915)	\$ (79)	(2.7 %)
Acquisitions and dispositions	(93)	(2)	(91)	NM
Total as reported	<u>\$ (3,087)</u>	<u>\$ (2,917)</u>	<u>\$ (170)</u>	(5.8 %)
Total wholesale vehicle units:				
Same store	15,697	15,630	67	0.4 %
Acquisitions and dispositions	393	5	388	NM
Total as reported	<u>16,090</u>	<u>15,635</u>	<u>455</u>	2.9 %

NM = Not Meaningful

Our reported wholesale vehicle results are as follows:

	<u>Three Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except units and per unit data)				
Reported wholesale vehicle:				
Revenue	\$ 40,765	\$ 38,245	\$ 2,520	6.6 %
Gross profit (loss)	\$ (1,917)	\$ (1,839)	\$ (78)	(4.2 %)
Unit sales	7,783	7,212	571	7.9 %
Revenue per unit	\$ 5,238	\$ 5,303	\$ (65)	(1.2 %)
Gross profit (loss) per unit	\$ (246)	\$ (255)	\$ 9	3.5 %
Gross profit (loss) as a % of revenue	(4.7 %)	(4.8 %)	10	bps

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

	<u>Six Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except units and per unit data)				
Reported wholesale vehicle:				
Revenue	\$ 87,076	\$ 82,620	\$ 4,456	5.4 %
Gross profit (loss)	\$ (3,087)	\$ (2,917)	\$ (170)	(5.8 %)
Unit sales	16,090	15,635	455	2.9 %
Revenue per unit	\$ 5,412	\$ 5,284	\$ 128	2.4 %
Gross profit (loss) per unit	\$ (192)	\$ (187)	\$ (5)	(2.7 %)
Gross profit (loss) as a % of revenue	(3.5 %)	(3.5 %)	0	bps

Our same store wholesale vehicle results are as follows:

	<u>Three Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except units and per unit data)				
Same store wholesale vehicle:				
Revenue	\$ 39,524	\$ 38,246	\$ 1,278	3.3 %
Gross profit (loss)	\$ (1,909)	\$ (1,840)	\$ (69)	(3.8 %)
Unit sales	7,577	7,212	365	5.1 %
Revenue per unit	\$ 5,216	\$ 5,303	\$ (87)	(1.6 %)
Gross profit (loss) per unit	\$ (252)	\$ (255)	\$ 3	1.2 %
Gross profit (loss) as a % of revenue	(4.8 %)	(4.8 %)	0	bps

	<u>Six Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except units and per unit data)				
Same store wholesale vehicle:				
Revenue	\$ 84,784	\$ 82,599	\$ 2,185	2.6 %
Gross profit (loss)	\$ (2,994)	\$ (2,915)	\$ (79)	(2.7 %)
Unit sales	15,697	15,630	67	0.4 %
Revenue per unit	\$ 5,401	\$ 5,285	\$ 116	2.2 %
Gross profit (loss) per unit	\$ (191)	\$ (187)	\$ (4)	(2.1 %)
Gross profit (loss) as a % of revenue	(3.5 %)	(3.5 %)	0	bps

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Wholesale vehicle revenue, gross loss and unit sales volume increased due to higher levels of wholesale activity as a result of elevated inventory levels during the first quarter of 2017. 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.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Wholesale vehicle revenue, gross loss and unit sales volume increased due to higher levels of wholesale activity as a result of elevated inventory levels during the first half of 2017. 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.

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

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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 our 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.

In 2017, we changed the character of certain repair orders from customer pay to warranty. Accordingly, the customer pay and warranty amounts in the tables below reflect this change for the periods in 2017, but not for the periods in 2016, as it was administratively impractical to recalculate the 2016 amounts.

The following tables provide a reconciliation of same store basis and reported basis for Fixed Operations:

	<u>Three Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
	(In thousands)			
Total Fixed Operations revenue:				
Same store	\$ 356,484	\$ 351,310	\$ 5,174	1.5%
Acquisitions and dispositions	4,629	19	4,610	NM
Total as reported	<u>\$ 361,113</u>	<u>\$ 351,329</u>	<u>\$ 9,784</u>	<u>2.8%</u>
Total Fixed Operations gross profit:				
Same store	\$ 171,113	\$ 168,132	\$ 2,981	1.8%
Acquisitions and dispositions	1,957	89	1,868	NM
Total as reported	<u>\$ 173,070</u>	<u>\$ 168,221</u>	<u>\$ 4,849</u>	<u>2.9%</u>

NM = Not Meaningful

	<u>Six Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
	(In thousands)			
Total Fixed Operations revenue:				
Same store	\$ 705,928	\$ 697,365	\$ 8,563	1.2%
Acquisitions and dispositions	7,228	19	7,209	NM
Total as reported	<u>\$ 713,156</u>	<u>\$ 697,384</u>	<u>\$ 15,772</u>	<u>2.3%</u>
Total Fixed Operations gross profit:				
Same store	\$ 338,591	\$ 333,781	\$ 4,810	1.4%
Acquisitions and dispositions	3,823	441	3,382	NM
Total as reported	<u>\$ 342,414</u>	<u>\$ 334,222</u>	<u>\$ 8,192</u>	<u>2.5%</u>

NM = Not Meaningful

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Our reported Fixed Operations results are as follows:

	<u>Three Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands)				
Reported Fixed Operations:				
Revenue				
Customer pay	\$ 139,194	\$ 149,248	\$ (10,054)	(6.7%)
Warranty	72,661	54,812	17,849	32.6%
Wholesale parts	42,806	44,021	(1,215)	(2.8%)
Internal, sublet and other	106,452	103,248	3,204	3.1%
Total revenue	<u>\$ 361,113</u>	<u>\$ 351,329</u>	<u>\$ 9,784</u>	2.8%
Gross profit				
Customer pay	\$ 74,344	\$ 81,323	\$ (6,979)	(8.6%)
Warranty	40,319	29,449	10,870	36.9%
Wholesale parts	7,331	7,797	(466)	(6.0%)
Internal, sublet and other	51,076	49,652	1,424	2.9%
Total gross profit	<u>\$ 173,070</u>	<u>\$ 168,221</u>	<u>\$ 4,849</u>	2.9%
Gross profit as a % of revenue				
Customer pay	53.4%	54.5%	(110)	bps
Warranty	55.5%	53.7%	180	bps
Wholesale parts	17.1%	17.7%	(60)	bps
Internal, sublet and other	48.0%	48.1%	(10)	bps
Total gross profit as a % of revenue	47.9%	47.9%	0	bps

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

	Six Months Ended June 30,		Better / (Worse)	
	2017	2016	Change	% Change
(In thousands)				
Reported Fixed Operations:				
Revenue				
Customer pay	\$ 277,328	\$ 296,642	\$ (19,314)	(6.5 %)
Warranty	142,579	112,371	30,208	26.9 %
Wholesale parts	86,087	89,331	(3,244)	(3.6 %)
Internal, sublet and other	207,162	199,040	8,122	4.1 %
Total revenue	<u>\$ 713,156</u>	<u>\$ 697,384</u>	<u>\$ 15,772</u>	2.3 %
Gross profit				
Customer pay	\$ 147,784	\$ 161,680	\$ (13,896)	(8.6 %)
Warranty	78,989	60,775	18,214	30.0 %
Wholesale parts	14,881	15,738	(857)	(5.4 %)
Internal, sublet and other	100,760	96,029	4,731	4.9 %
Total gross profit	<u>\$ 342,414</u>	<u>\$ 334,222</u>	<u>\$ 8,192</u>	2.5 %
Gross profit as a % of revenue				
Customer pay	53.3 %	54.5 %	(120)	bps
Warranty	55.4 %	54.1 %	130	bps
Wholesale parts	17.3 %	17.6 %	(30)	bps
Internal, sublet and other	48.6 %	48.2 %	40	bps
Total gross profit as a % of revenue	48.0 %	47.9 %	10	bps

Our same store Fixed Operations results are as follows:

	Three Months Ended June 30,		Better / (Worse)	
	2017	2016	Change	% Change
(In thousands)				
Same store Fixed Operations:				
Revenue				
Customer pay	\$ 138,408	\$ 149,246	\$ (10,838)	(7.3 %)
Warranty	72,325	54,812	17,513	32.0 %
Wholesale parts	42,478	44,021	(1,543)	(3.5 %)
Internal, sublet and other	103,273	103,231	42	0.0 %
Total revenue	<u>\$ 356,484</u>	<u>\$ 351,310</u>	<u>\$ 5,174</u>	1.5 %
Gross profit				
Customer pay	\$ 73,942	\$ 81,322	\$ (7,380)	(9.1 %)
Warranty	40,129	29,543	10,586	35.8 %
Wholesale parts	7,239	7,797	(558)	(7.2 %)
Internal, sublet and other	49,803	49,470	333	0.7 %
Total gross profit	<u>\$ 171,113</u>	<u>\$ 168,132</u>	<u>\$ 2,981</u>	1.8 %
Gross profit as a % of revenue				
Customer pay	53.4 %	54.5 %	(110)	bps
Warranty	55.5 %	53.9 %	160	bps
Wholesale parts	17.0 %	17.7 %	(70)	bps
Internal, sublet and other	48.2 %	47.9 %	30	bps
Total gross profit as a % of revenue	48.0 %	47.9 %	10	bps

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	<u>Six Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands)				
Same store Fixed Operations:				
Revenue				
Customer pay	\$ 275,827	\$ 296,640	\$ (20,813)	(7.0%)
Warranty	141,914	112,371	29,543	26.3%
Wholesale parts	85,705	89,331	(3,626)	(4.1%)
Internal, sublet and other	202,482	199,023	3,459	1.7%
Total revenue	<u>\$ 705,928</u>	<u>\$ 697,365</u>	<u>\$ 8,563</u>	<u>1.2%</u>
Gross profit				
Customer pay	\$ 147,031	\$ 161,679	\$ (14,648)	(9.1%)
Warranty	78,568	60,825	17,743	29.2%
Wholesale parts	14,776	15,739	(963)	(6.1%)
Internal, sublet and other	98,216	95,538	2,678	2.8%
Total gross profit	<u>\$ 338,591</u>	<u>\$ 333,781</u>	<u>\$ 4,810</u>	<u>1.4%</u>
Gross profit as a % of revenue				
Customer pay	53.3%	54.5%	(120)	bps
Warranty	55.4%	54.1%	130	bps
Wholesale parts	17.2%	17.6%	(40)	bps
Internal, sublet and other	48.5%	48.0%	50	bps
Total gross profit as a % of revenue	48.0%	47.9%	10	bps

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Our Fixed Operations revenue increased approximately \$5.2 million, or 1.5%, driven primarily by our BMW, Audi and Lexus dealerships, while our Fixed Operations gross profit increased approximately \$3.0 million, or 1.8%, driven primarily by our Lexus, Honda and Audi dealerships. Combined customer pay and warranty gross profit increased approximately \$3.2 million, or 2.9%, and internal, sublet and other gross profit increased approximately \$0.3 million, or 0.7%, on higher levels of used vehicle reconditioning and hail damage repairs.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Our Fixed Operations revenue increased approximately \$8.6 million, or 1.2%, driven primarily by our BMW, Lexus and Audi dealerships, while our Fixed Operations gross profit increased approximately \$4.8 million, or 1.4%, driven primarily by our Honda, Lexus and Audi dealerships. Combined customer pay and warranty gross profit increased approximately \$3.1 million, or 1.4%, and internal, sublet and other gross profit increased approximately \$2.7 million, or 2.8%, 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 tables provide a reconciliation of same store basis and reported basis for F&I:

	<u>Three Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except per unit data)				
Total F&I revenue:				
Same store	\$ 84,457	\$ 83,884	\$ 573	0.7%
Acquisitions and dispositions	2,451	204	2,247	NM
Total as reported	<u>\$ 86,908</u>	<u>\$ 84,088</u>	<u>\$ 2,820</u>	3.4%
Total F&I gross profit per retail unit (excludes fleet):				
Same store	\$ 1,374	\$ 1,342	\$ 32	2.4%
Total as reported	\$ 1,379	\$ 1,345	\$ 34	2.5%

NM = Not Meaningful

	<u>Six Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except per unit data)				
Total F&I revenue:				
Same store	\$ 165,318	\$ 164,736	\$ 582	0.4%
Acquisitions and dispositions	4,653	625	4,028	NM
Total as reported	<u>\$ 169,971</u>	<u>\$ 165,361</u>	<u>\$ 4,610</u>	2.8%
Total F&I gross profit per retail unit (excludes fleet):				
Same store	\$ 1,372	\$ 1,350	\$ 22	1.6%
Total as reported	\$ 1,379	\$ 1,355	\$ 24	1.8%

NM = Not Meaningful

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

F&I revenues increased approximately \$0.6 million, or 0.7%, and F&I gross profit per retail unit increased \$32, or 2.4%. The growth in F&I revenues and gross profit per retail unit is attributed to an increase in gross profit per service and other aftermarket contracts due to additional product offerings and increased visibility into performance drivers provided by our proprietary internal software applications. These increases in gross profit per contract more than offset the impact of a 1.6% decrease in combined retail new and used vehicle unit sales volume and lower penetration rates.

Finance contract revenue decreased 5.6%, primarily due to a 60 basis point decrease in the combined new and used vehicle finance contract penetration rate and a 3.2% 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 5.4% due primarily to an 11.8% increase in gross profit per service contract, offset partially by a 150 basis point decrease in the service contract penetration rate. Other aftermarket contract revenue increased 3.4%, driven primarily by an 8.9% increase in gross profit per aftermarket contract, offset partially by a 440 basis point decrease in the other aftermarket penetration rate.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

F&I revenues increased approximately \$0.6 million, or 0.4%, and F&I gross profit per retail unit increased \$22, or 1.6%. The growth in F&I revenues and gross profit per retail unit is attributed to an increase in gross profit per service and other aftermarket contracts due to additional product offerings and increased visibility into performance drivers provided by our proprietary internal software applications. These increases in gross profit per contract more than offset the impact of a 1.2% decrease in combined retail new and used vehicle unit sales volume and lower penetration rates.

Finance contract revenue decreased 6.1%, primarily due to a 120 basis point decrease in the combined new and used vehicle finance contract penetration rate and a 3.4% 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 5.9% due primarily to a 12.0% increase in gross profit

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per service contract, offset partially by a 160 basis point decrease in the service contract penetration rate. Other aftermarket contract revenue increased 3.3%, driven primarily by an 8.6% increase in gross profit per aftermarket contract, offset partially by a 480 basis point decrease in the other aftermarket penetration rate. During the six months ended June 30, 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.

Segment Results

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

	<u>Three Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except unit data)				
Revenues:				
Franchised Dealerships	\$ 2,356,692	\$ 2,352,840	\$ 3,852	0.2 %
EchoPark	49,054	29,472	19,582	66.4 %
Total consolidated revenues	<u>\$ 2,405,746</u>	<u>\$ 2,382,312</u>	<u>\$ 23,434</u>	1.0 %
Segment income (loss) (1):				
Franchised Dealerships	\$ 40,544	\$ 53,561	\$ (13,017)	(24.3 %)
EchoPark	(7,517)	(3,206)	(4,311)	(134.5 %)
Total segment income (loss)	33,027	50,355	(17,328)	(34.4 %)
Interest expense, other, net	(12,764)	(12,205)	(559)	(4.6 %)
Other income (expense), net	7	6	1	16.7 %
Income (loss) from continuing operations before taxes	<u>\$ 20,270</u>	<u>\$ 38,156</u>	<u>\$ (17,886)</u>	(46.9 %)
Retail new and used vehicle unit sales volume:				
Franchised Dealerships	60,953	61,380	(427)	(0.7 %)
EchoPark	2,049	1,136	913	80.4 %
Total retail new and used vehicle unit sales volume	<u>63,002</u>	<u>62,516</u>	<u>486</u>	0.8 %

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

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	<u>Six Months Ended June 30,</u>		<u>Better / (Worse)</u>	
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
(In thousands, except unit data)				
Revenues:				
Franchised Dealerships	\$ 4,602,717	\$ 4,563,425	\$ 39,292	0.9%
EchoPark	90,851	53,514	37,337	69.8%
Total consolidated revenues	<u>\$ 4,693,568</u>	<u>\$ 4,616,939</u>	<u>\$ 76,629</u>	1.7%
Segment income (loss) (1):				
Franchised Dealerships	\$ 74,013	\$ 92,854	\$ (18,841)	(20.3%)
EchoPark	(12,924)	(6,630)	(6,294)	(94.9%)
Total segment income (loss)	61,089	86,224	(25,135)	(29.2%)
Interest expense, other, net	(26,172)	(24,544)	(1,628)	(6.6%)
Other income (expense), net	(14,495)	110	(14,605)	(13277.3%)
Income (loss) from continuing operations before taxes	<u>\$ 20,422</u>	<u>\$ 61,790</u>	<u>\$ (41,368)</u>	(66.9%)
Retail new and used vehicle unit sales volume:				
Franchised Dealerships	119,522	119,928	(406)	(0.3%)
EchoPark	3,722	2,077	1,645	79.2%
Total retail new and used vehicle unit sales volume	<u>123,244</u>	<u>122,005</u>	<u>1,239</u>	1.0%

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

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 Colorado in November and December 2014, the third location in January 2015, the fourth and fifth locations in June 2016 and the sixth location in June 2017. During 2017 and 2018, we expect to break ground on approximately 15 EchoPark locations in the Florida, Georgia, North Carolina, South Carolina and Texas markets. 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 June 30, 2017, EchoPark generated approximately \$49.1 million of revenue, up \$19.6 million, or 66.4%, and gross profit of approximately \$5.3 million, up \$2.0 million, or 58.5%. EchoPark retail used vehicle unit sales volume was 2,049 units, up 913 units, or 80.4%, and retail used vehicle gross profit per unit was \$875, a decrease of \$167, or 16.0%, 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 \$1,041, down \$99, or 8.7%, 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 \$7.2 million operating loss during the three months ended June 30, 2017, compared to a \$3.0 million operating loss in the prior year period, driven primarily by start-up costs associated with opening new stores and approximately \$2.4 million of impairment and lease exit charges associated with the closure of two of the stand-alone pre-owned stores we acquired in 2016.

During the six months ended June 30, 2017, EchoPark generated approximately \$90.9 million of revenue, up \$37.3 million, or 69.8%, and gross profit of approximately \$10.0 million, up \$3.4 million, or 51.2%. EchoPark retail used vehicle unit sales volume was 3,722 units, up 1,645 units, or 79.2%, and retail used vehicle gross profit per unit was \$952, a decrease of \$248, or 20.7%, 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 \$1,102, down \$142, or 11.4%, 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

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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 \$12.4 million operating loss during the six months ended June 30, 2017, compared to a \$6.2 million operating loss in the prior year period, driven primarily by start-up costs associated with opening new stores and approximately \$2.4 million of impairment and lease exit charges associated with the closure of two of the stand-alone pre-owned stores we acquired in 2016.

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 and service loaners), insurance, training, legal and IT expenses, which may not change in proportion to gross profit levels.

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

	Three Months Ended June 30,		Better / (Worse)	
	2017	2016	Change	% Change
	(In thousands)			
SG&A expenses:				
Compensation	\$ 171,182	\$ 166,560	\$ (4,622)	(2.8 %)
Advertising	15,344	15,499	155	1.0%
Rent	19,110	18,508	(602)	(3.3 %)
Other	88,295	76,637	(11,658)	(15.2 %)
Total SG&A expenses	\$ 293,931	\$ 277,204	\$ (16,727)	(6.0 %)

SG&A expenses as a % of gross profit:

Compensation	47.5 %	47.1 %	(40)	bps
Advertising	4.3 %	4.4 %	10	bps
Rent	5.3 %	5.2 %	(10)	bps
Other	24.4 %	21.8 %	(260)	bps
Total SG&A expenses as a % of gross profit	81.5 %	78.5 %	(300)	bps

	Six Months Ended June 30,		Better / (Worse)	
	2017	2016	Change	% Change
	(In thousands)			
SG&A expenses:				
Compensation	\$ 347,729	\$ 335,601	\$ (12,128)	(3.6 %)
Advertising	30,602	30,847	245	0.8%
Rent	37,598	37,228	(370)	(1.0 %)
Other	170,236	157,904	(12,332)	(7.8 %)
Total SG&A expenses	\$ 586,165	\$ 561,580	\$ (24,585)	(4.4 %)

SG&A expenses as a % of gross profit:

Compensation	48.9 %	48.0 %	(90)	bps
Advertising	4.3 %	4.4 %	10	bps
Rent	5.3 %	5.3 %	0	bps
Other	23.9 %	22.7 %	(120)	bps
Total SG&A expenses as a % of gross profit	82.4 %	80.4 %	(200)	bps

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Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Overall SG&A expenses increased both in dollar amount and as a percentage of gross profit, primarily due to storm-related physical damage costs, higher compensation and employee benefit-related expenses related to new manufacturer-awarded open points and EchoPark locations, IT expenses and legal expenses in the three months ended June 30, 2017. Overall SG&A expenses as a percentage of gross profit increased 300 basis points.

Compensation expense increased both in dollar amount and as a percentage of gross profit, primarily due to higher levels of compensation and employee benefit-related expenses related to new manufacturer-awarded open points and EchoPark locations.

Advertising expense decreased slightly both in dollar amount and as a percentage of gross profit, as we focused on targeted advertising where we would expect the best returns for our business.

Rent expense increased both in dollar amount and as a percentage of gross profit due primarily to lease exit charges related to the relocation of a dealership and the closure of two stand-alone pre-owned stores acquired in 2016.

Other SG&A expenses increased both in dollar amount and as a percentage of gross profit due primarily to increases in storm-related physical damage costs, legal accruals and IT expenses.

On an adjusted basis, SG&A expenses as a percentage of gross profit were 79.7%, up 120 basis points from the prior year period. For the three months ended June 30, 2017, adjusted SG&A expenses exclude approximately \$4.6 million of expense due to storm-related physical damage, approximately \$1.0 million related to legal accruals and approximately \$1.0 million of lease exit charges. There were no adjustments for the three months ended June 30, 2016.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 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 and storm-related physical damage costs in the six months ended June 30, 2017. Overall SG&A expenses as a percentage of gross profit increased 200 basis points.

Compensation expense increased both in dollar amount and as a percentage of gross profit, primarily due to higher levels of compensation and employee benefit-related expenses related to new manufacturer-awarded open points and EchoPark locations.

Advertising expense decreased slightly both in dollar amount and as a percentage of gross profit, as we focused on targeted advertising where we would expect the best returns for our business.

Rent expense increased in dollar amount and was flat as a percentage of gross profit due primarily to lease exit charges related to the relocation of a dealership and the closure of two stand-alone pre-owned stores acquired in 2016.

Other SG&A expenses increased both in dollar amount and as a percentage of gross profit due primarily to increases in IT expenses, storm-related physical damage costs, customer-related costs, legal accruals and repairs and maintenance.

On an adjusted basis, SG&A expenses as a percentage of gross profit were 81.3%, up 180 basis points from the prior year period. For the six months ended June 30, 2017, adjusted SG&A expenses exclude approximately \$7.0 million of expense due to storm-related physical damage and approximately \$1.0 million of lease exit charges, offset partially by a net benefit of approximately \$0.1 million related to legal settlements. For the six months ended June 30, 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 increased approximately \$2.4 million and \$3.0 million during the three and six months ended June 30, 2017, respectively. Impairment charges for the three and six months ended June 30, 2017 include the write-off of goodwill and property and equipment related to the closure of two stand-alone pre-owned stores that were purchased in 2016, in addition to the write-off of capitalized costs associated with abandonment of certain construction projects. Impairment charges for the three and six months ended June 30, 2016 include the write-off of capitalized costs associated with abandonment of certain construction projects.

Depreciation and Amortization

Depreciation and amortization expense increased approximately \$3.0 million, or 15.9%, and \$5.7 million, or 15.2%, during the three and six months ended June 30, 2017, due primarily to completed construction projects and purchases of fixed assets for use in our franchised dealerships and EchoPark stores.

Interest Expense, Floor Plan

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Interest expense, floor plan for new vehicles increased approximately \$2.2 million, or 36.1%. The average new vehicle floor plan notes payable balance increased approximately \$69.1 million, resulting in an increase in new vehicle floor plan interest expense of approximately \$0.3 million. The average new vehicle floor plan interest rate was 2.38%, compared to 1.84%, resulting in an increase in new vehicle floor plan interest expense of approximately \$1.9 million.

Interest expense, floor plan for used vehicles increased approximately \$0.2 million, or 43.6%. The average used vehicle floor plan notes payable balance decreased approximately \$10.2 million, which did not materially impact floor plan interest expense. The average used vehicle floor plan interest rate was 2.27%, compared to 1.47%, resulting in an increase in used vehicle floor plan interest expense of approximately \$0.2 million.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Interest expense, floor plan for new vehicles increased approximately \$3.8 million, or 31.3%. The average new vehicle floor plan notes payable balance increased approximately \$20.8 million, resulting in an increase in new vehicle floor plan interest expense of approximately \$0.2 million. The average new vehicle floor plan interest rate was 2.28%, compared to 1.76%, resulting in an increase in new vehicle floor plan interest expense of approximately \$3.6 million.

Interest expense, floor plan for used vehicles increased approximately \$0.6 million, or 58.9%. The average used vehicle floor plan notes payable balance increased approximately \$1.1 million, which did not materially impact floor plan interest expense. The average used vehicle floor plan interest rate was 2.41%, compared to 1.53%, resulting in an increase in used vehicle floor plan interest expense of approximately \$0.6 million.

Interest Expense, Other, Net

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

	Three Months Ended June 30,		Better / (Worse)	
	2017	2016	Change	% Change
	(In thousands)			
Stated/coupon interest	\$ 12,041	\$ 11,088	\$ (953)	(8.6%)
Discount/premium amortization	-	40	40	100.0%
Deferred loan cost amortization	588	628	40	6.4%
Cash flow swap interest	575	1,126	551	48.9%
Capitalized interest	(551)	(827)	(276)	(33.4%)
Other interest	111	150	39	26.0%
Total interest expense, other, net	<u>\$ 12,764</u>	<u>\$ 12,205</u>	<u>\$ (559)</u>	<u>(4.6%)</u>

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	Six Months Ended June 30,		Better / (Worse)	
	2017	2016	Change	% Change
	(In thousands)			
Stated/coupon interest	\$ 24,149	\$ 22,057	\$ (2,092)	(9.5 %)
Discount/premium amortization	28	80	52	65.0 %
Deferred loan cost amortization	1,193	1,250	57	4.6 %
Cash flow swap interest	1,590	2,316	726	31.3 %
Capitalized interest	(1,010)	(1,463)	(453)	(31.0 %)
Other interest	222	304	82	27.0 %
Total interest expense, other, net	<u>\$ 26,172</u>	<u>\$ 24,544</u>	<u>\$ (1,628)</u>	<u>(6.6 %)</u>

Interest expense, other, net increased approximately \$0.6 million during the three months ended June 30, 2017, primarily due to higher stated/coupon interest, 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. Interest expense, other, net increased approximately \$1.7 million during the six months ended June 30, 2017, primarily due to higher stated/coupon interest related to approximately \$0.7 million of double-carry interest for the period of 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 income, net was flat during the three months ended June 30, 2017. Other expense, net increased approximately \$14.6 million during the six months ended June 30, 2017, due to a charge of approximately \$14.6 million related to the extinguishment of the 7.0% Notes in the six months ended June 30, 2017.

Income Taxes

The overall effective tax rate from continuing operations was 39.3% and 39.8% for the three and six months ended June 30, 2017, respectively, and was 39.6% and 39.3% for the three and six months ended June 30, 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. We expect 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.

Discontinued Operations

Significant components of results from discontinued operations were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Income (loss) from operations	\$ (162)	\$ (135)	\$ (441)	\$ (327)
Lease exit accrual adjustments and charges	(139)	(227)	(727)	227
Pre-tax income (loss)	<u>\$ (301)</u>	<u>\$ (362)</u>	<u>\$ (1,168)</u>	<u>\$ (100)</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, and dividends on our common stock and to finance acquisitions and otherwise invest in our business. We rely on cash flows from operations, borrowings under our revolving credit and floor plan borrowing arrangements, real estate mortgage financing, asset sales and offerings of debt and equity securities to meet these requirements. We 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

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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 June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
	(In thousands)	
Cash and cash equivalents	\$ 4,380	\$ 3,108
Availability under the 2016 Revolving Credit Facility	194,087	207,053
Availability under our new and used vehicle floor plan facilities	23,121	46,423
Floor plan deposit balance	23,000	10,000
Total available liquidity resources	\$ 244,588	\$ 266,584

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 June 30, 2017 and December 31, 2016, respectively, is classified in other current assets in the accompanying condensed consolidated balance sheets.

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 2.37% and 2.29% in the three and six months ended June 30, 2017, respectively, and 1.80% and 1.74% in the three and six months ended June 30, 2016, respectively.

We receive floor plan assistance from certain manufacturers. Floor plan assistance received is capitalized in inventory and charged against cost of sales when the associated inventory is sold. We received approximately \$10.7 million and \$21.7 million in floor plan assistance in the three and six months ended June 30, 2017, respectively, and approximately \$10.9 million and \$21.0 million in floor plan assistance in the three and six months ended June 30, 2016, respectively. We recognized manufacturer floor plan assistance in cost of sales for continuing operations of approximately \$11.0 million and \$20.9 million in the three and six months ended June 30, 2017, respectively, and approximately \$10.3 million and \$20.8 million in the three and six months ended June 30, 2016, respectively. 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 six months ended June 30, 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 franchised dealerships and EchoPark stores. We selectively construct new or improve existing dealership facilities to maintain compliance with manufacturers' image requirements. We typically finance these projects through new mortgages or, alternatively, through our credit facilities. We also fund these projects through cash flows from operations.

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Capital expenditures in the six months ended June 30, 2017 were approximately \$121.2 million. Of this amount, \$62.4 million was related to facility construction projects and \$37.2 million was related to real estate acquisitions, while fixed assets utilized in our dealership operations accounted for the remaining \$21.6 million of capital expenditures.

Of the capital expenditures in the six months ended June 30, 2017, approximately \$32.4 million was funded through mortgage financing and approximately \$88.8 million was funded through cash from operations and use of our credit facilities. As of June 30, 2017, commitments for facility construction projects totaled approximately \$39.5 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 six months ended June 30, 2017, our Board of Directors authorized an additional \$100.0 million to repurchase shares of our Class A common stock. During the three and six months ended June 30, 2017, we repurchased approximately 1.2 million and 1.4 million shares of our Class A common stock, respectively, for approximately \$22.0 million and \$25.9 million, respectively, in open-market transactions at prevailing market prices and in connection with tax withholdings on the vesting of equity compensation awards. As of June 30, 2017, our total remaining repurchase authorization was approximately \$119.1 million. Under the 2016 Credit Facilities, share repurchases are permitted to the extent that no event of default exists.

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 June 30, 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. Subsequent to June 30, 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 September 15, 2017 to be paid on October 13, 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 also 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 six months ended June 30, 2017 was approximately \$92.9 million. This provision of cash was comprised primarily of cash inflows related to operating profits and a decrease in receivables, offset partially by increases in inventories and other assets and a decrease in notes payable – floor plan – trade. In the six months ended June 30, 2016, net cash provided by operating activities was approximately \$106.7 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 six months ended June 30, 2017 was approximately \$120.9 million. This use of cash was comprised primarily of purchases of land, property and equipment. Net cash used in investing activities in the six months ended June 30, 2016 was approximately \$108.1 million. This use of cash was comprised primarily of purchases of land, property and equipment.

Net cash provided by financing activities in the six months ended June 30, 2017 was approximately \$29.3 million. This provision of cash was comprised primarily of proceeds from issuance of long-term debt (including mortgages), offset partially by repurchases of debt securities and purchases of treasury stock. Net cash provided by financing activities in the six months ended June

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

30, 2016 was approximately \$0.2 million. This provision of cash was comprised primarily of cash inflows related to borrowing on notes payable – floor plan – non-trade and proceeds from issuance of mortgage-related long-term debt, offset partially by purchases of treasury stock.

We arrange our inventory floor plan financing through both manufacturer captive finance companies and a syndicate of manufacturer-affiliated finance companies and commercial banks. Our floor plan financed with manufacturer captives is recorded as trade floor plan liabilities (with the resulting change being reflected as operating cash flows). Our dealerships that obtain floor plan financing from a syndicate of manufacturer-affiliated finance companies and commercial banks record their obligation as non-trade floor plan liabilities (with the resulting change being reflected as financing cash flows). Due to the presentation differences for changes in trade floor plan 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 \$44.6 million and \$76.4 million in the six months ended June 30, 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 \$96.6 million and \$136.6 million in the six months ended June 30, 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 \$1.4 billion at June 30, 2017. A change of 100 basis points in the underlying interest rate would have caused a change in interest expense of approximately \$7.1 million in the six months ended June 30, 2017. Of the total change in interest expense, approximately \$6.2 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 six months ended June 30, 2017 due to the leases containing LIBOR floors which were above the LIBOR rate during the six months ended June 30, 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 June 30, 2017 was a net liability of approximately \$1.3 million, with \$1.8 million included in other accrued liabilities and \$1.9 million included in other long-term liabilities in the accompanying condensed consolidated balance sheets, offset partially by an asset of approximately \$2.4 million included in other assets 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 (In millions)		Pay Rate	Receive Rate (1)	Maturing Date
\$ 2.2		7.100%	one-month LIBOR + 1.50%	July 10, 2017
\$ 7.0		4.655%	one-month LIBOR	December 10, 2017
\$ 6.4	(2)	6.860%	one-month LIBOR + 1.25%	August 1, 2017
\$ 5.9	(2)	6.410%	one-month LIBOR + 1.25%	September 12, 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 1.224% at June 30, 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 June 30, 2017. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of June 30, 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 June 30, 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 various legal and administrative proceedings arising out of the conduct of our business, including regulatory investigations and private civil actions brought by plaintiffs purporting to represent a potential class or for which a class has been certified. Although we vigorously defend ourselves in all legal and administrative proceedings, the outcomes of pending and future proceedings arising out of the conduct of our business, including litigation with customers, employment-related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities, cannot be predicted with certainty. An unfavorable resolution of one or more of these matters could have a material adverse effect on our business, financial condition, results of operations, cash flows or prospects.

Included in other accrued liabilities and other long-term liabilities at June 30, 2017 was approximately \$2.5 million and \$0.2 million, respectively, in reserves that we were holding for pending proceedings. Except as reflected in such reserves, we are currently unable to estimate a range of reasonably possible loss, or a range of reasonably possible loss in excess of the amount accrued, for pending proceedings.

Item 1A. Risk Factors.

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 June 30, 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 (1)
(In thousands, except per share data)				
April 2017	27,985	\$ 18.88	27,985	\$ 140,507
May 2017	668,517	\$ 18.80	668,517	\$ 127,903
June 2017	486,148	\$ 18.17	486,148	\$ 119,085
Total	<u>1,182,650</u>		<u>1,182,650</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 June 30, 2017	<u>(80,915)</u>
Current remaining availability as of June 30, 2017	<u>\$ 119,085</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.

Item 5. Other Information.

On and effective as of July 27, 2017, our Board of Directors amended and restated our Amended and Restated Bylaws to reflect the restatement of Section 3.05 therein to provide that directors may be removed from office, with or without cause, by a vote of our stockholders holding shares having a majority of the votes then entitled to be voted at an election of directors and, if any directors are so removed, new directors may be elected at the same meeting. Formerly, this section provided that a director could only be removed during his term for cause.

The foregoing description is qualified in its entirety by reference to the full text of our Amended and Restated Bylaws, a copy of which is attached hereto as Exhibit 3.5 and incorporated herein by reference.

SONIC AUTOMOTIVE, INC.

Item 6. Exhibits.

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Sonic Automotive, Inc., dated August 7, 1997 (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-13395)).
3.2	Certificate of Designation, Preferences and Rights of Class A Convertible Preferred Stock, dated March 20, 1998 (incorporated by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-13395)).
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Sonic Automotive, Inc., dated June 16, 1999 (incorporated by reference to Exhibit 3.3 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-13395)).
3.4	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Sonic Automotive, Inc., dated April 18, 2017 (incorporated by reference to Exhibit 3.4 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-13395)).
3.5*	Amended and Restated Bylaws of Sonic Automotive, Inc., dated July 27, 2017.
4.1	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 & 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)).
4.2	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)).
4.3	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)).
10.1	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)
10.2	Sonic Automotive, Inc. 2012 Formula Restricted Stock and Deferral Plan for Non-Employee Directors Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-13395)). (1)
10.3	Sonic Automotive, Inc. 2012 Formula Restricted Stock and Deferral Plan for Non-Employee Directors Form of Deferred Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-13395)). (1)
31.1*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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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.

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AMENDED AND RESTATED

BYLAWS

OF

SONIC AUTOMOTIVE, INC.

(Amended as of July 27, 2017)

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AMENDED AND RESTATED

BYLAWS

OF

SONIC AUTOMOTIVE, INC.

ARTICLE 1 – REGISTERED AND OTHER OFFICES

SECTION 1.01. REGISTERED OFFICE.

The address of the initial registered office in the State of Delaware and the name of the initial registered agent of Sonic Automotive, Inc. (the “Corporation”) at such address are set forth in the Amended and Restated Certificate of Incorporation of the Corporation (the “Certificate of Incorporation”). The Corporation may, from time to time, designate a different address as its registered office or a different person as its registered agent, or both; provided, however, that such designation shall become effective upon the filing of a statement of such change with the Department of State of the State of Delaware as is required by law.

SECTION 1.02. OTHER OFFICES.

The Corporation may have other offices, either within or without the State of Delaware, at such place or places as the Board of Directors (the “Board”) may from time to time determine or the business of the Corporation may require.

ARTICLE 2 – MEETINGS OF STOCKHOLDERS

SECTION 2.01. ANNUAL MEETINGS.

Annual meetings of stockholders for the election of directors and for the transaction of any other business properly brought before the stockholders in accordance with Section 2.08 hereof shall be held at such place, either within or without the State of Delaware, and at such time and date as the Board, by resolution, shall determine and as set forth in the notice of the meeting.

If the date of the annual meeting shall fall upon a legal holiday, the meeting shall be held on the next succeeding business day. At each annual meeting, the stockholders entitled to vote shall elect directors to succeed those directors whose term expires at such annual meeting and may transact such other business as is properly brought before the stockholders in accordance with Section 2.08 hereof.

SECTION 2.02. SPECIAL MEETINGS.

Special meetings of the stockholders, for any purpose, unless otherwise prescribed by statute or by the Certificate of Incorporation, shall be called by the Secretary or any Assistant Secretary (i) at the request of the Chairman of the Board, (ii) at the request in writing of a majority of the directors or (iii) by the written request of holders of more than eighty percent (80%) of the total voting power of the outstanding shares of capital stock of the Corporation then entitled to vote. Notice of every special meeting of the stockholders of the Corporation shall state the purpose or purposes of the proposed meeting. Any special meeting of the stockholders shall be held on such date, at such time and at such place within or outside the State of Delaware as the Corporation may designate. Only such business shall

be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the notice of meeting as set forth in Section 2.03. If a special meeting is adjourned to another time or place, the stockholders may only transact business at the adjourned meeting that may have properly been transacted at the original meeting.

SECTION 2.03. NOTICE OF MEETINGS.

Written notice, stating the place, date and time of any annual or special meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given to each stockholder entitled to vote at such meeting in accordance with Delaware law, by or at the direction of the Board or the person or persons calling the meeting, not less than ten (10) nor more than sixty (60) days before the date of the meeting. If mailed, then such notice shall be deemed to be given when deposited in the United States mail, postage prepaid, addressed to the stockholder at his address as it appears on the stock transfer books of the Corporation. Notice of any meeting of stockholders shall not be required to be given to any stockholder who shall attend such meeting in person or by proxy without protesting, prior to or at the commencement of the meeting, or any stockholder who waives notice of any meeting.

SECTION 2.04. STOCKHOLDER LIST.

The officer or agent who has charge of the stock ledger of the Corporation shall, at least ten (10) days before each meeting of stockholders, prepare a complete alphabetical list of the stockholders entitled to vote at the ensuing meeting, with the address and the number and class and series, if any, of shares held by each. Said list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall be available for inspection at the meeting.

SECTION 2.05. QUORUM.

Except as otherwise required by the General Corporation Law of the State of Delaware (the “Act”), by the Certificate of Incorporation or by these Bylaws, a majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of stockholders. When a specified item of business is required to be voted on by a class or series of stock, a majority of the shares of such class or series, represented in person or by proxy, shall constitute a quorum for the transaction of such item of business by that class or series. After a quorum has been established at a stockholders’ meeting, the subsequent withdrawal of stockholders, so as to reduce the number of shares entitled to vote at the meeting below the number required for a quorum, shall not affect the validity of any action taken at the meeting or any adjournment thereof.

SECTION 2.06. VOTING.

If a quorum is present, the affirmative vote of a majority of the votes cast by shares entitled to vote on the subject matter shall be the act of the stockholders, unless the vote of a greater number or voting by class is required by the Act, the Certificate of Incorporation or these Bylaws. Where a separate vote by class is required, the affirmative vote of a majority of the votes cast by shares of such class shall be the act of such class unless the vote of a greater number is required by the Act, the Certificate of Incorporation or these Bylaws. Each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders, except as may otherwise be provided by the Act or by the Certificate of Incorporation.

Except as otherwise provided by the Act or the Certificate of Incorporation, each director nominee, other than those who may be elected by the holders of any series of Preferred Stock, shall be elected by an affirmative vote of a majority of the votes cast with respect to such director nominee by the stockholders entitled to vote in the election at a meeting at which a quorum is present, unless the number of nominees exceeds the number of directors to be elected in which case each director nominee shall be elected by a plurality of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. For purposes of this section, “a majority of the votes cast” means that the number of votes cast “for” such nominee must exceed the number of votes cast “against” such nominee. In the event that a nominee is already a director of the Corporation and does not receive a majority of the votes cast with respect to such nominee in an election where the number of nominees equals the number of directors to be elected, such nominee shall promptly tender his or her resignation to the Board for consideration.

Cumulative voting of shares is prohibited. A stockholder may vote either in person or by proxy executed in writing by the stockholder or his duly authorized attorney-in-fact. Any such proxy shall be delivered to the secretary of such meeting at or prior to the time designated for holding such meeting, but in any event not later than the time designated in the order of business for so delivering such proxies. No such proxy shall be voted or acted upon after eleven months from its date, unless the proxy provides for a different period.

SECTION 2.07. NO ACTION WITHOUT A MEETING.

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.

SECTION 2.08. ADVANCE NOTICE OF DIRECTOR NOMINATIONS AND OTHER BUSINESS.

(a) Director Nominations. Subject to any rights of holders of Preferred Stock, only persons who are selected and recommended by the Board or a committee of the Board established to make nominations, or who are nominated by stockholders in accordance with the procedures set forth in this Section 2.08, shall be eligible for election at any annual or special stockholders meeting. Nominations of individuals for election to the Board at any annual meeting or any special meeting of stockholders at which directors are to be elected may be made by a stockholder of the Corporation entitled to vote for the election of directors at that meeting as hereinafter set forth. Nominations by stockholders shall be delivered to the Corporation in accordance with subsection 2.08(c) hereof and shall be made by written notice (a “Nomination Notice”), which shall set forth, (i) as to each individual nominated, (A) the name, date of birth, business address and residence address of such individual; (B) the background and qualification of such person, including without limitation, the principal occupation or employment of such person; (C) the class and number of shares of any capital stock of the Corporation which are beneficially owned by such person; (D) such other information regarding each individual nominated that is to be disclosed in solicitations of proxies for an election of directors, or is otherwise required, in each case pursuant to the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and the rules promulgated thereunder, including such person’s written consent to (1) being named in the proxy statement as a nominee, (2) serving as a director if elected and (3) providing information that the Board requests to determine whether such person qualifies as an independent director under applicable rules, regulations and guidelines; and (E) include a written statement signed by such person: (1) that such person acknowledges that as a director of the Corporation such person will owe a fiduciary duty under Delaware law with respect to the Corporation and its stockholders; (2) disclosing whether such person is party to any agreement, arrangement or understanding with, and has not given any commitment or

assurance to, any person or entity as to how such person, if elected as a director of the Corporation, will act or vote on any issue or question;

(3) disclosing whether such person is party to any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director of the Corporation;

(4) disclosing whether such person is affiliated with a competitor of the Corporation; (5) agreeing to update continually the accuracy of the information required by the immediately preceding clauses (2), (3) and (4) for as long as such person is a director nominee or a director of the Corporation; (6) agreeing if elected as a director of the Corporation to comply with all applicable codes of conduct and ethics, corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines of the Corporation applicable to directors of the Corporation and, (ii) as to the stockholder submitting the Nomination Notice and any Stockholder Associated Person (hereinafter defined) (A) the name and business address of such stockholder and any Stockholder Associated Person; (B) the name and business address of such stockholder and each Stockholder Associated Person as they appear on the Corporation's books along with a representation that such stockholder is a stockholder of record of shares of the Corporation's capital stock entitled to vote at the meeting to which the notice pertains and intends to appear in person or by proxy at the meeting to nominate the person(s) in the notice; (C)(1) the class or series and number of shares of the Corporation which are directly or indirectly owned beneficially and of record by such stockholder or any Stockholder Associated Person, (2) any option, warrant, convertible security, stock appreciation right or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Corporation or with a value derived in whole or in part from the value of any class or series of shares of the Corporation, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the Corporation or otherwise (a "Derivative Instrument") directly or indirectly owned beneficially by such stockholder or any Stockholder Associated Person, and any other direct or indirect opportunity of such stockholder or any Stockholder Associated Person to profit or share in any profit derived from any increase or decrease in the value of the shares of the Corporation, (3) any proxy, contract, arrangement, understanding, or relationship pursuant to which such stockholder or any Stockholder Associated Person has a right to vote any shares of any security of the Corporation, (4) any short interest of such stockholder or any Stockholder Associated Person in any security of the Corporation (for purposes of these Bylaws, a person shall be deemed to have a short interest in a security if such person directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security), (5) any rights to dividends on the shares of the Corporation owned beneficially by such stockholder or any Stockholder Associated Person that are separated or separable from the underlying shares of the Corporation, (6) any proportionate interest in shares of the Corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such stockholder or any Stockholder Associated Person is a general partner or, directly or indirectly, beneficially owns an interest in a general partner, and (7) any performance-related fees (other than an asset-based fee) that such stockholder or any Stockholder Associated Person is entitled to receive, either directly or indirectly, based on any increase or decrease in the value of shares of the Corporation or Derivative Instruments; (D) a description of all arrangements, understandings or relationships between the stockholder and each nominee and any other person or persons (naming such person(s)) pursuant to which the nomination(s) are to be made by the stockholder; (E) a representation whether the stockholder or any Stockholder Associated Person intends or is part of a group which intends (1) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (2) otherwise to solicit proxies from stockholders in support of such proposal or nomination; and (F) include a representation by such stockholder to provide the Corporation any supplemental notices required by Section 2.08(e). If the presiding officer at any meeting of the stockholders determines that any nomination was not made in accordance with the procedures prescribed by these Bylaws, then he shall so declare to the stockholders at the meeting, and the defective nomination shall be disregarded.

The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the Corporation.

(b) Stockholder Business. At any meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before a meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board, (b) otherwise properly brought before the meeting by or at the direction of the Board or (c) properly brought before the meeting by a stockholder of record (who was also a stockholder of record at the time of giving of the notice) in accordance with the procedures set forth in this Section 2.08. A stockholder's written notice (a "Business Notice") shall set forth, as to each matter the stockholder proposes to bring before the meeting: (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (ii) the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the Certificate of Incorporation or these Bylaws, the language of the proposed amendment), (iii) the name and business address of record of the stockholder proposing such business, (iv) the class and number of shares of the Corporation which are beneficially owned by the stockholder, (v) the reasons for conducting such business at the meeting and (vi) any material interest of the stockholder or any Stockholder Associated Person in such business, including a description of all agreements, arrangements and understandings between or among any of the stockholder, any Stockholder Associated Person and any other person or persons (naming such person or persons) in connection with the proposal of such business. The Business Notice shall also set forth, as to the stockholder submitting the Business Notice and any Stockholder Associated Person, all of the information set forth in items (A)-(F) of Section 2.08(a)(ii). If the presiding officer at any meeting of stockholders determines that business was not properly brought before the meeting, then he shall so declare to the stockholders at the meeting, and any such business not properly brought before the meeting shall not be transacted.

(c) Delivery of Notices. To be timely, any Nomination Notice or Business Notice, in respect of an Annual Meeting of Stockholders, must be delivered to, or mailed and received at, the principal executive office of the Corporation, not later than the close of business on the 90th calendar day nor earlier than the close of business on the 120th calendar day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than thirty (30) calendar days before or more than sixty (60) calendar days after such anniversary date, notice by the stockholder to be timely must be so delivered or received not earlier than the close of business on the 120th calendar day prior to such annual meeting and not later than the close of business on the later of the 90th calendar day prior to such annual meeting or the 10th calendar day following the calendar day on which public announcement of the date of such meeting is first made by the Corporation. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. To be timely, any Nomination Notice, in respect of an Special Meeting of Stockholders, must be delivered to, or mailed and received at, the principal executive office of the Corporation, not later than the close of business on the tenth day following the day on which notice of the date of the meeting was mailed or public disclosure of the date of the meeting was made, whichever occurs first.

(d) Stockholder Associated Person. The term "Stockholder Associated Person" means, with respect to a stockholder, (1) any person controlling, directly or indirectly, or acting in concert with, such stockholder, (2) any beneficial owner of shares of stock of the Corporation owned of record or beneficially by such stockholder, including interests held by members of such stockholder's immediate family sharing the same household, and (3) any person controlling, controlled by or under common control with such stockholder.

(e) Changed Facts. If any of the facts set forth in a Nomination Notice changes between the date that such notice is sent and the date of the annual meeting to which such notice pertains, the stockholder must deliver to the Secretary, either in person or by United States certified mail, postage prepaid, and the Corporation must receive at its principal executive offices by the earlier of (1) the close of business within five calendar days of the event giving rise to such change, or (2) the commencement of such annual meeting, a supplemental notice providing such revised information.

(f) Miscellaneous. Nothing contained in this Section 2.08 shall restrict any right of the Corporation, under applicable law, to conclude that any proposal is inappropriate for consideration by the stockholders at the subject meeting, or shall obligate the Corporation to include any proposal in the Corporation's proxy materials for the subject meeting. The requirements of this Section 2.08 are separate from and in addition to the requirements of the Exchange Act. A stockholder shall comply with all applicable requirements of the Exchange Act and the rules and regulations promulgated thereunder with respect to the matters set forth in this Section 2.08; provided, however, that any references herein to the Exchange Act or the rules and regulations promulgated thereunder are not intended to and shall not limit any requirements applicable to stockholder proposals pursuant to this Section 2.08. Nothing in this Section 2.08 shall be deemed to affect any rights of the Corporation's stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to the rules and regulations promulgated by the Securities and Exchange Commission under the Exchange Act. No business proposed to be brought by a stockholder may be brought if such stockholder or a Stockholder Associated Person, as applicable, takes any action contrary to the representations made pursuant to the provisions of this Section 2.08 applicable to such business or if the required notice applicable to such business contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. If a stockholder who otherwise has given proper notice of a proposal does not appear or send a qualified representative to present such proposal at such annual meeting or is no longer a holder of record on the date of such meeting, the Corporation need not present such proposal for a vote at such meeting, notwithstanding that proxies in respect of such vote may have been received by the Corporation. The chairman of the meeting shall, if the facts warrant, determine and declare at the meeting that such business was not properly brought before the meeting and in accordance with the provisions of this Section 2.08 and, if the chairman of the meeting should so determine, he or she shall so declare at the meeting that any such business not properly brought before the meeting shall not be conducted.

SECTION 2.09. ADJOURNMENT.

The chairman of the meeting or the holders of a majority of the votes entitled to be cast by the stockholders (inclusive of both the Corporation's Class A Common Stock and the Corporation's Class B Common Stock) who are present in person or by proxy may adjourn the meeting from time to time whether or not a quorum is present. In the event that a quorum does not exist with respect to any vote to be taken by a particular class or series, the chairman of the meeting or the holders of a majority of the votes entitled to be cast by the stockholders of such class or series who are present in person or by proxy may adjourn the meeting with respect to the vote(s) to be taken by such class or series. When a meeting is adjourned to a different date, time or place, notice need not be given of the new date, time or place if the new date, time or place is announced at the meeting before adjournment and if a new record date is not fixed for the adjourned meeting; but if a new record date is fixed for the adjourned meeting (which must be done if the new date is more than 120 days after the date of the original meeting), or if the adjournment is for more than 45 days, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the adjourned meeting. At any such adjourned meeting, any business may be transacted which might have been transacted at the meeting as originally called.

ARTICLE 3 – DIRECTORS

SECTION 3.01. POWERS.

The business of the Corporation shall be managed by or under the direction of the Board, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these Bylaws specifically reserved to the stockholders.

SECTION 3.02. NUMBER AND TERM.

The Board shall consist of not less than three (3) nor more than thirteen (13) directors as a majority of the Board shall from time to time specify. No reduction in the number of directors shall have the effect of shortening the term of any incumbent director and when so fixed such number shall continue to be the authorized number of directors until changed in accordance herewith. All directors will be elected for a one year term expiring at the next annual meeting of stockholders. Each director shall serve until his successor shall have been elected and qualified or until his earlier resignation, removal or death.

SECTION 3.03. RESIGNATIONS.

Any director or member of a committee may resign at any time. Such resignation shall be made in writing, and shall take effect at the time specified therein, and, if no time be specified, at the time of its receipt by the Chairman of the Board, the President or the Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless otherwise specified therein.

SECTION 3.04. VACANCIES.

Subject to any rights of holders of Preferred Stock, any vacancy occurring in the Board, including any vacancy created by reason of an increase in the number of directors, removal, resignation or death, may only be filled by the affirmative vote of a majority of the remaining directors then in office though less than a quorum of the Board, or by a sole remaining director, as the case may be, and the director(s) so chosen shall hold office until the next annual meeting of stockholders and until his(their) successors are duly elected and qualified, or until his(their) earlier resignation or removal.

SECTION 3.05. REMOVAL.

Directors may be removed from office, with or without cause, by a vote of stockholders holding shares having a majority of the votes then entitled to be voted at an election of directors. If any directors are so removed, new directors may be elected at the same meeting.

SECTION 3.06. MEETINGS; PLACE AND TIME.

The Board may hold meetings, both regular and special, either within or without the State of Delaware, as it may from time to time determine.

SECTION 3.07. REGULAR ANNUAL MEETING.

A regular annual meeting of the Board shall be held immediately following the annual meeting of stockholders at the same place or at such time and place as shall be fixed by the vote of the stockholders at the annual meeting and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a majority of such Board shall be present.

SECTION 3.08. OTHER REGULAR MEETINGS.

Regular meetings of the Board may be held without notice at such time and at such place as shall from time to time be determined by the Board.

SECTION 3.09. SPECIAL MEETINGS; NOTICE.

Special meetings of the Board may be called by the Chairman of the Board or the President or by the written request of two (2) directors. Written notice of the time and place of special meetings shall be given to each director by either personal delivery, telegram, cablegram or telefax at least seven (7) days before the meeting, or by notice mailed to each director at least ten (10) days before the meeting. Notice of a meeting need not be given to any director who submits a waiver of notice, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to him.

SECTION 3.10. QUORUM.

At all meetings of the Board, a majority of the directors then serving shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board, except as may be otherwise specifically provided by statute or by the Certificate of Incorporation. If a quorum shall not be present at any meeting of the Board, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

SECTION 3.11. ACTION WITHOUT MEETING.

Unless otherwise restricted by the Certificate of Incorporation, any action required or permitted to be taken at any meeting of the Board, or of any committee thereof, may be taken without a meeting, if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

SECTION 3.12. TELEPHONE MEETINGS.

Unless otherwise restricted by the Certificate of Incorporation, members of the Board, or of any committee thereof, may participate in a meeting of the Board or such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

SECTION 3.13. COMMITTEES OF DIRECTORS.

The Board may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board shall have power to change the members of any such committee at any time, to fill vacancies, and to dissolve any such committee, either with or without cause, at any time.

SECTION 3.14. COMPENSATION OF DIRECTORS.

Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, the Board shall have the authority to fix the compensation of directors. By resolution of the Board, the directors may be paid their expenses, if any, of attendance at each meeting of the Board (and any committee thereof), a

fixed sum for attendance at each meeting of the Board (and any committee thereof), and a stated salary as director. Nothing herein contained shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

SECTION 3.15. DIRECTOR CONFLICTS OF INTEREST.

No contract or other transaction between the Corporation and one or more of its directors or between the Corporation and any other corporation, firm, association or entity in which one or more of the directors of this Corporation are directors or officers or are financially interested, shall be void or voidable solely because of such relationship or interest or solely because such director or directors are present at or participate in the meeting of the Board or a committee thereof which authorizes, approves or ratifies such contract or transaction or solely because his or their votes are counted for such purpose, if:

A. The material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board or committee, and the Board or committee in good faith authorizes, approves or ratifies the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or

B. The material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of such stockholders; or

C. The contract or transaction is fair as to the corporation at the time it is authorized, approved or ratified by the Board, a committee or the stockholders.

Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board or a committee thereof which authorizes, approves or ratifies such contract or transaction.

ARTICLE 4 – OFFICERS

SECTION 4.01. OFFICERS.

The officers of the Corporation shall consist of a President, a Treasurer and a Secretary, shall be elected by the Board and shall hold office until their successors are elected and qualified, unless such officers resign, die or are removed prior thereto. In addition, the Board may elect a Chairman, a Vice Chairman, a Chief Executive Officer, a Chief Operating Officer, a Chief Financial Officer, a Controller, one or more Vice Presidents or Executive Vice Presidents, and such Assistant Secretaries and Assistant Treasurers or other officers as it may deem proper. None of the officers of the Corporation need be stockholders. The officers shall be elected at the first meeting of the Board after each annual meeting. More than two offices may be held by the same person, except the offices of President and Secretary, unless the Certificate of Incorporation or these Bylaws otherwise provide. The Board shall designate the Chairman of the Board or the President as the Chief Executive Officer of the Corporation.

SECTION 4.02. CHAIRMAN; CHIEF EXECUTIVE OFFICER.

The Chairman of the Board, if one is elected, shall preside at all meetings of the stockholders and of the Board. The Chairman shall also have and perform such other duties as from time to time may be assigned to him by the Board. The Chief Executive Officer of the Corporation shall, subject to the direction of the Board, supervise and control the business and management of the Corporation. The Chief

Executive Officer shall also have and perform such other duties as from time to time may be assigned to him by the Board .

SECTION 4.03. PRESIDENT.

The President shall have and perform all duties incident to the office of President and such other duties as from time to time may be assigned to him by the Board. If designated as the Chief Executive Officer by the Board, the President shall, subject to the direction of the Board, supervise and control the business and management of the Corporation. If there is no Chairman, or in his absence, the President shall preside at all meetings of the stockholders.

SECTION 4.04. CHIEF OPERATING OFFICER.

The Chief Operating Officer, if one is elected, shall have and perform such duties as from time to time may be assigned to him by the Chief Executive Officer.

SECTION 4.05. CHIEF FINANCIAL OFFICER.

The Chief Financial Officer, if one is elected, shall have and perform such duties as from time to time may be assigned to him by the Chief Executive Officer.

SECTION 4.06. VICE PRESIDENTS OR EXECUTIVE VICE PRESIDENTS.

If Vice Presidents or Executive Vice Presidents be elected, they shall have such powers and shall perform such duties as shall be assigned to them by the President.

SECTION 4.07. TREASURER.

The Treasurer shall be responsible for the administration of the corporate funds and securities and shall keep full and accurate account of receipts and disbursements in books belonging to the Corporation. The Treasurer shall disburse the funds of the Corporation as may be ordered by the President, taking proper vouchers for such disbursements. He shall render to the Chairman, the President and the Board at the regular meetings of the Board, or whenever they may request it, an account of all his transactions as Treasurer and of the financial condition of the Corporation. If required by the Board, he shall give the Corporation a bond for the faithful performance of his duties in such amount and with such surety as the Board shall prescribe.

SECTION 4.08. SECRETARY.

The Secretary shall give, or cause to be given, notice of all meetings of stockholders and directors, and all other notices required by law or by these Bylaws, and in case of his absence or refusal or neglect so to do, any such notice may be given by any person thereunto directed by the Chairman of the Board, the President or the Board. He shall record all the proceedings of the meetings of the Corporation and of the Board in a book to be kept for that purpose. He shall keep in safe custody the seal of the Corporation, and, when authorized by the Board, shall affix the same to any instrument requiring it, and when so affixed, it shall be attested by his signature or by the signature of any Assistant Secretary.

SECTION 4.09. CONTROLLER, ASSISTANT TREASURERS AND ASSISTANT SECRETARIES.

Controller, Assistant Treasurers and Assistant Secretaries, if any be elected, shall have such powers and shall perform such duties as shall be assigned to them, respectively, by the Chairman of the Board or the President.

SECTION 4.10. REMOVAL; RESIGNATIONS; VACANCIES.

Any officer elected or appointed by the Board may be removed at any time, either for or without cause, by the affirmative vote of a majority of the Board. Section 3.03 shall apply similarly to resignations of officers. Any vacancy occurring in any office of the Corporation may be filled by the Board.

SECTION 4.11. COMPENSATION.

The compensation of officers of the Corporation shall be established by the Board or any compensation committee thereof. The fact that an officer is also a director shall not preclude such person from receiving compensation as either a director or officer, nor shall it affect the validity of any resolution by the Board fixing such compensation. If the Chairman of the Board is also the Chief Executive Officer of the Corporation, the Chairman shall have authority to establish the salaries of all other employees of the Corporation. If the Chairman of the Board is not the Chief Executive Officer of the Corporation, the President shall have authority to establish the salaries of all other employees of the Corporation.

SECTION 4.12. MECHANICAL ENDORSEMENT.

The Chairman of the Board, the President, any Executive Vice President, any Vice President, or the Secretary may authorize any endorsement on behalf of the Corporation to be made by such mechanical means or stamps as any of such officers may deem appropriate.

ARTICLE 5 – MISCELLANEOUS

SECTION 5.01. STOCK CERTIFICATES.

(a) Issuance. The Corporation may issue the shares of stock authorized by its Certificate of Incorporation and none other. Shares may be issued only pursuant to a resolution adopted by the Board. Every holder of shares in the Corporation shall be entitled to have a certificate representing all shares to which he is entitled. No certificate shall be issued for any share until such share is fully paid.

(b) Signatures. Certificates representing shares in the Corporation shall be signed by or in the name of the Corporation by the Chairman or Vice Chairman, or the President, Executive Vice President or Vice President, and by the Secretary or an Assistant Secretary, or the Treasurer or an Assistant Treasurer, and may be sealed with the seal of the Corporation or a facsimile thereof. Any or all of the signatures on a certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

(c) Form. Each certificate representing shares shall state upon the face thereof: the name of the Corporation; that the Corporation is organized under the laws of Delaware; the name of the person or persons to whom it is issued; the number and class of shares, and the designation of the series, if any,

which such certificate represents; and the par value of each share represented by such certificate, or a statement that the shares are without par value. Each certificate shall otherwise comply, in all respects, with the requirements of the Act.

(d) Transfer of Stock. The Corporation shall register a stock certificate presented to it for transfer if the certificate is properly endorsed by the holder of record or by his duly authorized attorney; provided, however, that the Corporation or its transfer agent may require the signature of such person to be guaranteed by a commercial bank or trust company or by a member of the New York or American Stock Exchange.

(e) Lost, Stolen or Destroyed Certificates. The Board may authorize the Corporation to issue a new stock certificate in the place of any certificate previously issued if the holder of record of the certificate (i) makes proof in affidavit form that it has been lost, destroyed or wrongfully taken; (ii) requests the issue of a new certificate before the Corporation has notice that the certificate has been acquired by a purchaser for value in good faith and without notice of any adverse claim; (iii) gives bond in such form, if any, as the Corporation may direct, to indemnify the Corporation, the transfer agent and registrar against any claim that may be made on account of the alleged loss, destruction or theft of a certificate; and (iv) satisfies any other reasonable requirements imposed by the Corporation.

(f) Transfer Agents; Registrars; Rules Respecting Certificate. The Board may appoint, or authorize any officer or officers to appoint, one or more transfer agents and one or more registrars. The Board may make such further rules and regulations as it may deem expedient concerning the issue, transfer and registration of stock certificates of the Corporation.

SECTION 5.02. STOCKHOLDERS RECORD DATE.

In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted and, with respect to record dates to be established in connection with stockholders meetings, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, or, with respect to record dates to be established in connection with other actions, which shall not be more than sixty (60) days prior to such other action.

SECTION 5.03. REGISTERED STOCKHOLDERS.

The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Delaware.

SECTION 5.04. DIVIDENDS.

Subject to the provisions of the Certificate of Incorporation, the Board may, out of funds legally available therefor at any regular or special meeting, declare dividends upon the capital stock of the Corporation as and when they deem expedient. Dividends may be paid in cash, in property or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation. Before declaring any dividends, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board from time to time in its discretion deems proper for working capital or as a reserve

fund to meet contingencies or for such other purpose as the Board shall deem conducive to the interests of the Corporation, and the Board may modify or abolish any such reserve.

SECTION 5.05. SEAL.

The corporate seal shall be circular in form and shall contain the name of the Corporation and the words "CORPORATE SEAL, DELAWARE." Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or otherwise reproduced.

SECTION 5.06. FISCAL YEAR.

The fiscal year of the Corporation shall be determined by the Board.

SECTION 5.07. CHECKS.

All checks, drafts, or other orders for the payment of money and notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents of the Corporation, and in such manner as shall be determined from time to time by resolution of the Board. The Treasurer shall deposit all moneys and other valuables in the name and to the credit of the Corporation in such depositories as may be authorized by the Chairman of the Board or the President.

SECTION 5.08. NOTICE AND WAIVER OF NOTICE.

Whenever any notice is required by these Bylaws to be given, personal notice is not meant unless expressly stated, and any notice so required shall be deemed to be sufficient if given by depositing the same in the United States mail, airmail postage prepaid, addressed to the person entitled thereto at his address as it appears on the records of the Corporation, and such notice shall be deemed to have been given on the day of such mailing. Stockholders not entitled to vote shall not be entitled to receive notice of any meetings except as otherwise provided by statute.

Whenever any notice whatever is required to be given under the provisions of any law, or under the provisions of the Certificate of Incorporation or these Bylaws, a waiver thereof in writing signed by the person or person entitled to said notice, whether before or after the time stated therein, shall be deemed proper notice.

SECTION 5.09. BOOKS AND RECORDS.

The Corporation shall keep correct and complete books and records of accounts and shall keep minutes of the proceedings of its stockholders, the Board and committees thereof.

ARTICLE 6 – INDEMNIFICATION OF OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS

SECTION 6.01. INDEMNIFICATION.

Any person who has been made or is made a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of the Corporation) (hereinafter a "proceeding"), by reason of the fact that he is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, fiduciary or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the

Act, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection therewith; provided, however, that the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) that was initiated by such person only if such proceeding (or part thereof) was authorized or ratified by the Board. The right to indemnification conferred in this Section 6.01 shall be a contract right.

For purposes of this Section 6.01, reference to the "Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, fiduciaries and agents so that any person who is or was a director, officer, fiduciary or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, fiduciary or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, shall stand in the same position under the provisions of this Section 6.01, with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

SECTION 6.02. PROCEDURE FOR INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Any indemnification of a director or officer of the Corporation under Section 6.01 above or advance of expenses under Section 6.03 below shall be made promptly, and in any event within thirty (30) days, upon the written request of the director or officer subject to the following provisions. If a determination by the Board that the director or officer is entitled to indemnification pursuant to this Article 6 is required, and the Corporation fails to respond within sixty (60) days to a written request for indemnity, the Corporation shall be deemed to have approved the request. If the Corporation denies a written request for indemnification or advancing of expenses, in whole or in part, or if payment in full pursuant to such request is not made within thirty (30) days, the right to indemnification or advances as granted by this Article 6 shall be enforceable by the director or officer in any court of competent jurisdiction. Such person's costs and expenses incurred in connection with successfully establishing his or her right to indemnification, in whole or in part, in any such action shall also be indemnified by the Corporation. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the Act for the Corporation to indemnify the claimant for the amount claimed, but the burden of such defense shall be on the Corporation. Neither the failure of the Corporation (including the Board, independent legal counsel or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in the Act, nor an actual determination by the Corporation (including the Board, independent legal counsel, or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

SECTION 6.03. PAYMENT OF EXPENSES IN ADVANCE.

Expenses (including attorneys' fees) incurred by any person described in Section 6.01 in defending an action, suit or proceeding referred to in Section 6.01 above may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized by the Board in the

specific case upon receipt of an undertaking by or on behalf of the director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the Corporation as authorized in Section 6.01.

SECTION 6.04. INDEMNIFICATION NOT EXCLUSIVE.

The indemnification and right to payment of expenses in advance of final disposition provided for under this Article 6 shall not be deemed exclusive of (i) any other rights to which those seeking indemnification may be entitled under any bylaw, any agreement, any insurance purchased by the Corporation, vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office or (ii) the power of the Corporation to indemnify any person who is or was an employee or agent of the Corporation or of another corporation, joint venture, trust or enterprise that he is serving or has served at the request of the Corporation, to the same extent and in the same situations and subject to the same determinations with respect to directors and officers.

SECTION 6.05. OTHER.

Any repeal or modification of this Article 6 by the stockholders of the Corporation shall be prospective only, and shall not adversely affect the indemnification of any officer or director of the Corporation existing at the time of such repeal or modification.

SECTION 6.06. INDEMNIFICATION AGREEMENTS.

The Corporation may enter into indemnification agreements with its officers and Directors.

SECTION 6.07. INSURANCE.

The Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such and which insurance coverage may extend indemnification protection that is broader and more comprehensive than the indemnification benefits granted under this Article.

SECTION 6.08. CONTINUED COVERAGE.

Unless otherwise provided herein, the indemnification extended to a person that has qualified for indemnification under the provisions of this Article shall not be terminated when the person has ceased to be a director, officer, employee or agent for all causes of action against the indemnified party based on acts and events occurring prior to the termination of the relationship with the Corporation and shall inure to the benefit of the heirs, executors and administrators of such person.

ARTICLE 7 – AMENDMENTS

In furtherance and not in limitation of the powers conferred by statute, the Board is expressly authorized to adopt, amend or repeal these Bylaws by a majority vote at any regular or special meeting of the Board 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 or the stockholders.

ARTICLE 8 – CONFLICT OF TERMS

Except as otherwise explicitly provided in these Bylaws, if any provision contained in these Bylaws is in conflict with, inconsistent with, or imposes greater obligations or burdens than any provision in the Certificate of Incorporation, the provision contained in the Certificate of Incorporation shall govern and control to the extent of such conflict, inconsistency or obligation or burden.

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: July 28, 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: July 28, 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 June 30, 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

July 28, 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 June 30, 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

B. Scott Smith
Chief Executive Officer and President

July 28, 2017