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

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the year ended December 31, 2002

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)

**5401 EAST INDEPENDENCE BOULEVARD
P.O. BOX 18747
CHARLOTTE, NORTH CAROLINA**
(Address of Principle Executive Offices)

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

28212
(Zip Code)

(704) 566-2400

(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE WHICH REGISTERED
Class A Common Stock, \$.01 Par Value	New York Stock Exchange

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

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

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The aggregate market value of the voting common stock held by non-affiliates of the registrant was approximately \$768,084,095 based upon the closing sales price of the registrant's Class A common stock on June 28, 2002 of \$25.75 per share. As of March 11, 2003 there were 28,741,344 shares of Class A common stock, par value \$.01 per share, and 12,029,375 shares of Class B common stock, par value \$.01 per share, outstanding.

Documents incorporated by reference. Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held April 22, 2003 are incorporated by reference into Part III of this Form 10-K.

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This Annual Report on Form 10-K contains numerous “forward-looking statements” within the meaning of the Private Litigation Securities 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, and can generally be identified by words such as “may,” “will,” “should,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “foresee” and other similar words or phrases. Specific events addressed by these forward-looking statements include, but are not limited to:

- future acquisitions;
- industry trends;
- general economic trends, including employment rates and consumer confidence levels;
- vehicle sales rates and same store sales growth;
- our financing plans; and
- our business and growth strategies.

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 Exhibit 99.1 of this Form 10-K and elsewhere in this report, as well as:

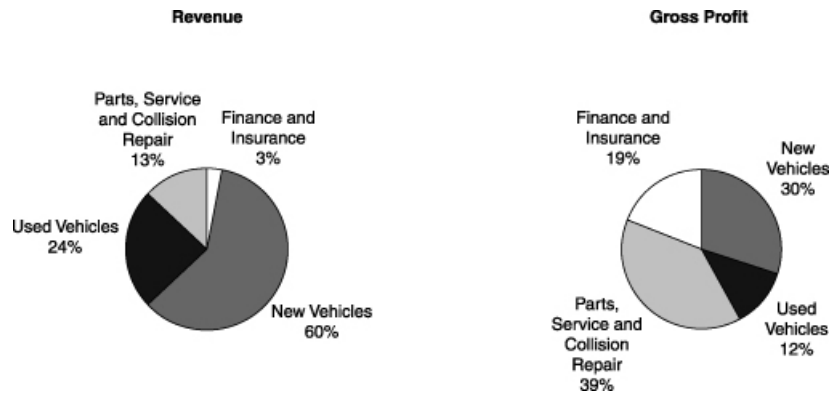
- our ability to generate sufficient cash flows or obtain additional financing to support acquisitions, capital expenditures, our share repurchase program, and general operating activities;
- the reputation and financial condition of vehicle manufacturers whose brands we represent, and their ability to design, manufacture, deliver and market their vehicles successfully;
- our relationships with manufacturers which may affect our ability to complete additional acquisitions;
- 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 on businesses we seek to acquire; and
- our ability to successfully integrate recent and potential future acquisitions.

PART I

ITEM 1. *Business.*

Sonic Automotive, Inc. was incorporated in Delaware in 1997. We are one of the largest automotive retailers in the United States. As of March 11, 2003, we operated 186 dealership franchises at 139 dealership locations, representing 34 different brands of cars and light trucks, and 45 collision repair centers in 15 states. Each of our dealerships provides comprehensive services including (1) sales of both new and used cars and light trucks, (2) sales of replacement parts and performance of vehicle maintenance, warranty, paint and repair services and (3) arrangement of extended warranty contracts and financing and insurance ("F&I") for our automotive customers.

As compared to automotive manufacturers, we and other automotive retailers exhibit relatively low earnings volatility. This is primarily due to a higher ratio of variable costs that allows us to manage the majority of our expenses, such as advertising, sales commissions and vehicle carrying costs, as demand patterns change. We also have a greater diversity in our sources of revenue compared to automobile manufacturers. In addition to new vehicle sales, our revenues include used vehicle sales and parts, service and collision repair, which carry higher gross margins and are less sensitive to economic cycles and seasonal influences than are new vehicle sales. The following charts depict the diversity of our sources of revenue and gross profit for the year ended December 31, 2002:



BUSINESS STRATEGY

Further Develop Strategic Markets and Brands. Our growth strategy is focused on metropolitan markets, predominantly in the Southeast, Southwest, Midwest and California, that on average are experiencing population growth that exceeds the national average. Where practicable, we also seek to acquire franchises that we believe have above average sales prospects. We have a dealership portfolio of 34 American, European and Asian brands. A majority of our dealerships are either luxury or mid-line import brands. Our dealership network is organized into divisional and regional dealership groups. As of December 31, 2002, we operated dealerships in the following geographic areas:

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<u>Region</u>	<u>Number of Dealerships</u>	<u>Number of Franchises</u>	<u>Percent of 2002 Total Revenue</u>
Carolinas	11	16	8.0%
South Carolina/ Georgia	11	17	6.3%
West Florida	8	8	7.7%
East Florida	6	11	1.8%
Birmingham/Tennessee	10	13	5.2%
Alabama	9	15	4.4%
Southeastern Division	55	80	33.4%
Ohio	6	10	3.1%
Michigan	3	4	2.7%
Mid-Atlantic	4	5	3.2%
Northern Division	13	19	9.0%
Houston	9	11	10.3%
Dallas	9	10	8.8%
Oklahoma	7	7	5.2%
Colorado	4	6	1.8%
Central Division	29	34	26.1%
Northern California	19	25	16.5%
Los Angeles	15	20	9.9%
San Diego/Nevada	8	8	5.1%
Western Division	42	53	31.5%
	139	186	100.0%

During 2002, we acquired 31 dealerships representing 44 franchises, and we disposed of nine dealerships representing 16 franchises.

We generally seek to acquire larger, well managed dealerships or multiple franchise dealership groups located in metropolitan or high growth suburban markets (“hub” acquisitions). We also look to acquire single franchise dealerships that will allow us to capitalize upon professional management practices and provide greater breadth of products and services in our existing markets (“spoke” acquisitions).

The automotive retailing industry remains highly fragmented. We believe that further consolidation in the auto retailing industry is likely and we intend to seek acquisitions consistent with our business strategy. We believe that attractive acquisition opportunities continue to exist for dealership groups with the capital and experience to identify, acquire, and professionally manage dealerships. We believe our “hub and spoke” acquisition strategy allows us to realize economies of scale, offer a greater breadth of products and services and increase brand diversity. We also intend to acquire dealerships that have under performed the industry average but represent attractive franchises or have attractive locations that would immediately benefit from our professional management practices.

Increase Sales of Higher Margin Products and Services We continue to pursue opportunities to increase our sales of higher-margin products and services by expanding the following:

Finance and Insurance (“F&I”): Each sale of a new or used vehicle provides us with an opportunity to earn financing fees and to sell extended warranty service contracts. We currently offer a wide range of nonrecourse financing, leasing and insurance products to our customers. We believe there are opportunities at acquired dealerships to increase earnings from the sale of finance, insurance and warranty products. As a

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result of our size and scale, we have also negotiated higher commissions on the origination of customer vehicle financing, insurance policies and extended warranty contracts.

Parts, Service & Repair (“fixed operations”): Each of our dealerships offers a fully integrated service and parts department. Manufacturers permit warranty work to be performed only at franchised dealerships. As a result, our dealerships are uniquely qualified to perform work covered by manufacturer warranties on increasingly complex vehicles. We believe we can continue to grow our profitable parts and service business by using variable rate pricing structures, focusing on customer service and efficiently managing our parts inventory.

In addition, we operated collision repair centers at 45 locations at March 11, 2003 and are in the process of constructing additional collision repair centers in order to increase capacity. We believe we can improve these operations by capitalizing on the synergies between our franchised dealerships and our collision repair centers. These synergies include access to customer networks, ready access to parts and the ability to share employees.

Emphasize Expense Control. We continually focus on controlling expenses and expanding margins at the dealerships we acquire and integrate into our organization. Approximately 63.3% of our selling, general and administrative expenses for the year ended December 31, 2002 were variable. We are able to adjust these expenses as the operating or economic environment impacting our dealerships changes. We manage variable costs, such as advertising and non-salaried compensation expenses, so that they are generally related to vehicle sales and can be adjusted in response to changes in vehicle sales volume. Salespersons, sales managers, service managers, parts managers, service advisors, service technicians and all other non-clerical dealership personnel are paid either a commission or a modest salary plus commissions. In addition, dealership management compensation is tied to individual dealership profitability.

Effectively Manage Inventory Levels. Maintaining appropriate levels of both vehicle and parts inventories has a direct impact on profitability. We believe that vehicle gross margins decline as inventory levels increase and more pressure is exerted on the sales staff to close deals. In addition, net profitability is negatively affected by the higher costs (floor plan interest and insurance) of carrying that inventory. We have implemented financial reporting systems that give us the ability to analyze our vehicle inventory on a consolidated basis.

Train, Develop and Motivate Qualified Management. We believe that our well-trained dealership personnel are key to our long-term prospects. We require all of our employees, from service technicians to regional vice presidents, to participate in our in-house training programs each year. We have expanded our Sonic Dealer Academy to include modules not only for our dealer operators but also for general sales managers and fixed operations managers. We believe that our comprehensive training of all employees and professional, multi-tiered management structure provide us with a competitive advantage over other dealership groups. This training and organizational structure provides high-level supervision over the dealerships, accurate financial reporting and the ability to maintain effective controls as we expand. In order to motivate management, we employ an incentive compensation program for each officer, vice president and dealer operator, a portion of which is provided in the form of Sonic stock options with additional incentives based on the performance of individual profit centers. We believe that this organizational structure, together with the opportunity for promotion within our large organization and for equity participation, serve as a strong motivation for our employees.

Achieve High Levels of Customer Satisfaction. We focus on maintaining high levels of customer satisfaction. Our personalized sales process is designed to satisfy customers by providing high-quality vehicles in a positive, “consumer friendly” buying environment. Some manufacturers offer specific financial incentives on a per vehicle basis if certain Customer Satisfaction Index (“CSI”) levels (which vary by manufacturer) are achieved by a dealer. In addition, all manufacturers consider CSI scores in approving acquisitions. In order to keep management focused on customer satisfaction, we include CSI results as a

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component of our incentive compensation programs. Our success in this area is evident by the number of manufacturer awards our dealerships have received. In 2002, a number of our dealerships received BMW's Center of Excellence award, Chrysler's Five Star Certification, the Lexus Elite Award, Toyota's President's Award, Honda's President's Award and Infiniti's Reward of Excellence.

Dealership Management

Our dealership operations are overseen by regional or divisional vice presidents for a particular geographic area. These vice presidents are geographically aligned with regional and divisional controllers who are responsible for maintaining effective internal controls and accurate financial reporting at each dealership. Our divisional and regional management teams use our computer-based information systems to monitor each dealership's sales, profitability, inventory and other financial and operating data. We believe this management structure gives us a competitive advantage over many individually-owned dealerships. It allows us to effectively oversee our operations, recruit new employees and implement best practices using employees that have a thorough understanding of the local market. In addition, it gives us the ability to quickly field an experienced team of professionals to lead our acquisition due diligence and integration efforts thereby increasing the speed with which we deploy our operating strategy at acquired dealerships.

Each of our dealerships is managed by a dealer operator who is responsible for the operations of the dealership and the dealership's financial and customer satisfaction performance. The dealer operator is responsible for selecting, training and retaining dealership personnel. All dealer operators report to Sonic's regional vice presidents.

Each dealer operator is complemented by a team that generally includes two senior managers who aid in the operation of the dealership. The general sales manager is primarily responsible for the operations, personnel, financial performance and customer satisfaction performance of the new vehicle sales, used vehicle sales, and finance and insurance departments. The parts and service director is primarily responsible for the operations, personnel, financial and customer satisfaction performance of the service, parts and collision repair departments (if applicable). Each of the departments of the dealership typically has a manager or managers who reports to the general sales manager or parts and service director.

Sonic's dealer operators are also supported by national directors of finance and insurance, fixed operations, field operations and sales, respectively. Each of these national directors assist the dealer operators in implementing organizational best practices. Regional directors of finance and insurance, fixed operations and collision repair centers support the national directors.

Sales and Marketing

Sonic's marketing and advertising activities vary among our dealerships and among our markets. We advertise primarily through television, newspapers, radio and direct mail and regularly conduct special promotions designed to focus vehicle buyers on our product offerings. We also utilize computer technology to aid sales people in prospecting for customers.

Relationships with Manufacturers

Each of Sonic's dealerships operates under a separate franchise or dealer agreement that governs the relationship between the dealership and the manufacturer. In general, each dealer agreement specifies the location of the dealership for the sale of vehicles and for the performance of certain approved services in a specified market area. The designation of such areas generally does not guarantee exclusivity within a specified territory. In addition, most manufacturers allocate vehicles on a "turn and earn" basis that rewards high volume. A dealer agreement requires the dealer to meet specified standards regarding showrooms, the facilities and equipment for servicing vehicles, inventories, minimum net working capital, personnel training and other aspects

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of the business. The dealer agreement with each dealership also gives the related manufacturer the right to approve the dealership's general manager and any material change in management or ownership of the dealership. Each manufacturer may terminate a dealer agreement under certain circumstances, such as a change in control of the dealership without manufacturer approval, the impairment of the reputation or financial condition of the dealership, the death, removal or withdrawal of the dealership's general manager, the conviction of the dealership or the dealership's owner or general manager of certain crimes, the failure to adequately operate the dealership or maintain wholesale financing arrangements, insolvency or bankruptcy of the dealership or a material breach of other provisions of the dealer agreement.

Many automobile manufacturers have developed policies regarding public ownership of dealerships. To the extent that new or amended manufacturer policies restrict the number of dealerships which may be owned by a dealership group, or the transferability of Sonic's common stock, such policies could have a material adverse effect on us. Sonic believes that it will be able to renew at expiration all of its existing franchise and dealer agreements. Policies implemented by manufacturers include the following restrictions:

- The ability to force the sale of their respective franchises upon a change in control or a material change in the composition of Sonic's Board of Directors
- The ability to force the sale of their respective franchises if an automobile manufacturer or distributor acquires more than 5% of the voting power of Sonic's securities.
- The ability to force the sale of their respective franchises if an individual or entity acquires more than 20% of the voting power of Sonic's securities, and the manufacturer disapproves of such individual's or entity's ownership interest.

Many states have placed limitations upon manufacturers' and distributors' ability to sell new motor vehicles directly to customers in their respective states in an effort to protect dealers from practices they believe constitute unfair competition. In general, these statutes make it unlawful for a manufacturer or distributor to compete with a new motor vehicle dealer in the same brand operating under an agreement or franchise from the manufacturer or distributor in the relevant market area.

Certain states, such as Florida, Georgia, Oklahoma, South Carolina, North Carolina and Virginia, limit the amount of time that a manufacturer may temporarily operate a dealership. Further, certain states require a person who is attempting to acquire a dealership from a manufacturer or distributor to invest a specified amount of money in the dealership.

In addition, all of the states in which Sonic dealerships currently do business require manufacturers to show "good cause" for terminating or failing to renew a dealer's franchise agreement. Further, each of the states provides some method for dealers to challenge manufacturers' attempts to establish dealerships of the same line-make in their relevant market area.

Competition

The retail automotive industry is highly competitive. Depending on the geographic market, we compete both with dealers offering the same brands and product lines as ours and dealers offering other manufacturers' vehicles. We also compete for vehicle sales with auto brokers and leasing companies, and with internet companies that provide customer referrals to other dealerships or who broker vehicle sales between customers and other dealerships. We compete with small, local dealerships and with large multi-franchise auto dealerships. Some of our competitors may utilize marketing techniques, such as "no negotiation" sales methods, not extensively used by us.

We believe that the principal competitive factors in vehicle sales are the marketing campaigns conducted by manufacturers, the ability of dealerships to offer a wide selection of the most popular vehicles, the location of

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dealerships and the quality of customer service. Other competitive factors include customer preference for makes of automobiles, pricing (including manufacturer rebates and other special offers) and warranties.

In addition to competition for vehicle sales, we also compete with other auto dealers, service stores, auto parts retailers and independent mechanics in providing parts and service. We believe that the principal competitive factors in parts and service sales are price, the use of factory-approved replacement parts, the familiarity with a dealer's makes and models and the quality of customer service. A number of regional and national chains offer selected parts and service at prices that may be lower than our prices.

In arranging or providing financing for our customers' vehicle purchases, we compete with a broad range of financial institutions. In addition, financial institutions are now offering F&I products through the internet, which may reduce our profits on these items. We believe that the principal competitive factors in providing financing are convenience, interest rates and contract terms.

Our success depends, in part, on national and regional automobile-buying trends, local and regional economic factors and other regional competitive pressures. Conditions and competitive pressures affecting the markets in which we operate, such as price-cutting by dealers in these areas, or in any new markets we enter, could adversely affect us, although the retail automobile industry as a whole might not be affected.

Governmental Regulations and Environmental Matters

Numerous federal and state regulations govern Sonic's business of marketing, selling, financing and servicing automobiles. Sonic also is subject to laws and regulations relating to business corporations generally.

Under the laws of the states in which we currently operate as well as the laws of other states into which we may expand, we must obtain a license in order to establish, operate or relocate a dealership or operate an automotive repair service. These laws also regulate our conduct of business, including our sales, operating, advertising, financing and employment practices. These laws also include federal and state wage-hour, anti-discrimination and other employment practices laws.

Our operations are also subject to certain consumer protection laws known as "Lemon Laws." These laws typically require a manufacturer or dealer to replace a new vehicle or accept it for a full refund within one year after initial purchase if the vehicle does not conform to the manufacturer's express warranties and the dealer or manufacturer, after a reasonable number of attempts, is unable to correct or repair the defect. Federal laws require certain written disclosures to be provided on new vehicles, including mileage and pricing information.

The imported automobiles purchased by us are subject to United States customs duties and, in the ordinary course of our business, we may, from time to time, be subject to claims for duties, penalties, liquidated damages, or other charges.

Our financing activities with customers are subject to federal truth-in-lending, consumer privacy, consumer leasing and equal credit opportunity regulations as well as state and local motor vehicle finance laws, installment finance laws, usury laws and other installment sales laws. Some states regulate finance fees that may be paid as a result of vehicle sales.

Federal, state and local environmental regulations, including regulations governing air and water quality, the clean-up of contaminated property and the use, storage, handling, recycling and disposal of gasoline, oil and other materials, also apply to us and our dealership properties.

We believe that we comply in all material respects with the laws affecting our business. However, claims arising out of actual or alleged violations of laws may be asserted against us or our dealerships by individuals or

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governmental entities, and may expose us to significant damages or other penalties, including possible suspension or revocation of our licenses to conduct dealership operations and fines.

As with automobile dealerships generally, and service, parts and body shop operations in particular, our business involves the use, storage, handling and contracting for recycling or disposal of hazardous or toxic substances or wastes and other environmentally sensitive materials. Our business also involves the past and current operation and/or removal of above ground and underground storage tanks containing such substances or wastes. Accordingly, we are subject to regulation by federal, state and local authorities that establish health and environmental quality standards, provide for liability related to those standards, and in certain circumstances provide penalties for violations of those standards. We are also subject to laws, ordinances and regulations governing remediation of contamination at facilities we own or operate or to which we send hazardous or toxic substances or wastes for treatment, recycling or disposal.

We believe that we do not have any material environmental liabilities and that compliance with environmental laws and regulations will not, individually or in the aggregate, have a material adverse effect on our results of operations or financial condition. However, soil and groundwater contamination is known to exist at certain properties used by us. Further, environmental laws and regulations are complex and subject to frequent change. In addition, in connection with our acquisitions, it is possible that we will assume or become subject to new or unforeseen environmental costs or liabilities, some of which may be material. We cannot assure you that compliance with current or amended, or new or more stringent, laws or regulations, stricter interpretations of existing laws or the future discovery of environmental conditions will not require additional expenditures by Sonic, or that such expenditures will not be material.

Executive Officers of the Registrant

The executive officers are elected annually by, and serve at the discretion of, Sonic's Board of Directors. Sonic's executive officers as of the date of this Form 10-K, are as follows:

<u>NAME</u>	<u>AGE</u>	<u>POSITION(S) WITH SONIC</u>
O. Bruton Smith	76	Chairman, Chief Executive Officer and Director
B. Scott Smith.	35	Vice Chairman, Chief Strategic Officer and Director
Theodore M. Wright.	40	President, Chief Financial Officer and Director
Jeffrey C. Rachor	41	Executive Vice President, Chief Operating Officer and Director
Mark J. Iuppenlatz.	43	Senior Vice President of Corporate Development

O. Bruton Smith, 76, is the Chairman, Chief Executive Officer and a director of Sonic and has served as such since Sonic's organization in January 1997, and he currently is a director and executive officer of many of Sonic's subsidiaries. Mr. Smith has worked in the retail automobile industry since 1966. Mr. Smith is also the Chairman and Chief Executive Officer, a director and controlling stockholder of Speedway Motorsports, Inc. ("SMI"). SMI is a public company traded on the New York Stock Exchange (the "NYSE"). Among other things, it owns and operates the following NASCAR racetracks: Atlanta Motor Speedway, Bristol Motor Speedway, Lowe's Motor Speedway, Las Vegas Motor Speedway, Infineon Raceway and Texas Motor Speedway. He is also an executive officer and a director of each of SMI's operating subsidiaries.

B. Scott Smith, 35, is the Vice Chairman and Chief Strategic Officer of Sonic. Prior to his appointment as Vice Chairman and Chief Strategic Officer in October 2002, Mr. Smith was the President and Chief Operating Officer of Sonic from April 1997 until May 2002. Mr. Smith has been a Sonic director since its organization in January 1997. Mr. Smith also serves as a director and executive officer of many of Sonic's subsidiaries. Mr. Smith, who is the son of Bruton Smith, has been an executive officer of Town and Country Ford since 1993, and was a minority owner of both Town and Country Ford and Fort Mill Ford before Sonic's acquisition of those dealerships in 1997. Mr. Smith became the General Manager of Town & Country Ford in November 1992 where he remained until his appointment as President and Chief Operating Officer of Sonic in April 1997. Mr. Smith has over 16 years experience in the automobile dealership industry.

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Theodore M. Wright, 40, is the President and Chief Financial Officer of Sonic. He was appointed as President in October 2002 and has been the Chief Financial Officer of Sonic since April 1997. Mr. Wright has been a Sonic director since June 1997. He was the Vice President and Treasurer of Sonic from April 1997 until May 2002. He served as Sonic's Secretary until February 9, 2000. Mr. Wright also serves as a director and executive officer of many of Sonic's subsidiaries. Before joining Sonic, Mr. Wright was a Senior Manager and in charge of the Columbia, South Carolina office of Deloitte & Touche LLP. Before joining the Columbia office, Mr. Wright was a Senior Manager in Deloitte & Touche LLP's National Office of Accounting Research and SEC Services Departments from 1994 to 1995.

Jeffrey C. Rachor, 41, is the Executive Vice President and Chief Operating Officer of Sonic. Prior to being appointed as Executive Vice President and Chief Operating Officer in October 2002, Mr. Rachor was Sonic's Executive Vice President of Retail Operations. In May 1999, Mr. Rachor was appointed a director of Sonic and promoted to executive officer status. He originally joined Sonic as its Regional Vice President—Mid-South Region upon Sonic's 1997 acquisition of dealerships in Chattanooga, Tennessee and was subsequently promoted to Vice President of Retail Operations in September 1998 and again promoted to Executive Vice President – Retail Operations in October 1999. Mr. Rachor has over 17 years of experience in automobile retailing and was the Chief Operating Officer of the Chattanooga dealerships from 1989 until their acquisition by Sonic in 1997. During this period, Mr. Rachor also served at various times as the general manager of Toyota, Saturn and Chrysler-Plymouth-Jeep-Eagle dealerships. Before then, Mr. Rachor was an assistant regional manager with America Suzuki Motor Corporation from 1987 to 1989 and held a variety of sales and marketing positions with GM's Buick Motor Division from 1983 to 1987.

Mark J. Iuppenlatz, 43, is Sonic's Senior Vice President of Corporate Development. Prior to being appointed to this position in May 2002, he served as Sonic's Vice President of Corporate Development from August 1999. Before joining Sonic, Mr. Iuppenlatz served as the Executive Vice President — Acquisitions and Chief Operating Officer of Mar Mar Realty Trust ("MMRT"), a real estate investment trust specializing in sale/leaseback financing of automotive-related real estate, from September 1998 to August 1999. From 1996 to September 1998, Mr. Iuppenlatz was employed by Brookdale Living Communities, Inc., a company that owns, operates, develops and manages luxury senior housing communities, where he was responsible for the company's development operations. From 1994 to 1996, he served as Vice President of Schlotzky's, Inc., a publicly traded restaurant chain. From 1991 to 1994, Mr. Iuppenlatz served in Spain as the director of marketing and the assistant director of development for Kepro S.A., a real estate development company.

Employees

As of March 11, 2003, Sonic employed 12,133 people. We believe that many dealerships in the retail automobile industry have difficulty in attracting and retaining qualified personnel for a number of reasons, including the historical inability of dealerships to provide employees with an equity interest in the profitability of the dealership. We provide certain executive officers, managers and other employees with stock options and all employees with a stock purchase plan. We believe this type of equity incentive is attractive to our existing and prospective employees.

We believe that our relationships with our employees are good. Approximately 310 of our employees, primarily service technicians in our Northern California markets, are represented by a labor union. Because of our dependence on the manufacturers, however, we may be affected by labor strikes, work slowdowns and walkouts at the manufacturer's manufacturing facilities.

Company Information

Our website is located at www.sonicautomotive.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports, as well as proxy statements and other information we file with the Securities and Exchange Commission ("SEC") are available free of charge on

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our website. We make these documents available as soon as reasonably practicable after we file them with, or furnished them to, the SEC. Except as otherwise stated in these documents, the information contained on our website or available by hyperlink from our website is not incorporated into this Annual Report on Form 10-K or other documents we file with, or furnish to, the SEC.

Item 2: *Properties.*

Sonic's principal executive offices are located at 5401 East Independence Boulevard, Charlotte, North Carolina 28212, and our telephone number is (704) 566-2400. We lease these offices from affiliates of Capital Automotive REIT.

Our dealerships are generally located along major U.S. or interstate highways. One of the principal factors considered by Sonic in evaluating an acquisition candidate is its location. We prefer to acquire dealerships located along major thoroughfares, primarily interstate highways with ease of access, which can be easily visited by prospective customers.

We lease substantially all of the properties utilized by our dealership operations. Our leased properties are leased from affiliates of Capital Automotive REIT and other individuals and entities. We believe that our facilities are adequate for our current needs.

Under the terms of our franchise agreements, Sonic must maintain an appropriate appearance and design of its facilities and is restricted in its ability to relocate its dealerships.

Item 3: *Legal Proceedings*

Sonic is involved, and will continue to be involved, in numerous legal proceedings arising in the ordinary course of our business, including litigation with customers, employment related lawsuits, contractual disputes and actions brought by governmental authorities. Currently, no legal proceedings are pending against or involve the Company that, in the opinion of management, could reasonably be expected to have a material adverse effect on our business, financial condition or results of operations. However, the results of these proceedings cannot be predicted with certainty, and an unfavorable resolution of one or more of these proceedings could have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

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

Not Applicable.

PART II

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

Sonic's Class A common stock is currently traded on the NYSE under the symbol "SAH."

As of March 11, 2003, there were 28,741,344 shares of Sonic's Class A common stock and 12,029,375 shares of Sonic's Class B common stock outstanding. As of March 11, 2003, there were 90 record holders of the Class A common stock and four record holders of the Class B common stock. As of March 11, 2003, the closing stock price for the Class A common stock was \$13.84.

Sonic intends to retain future earnings to provide funds for operations and future acquisitions. As a holding company, Sonic will depend on dividends and other payments from its subsidiary dealership operations to pay cash dividends to stockholders, as well as to meet debt service and operating expense requirements.

We do not anticipate paying any dividends in the foreseeable future. The credit agreement related to our revolving credit facility prohibits us from paying dividends to our stockholders, and the indentures governing the term of our senior subordinated notes due 2008 restrict the amount of any such dividends.

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The following table sets forth the high and low closing sales prices for Sonic's Class A common stock for each calendar quarter during the periods indicated as reported by the NYSE Composite Tape.

2002	High	Low
First Quarter	32.30	20.94
Second Quarter	38.60	25.50
Third Quarter	25.28	17.11
Fourth Quarter	17.66	14.05
2001	High	Low
First Quarter	8.45	6.00
Second Quarter	19.10	7.69
Third Quarter	22.75	10.90
Fourth Quarter	23.86	13.00

During 2002, all issuances of equity securities by Sonic were registered under the Securities Act.

Item 6: Selected Financial Data.

In accordance with accounting principles generally accepted in the United States of America, the selected consolidated financial data have been retroactively restated to reflect Sonic's two-for-one common stock split that occurred on January 25, 1999. This selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in this Form 10-K.

We have accounted for all of our dealership acquisitions using the purchase method of accounting and, as a result, we do not include in our financial statements the results of operations of these dealerships prior to the date they were acquired by us. The selected consolidated financial data of Sonic discussed on the following page reflect the results of operations and financial positions of each of our dealerships acquired prior to December 31, 2002. As a result of the effects of our acquisitions and other potential factors in the future, the historical consolidated financial information described in selected consolidated financial data is not necessarily indicative of the results of operations and financial position of Sonic in the future or the results of operations and financial position that would have resulted had such acquisitions occurred at the beginning of the periods presented in the selected consolidated financial data.

	Year Ended December 31,				
	1998	1999	2000	2001	2002 ⁽²⁾
	(dollars and shares in thousands except per share amounts)				
Income Statement Data (1):					
Total revenues	\$ 1,401,991	\$ 2,977,276	\$ 5,444,301	\$ 5,879,909	\$ 7,071,015
Operating income	\$ 47,525	\$ 108,773	\$ 200,544	\$ 200,238	\$ 235,207
Income from continuing operations before income taxes	\$ 26,751	\$ 69,994	\$ 117,893	\$ 133,163	\$ 175,330
Net income from continuing operations	\$ 16,743	\$ 42,797	\$ 72,880	\$ 81,487	\$ 108,509
Basic net income per share from continuing operations	\$ 0.73	\$ 1.35	\$ 1.71	\$ 2.01	\$ 2.60
Diluted net income per share from continuing operations	\$ 0.67	\$ 1.21	\$ 1.66	\$ 1.96	\$ 2.51
Consolidated Balance Sheet Data (3):					
Total assets	\$ 576,103	\$ 1,501,102	\$ 1,784,576	\$ 1,810,369	\$ 2,375,308
Long-term debt (4)	145,790	425,894	493,309	519,963	645,809
Total liabilities	433,674	1,098,529	1,333,654	1,293,108	1,738,130
Stockholders' equity (5)	142,429	402,573	450,922	517,261	637,178

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- (1) In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144: *Accounting for the Impairment or Disposal of Long-Lived Assets*, adopted January 1, 2002, income statement data in prior years reflect the reclassification of the results of operations of all dealerships sold during 2002 and held for sale as of December 31, 2002 to income from discontinued operations.
- (2) In accordance with the provisions of SFAS No. 142: *Goodwill and Other Intangible Assets*, effective January 1, 2002, goodwill is no longer amortized. See Note 1 to the accompanying consolidated financial statements.
- (3) Certain prior year amounts have been reclassified to conform with the current year presentation. See Note 1 to our Consolidated Financial Statements.
- (4) Long-term debt includes current maturities of long-term debt and the note payable to Sonic's Chairman. See Sonic's Consolidated Financial Statements and related notes included elsewhere in this Form 10-K.
- (5) No cash dividends were paid in the 5 years presented.

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

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with the Sonic Automotive, Inc. and Subsidiaries Consolidated Financial Statements and the related notes thereto appearing elsewhere in this report.

Overview

We are one of the largest automotive retailers in the United States. As of March 11, 2003 we operated 186 dealership franchises, representing 34 different brands of cars and light trucks, at 139 locations and 45 collision repair centers in 15 states. Our dealerships provide comprehensive services including sales of both new and used cars and light trucks, sales of replacement parts, performance of vehicle maintenance, warranty, paint and collision repair services, and arrangement of extended warranty contracts, financing and insurance for our customers. Our brand diversity allows us to offer a broad range of products at a wide range of prices from lower priced, or economy vehicles, to luxury vehicles. We believe that this diversity reduces the risk of changes in customer preferences, product supply shortages and aging products. In addition, although vehicle sales are cyclical and are affected by many factors, including general economic conditions, consumer confidence, levels of discretionary personal income, interest rates and available credit, our parts, service and collision repair services are not closely tied to vehicle sales and are not dependent upon near-term sales volume. As a result, we believe the diversity of these products and services reduces the risk of periodic economic downturns.

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The following table depicts the breakdown of our new vehicle revenues by brand for each of the past three years:

Brand (1)	Percentage of New Vehicle Revenues		
	Year Ended December 31,		
	2000	2001	2002
General Motors (2)	10.6%	12.0%	21.8%
Ford	13.9%	18.9%	17.1%
Honda	14.7%	13.2%	13.2%
Toyota	8.9%	11.7%	10.4%
BMW	11.3%	11.5%	10.3%
Chrysler (3)	11.8%	8.1%	6.4%
Lexus	5.8%	5.7%	4.5%
Nissan	5.6%	4.9%	3.1%
Other Luxury (4)	11.1%	9.0%	8.3%
Other (5)	6.3%	5.0%	4.9%
Total	100.0%	100.0%	100.0%

- (1) In accordance with the provisions of SFAS No. 144, adopted January 1, 2002, revenue data in prior years reflects the reclassification of the results of operations of all dealerships sold during 2002 or held for sale as of December 31, 2002 to discontinued operations.
- (2) Includes Buick, Cadillac, Chevrolet, GMC, Oldsmobile, and Pontiac.
- (3) Includes Chrysler, Dodge, Jeep, and Plymouth.
- (4) Includes Acura, Audi, Hummer, Infiniti, Land Rover, Mercedes, Porsche, Saab, and Volvo.
- (5) Includes Hyundai, Isuzu, KIA, Lincoln, Mazda, Mercury, Mitsubishi, Subaru, and Volkswagen.

We sell similar products and services, use similar processes in selling our products and services and sell our products and services to similar classes of customers. As a result of this and the way we manage our business, we have aggregated our results into a single segment for purposes of reporting financial condition and results of operations.

We have accounted for all of our dealership acquisitions using the purchase method of accounting and, as a result, we do not include in our consolidated financial statements the results of operations of these dealerships prior to the date they were acquired. Our consolidated financial statements discussed below reflect the results of operations, financial position and cash flows of each of our dealerships acquired prior to December 31, 2002. As a result of the effects of our acquisitions and other potential factors in the future, the historical consolidated financial information described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" is not necessarily indicative of the results of operations, financial position and cash flows which would have resulted had such acquisitions occurred at the beginning of the periods presented, nor is it indicative of future results of operations, financial position and cash flows.

Use of Estimates and Critical Accounting Policies

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

Critical accounting policies are those that are both most important to the portrayal of our financial position and results of operations and require the most subjective and complex judgments. Following is a discussion of

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what we believe are our critical accounting policies and estimates. See Note 1 to our consolidated financial statements for additional discussion regarding our accounting policies.

Finance and Service Contracts—We arrange financing for customers through various financial institutions and receive a commission from the lender equal to the difference between the actual interest rates charged to customers and the predetermined base rates set by the financing institution. We also receive commissions from the sale of various insurance contracts and non-recourse third party extended service contracts to customers. Under these contracts, the applicable manufacturer or third party warranty company is directly liable for all warranties provided within the contract.

In the event a customer terminates a financing, insurance or warranty contract prior to the original termination date, we may be required to return a portion of the commission revenue originally recorded to the third party provider (“chargebacks”). The commission revenue for the sale of these products and services is recorded net of estimated chargebacks at the time of sale. Our estimate of future chargebacks is established based on our historical chargeback rates and the termination provisions of the applicable contracts. While chargeback rates vary depending on the type of contract sold, a 100 basis point increase in the estimated chargeback rates used in determining our estimates of future chargebacks would have resulted in an additional \$0.6 million in recorded chargebacks.

Goodwill—Goodwill and other intangible assets having indefinite useful lives are tested for impairment at least annually, or more frequently when events or circumstances indicate that impairment might have occurred. In evaluating goodwill for impairment, we compare the carrying value to the fair value of the underlying businesses. We use various assumptions in determining fair value, including estimates of future earnings, future growth rates, earnings multiples and discount factors. We are subject to financial statement risk to the extent goodwill balances are impaired due to decreases in the fair market value of the underlying businesses.

Insurance Reserves—We have various self-insured and high deductible insurance programs which require us to make estimates in determining the ultimate liability we may incur for claims arising under these programs. These insurance reserves are estimated by management using actuarial evaluations based on historical claims experience, claims processing procedures, medical cost trends and, in the case of reserves for workers’ compensation claims, a discount factor. At December 31, 2002, we had \$10.6 million reserved for such programs. For each one percentage point increase in the assumed medical trend rate, the reserve for our medical insurance program would increase by \$52,000. Each one day increase in the average claim lag would cause the reserve to increase by \$87,000. We used an experience modification factor in estimating reserves for workers’ compensation claims of 0.73. A change of five basis points in this factor would change the reserve by \$300,000. We also used a discount rate of 5.0% to calculate the present value of our estimated workers’ compensation claims. A change of 100 basis points in the discount rate would change the reserve by \$150,000.

Legal Proceedings—Sonic is involved, and will continue to be involved, in numerous legal proceedings arising in the ordinary course of our business, including litigation with customers, employment related lawsuits, contractual disputes and actions brought by governmental authorities. Currently, no legal proceedings are pending against or involve Sonic that, in the opinion of management, could reasonably be expected to have a material adverse effect on our business, financial condition or results of operations. However, the results of these proceedings cannot be predicted with certainty, and an unfavorable resolution of one or more of these proceedings could have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

Recent Accounting Pronouncements

The Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 142, *Goodwill and Other Intangible Assets* in June 2001. Among other things, SFAS 142 no longer permits the amortization of goodwill, but requires that the carrying amount of goodwill be reviewed and

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reduced with a charge against operations if it is found to be impaired. SFAS 142 also requires the amortization of intangible assets other than goodwill over their useful economic lives, unless the useful economic life is determined to be indefinite. Intangible assets determined to have a finite life are required to be reviewed for impairment in accordance with SFAS 144: *Accounting for Impairment or Disposal of Long-Lived Assets*. Intangible assets that are determined to have an indefinite economic life are not amortized and must be reviewed for impairment in accordance with the terms of SFAS 142. We have not recognized any impairment related to the goodwill or other intangible assets recorded on our balance sheet.

The provisions of SFAS 142 applied immediately to all acquisitions completed after June 30, 2001. Goodwill and intangible assets with indefinite lives existing at June 30, 2001 were amortized until December 31, 2001. Effective January 1, 2002, such amortization ceased, as all of the provisions became effective on that date.

We also adopted the provisions of SFAS No. 144: *Accounting for the Impairment or Disposal of Long-Lived Assets* as of January 1, 2002. SFAS 144 establishes a single accounting model for assets to be disposed of by sale whether previously held and used or newly acquired. SFAS 144 requires certain long-lived assets to be reported at the lower of carrying amount or fair value, less cost to sell, and provides guidance in asset valuation and measuring impairment. The results of operations of those dealerships disposed of and those dealerships held for sale are now required to be reflected in discontinued operations as shown in the accompanying consolidated statements of income.

In April 2002, the FASB issued SFAS No. 145: *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. Prior to adoption, gains or losses resulting from extinguishment of debt were required to be classified as extraordinary items, net of related tax effects. Upon adoption of SFAS 145, however, the classification of such gains or losses as extraordinary must be evaluated based on the criteria established in APB Opinion No. 30. Gains and losses not meeting that criterion, including gains and losses classified as extraordinary in prior periods, must be classified in income from operations. We adopted the provisions of SFAS 145 effective July 1, 2002. Accordingly, gains or losses incurred on the early extinguishment of debt (debt repurchases) have been included in other income in the accompanying consolidated statements of income.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS 146 requires the recognition of a liability for costs associated with an exit or disposal activity at the time the liability is incurred, rather than at the date of the entity's commitment to the exit or disposal plan. The provisions of SFAS 146 are effective for exit or disposal activities initiated after December 31, 2002. We do not expect the adoption of SFAS 146 to have a material effect on our consolidated operating results, financial position, or cash flows.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees of Indebtedness of Others*. FIN 45 requires the recognition of a liability for certain guarantees issued after December 31, 2002, or for modifications made after December 31, 2002 to previously issued guarantees, and clarifies disclosure requirements for certain guarantees. The disclosure provisions of FIN 45 are effective for fiscal years ended after December 15, 2002. We have adopted the disclosure provisions of FIN 45 as of December 31, 2002.

In January 2003, the FASB issued FIN 46, *Consolidation of Variable Interest Entities, an Interpretation of APB No. 50*. FIN 46 requires the consolidation of certain variable interest entities by the primary beneficiary if the equity investors do not have a controlling financial interest or sufficient equity at risk to finance the entities' activities without additional subordinated financial support of other parties. The provisions of FIN 46 are effective for all variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to that date, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The adoption of FIN 46 is not expected to have a material impact on our consolidated results of operations, financial position or cash flows.

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Results of Operations

The following table summarizes the percentages of total revenues represented by certain items reflected in our Consolidated Statements of Income.

	Percentage of Total Revenues for the Year Ended December 31,		
	2000	2001	2002
Revenues:			
New vehicles	59.2%	60.0%	60.4%
Used vehicles	19.5%	18.2%	17.2%
Wholesale vehicles	7.0%	6.5%	6.7%
Parts, service and collision repair	11.5%	12.3%	12.8%
Finance and insurance and other	2.8%	3.0%	2.9%
Total revenues	100.0%	100.0%	100.0%
Cost of sales	85.0%	84.6%	84.6%
Gross profit	15.0%	15.4%	15.4%
Selling, general and administrative	10.9%	11.6%	12.0%
Depreciation	0.1%	0.1%	0.1%
Goodwill amortization	0.3%	0.3%	0.0%
Operating income	3.7%	3.4%	3.3%
Interest expense, floor plan	0.8%	0.5%	0.3%
Interest expense, other	0.7%	0.6%	0.5%
Income from continuing operations before income taxes	2.2%	2.3%	2.5%
Income tax expense	0.9%	0.9%	1.0%
Net income from continuing operations	1.3%	1.4%	1.5%

See Note 1 to the accompanying consolidated financial statements.

During the year ended December 31, 2002, we disposed of 16 franchises and had approved, but not completed, the disposition of ten additional franchises. In accordance with the provisions of SFAS 144, the results of operations of these dealerships, including gains or losses on disposition, have been included in net income from discontinued operations in the accompanying Consolidated Statements of Income for all periods presented. In addition to these dispositions, during the year ended December 31, 2001 and 2000, we disposed of 15 and 8 franchises, respectively. However, because the provisions of SFAS 144 do not permit retroactive application to dispositions occurring before January 1, 2002, the results of operations of these dealerships have been included in net income from continuing operations in the accompanying Consolidated Statements of Income. As a result, a comparison of the results of operations based on the information presented in the accompanying Consolidated Statements of Income is not meaningful since the information presented for 2001 and 2000 includes results of operations for dealerships disposed in those years that were not in existence in 2002. Therefore, in order to provide a more meaningful comparison, the tables included within the discussion below disaggregate the impact of the dealerships disposed in prior years in order to arrive at a comparison of only the results of operations of "ongoing" operations.

Annual "same store" results of operations represent the aggregate of the same store results for each quarter. Same store results for each quarter include dealerships that were owned and operated for the entire quarter in both periods.

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Revenues

	For the Year Ended				For the Year Ended			
	12/31/2002	12/31/2001	\$ Change	% Change	12/31/2001	12/31/2000	\$ Change	% Change
Total Revenues (in thousands)								
Same Store	\$ 5,454,243	\$ 5,636,898	(182,655)	(3.2%)	\$ 4,944,395	\$ 5,181,438	(237,043)	(4.6%)
Acquisitions	1,616,772	158,011	1,458,761	923.2%	850,514	79,514	771,000	969.6%
Total Ongoing Dealerships	7,071,015	5,794,909	1,276,106	22.0%	5,794,909	5,260,952	533,957	10.1%
Disposed prior to 2002	—	85,000			85,000	183,349		
Total As Reported	\$ 7,071,015	\$ 5,879,909	1,191,106	20.3%	\$ 5,879,909	\$ 5,444,301	435,608	8.0%

Revenues from ongoing dealerships increased in 2002 as a result of acquired dealerships, while same store revenues declined compared to 2001, which was the second best year in history for sales of light vehicles in the United States. The primary factor causing this decline was reduced consumer spending resulting from a downturn in economic conditions (as described in more detail below). Reduced consumer spending may continue to affect future revenues as economic conditions remain uncertain. In addition, uncertainty associated with potential U.S. military action in the Middle East may also affect future revenues.

Revenues from ongoing dealerships increased in 2001 as a result of acquired dealerships, while same store revenues declined compared to 2000, driven by lower vehicle revenues primarily in our Northern California and Carolina regions.

New Vehicles

	For the Year Ended				For the Year Ended			
	12/31/2002	12/31/2001	Units or \$ Change	% Change	12/31/2001	12/31/2000	Units or \$ Change	% Change
Total New Vehicle Units								
Same Store	121,987	127,871	(5,884)	(4.6%)	109,652	119,829	(10,177)	(8.5%)
Acquisitions	31,007	2,964	28,043	946.1%	21,183	996	20,187	2026.8%
Total Ongoing Dealerships	152,994	130,835	22,159	16.9%	130,835	120,825	10,010	8.3%
Disposed prior to 2002	—	1,902			1,902	3,447		
Total As Reported	152,994	132,737	20,257	15.3%	132,737	124,272	8,465	6.8%
Total New Vehicle Revenues (in thousands)								
Same Store	\$ 3,332,242	\$ 3,406,190	(73,948)	(2.2%)	\$ 2,956,141	\$ 3,103,261	(147,120)	(4.7%)
Acquisitions	941,654	76,970	864,684	1123.4%	527,019	26,695	500,324	1874.2%
Total Ongoing Dealerships	4,273,896	3,483,160	790,736	22.7%	3,483,160	3,129,956	353,204	11.3%
Disposed prior to 2002	—	43,680	(43,680)	(100.0%)	43,680	92,359	(48,679)	(52.7%)
Total As Reported	\$ 4,273,896	\$ 3,526,840	747,056	21.2%	\$ 3,526,840	\$ 3,222,315	304,525	9.5%
Total New Vehicle Unit Price								
Same Store	\$ 27,316	\$ 26,638	678	2.5%	\$ 26,959	\$ 25,897	1,062	4.1%
Total Ongoing Dealerships	\$ 27,935	\$ 26,623	1,313	4.9%	\$ 26,623	\$ 25,905	718	2.8%

The decline in same store unit sales during the year ended December 31, 2002 was consistent with an industry-wide decline in new vehicle sales. This decline was particularly evident in domestic brands, which are generally more sensitive to economic conditions than import and luxury brands. Sales of domestic non-luxury brands declined approximately 6.9% for the year ended December 31, 2002 and accounted for approximately 66.2% of the total decline in same store unit sales. Regional performance continued to be negatively affected by weaker economic conditions in our Northern California region, evidenced by significantly higher unemployment rates compared to the rest of the country. Same store unit sales in that region declined by 3,712 units, or 12.5%. Similar economic conditions in the Dallas market resulted in same store unit sales declines of 2,309 units or 16.2%. Our Ohio and Carolinas regions experienced same store declines of 21.2% and 3.0% respectively, due

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primarily to a predominance of domestic brand stores in those markets. These decreases were partially offset by increases in unit sales in regions whose portfolios are dominated by import and luxury brands, primarily San Diego/Nevada, where units sales increased 1,048 units, or 15.2%, and South Carolina/Georgia, where units sales increased 710 units, or 11.9%, compared to the same period last year. We expect declines in same store new vehicle sales to continue during 2003.

In 2001, the decline in same store unit sales was primarily isolated to domestic brands. Sales of domestic brands on a same store basis declined by 8,073 units, or 15.8%, and accounted for 79.3% of the total decline in same store unit sales. As such, our regions dominated by domestic brands, such as Northern California and Carolinas, were particularly affected. Same store unit sales declined by 4,569 units or, 13.6%, and by 2,618 units, or 19.7%, in those two regions respectively, compared to 2000. Sales of import brands on a same store basis declined by only 2,104 units, or 3.1%, in 2001.

Used Vehicles

	For the Year Ended		Units or \$ Change	% Change	For the Year Ended		Units or \$ Change	% Change
	12/31/2002	12/31/2001			12/31/2001	12/31/2000		
Total Used Vehicle Units								
Same Store	60,497	69,752	(9,255)	(13.3%)	61,296	66,820	(5,524)	(8.3%)
Acquisitions	17,406	2,348	15,058	641.3%	10,804	1,457	9,347	641.5%
Total Ongoing Dealerships	77,903	72,100	5,803	8.0%	72,100	68,277	3,823	5.6%
Disposed prior to 2002	—	1,366	—	—	1,366	3,022	—	—
Total As Reported	77,903	73,466	4,437	6.0%	73,466	71,299	2,167	3.0%
Total Used Vehicle Revenues (in thousands)								
Same Store	\$ 918,550	\$ 1,022,018	(103,468)	(10.1%)	\$ 908,917	\$ 996,597	(87,680)	(8.8%)
Acquisitions	295,784	32,160	263,624	819.7%	145,261	19,739	125,522	635.9%
Total Ongoing Dealerships	1,214,334	1,054,178	160,156	15.2%	1,054,178	1,016,336	37,842	3.7%
Disposed prior to 2002	—	18,679	(18,679)	(100.0%)	18,679	42,764	(24,085)	(56.3%)
Total As Reported	\$ 1,214,334	\$ 1,072,857	141,477	13.2%	\$ 1,072,857	\$ 1,059,100	13,757	1.3%
Total Used Vehicle Unit Price								
Same Store	\$ 15,183	\$ 14,652	531	3.6%	\$ 14,828	\$ 14,915	(87)	(0.6%)
Total Ongoing Dealerships	\$ 15,588	\$ 14,621	967	6.6%	\$ 14,621	\$ 14,885	(264)	(1.8%)

During 2002, used vehicle unit sales were negatively affected by a lack of adequate consumer credit availability. This was caused by many of the manufacturers' captive finance companies focusing their financing of new vehicle sales and, to a lesser extent, used vehicle sales only at those dealerships selling their brands and tightening of credit standards by other finance companies. These factors have adversely affected consumers' ability to finance used vehicle purchases, which reduces retail activity. Also contributing to the decline in used vehicle sales were competitive pressures from strong manufacturer incentives and interest rate subsidies on new vehicles. Our Oklahoma region, which has historically been heavily dependent on used vehicle sales, especially the sub-prime market, was particularly affected by these trends. Same store unit sales declined 1,737 units, or 21.7%. Unit sales in our Southeast division declined 3,640 units, or 16.2%. These regions accounted for 58.1% of the total decline in same store unit sales for 2002.

During 2001, 73.5% of the decline in same store unit sales was the Southeast Division, primarily the Carolinas region which declined 1,359 units, or 17.7%, the South Carolina/Georgia region which declined 1,264 units, or 21.8%, and the Birmingham/Tennessee region which declined 735 units, or 15.8%, compared to 2000.

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Wholesale Vehicles

	For the Year Ended				For the Year Ended			
	12/31/2002	12/31/2001	Units or \$ Change	% Change	12/31/2001	12/31/2000	Units or \$	% Change
Total Wholesale Vehicle Units								
Same Store	51,540	56,052	(4,512)	(8.0%)	49,237	52,534	(3,297)	(6.3%)
Acquisitions	14,465	2,185	12,280	562.0%	9,000	4,084	4,916	120.4%
Total Ongoing Dealerships	66,005	58,237	7,768	13.3%	58,237	56,618	1,619	2.9%
Disposed prior to 2002	—	1,663			1,663	3,381		
Total As Reported	66,005	59,900	6,105	10.2%	59,900	59,999	(99)	(0.2%)
Total Wholesale Vehicle Revenues (in thousands)								
Same Store	\$ 342,061	\$ 348,403	(6,342)	(1.8%)	\$ 310,164	\$ 348,131	(37,967)	(10.9%)
Acquisitions	130,110	25,400	104,710	412.2%	63,639	17,893	45,746	255.7%
Total Ongoing Dealerships	472,171	373,803	98,368	26.3%	373,803	366,024	7,779	2.1%
Disposed prior to 2002	—	9,251	(9,251)	(100.0%)	9,251	17,638	(8,387)	(47.6%)
Total As Reported	\$ 472,171	\$ 383,054	89,117	23.3%	\$ 383,054	\$ 383,662	(608)	(0.2%)
Total Wholesale Unit Price								
Same Store	\$ 6,637	\$ 6,216	421	6.8%	\$ 6,299	\$ 6,627	(328)	(4.9%)
Total Ongoing Dealerships	\$ 7,154	\$ 6,419	735	11.4%	\$ 6,419	\$ 6,465	(46)	(0.7%)

During 2002, the decrease in same store wholesale vehicle revenues is due to a decrease in units sold, offset by an increase in average price per unit, primarily resulting from wholesaling higher end models in order to liquidate aged units and maintain appropriate inventory levels.

During 2001, the majority of the decline in same store sales resulted from a decline in units sold, coupled with a lower selling price caused by the declines in values of used units at the wholesale level, especially in the fourth quarter.

Fixed Operations

	For the Year Ended				For the Year Ended			
	12/31/2002	12/31/2001	\$ Change	% Change	12/31/2001	12/31/2000	\$ Change	% Change
Total Parts, Service and Collision Repair (in thousands)								
Same Store	\$ 701,659	\$ 693,939	7,720	1.1%	\$ 620,012	\$ 590,951	29,061	4.9%
Acquisitions	207,103	15,559	191,544	1231.1%	89,486	10,980	78,506	715.0%
Total Ongoing Dealerships	908,762	709,498	199,264	28.1%	709,498	601,931	107,567	17.9%
Disposed prior to 2002	—	11,737	(11,737)	(100.0%)	11,737	26,928	(15,191)	(56.4%)
Total As Reported	\$ 908,762	\$ 721,235	187,527	26.0%	\$ 721,235	\$ 628,859	92,376	14.7%

Same store parts, service and collision repair revenues increased during 2002, resulting primarily from increases in warranty sales arising in part from BMW expanding their warranty to cover all new vehicle maintenance and Honda extending its warranty on two models due to problems with its V6 engines. In addition, we continued implementation of our best practices and investments in real estate and construction projects on collision facilities, which allowed us to increase our overall service and parts capacity. These increases were partially offset by significant declines in our Ford stores of \$9.8 million, or 8.3%, resulting from unusually high parts and service sales generated in 2001 by the Firestone tire recall and other recalls. In addition, collision revenues were adversely affected by rising insurance premiums that have caused consumers to obtain higher deductible policies. Lower collision revenues in 2002 are a result of customers choosing not to perform minor repair work that historically would have been covered by lower deductible policies, as well as a change in insurance company trends whereby vehicles are being declared totaled rather than repaired at a greater percentage than in prior years.

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Same store revenues increased during 2001, resulting in part from investments in real estate and construction projects on collision facilities, which allowed us to increase our overall service and parts capacity, as well as an increase at our Ford stores of \$3.9 million or 5.0%, resulting in part from unusually high parts and service sales generated in 2001 by the Firestone tire recall and other recalls.

Finance and Insurance

	For the Year Ended				For the Year Ended			
	12/31/2002	12/31/2001	\$ Change	% Change	12/31/2001	12/31/2000	\$ Change	% Change
Total Finance & Insurance Revenue (in thousands)								
Same Store	\$ 159,732	\$ 166,349	(6,617)	(4.0%)	\$ 149,161	\$ 142,498	6,663	4.7%
Acquisitions	42,120	7,921	34,199	431.8%	25,109	4,206	20,903	497.0%
Total Ongoing Dealerships	201,852	174,270	27,582	15.8%	174,270	146,704	27,566	18.8%
Disposed prior to 2002	—	1,653	(1,653)	(100.0%)	1,653	3,661	(2,008)	(54.8%)
Total As Reported	\$ 201,852	\$ 175,923	25,929	14.7%	\$ 175,923	\$ 150,365	25,558	17.0%
Total F&I per Unit								
Same Store	\$ 875	\$ 842	33	3.9%	\$ 873	\$ 763	110	14.4%
Total Ongoing Dealerships	\$ 874	\$ 859	15	1.8%	\$ 859	\$ 776	83	10.7%

Same store finance and insurance revenues decreased during 2002 primarily due to lower retail vehicle unit sales. Unit sales were negatively impacted by the decline in retail vehicle unit sales in our Northern California market, and in our Ohio, Carolinas and Dallas regions. Finance and insurance revenues in these markets declined \$3.1 million or 7.9%, \$1.8 million or 17.1%, \$1.7 million or 11.4% and \$1.4 million or 8.1%, respectively, compared to 2001. These declines were offset by strong performance in our San Diego/Nevada region, driven by a higher import and luxury brand mix, where revenues increased \$2.3 million or 23.2% compared to 2001.

During 2001, the increase in same store finance and insurance revenues was primarily due to an increase in per unit revenue, which reflected our continued focus on training programs for finance and insurance sales people along with our ability to negotiate higher commissions on the origination of customer vehicle financing, insurance policies and extended warranty contracts.

Gross Profit and Gross Margins

	For the Year Ended				For the Year Ended			
	12/31/2002	12/31/2001	\$ Change	% Change	12/31/2001	12/31/2000	\$ Change	% Change
Total Gross Profit (in thousands)								
Same Store	\$ 849,218	\$ 867,480	(18,262)	(2.1%)	\$ 773,710	\$ 771,976	1,734	0.2%
Acquisitions	241,712	26,676	215,036	806.1%	120,446	18,028	102,418	568.1%
Total Ongoing Dealerships	1,090,930	894,156	196,774	22.0%	894,156	790,004	104,152	13.2%
Disposed prior to 2002	—	10,504	(10,504)	(100.0%)	10,504	26,585	(16,081)	(60.5%)
Total As Reported	\$ 1,090,930	\$ 904,660	186,270	20.6%	\$ 904,660	\$ 816,589	88,071	10.8%

Our overall gross profit and gross profit as a percentage of revenues ("gross margins") generally vary depending on changes in our revenue mix. Although sales of new vehicles comprise the majority of our total revenues, new vehicles generally carry the lowest margin of any product or service we offer, generally averaging between 7.5% and 8.5%. As a result, sales of new vehicles comprise a relatively small portion of total gross profits. Retail sales of used vehicles generally carry a slightly higher gross margin than new vehicles, averaging between 11% and 11.5%. Parts, service, and collision repair carry the next highest margins, averaging between 45% and 47%. Commission revenues from the sale of finance, insurance and extended warranty products carry the highest margin at 100%. As a result, as our mix of revenues shifts between lower margin products and services to higher margin products and services, overall gross margins fluctuate accordingly.

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During 2002, gross margins from ongoing dealerships remained stable at 15.4%. We experienced an increase during 2002 in the percentage of revenues contributed by parts, service and collision repair services. In addition, the gross profit percentage earned on our parts, service, and collision repair services increased to 47.5% in 2002 from 46.0% in 2001. This was offset by a slight decrease in the percentage of revenues contributed by our finance and insurance products to 2.9% in 2002 from 3.0% in 2001, and an increase in the percentage of revenues contributed by new vehicle sales to 60.4% in 2002 from 60.1% in 2001.

Ongoing dealership gross margin during 2001 increased to 15.4% from 15.0% due primarily to an increase in the percentage of revenues contributed by parts, service, collision repair services and finance and insurance products. Parts, service and collision repair revenues as a percentage of total revenues increased to 12.2% in 2001 from 11.4% in 2000. Finance and insurance revenues as a percentage of total revenues increased to 3.0% in 2001 from 2.8% in 2000. In addition, the gross profit percentage earned on our parts, service, and collision repair and finance and insurance products increased to 56.7% in 2001 from 55.3% in 2000.

Selling, General & Administrative Expenses

	For the Year Ended				For the Year Ended			
	12/31/2002	12/31/2001	\$ Change	% Change	12/31/2001	12/31/2000	\$ Change	% Change
Total SG&A (in thousands)								
Same Store	\$ 632,832	\$ 619,915	12,917	2.1%	\$ 555,805	\$ 538,342	17,463	3.2%
Acquisitions	214,363	46,269	168,094	363.3%	110,379	29,871	80,508	269.5%
Total Ongoing Dealerships	847,195	666,184	181,011	27.2%	666,184	568,213	97,971	17.2%
Disposed prior to 2002	—	13,892	(13,892)	(100.0%)	13,892	26,718	(12,826)	(48.0%)
Total As Reported	\$ 847,195	\$ 680,076	167,119	24.6%	\$ 680,076	\$ 594,931	85,145	14.3%

Of our total selling, general and administrative expenses from ongoing dealerships in 2002, approximately 63.3% were variable, comprised primarily of non-salaried sales compensation and advertising, and approximately 36.7% were fixed, comprised primarily of fixed compensation and rent expense. We manage these variable expenses so that they are generally related to vehicle sales gross profit and can be adjusted in response to changes in vehicle sales gross profit. Salespersons, sales managers, service managers, parts managers, service advisors, service technicians and all other non-clerical dealership personnel are paid either a commission or a modest salary plus commissions. In addition, dealership management compensation is tied to individual dealership profitability.

As a percentage of gross profits, variable expenses from ongoing dealerships increased to 49.1% in 2002 from 47.6% in 2001. This was primarily due to increases in compensation expense as a percentage of gross profits to 39.3% in 2002, from 38.2% in 2001. This resulted primarily from higher sales incentives at our Massey dealerships acquired in March 2002, which are expected to more closely align with Sonic best practices as integration continues, as well as additional sales incentives designed to increase sales volume and achieve optimal inventory levels. Variable expenses from ongoing dealerships also increased due to an increase in advertising expense. As a percentage of gross profits, advertising expense increased to 5.7% in 2002 from 5.2% in 2001. This resulted from a determined effort, primarily in the first half of 2002, to stimulate consumer traffic into our dealerships through advertising. Our advertising expenditures began to stabilize in the second half of 2002.

Fixed expenses from ongoing dealerships increased as a percentage of gross profits to 28.5% in 2002 from 26.9% in 2001. This was primarily the result of significant investments in regional and divisional management personnel in advance of our recent acquisitions, including the Massey acquisition, in order to support our acquisition growth and integration plans, and was also impacted by a softer vehicle sales environment which led to reduced gross profit dollars, especially in the fourth quarter.

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Of our total selling, general and administrative expenses in 2001, approximately 63.9% were variable, and approximately 36.1% were fixed. As a percentage of gross profits, variable expenses declined slightly in 2001 to 47.6% from 47.8% in 2000. These declines were offset by fixed expenses, which increased as a percentage of gross profits to 26.9% in 2001 from 24.2% in 2000, primarily as a result of increases in rent expense due to investments in dealership facilities and increases in medical insurance costs.

Depreciation and Amortization

	For the Year Ended				For the Year Ended			
	12/31/2002	12/31/2001	\$ Change	% Change	12/31/2001	12/31/2000	\$ Change	% Change
Total Depreciation (in thousands)								
Same Store	\$ 6,016	\$ 5,813	203	3.5%	\$ 5,370	\$ 4,225	1,145	27.1%
Acquisitions	2,512	785	1,728	220.1%	1,228	1,032	196	19.0%
Total Ongoing Dealerships	8,528	6,598	1,931	29.3%	6,598	5,257	1,341	25.5%
Disposed prior to 2002	—	181	(181)	(100.0%)	181	115	66	57.4%
Total As Reported	\$ 8,528	\$ 6,779	1,750	25.8%	\$ 6,779	\$ 5,372	1,407	26.2%

During 2002, the balance of gross property and equipment, excluding land and construction in process, increased \$11.6 million, or 12.5%. Approximately \$20.3 million of this increase resulted from additional capital expenditures and approximately \$8.9 million from dealership acquisitions. These increases were offset by \$17.6 million of disposals and other adjustments, including transfers to assets held for sale of \$5.8 million. As a percentage of total revenues depreciation expense was 0.1% in both 2002 and 2001.

During 2001, the balance of gross property and equipment, excluding land and construction in process, increased approximately \$17.6 million. Approximately \$7.4 million of this increase resulted from dealership acquisitions and approximately \$9.5 million from additional capital expenditures. As a percentage of total revenues, depreciation expense was at 0.1% in 2000 and 2001.

In accordance with SFAS 142, beginning January 1, 2002, goodwill is no longer amortized. Accordingly, no amortization expense was recorded during 2002. Amortization expense from ongoing operations in 2001 was \$17.9 million an increase of 16.7% compared to 2000. The increase was primarily attributable to additional goodwill arising from acquisitions completed prior to July 1, 2001.

Floor Plan Interest Expense

	For the Year Ended				For the Year Ended			
	12/31/2002	12/31/2001	\$ Change	% Change	12/31/2001	12/31/2000	\$ Change	% Change
Interest Expense, floor plan (in thousands)								
Total Ongoing Dealerships	\$ 24,524	\$ 31,799	(7,275)	(22.9%)	\$ 31,799	\$ 39,945	(8,146)	(20.4%)
Disposed prior to 2002	—	701			701	1,976		
Total As Reported	\$ 24,524	\$ 32,500	(7,976)	(24.5%)	\$ 32,500	\$ 41,921	(9,421)	(22.5%)

The average interest rate incurred by ongoing dealerships was 3.6% for the year ended December 31, 2002, compared to 5.8% for the year ended December 31, 2001, which reduced interest expense by approximately \$12.2 million. This decrease was partially offset by an increase in floor plan balances during 2002. The average floor plan balance increased from \$552.1 million at December 31, 2001 to \$690.2 million at December 31, 2002, resulting in an increase in expense of approximately \$4.9 million.

The average interest rate incurred by ongoing dealerships was 5.8% for the year ended December 31, 2001, compared to 8.1% for the year ended December 31, 2000, which reduced interest expense by approximately \$11.4 million. This decrease was partially offset by an increase in floor plan balances during 2001. The average floor plan balance increased from \$496.0 million at December 31, 2000 to \$552.1 million at December 31, 2001, resulting in an increase in expense of approximately \$3.2 million.

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Our floor plan expenses are substantially offset by amounts received from manufacturers in the form of floor plan assistance. These payments are credited against our cost of sales. During the year ended December 31, 2002, the amounts we received from floor plan assistance exceeded our floor plan interest expense by approximately \$15.0 million. Conversely, in the year ended December 31, 2001, floor plan interest expense exceeded amounts received for floor plan assistance by approximately \$1.7 million.

Other Interest Expense

During 2002, other interest expense from ongoing operations increased \$4.0 million, or 11.6%, compared to the same period last year. Interest expense increased \$12.8 million as a result of the issuance of an additional \$75.0 million in 11% senior subordinated notes in November 2001 and an additional \$149.5 million in 5.25% convertible senior subordinated notes in May 2002, but was offset partially by a \$10.6 million decrease in interest expense on our revolving credit facility. Of this decrease, approximately \$7.8 million was due to a decrease in the average interest rate from 6.9% in 2001 to 4.6% in 2002, and approximately \$2.8 million was due to a decrease in the average outstanding balance resulting from the refinancing of a portion of our revolving facility using proceeds from the issuance of convertible senior subordinated notes discussed above, offset partially by borrowings used to finance acquisition activities. The decrease in the weighted average interest rates and average balances was offset by the effective conversion of \$200.0 million of our variable rate debt to a fixed rate through two separate \$100.0 million interest rate swap agreements entered into on January 15, 2002 and June 6, 2002, whereby we receive interest payments based on LIBOR and make interest payments at fixed rates of 3.88% and 4.50%, respectively. The effect of the swaps resulted in an additional \$3.6 million in interest expense in 2002. In addition, the increase in interest expense was partially offset by an increase in the capitalization of interest cost on construction projects of \$1.1 million in 2002.

During 2001, other interest expense from ongoing operations decreased by \$6.1 million, or 15.0%, compared to 2000. Of the total decrease, approximately \$7.0 million was attributable to the decrease in the average interest rate incurred on our revolving credit facility to approximately 6.9% in 2001 from 9.0% in 2000. This decrease was partially offset by an increase in the average outstanding balance of the revolving credit facility to \$341.9 million in 2001 from \$331.8 million in 2000 due to additional borrowings for acquisitions.

Liquidity and Capital Resources

We require cash to finance acquisitions and fund debt service and working capital requirements. We rely on cash flows from operations, borrowings under our various credit facilities and offerings of debt and equity securities to meet these requirements. Although not required under the terms of any credit agreement, our practice has been to apply all of our available cash to reduce the outstanding balance on our revolving credit facility for the purpose of maximizing the return on these funds and minimizing interest expense.

Because the majority of our consolidated assets are held by our subsidiaries, the majority of our cash flow from operations is generated by these subsidiaries. As a result, our cash flow and ability to service debt depends to a substantial degree on the results of operations of these subsidiaries and their ability to provide us with cash. Uncertainties in the economic environment as well as uncertainties associated with potential U.S. military action in the Middle East may affect our overall liquidity.

Contracts in Transit:

Contracts in transit represent customer finance contracts evidencing loan agreements or lease agreements between Sonic, as creditor, and the customer, as borrower, to acquire or lease a vehicle where a third-party finance source has given Sonic initial, non-binding approval to assume Sonic's position as creditor. Funding and final approval from the finance source is provided upon the finance source's review of the loan or lease agreement and related documentation executed by the customer at the dealership. These finance contracts are typically funded within ten days of the initial approval of the finance transaction given by the third-party finance

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source. The finance source is not contractually obligated to make the loan or lease to the customer until it gives its final approval and funds the transaction, and until such final approval is given, the contracts in transit represent amounts due from the customer to Sonic. Based on our experience, there is minimal risk of these contracts in transit not being approved and funded by the initial finance source. In rare instances where the pre-approving initial finance source does not give final approval of the loan or lease agreement, we are typically able to arrange for financing through another third-party finance source. Because contracts in transit are typically funded within ten days after the initial approval given by the finance source, we do not believe that they have any meaningful impact on our liquidity.

Floor Plan Facilities:

We finance all of our new and certain of our used vehicle inventory through standardized floor plan credit facilities with Chrysler Financial Company, LLC (“Chrysler Financial”), Ford Motor Credit Company (“Ford Credit”), General Motors Acceptance Corporation (“GMAC”), Toyota Motor Credit Corporation (“Toyota Credit”) and Bank of America, N.A. These floor plan facilities bear interest at variable rates based on prime and LIBOR. The weighted average interest rate for our floor plan facilities was 3.58% for 2002 and 5.83% for 2001. Interest payments under each of our floor plan facilities are due monthly, and we are generally not required to make principal repayments prior to the sale of the vehicles.

The balances outstanding are due when the related vehicles are sold and are collateralized by vehicle inventories and other assets, excluding franchise agreements, of the relevant dealership subsidiary. The floor plan facilities contain a number of covenants, including, among others, covenants restricting us with respect to the creation of liens and changes in ownership, officers and key management personnel. We were in compliance with all restrictive covenants as of December 31, 2002.

Long-Term Debt and Credit Facilities:

The Revolving Facility: At December 31, 2002 Sonic’s revolving credit facility with Ford Credit, Chrysler Financial and Toyota Credit (the “Revolving Facility”) had a borrowing limit of \$600 million, subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by an affiliate of Sonic (the borrowing base was approximately \$490.5 million at December 31, 2002). The amounts outstanding under the Revolving Facility bore interest during 2002 at 2.50 percentage points above LIBOR. The Revolving Facility includes an annual commitment fee equal to 0.25% of the unused portion of the facility. The total outstanding balance was approximately \$330.7 million as of December 31, 2002. Balances under our Revolving Facility are guaranteed by Sonic’s operating subsidiaries.

On February 5, 2003 we amended certain terms of our Revolving Facility. We added Bank of America, N.A. to the lending group and extended the term of the facility from October 31, 2004 to October 31, 2006. In addition, the overall borrowing limit was reduced to \$500 million and the interest rate was changed to LIBOR plus 2.55 percentage points. The reduction in the overall limit had no impact on our borrowing base and thus, no effect on our borrowing availability at December 31, 2002. All of the other substantive provisions, including covenants, remained the same. We were in compliance with all of the restrictive and financial covenants under the Revolving Facility at December 31, 2002.

Senior Subordinated Notes: Our outstanding senior subordinated notes mature on August 1, 2008 and bear interest at a fixed rate of 11.0%. The notes are unsecured and are redeemable at our option after August 1, 2003. Our obligations under these notes are guaranteed by our operating subsidiaries. Interest payments are due semi-annually on February 1 and August 1. The notes are subordinated to all of our present and future senior indebtedness, including borrowing under the Revolving Facility. Redemption prices during the 12-month periods beginning August 1 are 105.500% in 2003, 103.667% in 2004, 101.833% in 2005 and 100% thereafter.

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During 2002, we repurchased \$17.6 million in aggregate principal amount of the senior subordinated notes on the open market for approximately \$18.2 million. A resulting loss of \$1.1 million, net of write-offs of unamortized discounts and deferred debt issuance costs, is included in other income in the accompanying consolidated statement of income for the year ended December 31, 2002. The outstanding principal balance of the senior subordinated notes at December 31, 2002 was \$182.4 million. We were in compliance with all of the restrictive covenants under the indentures governing the senior subordinated notes at December 31, 2002.

Convertible Senior Subordinated Notes: On May 7, 2002, we issued \$149.5 million in aggregate principal amount of 5.25% convertible senior subordinated notes with net proceeds, before expenses, of approximately \$145.1 million. The net proceeds were used to repay a portion of the amounts outstanding under our Revolving Facility. The notes are unsecured obligations that rank equal in right of payment to all of Sonic's existing and future senior subordinated indebtedness, mature on May 7, 2009, and are redeemable at Sonic's option after May 7, 2005. Sonic's obligations under these notes are not guaranteed by any of its subsidiaries. We were in compliance with all of the restrictive covenants under the indenture governing the convertible senior subordinated notes at December 31, 2002.

The notes are convertible into shares of Class A common stock, at the option of the holder, if as of the last day of the preceding fiscal quarter, the closing sale price of our Class A common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of such preceding fiscal quarter is more than 110% of the conversion price per share of Class A common stock on the last day of such preceding fiscal quarter. If this condition is satisfied, then the notes will be convertible at any time, at the option of the holder, through maturity. The initial conversion price per share is \$46.87, which is subject to adjustment for certain distributions on, or changes in our Class A common stock, if any, prior to the conversion date. In addition, on or before May 7, 2007, a holder also may convert his notes into shares of our Class A common stock at any time after a 10 consecutive trading day period in which the average of the trading day prices for the notes for that 10 trading day period is less than 103% of the average conversion value for the notes during that period. The conversion value is equal to the product of the closing sale price for our Class A common stock on a given day multiplied by the then current conversion rate, which is the number of shares of Class A common stock into which each \$1,000 principal amount of notes is then convertible. These notes were not convertible as of December 31, 2002.

In 2002, we repurchased \$19.4 million in aggregate principal amount of the convertible notes on the open market for approximately \$14.5 million. A resulting gain of \$4.3 million, net of write-offs of unamortized discounts and deferred debt issuance costs, is included in other income in the accompanying consolidated statement of income for the year ended December 31, 2002. The outstanding principal balance of the convertible notes at December 31, 2002 was \$130.1 million.

The Mortgage Facility: Prior to December 31, 2002, we had a \$50 million revolving construction line of credit with Ford Credit bearing interest at 2.25 percentage points above LIBOR. In addition, we had a \$50 million real estate acquisition line of credit with Ford Credit bearing interest at 2.00 percentage points above LIBOR. On December 31, 2002, we replaced the Ford Credit facilities with a revolving real estate acquisition and construction line of credit (the "Construction Loan") and a related mortgage refinancing facility (the "Permanent Loan" and collectively with the Construction Loan, the "Mortgage Facility") with Toyota Credit. Under the Construction Loan, our dealership development subsidiaries can borrow up to \$50.0 million to finance land acquisition and dealership construction costs. Advances can be made under the Construction Loan until November 2007. All advances will mature on December 31, 2007, bear interest at 2.25 percentage points above LIBOR and are secured by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets.

Under the Permanent Loan, we can refinance up to \$100.0 million in advances under the Construction Loan once the projects are completed and can finance real estate acquisition costs to the extent these costs were not previously financed under the Construction Loan. Advances can be made under the Permanent Loan until December 2007. All advances under the Permanent Loan mature on December 31, 2012, bear interest at 2.00% above LIBOR and are secured by the same collateral given under the Construction Loan.

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The Mortgage Facility allows us to borrow up to \$100 million in the aggregate under the Construction Loan and the Permanent Loan. The Mortgage Facility is not cross-collateralized with the Revolving Facility; however, a default under one will cause a default under the other.

We were in compliance with all of the restrictive and financial covenants under the Mortgage Facility at December 31, 2002.

Dealership acquisitions:

During 2002, we acquired 31 dealerships for a combined purchase price of \$213.5 million in cash and 1,336,151 shares of Class A common stock valued at approximately \$34.5 million. The total purchase price for the acquisitions was based on our internally determined valuation of the dealerships and their assets. The cash portion of the purchase price was financed by cash generated from our existing operations and by borrowings under our Revolving Facility.

Sale-Leaseback Transactions:

In an effort to generate additional capital, we typically seek to structure our operations to minimize the ownership of real property. As a result, facilities either constructed by us or obtained in acquisitions are typically sold to third parties in sale-leaseback transactions. The resulting leases generally have initial terms of 10-15 years and include a series of five-year renewal options. We have no continuing obligations under these arrangements other than lease payments. The majority of our sale-leaseback transactions are done with Capital Automotive REIT, which is not affiliated with Sonic. In 2002, we sold \$26.4 million in dealership properties in sale-leaseback transactions. There were no material gains or losses on these sales.

Capital Expenditures:

Our capital expenditures include the construction of new dealerships and collision repair centers, building improvements and equipment purchased for use in our dealerships. Capital expenditures in 2002 were approximately \$92.5 million, of which approximately \$72.2 million related to the construction of new dealerships and collision repair centers and real estate acquired in connection with such construction. Once completed, these new dealerships and collision repair centers are generally sold in sale-leaseback transactions. After considering proceeds from real estate sales and sale-leaseback transactions, as well as the balance of projects in progress expected to be sold in sale leaseback transactions, capital expenditures were \$18.2 million. We do not expect any significant gains or losses from these sales.

Stock Repurchase Program:

Our board of directors has authorized Sonic to expend up to \$145.0 million to repurchase shares of our Class A common stock or redeem securities convertible into Class A common stock. During 2002, we repurchased 1,803,900 shares of Class A common stock totaling approximately \$33.8 million. Subsequent to December 31, 2002, we have repurchased an additional 432,800 shares of our Class A common stock for approximately \$6.7 million. As of March 11, 2002 we had \$31.4 million remaining under the board authorization.

Cash Flows:

Cash provided by operating activities includes net income adjusted for the effects of non-cash items such as depreciation and amortization, and the effects of changes in working capital. During 2002, net cash provided by operating activities was approximately \$138.9 million. Changes in inventory in 2002, net of notes payable floor plan, resulted primarily from an increase in inventory levels created by lower demand. Changes in other working capital balances, including accounts receivable, accounts payable and other accrued liabilities, are attributed to differences in timing of payments.

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Cash used for investing activities in 2002 was approximately \$235.0 million, the majority of which was related to dealership acquisitions. Our other principal investing activities include capital expenditures and dealership dispositions.

During 2002, net cash provided by financing activities was approximately \$106.7 million and primarily related to \$145.1 million of proceeds received from the issuance of 5.25% convertible senior subordinated notes offset by repurchases of Class A common stock and repayments on our revolving credit facilities.

Guarantees

In accordance with the terms of our real estate lease agreements, our dealership subsidiaries, acting as lessees, generally agree to indemnify the lessor from certain liabilities arising as a result of the use of the leased premises, including environmental liabilities and repairs to leased property upon termination of the lease. Sonic's exposure with respect to these items is difficult to quantify. In addition, Sonic has generally agreed to indemnify the lessor in the event of a breach of the lease by the dealership subsidiary.

In accordance with the terms of agreements entered into for the sale of our dealership franchises, Sonic generally agrees to indemnify the buyer from certain liabilities and costs arising from operations or events that occur prior to the sale but which may or may not be known at the time of sale, including environmental liabilities, and liabilities resulting from the breach of representations or warranties made under the agreement. These indemnifications generally expire within a period of one to two years following the date of sale, and Sonic's exposure is generally limited to dollar amounts ranging from \$25,000 to \$5.0 million as specified within the agreements.

In connection with dealership dispositions, certain of our dealership 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, environmental remediation, and repairs to leased property upon termination of the lease, to the extent that the assignee or sublessee does not perform. While Sonic's exposure with respect to environmental remediation and repairs is difficult to quantify, the total estimated rent payments remaining under such leases as of December 31, 2002 was approximately \$17.1 million based on lease expiration dates ranging from October 31, 2007 to July 15, 2015. However, in accordance with the terms of the assignment and sublease agreements, the assignees and sublessees have generally agreed to indemnify Sonic and its subsidiaries in the event of non-performance.

Future Liquidity Outlook:

Our obligations under our existing credit facilities, indentures and leasing programs are as follows:

	(Amounts in thousands)						
	2003	2004	2005	2006	2007	Thereafter	Total
Floorplan Financing	\$ 850,162	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 850,162
Long-Term Debt	2,764	1,011	142	330,799	76	312,523	647,315
Operating Leases	77,005	73,326	69,858	65,520	62,619	357,387	705,715

We believe our best source of liquidity for future growth remains cash flows generated from operations combined with our availability of borrowings under our floor plan financing (or any replacements thereof) and other credit arrangements. Though uncertainties in the economic environment as well as uncertainties associated with potential U.S. military action in the Middle East may affect our ability to generate cash from operations, we expect to generate more than sufficient cash flow to fund our debt service and working capital requirements and any seasonal operating requirements, including our currently anticipated internal growth for our existing businesses, for the foreseeable future. Once these needs are met, we may use remaining cash flow to support our acquisition strategy or repurchase shares of our Class A common stock or publicly traded debt securities, as market conditions warrant.

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Seasonality:

Our operations are subject to seasonal variations. The first and fourth quarters generally contribute less revenue and operating profits than the second and third quarters. Weather conditions, the timing of manufacturer incentive programs and model changeovers cause seasonality in new vehicle demand. Parts and service demand remains more stable throughout the year.

Item 7A: *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Risk. Our variable rate floor plan notes payable, revolving credit facility borrowings 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 \$990.5 million at December 31, 2002 and approximately \$911.3 million at December 31, 2001. A change of 100 basis points in the underlying interest rate would have caused a change in interest expense of approximately \$8.9 million in 2002 and approximately \$9.7 million in 2001. Of the total change in interest expense, approximately \$6.6 million in 2002 and approximately \$6.2 million in 2001 would have resulted from floor plan notes payable.

Our exposure with respect to floor plan notes payable is mitigated by floor plan assistance payments received from manufacturers that are generally based on rates similar to those incurred under our floor plan financing arrangements. These payments are credited against our cost of sales. During 2002, the amounts we received from manufacturer floor plan assistance exceeded our floor plan interest expense by approximately \$15.0 million. A change in interest rates of 100 basis points would have had an estimated impact on floor plan assistance of approximately \$6.2 million in 2002.

In addition to our variable rate debt, we also have lease agreements on a portion of our dealership facilities where the monthly lease payment fluctuates based on LIBOR interest rates. Many of our lease agreements have interest rate floors whereby our lease expense would not fluctuate significantly in periods when LIBOR is relatively low.

In order to reduce our exposure to market risks from fluctuations in interest rates, we entered into two separate interest rate swap agreements on January 15, 2002 and June 6, 2002 to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate. The swaps each have a notional principal amount of \$100 million and mature on October 31, 2004 and June 6, 2006, respectively. Under the terms of the swap agreement entered into on January 15, 2002, we receive interest payments on the notional amount at a rate equal to the one month LIBOR rate, adjusted monthly, and make interest payments at a fixed rate of 3.88%. Under the terms of the swap agreement entered into on June 6, 2002, we receive interest payments on the notional amount at a rate equal to the one month LIBOR rate, adjusted monthly, and make interest payments at a fixed rate of 4.50%. Incremental interest expense incurred (the difference between interest received and interest paid) as a result of these interest rate swaps was \$3.6 million in 2002 and has been included in interest expense, other in the accompanying consolidated statement of income. The interest rate swaps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of the interest rate swaps have been recorded in other comprehensive loss, net of related income taxes, in our statement of stockholders' equity.

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Future maturities of variable and fixed rate debt, and related interest rate swaps are as follows:

	2003	2004	2005	2006	2007	Thereafter	Total	Fair Value
(Amounts in thousands)								
<i>Liabilities</i>								
Long-term Debt:								
Fixed Rate	—	—	—	—	—	312,460	312,460	290,040
Average Interest Rate	—	—	—	—	—	8.61%	8.61%	
Variable Rate	2,764	1,011	142	330,798	76	64	334,855	334,855
Average Interest Rate	7.39%	5.84%	7.76%	3.88%	9.69%	—	3.92%	
<i>Interest Rate Derivatives</i>								
Interest Rate Swaps:								
Variable to Fixed	—	100,000	—	100,000	—	—	200,000	(10,569)
Average pay rate	—	3.88%	—	4.50%	—	—	4.19%	
Average receive rate	—	1Month Libor	—	1Month Libor	—	—	1Month Libor	

Item 8. Financial Statements and Supplementary Data.

See “Consolidated Financial Statements and Notes” that appears on page F-1 herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Information required by this item with respect to compliance by Sonic’s directors, executive officers and certain beneficial owners of Sonic’s Common Stock with Section 16(a) of the Securities Exchange Act of 1934 is furnished by incorporation by reference to all information under the captions entitled “Election of Directors” and “General—Ownership of Voting Stock” in the Proxy Statement (to be filed hereafter) for Sonic’s Annual Meeting of the Stockholders to be held on April 22, 2003 (the “Proxy Statement”). The information required by this item with respect to Sonic’s executive officers appears in Part I of this Annual Report on Form 10-K under the caption “Executive Officers of the Registrant.”

Item 11. Executive Compensation.

The information required by this item is furnished by incorporation by reference to all information under the captions entitled “Executive Compensation” and “Election of Directors” in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this item is furnished by incorporation by reference to all information under the caption “General — Ownership of Voting Stock” in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions.

The information required by this item is furnished by incorporation by reference to all information under the caption “Certain Transactions” in the Proxy Statement.

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Item 14. Controls and Procedures

Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this Annual Report on Form 10-K. Based on this evaluation, our principal executive officer and principal financial officer have concluded that the design and operation of our disclosure controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date the evaluation was completed.

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

The exhibits and other documents filed as a part of this Annual Report on Form 10-K, including those exhibits that are incorporated by reference herein, are:

- (a) (1) Financial Statements: Consolidated Balance Sheets as of December 31, 2001 and 2002. Consolidated Statements of Income for the Years Ended December 31, 2000, 2001 and 2002. Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2000, 2001 and 2002. Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 2001 and 2002.
- (2) Financial Statement Schedules: No financial statement schedules are required to be filed as part of this Annual Report on Form 10-K.
- (3) Exhibits: Exhibits required in connection with this Annual Report on Form 10-K are listed below. Certain of such exhibits, indicated by an asterisk, are hereby incorporated by reference to other documents on file with the SEC with which they are physically filed, to be a part hereof as of their respective dates.

<u>Exhibit No.</u>	<u>Description</u>
1.1*	Purchase Agreement dated as of May 1, 2002 between Sonic and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith, Incorporated, Banc of America Securities LLC and First Union Securities, Inc. (incorporated by reference to Exhibit 1.1 to Sonic's Amended Current Report on Form 8-K/A filed on May 6, 2002 (the "May 2002 Form 8-K/A")).
2.1*	Asset Purchase Agreement dated as of January 11, 2002 by and among Sonic and the Donald E. Massey Revocable Trust (the "Trust") (incorporated by reference to Exhibit 2.1 to Sonic's Current Report on Form 8-K filed on April 15, 2002 (the "April 2002 Form 8-K")).**
2.2*	Stock Purchase Agreement dated as of January 11, 2002 by and among Sonic and the Trust (incorporated by reference to Exhibit 2.2 to the April 2002 Form 8-K).**
2.3*	Stock Purchase Agreement dated as of January 11, 2002 by and among Sonic and the Trust (incorporated by reference to Exhibit 2.3 to the April 2002 Form 8-K).**
3.1*	Amended and Restated Certificate of Incorporation of Sonic (incorporated by reference to Exhibit 3.1 to Sonic's Registration Statement on Form S-1 (Reg. No. 333-33295) (the "Form S-1")).
3.2*	Certificate of Amendment to Sonic's Amended and Restated Certificate of Incorporation effective June 18, 1999 (incorporated by reference to Exhibit 3.2 to Sonic's Annual Report on Form 10-K for the year ended December 31, 1999 (the "1999 Form 10-K")).
3.3*	Certificate of Designation, Preferences and Rights of Class A Convertible Preferred Stock (incorporated by reference to Exhibit 4.1 to Sonic's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998).
3.4*	Bylaws of Sonic (as amended December 14, 2001) (incorporated by reference to Exhibit 3.4 to Sonic's Annual Report on Form 10-K for the year ended December 31, 2001 (the "2001 Form 10-K")).

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<u>Exhibit No.</u>	<u>Description</u>
4.1*	Specimen Certificate representing Class A Common Stock (incorporated by reference to Exhibit 4.1 to the Form S-1).
4.2*	Form of 11% Senior Subordinated Note due 2008, Series B (incorporated by reference to Exhibit 4.3 to Sonic's Registration Statement on Form S-4 (Reg. Nos. 333-64397 and 333-64397-001 through 333-64397-044) (the "1998 Exchange Offer Form S-4")).
4.3*	Indenture dated as of July 1, 1998 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors, and U.S. Bank Trust National Association, as trustee (the "Trustee"), relating to the 11% Senior Subordinated Notes due 2008, Series A and Series B (incorporated by reference to Exhibit 4.2 to the 1998 Exchange Offer Form S-4).
4.4*	Subordination Agreement dated as of July 31, 1998 between O. Bruton Smith and the Trustee, acting for the benefit of the holders of the Senior Subordinated Notes, Series A and Series B, and acknowledged by Sonic, regarding the Smith Subordinated Note (incorporated by reference to Exhibit 10.89 to the 1998 Exchange Offer Form S-4).
4.5*	First Supplemental Indenture dated as of December 31, 1999 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors and additional guarantors, and the Trustee, relating to the 11% Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4.2a to the 1999 Form 10-K).
4.6*	Second Supplemental Indenture dated as of September 15, 2000 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors and additional guarantors, and the Trustee, relating to the 11% Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4.4 to Sonic's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (the "September 30, 2000 Form 10-Q")).
4.7*	Third Supplemental Indenture dated as of March 31, 2001 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors and additional guarantors, and the Trustee, relating to the 11% Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4.6 to Sonic's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (the "June 30, 2001 Form 10-Q")).
4.8*	Fourth Supplemental Indenture dated as of November 19, 2001 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors and additional guarantors, and the Trustee, relating to the 11% Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4.7 to Sonic's Registration Statement on Form S-4 (Reg. Nos. 333-75220 and 333-75220-01 through 333-75220-12) (the "2001/2002 Exchange Offer Form S-4")).
4.9*	Form of 11% Senior Subordinated Note due 2008, Series D (incorporated by reference to Exhibit 4.9 to the 2001/2002 Exchange Offer Form S-4).
4.10*	Indenture dated as of November 19, 2001 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors, and the Trustee, relating to the 11% Senior Subordinated Notes due 2008, Series C and Series D (incorporated by reference to Exhibit 4.9 to the 2001/2002 Exchange Offer Form S-4).
4.11*	Subordination Agreement dated as of November 19, 2001 between O. Bruton Smith and the Trustee, acting for the benefit of the holders of the Senior Subordinated Notes, Series C and Series D, and acknowledged by Sonic, regarding the Smith Subordinated Note (incorporated by reference to Exhibit 4.13 to the 2001/2002 Exchange Offer Form S-4).
4.12*	Registration Rights Agreement dated as of June 30, 1997 among Sonic, O. Bruton Smith, Bryan Scott Smith, William S. Egan and Sonic Financial Corporation (incorporated by reference to Exhibit 4.2 to the Form S-1).
4.13*	Form of 5.25% Convertible Senior Subordinated Note due 2009 (incorporated by reference to Exhibit 4.2 to the May 2002 Form 8-K/A).

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<u>Exhibit No.</u>	<u>Description</u>
4.14*	Supplemental Indenture by and among Sonic and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to the May 2002 Form 8-K/A).
4.15*	Subordination Agreement dated as of May 7, 2002 between O. Bruton Smith and U.S. Bank National Association (incorporated by reference to Exhibit 4.3 to the May 2002 Form 8-K/A).
10.1	Second Amended and Restated Credit Agreement dated as of February 5, 2003 (the "Second Amended and Restated Credit Agreement") between Sonic, as Borrower, Ford Motor Credit Company ("Ford Credit"), as Agent and Lender, DaimlerChrysler Services North America LLC ("Chrysler Financial"), as Lender, Toyota Motor Credit Corporation ("Toyota Credit"), as Lender, and Bank of America, N.A. ("Bank of America"), as Lender.
10.2	Second Amended and Restated Promissory Note dated February 5, 2003 executed by Sonic in favor of Ford Credit pursuant to the Second Amended and Restated Credit Agreement.
10.3	Second Amended and Restated Promissory Note dated February 5, 2003 executed by Sonic in favor of Chrysler Financial pursuant to the Second Amended and Restated Credit Agreement.
10.4	Amended and Restated Promissory Note dated February 5, 2003 executed by Sonic in favor of Toyota Credit pursuant to the Second Amended and Restated Credit Agreement.
10.5	Promissory Note dated February 5, 2003 executed by Sonic in favor of Bank of America pursuant to the Second Amended and Restated Credit Agreement.
10.6*	Guaranty dated June 20, 2001 by the subsidiaries of Sonic named therein, as Guarantors, in favor of Ford Credit, as Agent for the Lenders under the Credit Agreement dated as of June 20, 2001 between Sonic, as Borrower, Ford Credit, as Agent and Lender, Chrysler Financial Company, L.L.C., as Lender, and Toyota Credit, as Lender (incorporated by reference to Exhibit 10.5 to the June 30, 2001 Form 10-Q).
10.7	Reaffirmation of Guaranty dated as of February 5, 2003 by the subsidiaries of Sonic named therein, as Guarantors, in favor of Ford Credit, as Agent for the Lenders under the Second Amended and Restated Credit Agreement.
10.8	Second Amended and Restated Security Agreement dated as of February 5, 2003 by Sonic in favor of Ford Credit, as Agent for the Lenders under the Second Amended and Restated Credit Agreement.
10.9	Second Amended and Restated Security Agreement dated as of February 5, 2003 by the subsidiaries of Sonic named therein in favor of Ford Credit, as Agent for the Lenders under the Second Amended and Restated Credit Agreement.
10.10	Master Loan Agreement dated as of December 31, 2002 (the "Master Loan Agreement") among Sonic, as Guarantor, the subsidiaries of Sonic listed therein, as Borrowers, and Toyota Credit, as Lender.
10.11	Promissory Note relating to Construction Loan dated December 31, 2002 by the subsidiaries of Sonic listed therein, as Borrowers, in favor of Toyota Credit, as Lender, pursuant to the Master Loan Agreement.
10.12	Promissory Note relating to Permanent Loan dated December 31, 2002 by the subsidiaries of Sonic listed therein, as Borrowers, in favor of Toyota Credit, as Lender, pursuant to the Master Loan Agreement.
10.13	Continuing and Irrevocable Guaranty dated as of December 31, 2002 by Sonic, as Guarantor, in favor of Toyota Credit, as Lender, regarding the obligations of certain subsidiaries of Sonic, as borrowers, under the Master Loan Agreement.
10.14	Sonic Automotive, Inc. 1997 Stock Option Plan, Amended and Restated as of May 8, 2002. (1)
10.15	Sonic Automotive, Inc. Employee Stock Purchase Plan, Amended and Restated as of May 8, 2002. (1)

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<u>Exhibit No.</u>	<u>Description</u>
10.16	Sonic Automotive, Inc. Nonqualified Employee Stock Purchase Plan, Amended and Restated as of October 23, 2002. (1)
10.17*	Sonic Automotive, Inc. Formula Stock Option Plan for Independent Directors (incorporated by reference to Exhibit 10.69 to Sonic's Amended Annual Report on Form 10-K/A for the year ended December 31, 1997) (the "1997 Form 10-K/A"). (1)
10.18*	FirstAmerica Automotive, Inc. 1997 Stock Option Plan, Amended and Restated as of December 10, 1999 (incorporated by reference to Exhibit 4.1 to Sonic's Registration Statement on Form S-8 (Reg. No. 333-95791)).
10.19*	Employment Agreement between Sonic and Theodore M. Wright (incorporated by reference to Exhibit 10.20 to the 2000 Form 10-K). (1)
10.20*	Employment Agreement between Sonic and Jeffrey C. Rachor (incorporated by reference to Exhibit 10.22 to the 2001 Form 10-K). (1)
10.21*	Tax Allocation Agreement dated as of June 30, 1997 between Sonic and Sonic Financial Corporation (incorporated by reference to Exhibit 10.33 to the Form S-1).
10.22*	Subordinated Promissory Note dated December 1, 1997 (the "Smith Subordinated Note") in the amount of \$5.5 million by Sonic, as borrower, in favor of O. Bruton Smith, as lender (incorporated by reference to Exhibit 10.72 to the 1997 Form 10-K/A).
21.1	Subsidiaries of Sonic.
23.1	Consent of Deloitte & Touche LLP.
99.1	Risk Factors.
99.2	Certification of Mr. Theodore M. Wright pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.3	Certification of Mr. O. Bruton Smith pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed Previously

** Certain portions of this exhibit have been omitted pursuant to an order issued by the SEC granting confidential treatment to the information subject to that order.

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

(b) Reports on Form 8-K

On November 14, 2002, we filed a Current Report on Form 8-K with the SEC to announce pursuant to Item 5 of Form 8-K the promotion of certain members of our senior management. A copy of the press release issued in connection with this announcement was attached as an exhibit to the Current Report on Form 8-K.

On December 18, 2002, we filed a Current Report on Form 8-K with the SEC to furnish pursuant to Item 9 of Form 8-K revised earnings targets for the fourth quarter of 2002, the full year ended December 31, 2002 and the full year ended December 31, 2003. A copy of the press release announcing these revised earnings targets was attached as an exhibit to the Current Report on Form 8-K.

CERTIFICATION

I, O. Bruton Smith, certify that:

- 1 I have reviewed this annual report on Form 10-K of Sonic Automotive, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 18, 2003

By: /s/ O. Bruton Smith

O. Bruton Smith
Chairman and Chief Executive Officer

CERTIFICATION

I, Theodore M. Wright, certify that:

1. I have reviewed this annual report on Form 10-K of Sonic Automotive, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 18, 2003

By: /s/ Theodore M. Wright

Theodore M. Wright,
President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF
SONIC AUTOMOTIVE, INC.
Charlotte, North Carolina

We have audited the accompanying consolidated balance sheets of Sonic Automotive, Inc. and Subsidiaries (the "Company") as of December 31, 2001 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2001 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2002 the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, and No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

DELOITTE & TOUCHE LLP

Charlotte, North Carolina
February 24, 2003

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2001 and 2002
(Dollars in thousands)

	December 31,	
	2001	2002
ASSETS		
Current Assets:		
Cash	\$ —	\$ 10,576
Receivables, net	270,307	297,859
Inventories	661,305	929,450
Other current assets	29,127	63,742
Total current assets	960,739	1,301,627
Property and Equipment, net	98,972	121,936
Goodwill, net	727,503	875,894
Other Intangible Assets, net	10,600	61,800
Other Assets	12,555	14,051
Total Assets	\$ 1,810,369	\$ 2,375,308
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable—floor plan	\$ 587,914	\$ 850,162
Trade accounts payable	52,198	58,560
Accrued interest	9,676	13,306
Other accrued liabilities	89,322	113,592
Current maturities of long-term debt	2,586	2,764
Total current liabilities	741,696	1,038,384
Long-Term Debt	511,877	637,545
Other Long-Term Liabilities	5,836	16,085
Payable to the Company's Chairman	5,500	5,500
Deferred Income Taxes	28,199	40,616
Commitments and Contingencies		
Stockholders' Equity:		
Class A Convertible Preferred Stock, none issued		
Class A Common Stock, 34,850,738 shares issued at December 31, 2001 and 37,245,706 shares issued at December 31, 2002	348	371
Class B Common Stock, 12,029,375 shares at December 31, 2001 and December 31, 2002, issued and outstanding	121	121
Paid-in capital	343,256	396,813
Retained earnings	232,893	339,457
Accumulated other comprehensive loss	—	(6,447)
Treasury Stock, at cost (6,330,264 shares held at December 31, 2001 and 8,134,164 at December 31, 2002)	(59,357)	(93,137)
Total stockholders' equity	517,261	637,178
Total Liabilities and Stockholders' Equity	\$ 1,810,369	\$ 2,375,308

See notes to consolidated financial statements.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2000, 2001 and 2002
(Dollars and shares in thousands, except per share amounts)

	Year Ended December 31,		
	2000	2001	2002
Revenues:			
New vehicles	\$ 3,222,315	\$ 3,526,840	\$ 4,273,896
Used vehicles	1,059,100	1,072,857	1,214,334
Wholesale vehicles	383,662	383,054	472,171
Total vehicles	4,665,077	4,982,751	5,960,401
Parts, service and collision repair	628,859	721,235	908,762
Finance & insurance and other	150,365	175,923	201,852
Total revenues	5,444,301	5,879,909	7,071,015
Cost of sales	4,627,712	4,975,249	5,980,085
Gross profit	816,589	904,660	1,090,930
Selling, general and administrative expenses	594,931	680,076	847,195
Depreciation	5,372	6,779	8,528
Goodwill amortization	15,742	17,567	—
Operating income	200,544	200,238	235,207
Other income / (expense):			
Interest expense, floor plan	(41,921)	(32,500)	(24,524)
Interest expense, other	(40,833)	(34,712)	(38,734)
Other income, net	103	137	3,381
Total other expense	(82,651)	(67,075)	(59,877)
Income from continuing operations before taxes	117,893	133,163	175,330
Provision for income taxes	45,013	51,676	66,821
Net income from continuing operations	72,880	81,487	108,509
Discontinued operations:			
Income/(loss) from operations of discontinued dealerships	1,979	(3,119)	(3,411)
Income tax benefit (expense)	(687)	961	1,466
Net income/(loss) from discontinued operations	1,292	(2,158)	(1,945)
Net income	\$ 74,172	\$ 79,329	\$ 106,564
Basic net income (loss) per share:			
Net income per share from continuing operations	\$ 1.71	\$ 2.01	\$ 2.60
Net income/(loss) per share from discontinued operations	0.03	(0.05)	(0.05)
Net income per share	\$ 1.74	\$ 1.96	\$ 2.55
Weighted average common shares outstanding	42,518	40,541	41,728
Diluted net income (loss) per share:			
Net income per share from continuing operations	\$ 1.66	\$ 1.96	\$ 2.51
Net income/(loss) per share from discontinued operations	0.03	(0.05)	(0.04)
Net income per share	\$ 1.69	\$ 1.91	\$ 2.47
Weighted average common shares outstanding	43,826	41,609	43,158

See notes to consolidated financial statements

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2000, 2001 and 2002
(Dollars and shares in thousands)

	Preferred Stock		Class A Common Stock		Class B Common Stock		Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income
	Shares	Amount	Shares	Amount	Shares	Amount						
BALANCE AT DECEMBER 31, 1999	28	\$ 27,191	29,075	\$ 291	12,250	\$ 123	\$301,934	\$ 79,392	\$ (6,358)	\$ —	\$ 402,573	\$ —
Issuance of Preferred Stock	11	11,589	—	—	—	—	—	—	—	—	11,589	—
Issuance of Class A Common Stock	—	—	809	8	—	—	(8)	—	—	—	—	—
Shares awarded under stock compensation plans	—	—	441	4	—	—	2,615	—	—	—	2,619	—
Conversion of Preferred Stock	(26)	(25,947)	2,967	30	—	—	25,917	—	—	—	—	—
Redemption of Preferred Stock	(13)	(12,582)	—	—	—	—	(969)	—	—	—	(13,551)	—
Purchase of Treasury Stock	—	—	—	—	—	—	—	—	(26,480)	—	(26,480)	—
Net income	—	—	—	—	—	—	—	74,172	—	—	74,172	74,172
BALANCE AT DECEMBER 31, 2000	—	251	33,292	333	12,250	123	329,489	153,564	(32,838)	—	450,922	74,172
Shares awarded under stock compensation plans	—	—	1,257	12	—	—	9,970	—	—	—	9,982	—
Conversion of Class B Common Stock	—	—	221	2	(221)	(2)	—	—	—	—	—	—
Redemption of Preferred Stock	—	(251)	—	—	—	—	—	—	—	—	(251)	—
Exercise of Warrants	—	—	81	1	—	—	(1)	—	—	—	—	—
Purchase of Treasury Stock	—	—	—	—	—	—	—	—	(26,519)	—	(26,519)	—
Income tax benefit associated with stock compensation plans	—	—	—	—	—	—	3,798	—	—	—	3,798	—
Net Income	—	—	—	—	—	—	—	79,329	—	—	79,329	79,329
BALANCE AT DECEMBER 31, 2001	—	—	34,851	348	12,029	121	343,256	232,893	(59,357)	—	517,261	79,329
Shares awarded under stock compensation plans	—	—	1,059	10	—	—	12,246	—	—	—	12,256	—
Issuance of Class A Common Stock for Acquisitions	—	—	1,336	13	—	—	34,496	—	—	—	34,509	—
Purchase of Treasury Stock	—	—	—	—	—	—	—	—	(33,780)	—	(33,780)	—
Income tax benefit associated with stock compensation plans	—	—	—	—	—	—	6,815	—	—	—	6,815	—
Fair value of interest rate swap agreement, net of tax benefit of \$4,122	—	—	—	—	—	—	—	—	—	(6,447)	(6,447)	(6,447)
Net income	—	—	—	—	—	—	—	106,564	—	—	106,564	106,564
BALANCE AT DECEMBER 31, 2002	—	\$ —	37,246	\$ 371	12,029	\$ 121	\$396,813	\$339,457	\$ (93,137)	\$ (6,447)	\$ 637,178	\$100,117

See notes to consolidated financial statements

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2000, 2001 and 2002
(Dollars in thousands)

	Years Ended December 31,		
	2000	2001	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 74,172	\$ 79,329	\$ 106,564
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	22,714	25,790	8,974
Amortization of debt issue costs	293	314	785
Deferred income taxes	12,384	11,788	15,048
Equity interest in (earnings) losses of investees	119	(264)	(354)
(Gain)/Loss on disposal of assets	317	(897)	(3,470)
Gain on retirement of debt	—	—	(3,144)
Income tax benefit associated with stock compensation plans	—	3,798	6,815
Changes in assets and liabilities that relate to operations:			
Receivables	(50,114)	(11,505)	(26,888)
Inventories	(72,080)	219,135	(27,254)
Other assets	2,225	(2,572)	(688)
Notes payable—floor plan	105,809	(203,840)	43,224
Trade accounts payable and other liabilities	(14,590)	5,593	19,271
Total adjustments	7,077	47,340	32,319
Net cash provided by operating activities	81,249	126,669	138,883
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of businesses, net of cash acquired	(91,554)	(120,158)	(202,365)
Purchases of property and equipment	(73,171)	(43,600)	(92,516)
Proceeds from sales of property and equipment	47,943	12,810	42,320
Proceeds from sale of dealerships	7,148	14,068	17,575
Net cash used in investing activities	(109,634)	(136,880)	(234,986)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings/(repayments) on revolving credit facilities	69,342	(45,885)	18,257
Proceeds from long-term debt	1,418	74,583	145,074
Payments on long-term debt	(3,696)	(2,966)	(2,382)
Repurchase of debt securities	—	—	(32,746)
Redemptions of Preferred Stock	(13,551)	(251)	—
Purchases of Class A Common Stock	(26,480)	(26,519)	(33,780)
Issuance of shares under stock compensation plans	2,619	9,982	12,256
Net cash provided by financing activities	29,652	8,944	106,679
NET INCREASE (DECREASE) IN CASH	1,267	(1,267)	10,576
CASH, BEGINNING OF YEAR	—	1,267	—
CASH, END OF YEAR	\$ 1,267	\$ —	\$ 10,576
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	\$ 90,678	\$ 71,972	\$ 65,019
Income taxes	\$ 36,821	\$ 30,553	\$ 42,239
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:			
Class A Convertible Preferred Stock issued for acquisitions and contingent consideration	\$ 11,589	\$ —	\$ —
Conversion of Class A Convertible Preferred Stock	\$ 25,947	\$ —	\$ —
Class A Common Stock issued for acquisitions	\$ —	\$ —	\$ 34,509
Change in fair value of cash flow hedging instrument (net of tax benefit of \$4,122)	\$ —	\$ —	\$ (6,447)

See notes to consolidated financial statements.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All tables in thousands except per share amounts)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business—Sonic Automotive, Inc (“Sonic”) is one of the largest automotive retailers in the United States (as measured by total revenue), operating 186 dealership franchises and 44 collision repair centers throughout the United States as of December 31, 2002. Sonic sells new and used cars and light trucks, sells replacement parts, provides vehicle maintenance, warranty, paint and repair services, and arranges related financing and insurance for its automotive customers. As of December 31, 2002, Sonic sold a total of 34 foreign and domestic brands of new vehicles.

Principles of Consolidation—All material intercompany balances and transactions have been eliminated in the consolidated financial statements. In addition, Sonic has a 50% ownership interest in two joint ventures where the partners are not affiliated with Sonic. These investments are accounted for under the equity method whereby we record our share of each respective joint venture’s pretax profit or loss. We recorded \$0.4 million in net income in 2002 and \$0.3 million in net income in 2001 related to these investments. These entities are not consolidated into Sonic’s financial statements because Sonic does not have operating control of the entities. However, Sonic has guaranteed \$6.0 million in indebtedness between North Point Volvo, LLC, one of the joint ventures, and Bank of America, N.A., including a \$5.5 million revolving floor plan agreement expiring in 2003, of which \$2.0 million was outstanding at December 31, 2002, and a \$0.4 million term loan expiring in 2007. We have guaranteed no other obligations of either company.

Reclassifications—Effective January 1, 2002, Sonic adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 144 applicable to the accounting for the disposal of long-lived assets. This pronouncement broadened the definition of items which qualify as discontinued operations. As a result, individual dealerships sold or classified as held for sale after December 31, 2001 are now required to be reported as discontinued operations. Accordingly, the results of operations of dealerships sold during 2002 and held for sale as of December 31, 2002 have been reclassified in our consolidated income statements to income/loss from discontinued operations for all periods presented. In addition, in order to maintain consistency and comparability between periods, certain other amounts in our consolidated balance sheets have been reclassified from previously reported balances to conform to the current year presentation. These reclassifications relate primarily to contracts-in-transit which are now classified in receivables, net rather than cash.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates particularly related to allowance for credit loss, realization of inventory, intangible asset and deferred tax asset values, reserves for future chargebacks, insurance reserves and certain accrued expenses.

Revenue Recognition—Sonic records revenue when vehicles are delivered to customers, when vehicle service work is performed and when parts are delivered.

Sonic arranges financing for customers through various financial institutions and receives a commission from the lender equal to the difference between the interest rates charged to customers over the predetermined interest rates set by the financing institution. Sonic also receives commissions from the sale of various insurance contracts to customers. Sonic may be assessed a chargeback fee in the event of early cancellation of a loan or insurance contract by the customer. Finance and insurance commission revenue is recorded net of estimated chargebacks at the time the related contract is placed with the financial institution.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Sonic also receives commissions from the sale of non-recourse third party extended service contracts to customers. Under these contracts the applicable manufacturer or third party warranty company is directly liable for all warranties provided within the contract. Commission revenue from the sale of these third party extended service contracts is recorded net of estimated chargebacks at the time of sale.

Floor Plan Assistance—Floor plan assistance payments received from manufacturers are generally based on rates similar to those incurred under our floor plan financing arrangements. This assistance is considered a subsidy of the carrying cost of our new vehicle inventory. Sonic recognizes this assistance as a reduction of cost of sales in the accompanying consolidated statements of income. Amounts included in cost of sales were \$33.3 million, \$30.8 million and \$38.7 million for the years ended December 31, 2000, 2001 and 2002, respectively.

Cash—Although not required under the terms of any credit agreement, Sonic’s practice has been to apply all of its available cash to reduce the outstanding balance on Sonic’s revolving credit facility for the purpose of maximizing the return on these funds and minimizing interest expense.

Contracts in Transit—Contracts in transit represent customer finance contracts evidencing loan agreements or lease agreements between Sonic, as creditor, and the customer, as borrower, to acquire or lease a vehicle in situations where a third-party finance source has given Sonic initial, non-binding approval to assume Sonic’s position as creditor. Funding and final approval from the finance source is provided upon the finance source’s review of the loan or lease agreement and related documentation executed by the customer at the dealership. These finance contracts are typically funded within ten days of the initial approval of the finance transaction given by the third-party finance source. The finance source is not contractually obligated to make the loan or lease to the customer until it gives its final approval and funds the transaction, and until such final approval is given, the contracts in transit represent amounts due from the customer to Sonic. Contracts in transit are included in receivables on the accompanying consolidated balance sheets and totaled \$127.9 million at December 31, 2001 and \$135.4 million at December 31, 2002.

Accounts receivable—Our accounts receivable consist primarily of amounts due from the manufacturers for repair services performed on vehicles with a remaining factory warranty and amounts due from third parties from the sale of parts. We believe that there is minimal risk of uncollectability on warranty receivables. We evaluate parts and other receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience. The allowance for doubtful accounts receivable is not significant.

Inventories—Inventories of new and used vehicles, including demonstrators, are stated at the lower of specific cost or market. Inventories of parts and accessories are accounted for using the “first-in, first-out” (“FIFO”) method of inventory accounting and are stated at the lower of FIFO cost or market. Other inventories, which primarily include rental and service vehicles, are stated at the lower of specific cost or market.

Sonic assesses the valuation of all of its vehicle and parts inventories and maintains a reserve where the cost basis exceeds the fair market value. In making this assessment for new vehicles, Sonic primarily considers the age of the vehicles along with the timing of annual and model changeovers. For used vehicles, Sonic considers recent market data and trends such as loss histories along with the current age of the inventory. Parts inventories are primarily assessed considering excess quantity and continued usefulness of the part. The risk with parts inventories is minimized by the fact that excess or obsolete parts can generally be returned to the manufacturer. We have not recorded any significant reserves on any of our inventory balances.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Property and Equipment—Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The range of estimated useful lives is as follows:

Building and improvements.	5-40 years
Office equipment and fixtures.	5-15 years
Parts and service equipment.	15 years
Company vehicles	5 years

As discussed above, effective January 1, 2002, Sonic adopted the provisions of SFAS 144 regarding the accounting for the impairment of long-lived assets which requires certain long-lived assets to be reported at the lower of carrying amount or fair value, less cost to sell, and provides guidance in asset valuation and measuring impairment. Accordingly, Sonic reviews the carrying value of property and equipment and other long-term assets (other than goodwill) for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If such an indication is present, Sonic compares the carrying amount of the asset to the estimated undiscounted cash flows related to those assets. Sonic concludes that an asset is impaired if the sum of such expected future cash flows is less than the carrying amount of the related asset. If Sonic determines an asset is impaired, the impairment loss would be the amount by which the carrying amount of the related asset exceeds its fair value. The fair value of the asset would be determined based on the quoted market prices, if available. If quoted market prices are not available, Sonic determines fair value by using a discounted cash flow model. No impairment has been determined or recorded in any of the periods presented.

Derivative Instruments and Hedging Activities—Sonic utilizes derivative financial instruments for the purpose of hedging the risks of certain identifiable and anticipated transactions. In general, the types of risks being hedged are those relating to the variability of future earnings and cash flows caused by fluctuations in interest rates. Sonic documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The only derivatives currently being used are interest rate swaps used for the purpose of hedging cash flows of variable rate debt. These derivatives are used only for that purpose, not for speculation or trading purposes. The derivatives, which have been designated and qualify as cash flow hedging instruments, are reported at fair value in the accompanying balance sheets. The gain or loss on the effective portion of the hedge is initially reported as a component of accumulated other comprehensive loss.

Goodwill and Other Intangible Assets—Effective July 1, 2001, Sonic adopted the provisions of SFAS 141, “Business Combinations.” Among other provisions, SFAS 141 provides guidance regarding the recognition and measurement of goodwill and other acquired intangible assets. For acquisitions after July 1, 2001, the provisions of SFAS 141 require separate recognition of intangible assets acquired if the benefit of the asset is obtained through contractual or other legal rights, or if the asset can be sold, transferred, licensed, rented, or exchanged. Goodwill is recognized to the extent that the purchase price of the acquisition exceeds the estimated fair value of the net assets acquired, including other identifiable intangible assets. The principal identifiable intangible assets other than goodwill acquired in an acquisition are rights under franchise agreements with manufacturers. The economic useful lives of these franchise agreements have been determined to be indefinite. Franchise agreements acquired after July 1, 2001 have been included in Other Intangible Assets on the accompanying consolidated balance sheets. Prior to the adoption of SFAS 141, franchise agreements were recorded and amortized as part of goodwill.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Effective January 1, 2002, Sonic also adopted the provisions of SFAS 142, "Goodwill and Other Intangible Assets." Among other things, SFAS 142 no longer permits the amortization of goodwill or intangible assets with indefinite lives, but requires that the carrying amount of such assets be reviewed for impairment and reduced against operations if they are found to be impaired. Prior to the adoption of SFAS 142, goodwill and intangible assets acquired prior to July 1, 2002 were amortized over a 40 year period. Effective January 1, 2002, such amortization ceased. The following table shows the effect on net income and net income per share for the years ending December 31, 2000 and 2001 as if the provisions of SFAS 142 eliminating goodwill amortization had been applied as of January 1, 2000.

	For the Year ended December 31,		
	2000	2001	2002
Reported net income	\$ 74,172	\$ 79,329	\$ 106,564
Goodwill amortization, net of tax	9,702	13,509	—
Adjusted net income	\$ 83,874	\$ 92,838	\$ 106,564
Basic net income per share:			
Reported net income	\$ 1.74	\$ 1.96	\$ 2.55
Goodwill amortization, net of tax	0.23	0.33	—
Adjusted net income	\$ 1.97	\$ 2.29	\$ 2.55
Diluted net income per share:			
Reported net income	\$ 1.69	\$ 1.91	\$ 2.47
Goodwill amortization, net of tax	0.22	0.33	—
Adjusted net income	\$ 1.91	\$ 2.24	\$ 2.47

We have completed the impairment tests required by SFAS No. 142 for goodwill and other intangible assets with indefinite lives. In order to evaluate goodwill for impairment, we compared the carrying value to the fair value of the underlying businesses. Based on the results of our tests, no impairment was indicated for goodwill or other intangible assets. We will continue to test goodwill and other intangible assets with indefinite lives for impairment annually, or more frequently if events or circumstances indicate possible impairment.

Income Taxes—Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are provided at currently enacted tax rates for the tax effects of carryforward items and temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. A valuation allowance is provided when it is more likely than not that taxable income will not be sufficient to fully realize the benefits of deferred tax assets. No valuation allowance has been recorded in any period presented.

Stock-Based Compensation—In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure". SFAS 148 amends Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," to provide alternate methods of transition for companies electing to voluntarily change to the fair value method of accounting for stock-based compensation and also amends the disclosure provisions of SFAS 123. The provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002. Sonic has adopted the disclosure provisions of SFAS 148.

At December 31, 2002, Sonic had three stock-based employee compensation plans, which are described more fully in Note 9. Sonic accounts for those plans under the recognition and measurement provisions of APB

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. In accordance with those provisions, because the exercise price of all options granted under those plans equaled the market value of the underlying stock at the grant date, no stock-based employee compensation cost is recorded. Using the Black-Scholes option pricing model for all options granted, the following table illustrates the effect on net income and earnings per share if Sonic had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation:

	For the Year ended December 31,		
	2000	2001	2002
Reported net income	\$ 74,172	\$ 79,329	\$ 106,564
Fair value compensation cost, net of tax	(3,399)	(5,685)	(7,933)
Pro forma net income	\$ 70,773	\$ 73,644	\$ 98,631
Basic net income per share:			
Reported net income	\$ 1.74	\$ 1.96	\$ 2.55
Fair value compensation cost, net of tax	(0.08)	(0.14)	(0.19)
Pro forma net income	\$ 1.66	\$ 1.82	\$ 2.36
Diluted net income per share:			
Reported net income	\$ 1.69	\$ 1.91	\$ 2.47
Fair value compensation cost, net of tax	(0.08)	(0.14)	(0.18)
Pro forma net income	\$ 1.61	\$ 1.77	\$ 2.29

The weighted average fair value of options granted or assumed was \$4.41, \$3.79, and \$15.12 per share in 2000, 2001 and 2002, respectively. The fair value of each option granted during 2000, 2001 and 2002 was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2000	2001	2002
Employee Stock Purchase Plan			
Dividend yield	n/a	n/a	n/a
Risk free interest rates	5.32-6.74%	2.17-4.30%	1.51-2.76%
Expected lives	0.25-1.0 year	0.25-1.0 year	0.25-1.0 year
Volatility	44.85%	55.21%	52.36%
Stock Option Plans			
Dividend yield	n/a	n/a	n/a
Risk free interest rates	5.92%-6.53%	3.47-5.07%	3.26-4.58%
Expected lives	5 years	5 years	5 years
Volatility	44.85%	55.21%	53.27%

Concentrations of Credit Risk—Financial instruments that potentially subject Sonic to concentrations of credit risk consist principally of cash on deposit with financial institutions. At times, amounts invested with financial institutions may exceed FDIC insurance limits. Concentrations of credit risk with respect to receivables are limited primarily to automobile manufacturers and financial institutions. The large number of customers comprising the trade receivables balances reduces credit risk arising from trade receivables from commercial customers.

As of December 31, 2002, Sonic has outstanding notes receivable from finance contracts of \$12.4 million, net of an allowance for credit losses of \$1.9 million. Outstanding notes receivable at December 31, 2001 were

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

\$12.0 million, net of an allowance of \$1.8 million. These notes have average terms of approximately 30 months and are secured by the related vehicles. The assessment of our allowance for credit losses considers historical loss ratios and the performance of the current portfolio with respect to past due accounts. These notes are recorded in other current and long-term assets on the accompanying consolidated balance sheets.

Financial Instruments and Market Risks—As of December 31, 2001 and 2002, the fair values of Sonic's financial instruments, including receivables, notes receivable from finance contracts, notes payable-floor plan, trade accounts payable, payables to Sonic's Chairman, payables for acquisitions and long-term debt, excluding Sonic's senior subordinated notes, approximate their carrying values due either to length of maturity or existence of variable interest rates that approximate prevailing market rates.

The fair value of Sonic's senior subordinated notes based on the quoted bid price as of December 31, 2001 and 2002 was approximately \$207.0 million and \$189.7 million, respectively. The carrying value of Sonic's senior subordinated notes as of December 31, 2001 and 2002 was approximately \$195.7 million and \$179.0 million, respectively.

The fair value of Sonic's convertible senior subordinated notes based on the quoted bid price as of December 31, 2002 was approximately \$100.4 million. The carrying value of Sonic's convertible senior subordinated notes as of December 31, 2002 was approximately \$126.5 million.

Sonic has variable rate floor plan note facilities, revolving credit facilities and other variable rate notes that expose it to risks caused by fluctuations in the underlying interest rates. The total outstanding balance of such facilities was approximately \$911.3 million at December 31, 2001 and \$1,190.5 million at December 31, 2002.

In order to reduce its exposure to market risks from fluctuations in interest rates, Sonic entered into two separate interest rate swap agreements on January 15, 2002 and June 6, 2002 to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate. The swaps each have a notional principal amount of \$100 million and mature on October 31, 2004 and June 6, 2006, respectively. Under the terms of the swap agreement entered into on January 15, 2002, Sonic receives interest payments on the notional amount at a rate equal to the one month LIBOR rate, adjusted monthly, and makes interest payments at a fixed rate of 3.88%. Under the terms of the swap agreement entered into on June 6, 2002, Sonic receives interest payments on the notional amount at a rate equal to the one month LIBOR rate, adjusted monthly, and makes interest payments at a fixed rate of 4.50%. Incremental interest expense incurred (the difference between interest received and interest paid) as a result of these interest rate swaps was \$3.6 million for year ended December 31, 2002, and has been included in interest expense, other in the accompanying consolidated statements of income.

The interest rate swaps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of the interest rate swaps have been recorded in accumulated other comprehensive loss, net of related income taxes, in our statements of stockholders' equity. The fair value of the interest rate swaps as of December 31, 2002 is recorded in other long-term liabilities on the accompanying balance sheet. The change in fair value of the swaps during the year ended December 31 2002, recorded in accumulated other comprehensive loss, was approximately \$10.6 million (\$6.4 million, net of tax). Because the critical terms of the interest rate swaps and the underlying debt obligations were the same, no ineffectiveness was recorded.

Advertising—Sonic expenses advertising costs in the period incurred, net of earned manufacturer credits for advertising. Advertising expense amounted to \$48.0 million, \$47.1 million and \$61.9 million for the years ended December 31, 2000, 2001 and 2002, respectively.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Segment Information—Sonic sells similar products and services (new and used vehicles, parts, service and collision repair services), uses similar processes in selling products and services, and sells its products and services to similar classes of customers. As a result of this and the way Sonic manages its business, Sonic has aggregated its results into a single segment for purposes of reporting financial condition and results of operations.

Recent Accounting Pronouncements—In April 2002, the FASB issued SFAS No. 145: “Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections”. Prior to adoption, gains or losses resulting from extinguishment of debt were required to be classified as extraordinary items, net of related tax effects. Upon adoption of SFAS No. 145, however, the classification of such gains or losses as extraordinary must be evaluated based on the criteria established in APB Opinion No. 30. Gains and losses not meeting that criteria, including gains and losses classified as extraordinary in prior periods, must be classified in income from operations. Sonic adopted the provisions of SFAS No. 145 effective July 1, 2002. Gains or losses incurred on the early extinguishment of debt (debt repurchases) have been included in other income in the accompanying consolidated statements of income.

In June 2002, the FASB issued SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities.” SFAS 146 requires the recognition of a liability for costs associated with an exit or disposal activity at the time the liability is incurred, rather than at the date of the entity’s commitment to the exit or disposal plan. The provisions of SFAS 146 are effective for exit or disposal activities initiated after December 31, 2002. We do not expect the adoption of SFAS 146 to have a material effect on our consolidated operating results, financial position, or cash flows.

In November 2002, the FASB issued FASB Interpretation (“FIN”) No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees of Indebtedness of Others.” FIN 45 requires the recognition of a liability for certain guarantees issued after December 31, 2002, or for modifications made after December 31, 2002 to previously issued guarantees, and clarifies disclosure requirements for certain guarantees. The disclosure provisions of FIN 45 are effective for fiscal years ended after December 15, 2002. We have adopted the disclosure provisions of FIN 45 as of December 31, 2002. See Note 10.

In January 2003, the FASB issued FIN 46, “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51.” FIN 46 requires the consolidation of certain variable interest entities by the primary beneficiary if the equity investors do not have a controlling financial interest or sufficient equity at risk to finance the entities’ activities without additional subordinated financial support of other parties. The provisions of FIN 46 are effective for all variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to that date, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The adoption of FIN 46 is not expected to have a material impact on our consolidated results of operations, financial position or cash flows.

2. BUSINESS ACQUISITIONS AND DISPOSITIONS

Completed Acquisitions

Sonic generally seeks to acquire larger, well managed dealerships or multiple franchise dealership groups located in metropolitan or high growth suburban markets. Sonic also looks to acquire single franchise dealerships that will allow Sonic to capitalize on professional management practices and provide greater breadth of products and services in existing markets. Occasionally, Sonic acquires dealerships that have under performed the industry average, but represent attractive franchises or have attractive locations that would immediately benefit from our professional management.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

On March 25, 2002, Sonic acquired 15 dealerships and on May 20, 2002 acquired one additional dealership, owned directly or indirectly by Donald E. Massey (the “Massey Acquisition”) for approximately \$117.5 million in cash and 1,336,151 shares of Class A common stock valued at approximately \$34.5 million, based on the average closing price as quoted by the New York Stock Exchange for several days before and after the acquisition was announced. The acquired dealerships are located in California, Colorado, Florida, North Carolina, Michigan, Tennessee and Texas. The purchase price of this acquisition has been allocated to the assets and liabilities acquired based on their estimated fair market value at the acquisition date as shown in the table below:

Inventories	\$	162,492
Floor plan notes payable		(143,659)
Other working capital		1,776
Property and equipment		4,719
Goodwill		93,523
Other intangible assets		35,426
Non-current liabilities assumed		(2,240)
		<hr/>
Total purchase price	\$	152,037
		<hr/>

The tax deductible goodwill associated with the above acquisitions was approximately \$68.5 million.

During 2002, Sonic also acquired the following dealerships for approximately \$96.0 million in cash:

- On January 21, 2002, Sonic acquired Park Place Audi located in Dallas, Texas;
- On February 25, 2002, Sonic acquired five dealerships owned by Don Kott located in the metropolitan area of Los Angeles, California;
- On March 18, 2002, Sonic acquired Philpott Motors Hyundai located in the metropolitan area of Houston, Texas;
- On July 2, 2002, Sonic acquired 3 dealerships owned by Frank Parra located in the metropolitan area of Dallas, Texas;
- On July 15, 2002, Sonic acquired Acura 101 located in the metropolitan area of Los Angeles, California;
- On August 26, 2002, Sonic acquired Stone Mountain Chevrolet located in the metropolitan area of Atlanta, Georgia;
- On September 19, 2002, Sonic acquired Riverside Toyota located in Tulsa, Oklahoma;
- On September 30, 2002, Sonic acquired Capital Imports located in Columbia, South Carolina; and
- On December 12, 2002, Sonic acquired Mountain States Motors located in Denver, Colorado.

Goodwill recognized in these transactions amounted to approximately \$67.9 million of which approximately \$18.6 million is expected to be fully deductible for tax purposes.

During 2001, Sonic acquired 12 dealerships for approximately \$129.9 million in cash.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

During 2000, Sonic acquired 11 dealerships for approximately \$92.0 million in cash and 11,589 shares of Sonic's Class A convertible preferred stock, Series II, recorded at an estimated value of approximately \$11.6 million.

All of our acquisitions have been accounted for using the purchase method of accounting, and the results of operations of such acquisitions have been included in the accompanying consolidated financial statements from their respective acquisition dates. We are still in the process of obtaining data necessary to complete the allocation of the purchase price of our recent acquisitions. As a result, the values of assets and liabilities acquired in 2002 reflect preliminary estimates where values have not yet been determined and may ultimately be different than amounts recorded once actual values are determined. Any adjustment to the value of assets and liabilities will be recorded against goodwill.

Pro Forma Results of Operations

The following unaudited pro forma financial information presents a summary of consolidated results of operations as if all of the above acquisitions had occurred at the beginning of the year in which the acquisitions were completed, and at the beginning of the immediately preceding year, after giving effect to certain adjustments, including amortization of goodwill, interest expense on acquisition debt and related income tax effects. The pro forma financial information does not give effect to adjustments relating to net reductions in floorplan interest expense resulting from renegotiated floorplan financing agreements or to reductions in salaries and fringe benefits of former owners or officers of acquired dealerships who have not been retained by Sonic or whose salaries have been reduced pursuant to employment agreements with Sonic. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results of operations that would have occurred had the acquisitions actually been completed at the beginning of the periods presented. These results are also not necessarily indicative of the results of future operations.

	Year Ended December 31,	
	2001	2002
Total revenues	\$ 8,496,724	\$ 7,542,445
Gross profit	\$ 1,214,368	\$ 1,147,142
Net income	\$ 89,780	\$ 109,519
Diluted net income per share	\$ 2.16	\$ 2.54

Sale of Dealership Subsidiaries

During 2002, Sonic disposed of 16 franchises, resulting in the closing of nine dealerships and three collision repair centers, and approved, but had not completed the sale of, ten additional franchises, which will result in the closing of nine additional dealerships. These were generally smaller dealerships with unprofitable operations. The dealerships disposed of and held for sale generated combined revenues of \$343.6 million during 2002 and \$457.4 million in 2001, and generated a combined pre-tax loss of \$3.4 million and \$3.1 million in 2002 and 2001, respectively. In accordance with the provisions of SFAS No. 144, the results of operations of these dealerships, including gains or losses on disposition, have been included in the loss from operations of discontinued dealerships in the accompanying consolidated statement of income. Long-lived assets to be disposed in connection with dealerships not yet sold, consisting primarily of property, plant and equipment and goodwill, totaled approximately \$14.5 million at December 31, 2002 and have been classified in other current assets in the accompanying audited consolidated balance sheet. Other assets and liabilities to be disposed in connection with these dispositions include inventories and related floor plan notes payable.

In addition to the dispositions discussed above, during the year ended December 31, 2001, Sonic sold or otherwise disposed of assets from 15 other dealership franchises, resulting in the closing of nine dealerships.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

These dealerships generated combined revenues of \$81.6 million and incurred pretax losses of \$4.4 million in the year ended December 31, 2001. The results of operations of these dealerships have been included in net income from continuing operations in the accompanying consolidated statements of income.

3. INVENTORIES AND RELATED NOTES PAYABLE—FLOOR PLAN

Inventories consist of the following:

	December 31,	
	2001	2002
New vehicles	\$ 476,628	\$ 733,757
Used vehicles	110,152	111,884
Parts and accessories	48,705	50,860
Other	25,820	32,949
Total	\$ 661,305	\$ 929,450

We finance our new vehicle inventory through standardized floor plan credit facilities with Chrysler Financial Company, LLC (“Chrysler Financial”), Ford Motor Credit Company (“Ford Credit”), General Motors Acceptance Corporation (“GMAC”), Toyota Motor Credit Corporation (“Toyota Credit”) and Bank of America, N.A. These floor plan facilities bear interest at variable rates based on prime and LIBOR. The weighted average interest rate for our floor plan facilities was 3.58% for the year ended December 31, 2002 and 5.83% for the year ended December 31, 2001. Our floor plan interest expenses are substantially offset by amounts received from manufacturers, in the form of floor plan assistance, which is recorded as a reduction of cost of sales. During the year ended December 31, 2002, the amounts we received from floor plan assistance exceeded our floor plan interest expense by approximately \$15.0 million.

The underlying notes are due when the related vehicles are sold and are collateralized by vehicle inventories and other assets, excluding franchise agreements, of the relevant dealership subsidiary. The floor plan facilities contain a number of covenants, including among others, covenants restricting us with respect to the creation of liens and changes in ownership, officers and key management personnel. We are in compliance with all restrictive covenants as of December 31, 2002.

4. PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	December 31,	
	2001	2002
Land	\$ 10,863	\$ 5,983
Building and improvements	34,387	42,201
Office equipment and fixtures	29,492	31,616
Parts and service equipment	21,917	22,485
Company vehicles	7,078	8,211
Construction in progress	16,003	33,637
Total, at cost	119,740	144,133
Less accumulated depreciation	(20,768)	(22,197)
Property and equipment, net	\$ 98,972	\$ 121,936

Interest capitalized in conjunction with construction projects was approximately \$1.1 million, \$1.4 million and \$2.5 million for the years ended December 31, 2000, 2001, and 2002, respectively.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In addition to the amounts shown above, Sonic incurred approximately \$39.2 million in real estate and construction costs as of December 31, 2002 and \$18.0 million as of December 31, 2001 on facilities that are or were expected to be completed and sold within one year in sale-leaseback transactions. Accordingly, these costs are included in other current assets on the accompanying consolidated balance sheets. Under the terms of the sale-leaseback transactions, Sonic sells the properties to a third party entity and enters into long-term operating leases on the facilities.

5. LONG-TERM DEBT

Long-term debt consists of the following:

	December 31	
	2001	2002
Senior Subordinated Notes bearing interest at 11%, maturing August 1, 2008	\$ 200,000	\$ 182,360
Convertible Senior Subordinated Notes bearing interest at 5.25%, maturing May 7, 2009	—	130,100
\$600 million revolving credit facility bearing interest at 2.50 percentage points above LIBOR and maturing in October 2004, collateralized by all assets of Sonic (1)	299,193	330,718
\$50 million revolving construction line of credit with Ford Credit	8,533	—
\$50 million revolving real estate acquisition line of credit with Ford Credit	4,735	—
\$50 million revolving construction line of credit with Toyota Credit bearing interest at 2.25 percentage points above LIBOR and maturing December 31, 2007, collateralized by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets	—	—
\$100 million revolving real estate acquisition line of credit with Toyota Credit bearing interest at 2.0 percentage points above LIBOR and maturing December 31, 2012, collateralized by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets	—	—
Other notes payable (primarily equipment notes)	6,306	4,137
	\$ 518,767	\$ 647,315
Less unamortized discount	(4,304)	(7,006)
Less current maturities	(2,586)	(2,764)
Long-term debt	\$ 511,877	\$ 637,545

(1) Certain terms have been amended subsequent to December 31, 2002. See further discussion below.

Future maturities of debt are as follows:

Year ending December 31,

2003	\$	2,764
2004		1,011
2005		142
2006		330,799
2007		76
Thereafter.		312,523
Total	\$	647,315

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Revolving Facility

As of December 31, 2002 Sonic had a revolving credit facility (the “Revolving Facility”) with Ford Credit, Chrysler Financial and Toyota Credit with a borrowing limit of \$600 million, subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by an affiliate of Sonic (the borrowing base was approximately \$490.5 million at December 31, 2002). The amounts outstanding under the Revolving Facility bore interest at 2.50% above LIBOR (LIBOR was 1.38% at December 31, 2002) and had an original maturity date of October 31, 2004 (terms have been amended subsequent to December 31, 2002; see discussion below). The Revolving Facility included a commitment fee equal to 0.25% of the unused portion of the facility. This fee was approximately \$0.2 million in 2001 and approximately \$0.8 million in 2002.

We agreed under the Revolving Facility not to pledge any of our assets to any third party (with the exception of currently encumbered assets of our dealership subsidiaries that are subject to previous pledges or liens). In addition, the Revolving Facility contained certain negative covenants, including covenants restricting or prohibiting the payment of dividends, capital expenditures and material dispositions of assets as well as other customary covenants and default provisions. Financial covenants included specified ratios of:

<u>Covenant</u>	<u>Required</u>
Current ratio	>1.23
Fixed charge coverage	>1.41
Interest coverage	>2.00
Adjusted debt to EBITDA	<2.25

Sonic was in compliance with all of the above financial covenants as of December 31, 2002.

In addition, the loss of voting control over Sonic by O. Bruton Smith, Chairman and Chief Executive Officer, Scott Smith, Chief Strategic Officer and Vice Chairman, and their spouses or immediate family members or our failure, with certain exceptions, to own all the outstanding equity, membership or partnership interests in our dealership subsidiaries will constitute an event of default under the Revolving Facility. Sonic was in compliance with all restrictive covenants as of December 31, 2002.

On February 5, 2003, Sonic amended the Revolving Facility to add Bank of America, N.A. to the lending group and extended the term of the facility from October 31, 2004 to October 31, 2006. In addition, the overall limit was reduced to \$500 million and the interest rate was changed to LIBOR plus 2.55 percentage points. Because the calculation of the borrowing base (as described above) did not change, the total availability under the Revolving Facility remained the same. All other significant covenants and terms of the Revolving Facility remained the same.

Convertible Senior Subordinated Notes

On May 7, 2002, Sonic issued \$149.5 million in aggregate principal amount of 5.25% convertible senior subordinated notes with net proceeds, before expenses, of approximately \$145.1 million. The net proceeds were used to repay a portion of the amounts outstanding under the Revolving Credit Facility. The notes are unsecured obligations that rank equal in right of payment to all of Sonic’s existing and future senior subordinated indebtedness, mature on May 7, 2009 and are redeemable at Sonic’s option after May 7, 2005. Sonic’s obligations under these notes are not guaranteed by any of its subsidiaries.

The notes are convertible into shares of Class A common stock, at the option of the holder, if as of the last day of the preceding fiscal quarter, the closing sale price of our Class A common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading-day of such preceding fiscal quarter is more than 110% of the conversion price per share of Class A common stock on the last day of such preceding fiscal quarter. If this condition is satisfied, then the notes will be convertible at any time, at the option of the holder, through maturity. The initial conversion price per share is \$46.87, and will be subject to adjustment for

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

certain distributions on, or other changes in our Class A Common Stock, if any, prior to the conversion date. In addition, on or before May 7, 2007, a holder also may convert notes into shares of our Class A common stock at any time after a 10 consecutive trading-day period in which the average of the trading day prices for the notes for that 10 trading-day period is less than 103% of the average conversion value for the notes during that period. The conversion value is equal to the product of the closing sale price for our Class A common stock on a given day multiplied by the then current conversion rate, which is the number of shares of Class A common stock into which each \$1,000 principal amount of notes is then convertible. These notes were not convertible as of December 31, 2002.

In the year ended December 31, 2002, Sonic repurchased \$19.4 million in aggregate principal amount of the convertible notes on the open market for approximately \$14.5 million. A resulting gain of \$4.3 million, net of write-offs of unamortized discounts and deferred debt issuance costs, is included in other income in the accompanying consolidated statements of income for the year ended December 31, 2002.

Senior Subordinated Notes

The senior subordinated notes are subordinated to all present and future senior indebtedness of Sonic, including the revolving credit facility discussed above. The senior subordinated notes are unsecured, mature on August 1, 2008, and are redeemable at Sonic's option after August 1, 2003. Interest payments are due semi-annually on February 1 and August 1. Redemption prices during the 12-month periods beginning August 1 are 105.500% in 2003, 103.667% in 2004, 101.833% in 2005 and 100% thereafter. The discount on the senior subordinated notes is being amortized over the term of the notes using the effective interest method.

In the year ended December 31, 2002, Sonic repurchased \$17.6 million in aggregate principal amount of the senior subordinated notes on the open market for approximately \$18.2 million. A resulting loss of \$1.1 million, net of write-offs of unamortized discounts and deferred debt issuance costs, is included in other income in the accompanying consolidated statements of income for the year ended December 31, 2002.

The indentures governing the senior subordinated notes contain certain specified restrictive and required financial covenants. Sonic has agreed not to pledge its assets to any third party except under certain limited circumstances. Sonic also has agreed to certain other limitations or prohibitions concerning the incurrence of other indebtedness, capital stock, guaranties, asset sales, investments, cash dividends to shareholders, distributions and redemptions. Sonic was in compliance with all restrictive covenants as of December 31, 2002.

The Mortgage Facility

Prior to December 31, 2002, we had a \$50 million revolving construction line of credit with Ford Credit bearing interest at 2.25 percentage points above LIBOR. In addition, we had a \$50 million real estate acquisition line of credit with Ford Credit bearing interest at 2.00 percentage points above LIBOR. On December 31, 2002, we replaced the Ford Credit facilities with a revolving real estate acquisition and construction line of credit (the "Construction Loan") and a related mortgage refinancing facility (the "Permanent Loan" and collectively with the Construction Loan, the "Mortgage Facility") with Toyota Credit. Under the Construction Loan, our dealership development subsidiaries can borrow up to \$50.0 million to finance land acquisition and dealership construction costs. Advances can be made under the Construction Loan until November 2007. All advances will mature on December 31, 2007, bear interest at 2.25 percentage points above LIBOR and are secured by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets.

Under the Permanent Loan, we can borrow up to \$100.0 million to refinance advances under the Construction Loan once the projects are completed or to finance real estate acquisition costs to the extent these costs were not previously financed under the Construction Loan. Advances can be made under the Permanent

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Loan until December 2007. All advances under the Permanent Loan mature on December 31, 2012, bear interest at 2.00% above LIBOR and are secured by the same collateral given under the Construction Loan.

The Mortgage Facility allows us to borrow up to \$100 million in the aggregate under the Construction Loan and the Permanent Loan. The Mortgage Facility is not cross-collateralized with the Revolving Facility; however, a default under one will cause a default under the other. Among other customary covenants, the borrowing subsidiaries under the Mortgage Facility agreed not to incur any other liens on their property (except for existing encumbrances on property acquired) and not to transfer their property or more than 20% of their ownership interests to any third party. In addition, the loss of voting control by Bruton Smith, Scott Smith and their spouses or immediate family members, with certain exceptions, will result in an event of default under the Mortgage Facility. Sonic was in compliance with all restrictive covenants as of December 31, 2002.

Subsidiary Guarantees

Balances outstanding under Sonic's revolving credit facilities and senior subordinated notes are guaranteed by all of Sonic's operating subsidiaries. These guarantees are full and unconditional and joint and several. The parent company has no independent assets or operations and subsidiaries that are not guarantors are not material.

6. INCOME TAXES

The provision for income taxes from continuing operations consists of the following:

	2000	2001	2002
Current:			
Federal	\$ 29,873	\$ 34,627	\$ 43,050
State	4,227	4,382	5,571
	34,100	39,009	48,621
Deferred	10,913	12,667	18,200
Total provision for income taxes from continuing operations	\$ 45,013	\$ 51,676	\$ 66,821

The reconciliation of the statutory federal income tax rate with Sonic's federal and state overall effective income tax rate from continuing operations is as follows:

	2000	2001	2002
Statutory federal rate	35.00%	35.00%	35.00%
Effective state income tax rate	1.96	1.72	2.65
Nondeductible goodwill amortization	1.34	1.47	—
Other	(0.12)	0.62	0.46
Effective tax rate	38.18%	38.81%	38.11%

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Significant components of Sonic's deferred tax assets and liabilities as of December 31 are as follows:

	2001	2002
Deferred tax assets:		
Allowance for bad debts	\$ 720	\$ 715
Inventory	829	—
Accruals and reserves	4,049	11,173
Fair value of interest rate swaps	—	4,122
Net operating loss carryforwards	6,028	7,778
Other	—	326
Total deferred tax assets	11,626	24,114
Deferred tax liabilities:		
Basis difference in inventory	—	(6,585)
Basis difference in property and equipment	(5,913)	(7,594)
Basis difference in goodwill	(28,315)	(44,924)
Other	(3,265)	(3,612)
Total deferred tax liability	(37,493)	(62,715)
Net deferred tax liability	\$ (25,867)	\$ (38,601)

Net current deferred tax assets are recorded in other current assets on the accompanying consolidated balance sheets. At December 31, 2002, Sonic had state net operating loss carryforwards of \$134.3 million that will expire between 2012 and 2022.

7. RELATED PARTIES

Registration Rights Agreement

Prior to its initial public offering, Sonic signed a Registration Rights Agreement dated as of June 30, 1997 with Sonic Financial Corporation ("SFC"), O. Bruton Smith, Scott Smith and William S. Egan (collectively, the "Class B Registration Rights Holders"). SFC currently owns 8,881,250 shares of Class B common stock; Bruton Smith, 2,171,250 shares; Scott Smith, 976,402 shares; and Egan Group, LLC, an assignee of Mr. Egan (the "Egan Group"), 473 shares, all of which are covered by the Registration Rights Agreement. The Egan Group also owns certain shares of Class A common stock to which the Registration Rights Agreement applies. If, among other things provided in Sonic's charter, offers and sales of shares of Class B common stock are registered with the Securities and Exchange Commission, then such shares will automatically convert into a like number of shares of Class A common stock.

The Class B Registration Rights Holders have certain limited piggyback registration rights under the Registration Rights Agreement. These rights permit them to have their shares of Sonic's common stock included in any Sonic registration statement registering Class A common stock, except for registrations on Form S-4, relating to exchange offers and certain other transactions, and Form S-8, relating to employee stock compensation plans. The Registration Rights Agreement expires in November 2007. SFC is controlled by O. Bruton Smith.

Payable to Company's Chairman

Sonic has a note payable to O. Bruton Smith in the amount of \$5.5 million (the "Subordinated Smith Loan"). The Subordinated Smith Loan bears interest at Bank of America's announced prime rate plus

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

0.5% (prime rate was 4.25% at December 31, 2002) and has a stated maturity date of November 30, 2000. Under the terms of a subordination agreement currently in effect, however, the principal amount owed by Sonic to Mr. Smith under the Subordinated Smith Loan is to be paid only after all amounts owed by Sonic under the senior subordinated notes are fully paid in cash. Accordingly, the Subordinated Smith Loan has been classified as non-current on the accompanying consolidated balance sheets.

Dealership Leases:

Sonic leases three dealership properties in Northern California from the Price Trust. Tom Price, who served as Sonic's Vice Chairman until October 2002 and as director of Sonic until December 2002, and his wife are the sole beneficiaries of the Price Trust. Lease costs associated with these leases was approximately \$2.2 million in 2000, \$2.8 million 2001 and \$2.6 million in 2002.

Sonic leases three dealership properties in Northern California from Bay Automotive, LLC, in which Mr. Price owns a 50% interest. Annual aggregate rent under these leases was approximately \$0.9 million in 2000, \$2.2 million in 2001 and \$2.6 million in 2002.

Sonic leases office space in Charlotte from a subsidiary of SFC for a majority of its headquarters personnel. Annual aggregate rent under this lease was approximately \$0.2 million in 2000, \$0.3 million in 2001, and \$0.4 million in 2002.

Other Transactions:

Sonic rents various aircraft owned by SFC, subject to their availability, for business-related travel by Sonic employees. Sonic incurred costs of approximately \$1.1 million in 2000, \$0.6 million in 2001 and \$1.2 million in 2002 for the use of these aircrafts.

Certain of Sonic's dealerships purchase the Z-Max oil additive product from Oil Chem Research Company, a subsidiary of Speedway Motorsports, Inc. ("SMI"), for resale to service customers of the dealerships in the ordinary course of business. Total purchases from Oil Chem by Sonic dealerships, either directly from Oil Chem or indirectly through an Oil Chem distributor, totaled approximately \$0.4 million in 2000, \$0.7 million in 2001 and approximately \$1.8 million in 2002.

Sonic and its dealerships frequently purchase apparel items, which are screen-printed with Sonic and dealership logos, as part of internal marketing and sales promotions. Sonic and its dealerships purchase such items from several companies, including Speedway Systems, LLC, a company owned by SMI. Total purchases from Speedway Systems by Sonic and its dealerships totaled approximately \$0.2 million in 2000, \$0.2 million in 2001 and \$0.4 million in 2002.

In 2001, Las Vegas Motor Speedway, a subsidiary of SMI, leased a fleet of new vehicles for use by its employees from a Sonic dealership for approximately \$0.2 million. In 2002, this fleet was purchased by Las Vegas Motor Speedway for approximately \$0.7 million. No significant gain or loss resulted from this transaction.

In connection with the supervision and management of significant construction and renovation projects at Sonic dealerships in 2000, Sonic paid approximately \$0.1 million to SMI in 2000 for project management services provided to Sonic by SMI employees.

8. CAPITAL STRUCTURE AND PER SHARE DATA

Preferred Stock—Sonic has 3 million shares of "blank check" preferred stock authorized with such designations, rights and preferences as may be determined from time to time by the Board of Directors. The

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Board of Directors has designated 300,000 shares of preferred stock as Class A convertible preferred stock, par value \$0.10 per share (the "Preferred Stock") which is divided into 100,000 shares of Series I Preferred Stock, 100,000 shares of Series II Preferred Stock, and 100,000 shares of Series III Preferred Stock. There were no shares of Preferred Stock issued or outstanding at December 31, 2002 and 2001.

Common Stock—Sonic has two classes of common stock. Sonic has authorized 100 million shares of Class A common stock at a par value of 0.01 per share. Class A common stock entitles its holder to one vote per share. There were 28,520,474 and 29,111,542 shares of Class A common stock outstanding at December 31, 2001 and 2002, respectively. Sonic has also authorized 30 million shares of Class B common stock at a par value of \$.01 per share. Class B common stock entitles its holder to ten votes per share, except in certain circumstances. Each share of Class B common stock is convertible into one share of Class A common stock either upon voluntary conversion at the option of the holder, or automatically upon the occurrence of certain events, as provided in Sonic's charter.

Share Repurchases—Sonic's Board of Directors has authorized Sonic to expend up to \$145 million to repurchase shares of its Class A common stock or redeem securities convertible into Class A common stock. As of December 31, 2002, Sonic had repurchased a total of 8,134,164 shares of Class A common stock at an average price per share of approximately \$11.45 and had redeemed 13,801.5 shares of Class A convertible preferred stock at an average price of \$1,000 per share. Subsequent to December 31, 2002, Sonic repurchased an additional 432,800 shares of Class A common stock for approximately \$6.7 million.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Per Share Data—The calculation of diluted net income per share considers the potential dilutive effect of options and shares under Sonic’s stock compensation plans, Class A common stock purchase warrants, and Class A convertible preferred stock. The following table illustrates the dilutive effect of such items on net income per share:

For the Year Ended December 31, 2002

	Shares	Net Income From Continuing Operations		Net Loss From Discontinued Operations		Net Income	
		Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
Basic Net Income Per Share	41,728	\$ 108,509	\$ 2.60	\$(1,945)	\$ (0.05)	\$ 106,564	\$ 2.55
Effect of Dilutive Securities:							
Stock Compensation Plans	1,428						
Warrants	2						
Diluted Net Income Per Share	43,158	\$ 108,509	\$ 2.51	\$(1,945)	\$ (0.04)	\$ 106,564	\$ 2.47

For the Year Ended December 31, 2001

	Shares	Net Income From Continuing Operations		Net Loss From Discontinued Operations		Net Income	
		Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
Basic Net Income Per Share	40,541	\$ 81,487	\$ 2.01	\$(2,158)	\$ (0.05)	\$ 79,329	\$ 1.96
Effect of Dilutive Securities:							
Stock Compensation Plans	1,048						
Warrants	14						
Convertible Preferred	6						
Diluted Net Income Per Share	41,609	\$ 81,487	\$ 1.96	\$(2,158)	\$ (0.05)	\$ 79,329	\$ 1.91

For the Year Ended December 31, 2000

	Shares	Net Income From Continuing Operations		Net Loss From Discontinued Operations		Net Income	
		Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
Basic Net Income Per Share	42,518	\$ 72,880	\$ 1.71	\$ 1,292	\$ 0.03	\$ 74,172	\$ 1.74
Effect of Dilutive Securities:							
Stock Compensation Plans	455						
Warrants	31						
Convertible Preferred	822						
Diluted Net Income Per Share	43,826	\$ 72,880	\$ 1.66	\$ 1,292	\$ 0.03	\$ 74,172	\$ 1.69

In addition to the stock options included in the table above, options to purchase 2,688,676 and 2,138,050 shares of Class A common stock were outstanding during the years ended December 31, 2000 and 2002, respectively, but were not included in the computation of diluted net income per share because the options were antidilutive. There were no antidilutive options at December 31, 2001.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

9. Employee Benefit Plans

Substantially all of the employees of Sonic are eligible to participate in a 401(k) plan. Contributions by Sonic to the plan were \$1.2 million in 2000, \$2.0 million in 2001 and \$4.0 million in 2002.

Stock Option Plans

Sonic currently has three option plans, the Sonic Automotive, Inc. 1997 Stock Option Plan (the “Stock Option Plan”), the Sonic Automotive, Inc. Formula Stock Option Plan (the “Directors’ Plan”), and the FirstAmerica Automotive, Inc. 1997 Stock Option Plan (the “First America Plan”).

The Stock Option Plan was adopted by the Board of Directors in order to attract and retain key personnel and currently authorizes the issuance of options to purchase 8.0 million shares of Class A common stock. Subsequent to December 31, 2002, Sonic’s Board of Directors approved an increase in the shares authorized for issuance under the Stock Option Plan from 8.0 million shares to 9.0 million shares. This increase is pending stockholder approval at Sonic’s Annual Meeting. Under the Stock Option Plan, options to purchase shares of Class A common stock may be granted to key employees of Sonic and its subsidiaries and to officers, directors, consultants and other individuals providing services to Sonic. The options are granted at the fair market value of Sonic’s Class A common stock at the date of grant, vest over a three year period, are exercisable upon vesting and expire ten years from the date of grant.

The Directors’ Plan authorizes options to purchase up to an aggregate of 600,000 shares of Class A common stock. Under the plan, each outside director shall be awarded on or before March 31st of each year an option to purchase 10,000 shares at an exercise price equal to the fair market value of the Class A common stock at the date of the award. Options granted under the Directors’ Plan become exercisable after six months, and expire ten years from their date of grant.

A summary of the status of Sonic’s stock option plans is presented below:

	Number of Options	Exercise Price Per Share	Weighted average Exercise Price
	(shares in thousands)		
Outstanding at December 31, 1999	4,187	\$ 2.85—15.44	\$ 10.35
Granted	1,868	7.94—11.19	9.15
Exercised	(300)	2.85—13.12	5.95
Forfeited	(694)	2.85—15.44	10.33
Outstanding at December 31, 2000	5,061	2.85—15.44	10.06
Granted	1,156	7.01—16.51	12.79
Exercised	(990)	2.85—15.44	8.88
Forfeited	(379)	7.94—15.44	10.57
Outstanding at December 31, 2001	4,848	2.85—16.51	10.91
Granted	1,763	16.20—37.50	29.68
Exercised	(794)	2.85—16.51	9.70
Forfeited	(232)	7.25—37.50	18.04
Outstanding at December 31, 2002	5,585	2.85—37.50	16.57

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

Range of Exercise Prices	Shares Outstanding at 12/31/02	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Exercisable at 12/31/02	Weighted Average Exercise Price
	(shares in thousands)				
\$2.85	50	4.5	\$ 2.85	50	\$ 2.85
\$2.86—7.50	289	5.0	6.25	283	6.23
\$7.51—11.25	2,265	6.2	9.47	1,654	9.21
\$11.26—15.00	102	6.6	13.34	83	13.42
\$15.01—18.75	1,757	7.8	15.98	969	15.86
\$26.25—\$30.00	248	9.1	27.78	70	29.98
\$37.50	874	9.2	37.50	—	—
	<u>5,585</u>	<u>7.3</u>	<u>\$ 16.57</u>	<u>3,109</u>	<u>\$ 11.49</u>

Employee Stock Purchase Plan

The Board of Directors and stockholders of Sonic adopted the Sonic Automotive, Inc. Employee Stock Purchase Plan (the “ESPP”) to attract and retain key personnel. The ESPP authorizes the issuance of options to purchase 3.0 million shares of Class A common stock. Under the terms of the ESPP, on January 1 of each year all eligible employees electing to participate will be granted an option to purchase shares of Class A common stock. Sonic’s Compensation Committee will annually determine the number of shares of Class A common stock available for purchase under each option. The purchase price at which Class A common stock will be purchased through the ESPP will be 85% of the lesser of (i) the fair market value of the Class A common stock on the applicable grant date and (ii) the fair market value of the Class A common stock on the applicable exercise date. The grant dates are January 1 of each year plus any other interim dates designated by the Compensation Committee. The exercise dates are the last trading days on the New York Stock Exchange for March, June, September and December, plus any other interim dates designated by the Compensation Committee. Options will expire on the last exercise date of the calendar year in which granted.

Nonqualified Employee Stock Purchase Plan

The Board of Directors of Sonic adopted the Sonic Automotive, Inc. Nonqualified Employee Stock Purchase Plan (the “Nonqualified ESPP”) to provide options to purchase Class A common stock to employees of Sonic’s subsidiaries that are not eligible to participate in the ESPP. Employees of Sonic who are eligible to participate in the ESPP are not eligible to participate in the Nonqualified ESPP. Under the terms of the Nonqualified ESPP, on January 1 of each year all employees eligible to participate in the Nonqualified ESPP and who elect to participate in the Nonqualified ESPP will be granted an option to purchase shares of Class A common stock. Sonic’s Compensation Committee will annually determine the number of shares of Class A common stock available for purchase under each option.

The purchase price at which Class A common stock will be purchased through the Nonqualified ESPP will be 85% of the lesser of (i) the fair market value of the Class A common stock on the applicable grant date and (ii) the fair market value of the Class A common stock on the applicable exercise date. The grant dates are January 1 of each year plus any other interim dates designated by the Compensation Committee. The exercise dates are the last trading days on the New York Stock Exchange for March, June, September and December, plus any other interim dates designated by the Compensation Committee. Options will expire on the last exercise date of the calendar year in which granted. In adopting the Nonqualified ESPP the Board of Directors authorized options for 300,000 shares of Class A common stock to be granted under the Nonqualified ESPP.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Under both the ESPP and the Nonqualified ESPP, we issued options exercisable for approximately 524,000, 456,000 and 931,500 shares in 2000, 2001 and 2002, respectively. We issued approximately 148,000, 282,000 and 237,000 shares to employees in 2000, 2001 and 2002 at a weighted average purchase price of \$7.27, \$5.84 and \$17.78 per share, respectively. The weighted average fair value of shares granted under both plans was \$2.95, \$10.94 and \$4.92 per share in 2000, 2001 and 2002, respectively.

10. Commitments and Contingencies

Facility Leases

Minimum future rental payments required under noncancelable operating leases are as follows:

Year ending December 31,		
2003	\$	77,005
2004		73,326
2005		69,858
2006		65,520
2007		62,619
Thereafter		357,387
Total	\$	705,715

Total rent expense for the years ended December 31, 2000, 2001 and 2002 was approximately \$49.8 million, \$59.8 million and \$73.6 million, respectively.

Other Matters

In accordance with the terms of our real estate lease agreements, our dealership subsidiaries, acting as lessees, generally agree to indemnify the lessor from certain liabilities arising as a result of the use of the leased premises, including environmental liabilities and repairs to leased property upon termination of the lease. Sonic's exposure with respect to these items is difficult to quantify. In addition, Sonic has generally agreed to indemnify the lessor in the event of a breach of the lease by the dealership subsidiary.

In accordance with the terms of agreements entered into for the sale of our dealership franchises, Sonic generally agrees to indemnify the buyer from certain liabilities and costs arising subsequent to the date of sale, including environmental liabilities and liabilities resulting from the breach of representations or warranties made in accordance with the agreement. These indemnifications generally expire within a period of one to two years following the date of sale, and Sonic's exposure is generally limited to dollar amounts ranging from \$25,000 to \$5.0 million as specified within the agreements.

In connection with dealership dispositions certain of our dealership 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, environmental remediation, and repairs to leased property upon termination of the lease, to the extent that the assignee or sublessee does not perform. While Sonic's exposure with respect to environmental remediation and repairs is difficult to quantify the total estimated rent payments remaining under such leases are approximately \$17.1 million based on lease expiration dates ranging from October 31, 2007 to July 15, 2015. However, in accordance with the assignment and sublease agreements, the assignees and sublessees have generally agreed to indemnify Sonic and its subsidiaries in the event of non-performance.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Sonic is involved, and will continue to be involved, in numerous legal proceedings arising in the ordinary course of our business, including litigation with customers, employment related lawsuits, contractual disputes and actions brought by governmental authorities. Currently, no legal proceedings are pending against or involve Sonic that, in the opinion of management, could reasonably be expected to have a material adverse effect on our business, financial condition or results of operations. However, the results of these proceedings cannot be predicted with certainty, and an unfavorable resolution of one or more of these proceedings could have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

11. Summary of Quarterly Financial Data (Unaudited)

The following table summarizes Sonic's results of operations as presented in the Consolidated Statements of Income by quarter for 2001 and 2002.

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Year Ended December 31, 2001:				
Total revenues	\$ 1,397,119	\$ 1,494,492	\$ 1,423,038	\$ 1,565,261
Gross profit	\$ 210,556	\$ 230,452	\$ 224,207	\$ 239,445
Net income	\$ 13,484	\$ 22,486	\$ 22,118	\$ 21,241
Net income per share—Basic	\$ 0.33	\$ 0.56	\$ 0.55	\$ 0.53
Net income per share—Diluted	\$ 0.33	\$ 0.55	\$ 0.53	\$ 0.51
Year Ended December 31, 2002:				
Total revenues	\$ 1,509,579	\$ 1,861,913	\$ 1,961,834	\$ 1,737,690
Gross profit	\$ 236,984	\$ 286,571	\$ 297,055	\$ 270,320
Net income	\$ 22,079	\$ 31,488	\$ 31,590	\$ 21,406
Net income per share—Basic	\$ 0.54	\$ 0.74	\$ 0.75	\$ 0.52
Net income per share—Diluted	\$ 0.52	\$ 0.71	\$ 0.73	\$ 0.51

- (1) Our operations are subject to seasonal variations. The first and fourth quarters generally contribute less revenue and operating profits than the second and third quarters. Weather conditions, the timing of manufacturer incentive programs and model changeovers cause seasonality in new vehicle demand. Parts and service demand remains more stable throughout the year.
- (2) The sum of diluted net income per share for the quarters may not equal the full year amount due to weighted average common stock equivalents being calculated on a quarterly versus annual basis.

SECOND AMENDED AND RESTATED

CREDIT AGREEMENT

Dated as of February 5, 2003

between

SONIC AUTOMOTIVE, INC.
as Borrower

and

**FORD MOTOR CREDIT COMPANY,
DAIMLERCHRYSLER SERVICES NORTH AMERICA LLC,
TOYOTA MOTOR CREDIT CORPORATION,
BANK OF AMERICA, N.A. and
the other Lenders party hereto,**

as the Lenders

and

FORD MOTOR CREDIT COMPANY,
as Agent.

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Exhibits

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EXHIBIT C-1	—	Form of Dealership Guaranty
EXHIBIT C-2	—	Form of Subsidiary Holding Company Guaranty
EXHIBIT C-3	—	Form of Non-Dealership Guaranty
EXHIBIT D-1	—	Form of Dealership Security Agreement
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SECOND AMENDED AND RESTATED CREDIT AGREEMENT

This Second Amended and Restated Credit Agreement dated February 5, 2003 (this "**Agreement**") is entered into among SONIC AUTOMOTIVE, INC., a Delaware corporation, (the "**Borrower**") FORD MOTOR CREDIT COMPANY, a Delaware corporation, ("**Ford Credit**") DAIMLERCHRYSLER SERVICES NORTH AMERICA LLC, a Michigan limited liability company, ("**Chrysler Financial**"), TOYOTA MOTOR CREDIT CORPORATION, a California corporation ("**Toyota Credit**"), BANK OF AMERICA, N.A., a national banking association organized and existing under the laws of the United States of America ("**Bank of America**"), and the other Lenders from time to time party hereto, and Ford Credit, as administrative agent and collateral agent (in such capacity and together with any Successor Agent appointed pursuant to Article VII, the "**Agent**") for the Secured Parties.

On August 10, 2000, Ford Credit and Chrysler Financial made a loan (the "Loan") to Borrower in the principal amount of \$500,000,000.00, pursuant to the terms of the Credit Agreement dated as of August 10, 2000. Thereafter, the parties agreed to increase the principal amount of such loan to \$600,000,000.00 and to add Toyota Credit as a Lender pursuant to the Amended and Restated Credit Agreement dated as of June 20, 2001. Further, the parties entered into an Amendment to Credit Agreement dated August 15, 2001 that provided for converting the interest rate on a portion of the principal balance on the Loan to a fixed rate and an Amendment to Credit Agreement dated April 11, 2002 that eliminated the fixed rate conversion and made a certain portion of the Loan available for Letters of Credit.

Now the parties wish to decrease the principal balance of the Loan to \$500,000,000.00, add Bank of America as a Lender under the Credit Agreement and incorporate the terms of the foregoing Amendments, all as set forth in this Agreement.

Borrower and Lenders agree to amend and restate the Amended and Restated Credit Agreement dated as of June 20, 2001, including all amendments thereto, as follows:

ARTICLE I: DEFINITIONS

1.1 **Certain Defined Terms.** The following terms used in this Agreement shall have the following meanings, applicable both to the singular and the plural forms of the terms defined.

"**Acquisition**" means any transaction, or any series of related transactions, consummated on or after the date of this Agreement, by which the Borrower or a Subsidiary of the Borrower (i) acquires any going business or all or substantially all of the assets of any automobile dealership and/or related operations (e.g. body shop and service repair centers), whether through purchase of assets, merger or otherwise or (ii) directly or indirectly acquires (in one transaction or as the most recent transaction in a series of transactions) at least a majority (in number of votes) of the securities of such a corporation which have ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) or a majority (by percentage of voting power) of the outstanding equity interests of such an entity.

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“**Acquisition Documents**” means all documents, instruments and agreements entered into in connection with any Acquisition.

“**Additional Subordinated Debt**” means indebtedness of the Borrower which (i) Required Lenders have determined to be sufficiently subordinate to the payment of the Obligations, (ii) Required Lenders have consented to in writing, and (iii) Required Lenders have agreed to deduct from the calculation of Total Adjusted Debt (as defined herein).

“**Advance**” means any Advance made under Section 2.1 hereof or otherwise deemed made under the Loan Documents.

“**Adjusted Leverage Ratio**” is defined in Section 5.4(D) hereof.

“**Affiliate**” of any Person means any other Person directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if the controlling Person is the “beneficial owner” (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) of greater than five percent (5%) or more of any class of voting securities (or other voting interests) of the controlled Person or possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of Capital Stock, by contract or otherwise.

“**Affiliated Dealers**” means those entities listed on Schedule 1.1.7 attached hereto, which may be amended from time to time with the written consent of Lender.

“**Agent**” has the meaning set forth in the recital of parties to this Agreement.

“**Agent’s Account**” means any account maintained in the name of the Agent of which the Agent gives written notice to the Borrower or any Lender, as applicable, is the Agent’s Account.

“**Aggregate Commitments**” means \$500,000,000 or such lesser amount as may from time to time be in effect pursuant to Section 2.3 hereof.

“**Agreement**” means this Second Amended and Restated Credit Agreement, which amends and restates the Original Agreement, as it may be amended, restated or otherwise modified and in effect from time to time.

“**Agreement Accounting Principles**” means generally accepted accounting principles in effect from time to time, applied in a manner consistent with that used in preparing the financial statements referred to in Section 5.1(A) hereof, **provided, however**, that with respect to the calculation of financial ratios and other financial tests required by this Agreement, “Agreement Accounting Principles” means generally accepted accounting principles as in effect as of the date of this Agreement, applied in a manner consistent with that used in preparing the financial statements referred to in Section 5.1(A) hereof; **provided, further, however**, all pro forma financial statements reflecting Acquisitions shall be prepared in accordance with the requirements established by the Commission for acquisition accounting for reporting acquisitions by public companies (whether or not such Acquisitions are required to be publicly reported).

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“**Applicable LIBOR Rate**” means as of any Payment Date, the LIBOR Rate plus two and fifty-five hundredths percent (2.55%) per annum.

“**Asset Sale**” means, with respect to any Person, the sale, lease, conveyance, disposition or other transfer by such Person of any of its assets (including by way of a sale-leaseback transaction and including the sale or other transfer of any of the Equity Interests of any Subsidiary of such Person).

“**Assignment and Acceptance**” is defined in Section 10.3 (A) hereof.

“**Authorized Officer**” means any executive officer or assistant treasurer of the Borrower, acting singly.

“**Bank of America**” means Bank of America, N.A., a national banking association, together with its successors and assigns.

“**Benefit Plan**” means a defined benefit plan as defined in Section 3(35) of ERISA (other than a Multi-employer Plan) in respect of which the Borrower or any other member of the Controlled Group is, or within the immediately preceding six (6) years was, an “employer” as defined in Section 3(5) of ERISA.

“**BHPH Collateral**” means all right, title and interest of HMC Finance, whether now owned or hereafter acquired in and to (i) the Retail Contracts, (ii) the security interests in the Financed Vehicles granted by Obligors pursuant to the terms of the Retail Contracts, (iii) security interest in Financed Vehicles under the Retail Contracts, (iv) proceeds from claims on any physical damage, credit life, credit disability, or other insurance policies covering the Financed Vehicles and/or Obligors, (v) any recourse or indemnity against any person or entity who sold the Financed Vehicles to such Obligor, and (vi) rebates of premiums and other amounts relating to insurance policies, service contracts and any other items financed under the Retail Contracts.

“**Borrower**” means Sonic Automotive, Inc., a Delaware corporation, together with its successors and assigns, including a debtor-in-possession on behalf of the Borrower.

“**Borrower Pledges**” means each of (i) that certain Pledge Agreement from the Borrower to the Agent pursuant to which the Borrower pledges the Capital Stock of certain corporate Subsidiaries, as it may be amended, restated or otherwise modified and in effect from time to time, (ii) that certain Pledge Agreement from the Borrower to the Agent pursuant to which the Borrower pledges the Capital Stock of certain limited liability company Subsidiaries, as it may be amended, restated or otherwise modified and in effect from time to time and (iii) any other pledge of Capital Stock delivered by a member of the Sonic Group from time to time to the Agent.

“**Borrower Security Agreement**” means that certain Security Agreement from the Borrower to the Agent pursuant to which the Borrower has pledged all of its assets to secure the Obligations hereunder, as it may be amended, restated or otherwise modified and in effect from time to time.

“**Borrowing**” means a borrowing consisting of (i) simultaneous Advances by the Lenders pursuant to Section 2.1 and (ii) any Advances made under the Original Credit Agreement.

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“**Borrowing Date**” means a date on which an Advance is made hereunder.

“**Borrowing Notice**” is defined in Section 2.4 hereof.

“**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for business in both Dearborn, Michigan and Charlotte, North Carolina.

“**Capital Expenditures**” means, for any period, the aggregate of all expenditures (other than in connection with Permitted Acquisitions), whether paid in cash or accrued as liabilities, including Capitalized Lease Obligations, by the Borrower and its Subsidiaries during that period that, in conformity with Agreement Accounting Principles, are required to be included in or reflected by the property, plant, equipment or similar fixed asset accounts reflected in the consolidated balance sheet of the Borrower and its Subsidiaries.

“**Capital Stock**” means (i) in the case of a corporation, corporate stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, (iii) in the case of a partnership, partnership interests (whether general or limited), (iv) in the case of a limited liability company, any and all membership interests or other equivalents (however designated) and (v) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

“**Capitalized Lease**” of a Person means any lease of property by such Person as lessee, which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

“**Capitalized Lease Obligations**” of a Person means the amount of the obligations of such Person under Capitalized Leases which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

“**Cash Equivalents**” means (i) marketable direct obligations issued or unconditionally guaranteed by the United States government and backed by the full faith and credit of the United States government; (ii) domestic and Eurodollar certificates of deposit and time deposits, bankers’ acceptances and floating rate certificates of deposit issued by any commercial bank organized under the laws of the United States, any state thereof, the District of Columbia, or its branches or agencies; (iii) shares of money market, mutual or similar funds having assets in excess of \$100,000,000.00 and the investments of which are limited to investment grade securities (i.e., securities rated at least Baa by Moody’s Investors Service, Inc. or at least BBB by Standard & Poor’s Corporation); (iv) commercial paper of United States and foreign banks and bank holding companies and their subsidiaries and United States and foreign finance, commercial industrial or utility companies which, at the time of acquisition, are rated A-1 (or better) by Standard & Poor’s Ratings Group or P-1 (or better) by Moody’s Investors Services, Inc.; (v) corporate bonds, mortgage-backed securities and municipal bonds in each case of a domestic issuer rated at the date of acquisition not less than Aaa by Moody’s Investor Services, Inc. or AAA by Standard & Poor’s Corporation with maturities of no more than two (2) years from the date of acquisition; and (vi) money market funds with respect to which not less than 90% of such funds are invested in the type of investments specified in clauses (i) through (v) above; provided, unless the context otherwise requires, that the maturities of such Cash Equivalents shall not exceed 365 days.

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“**Change of Control**” means an event or series of events by which:

- (i) the Principals and their Related Parties cease to own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the Borrower’s Capital Stock ordinarily having the right to vote at an election of directors;
- (ii) during any period of 24 consecutive calendar months, individuals:
 - (a) who were directors of the Borrower on the first day of such period, or
 - (b) whose election or nomination for election to the board of directors of the Borrower was recommended or approved by at least a majority of the directors then still in office who were directors of the Borrower on the first day of such period, or whose election or nomination for election was so approved, shall cease to constitute a majority of the board of directors of the Borrower; and
- (iii) the Borrower consolidates with or merges into another corporation or conveys, transfers or leases all or substantially all of its property to any Person, or any corporation consolidates with or merges into the Borrower, in either event pursuant to a transaction in which the outstanding Capital Stock of the Borrower is reclassified or changed into or exchanged for (a) cash or Cash Equivalents or (b) securities, and the holders of the Capital Stock in the Borrower immediately prior to such transaction do not, as a result of such transaction, own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the Borrower’s Capital Stock or the Capital Stock of its successor entity in such transaction.

“**Charter Documents**” means (i) in the case of a corporation, such entity’s articles of incorporation and by-laws, (ii) in the case of a limited liability company, such entity’s articles of organization and operating agreement or equivalent (however designated), (iii) in the case of a partnership, such entity’s partnership agreement or equivalent (however designated) and (iv) in the case of an association or other business entity not described above, such entity’s founding documents (however designated).

“**Chrysler Financial**” means DaimlerChrysler Services North America LLC, a Michigan limited liability company, and its successors and assigns.

“**Code**” means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time, or any successor statute.

“**Collateral**” means all property and interests in property now owned or hereafter acquired by the Borrower or any of its Subsidiaries in or upon which a security interest, lien or mortgage is granted to the Agent, whether under the Borrower Security Agreement, under any of the other Collateral Documents or under any of the other Loan Documents.

“**Collateral Documents**” means all agreements, instruments and documents executed in connection with this Agreement that are intended to create or evidence Liens to secure the Obligations, including, without limitation, the Borrower Security Agreement, the Borrower Pledges, the Subsidiary Holding Company Pledges, the Cross-Default Agreement, the Waiver, Guaranty and Disbursement Agreement, Sonic Financial’s Pledge, each Dealership Security Agreement, Subsidiary Holding Company Security Agreement and all other security

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agreements, mortgages, deeds of trust, loan agreements, notes, guaranties, subordination agreements, pledges, powers of attorney, consents, assignments, contracts, fee letters, notices, leases, financing statements and all other written matter whether heretofore, now, or hereafter executed by or on behalf of the Borrower or any of its Subsidiaries and delivered to the Agent.

“**Commission**” means the Securities and Exchange Commission and any Person succeeding to the functions thereof.

“**Commitment**” means (a) with respect to any Lender other than Ford Credit at any time, the amount set forth opposite such Lender’s name on Schedule 1.1.4 hereto under the caption “Commitment” or, if such Lender has entered into one or more Assignment and Acceptances, set forth for such Lender in the Register maintained by the Agent pursuant to Section 10.3, and (b) with respect to Ford Credit at any time, the difference between the Maximum Availability minus the aggregate outstanding sum of the Advances made by all Lenders pursuant to Section 2.3. The Commitment of each Lender may from time to time be proportionately reduced in accordance with this Agreement.

“**Consolidated Net Worth**” means, at a particular date, the amount by which the total consolidated assets of the Borrower and its consolidated Subsidiaries exceeds the total consolidated liabilities of the Borrower and its consolidated Subsidiaries.

“**Construction Mortgage Line**” means that certain credit facility made available by Toyota Credit pursuant to that certain Master Loan Agreement dated December 31, 2002 among Toyota Credit, Borrower and certain Subsidiaries of Borrower, as amended, modified, extended or restated and all substitutes and replacements therefor.

“**Contaminant**” means any waste, pollutant, hazardous substance, toxic substance, hazardous waste, special waste, petroleum or petroleum-derived substance or waste, asbestos, polychlorinated biphenyls (“**PCBs**”), or any constituent of any such substance or waste, and includes but is not limited to these terms as defined in Environmental, Health or Safety Requirements of Law.

“**Contingent Obligation**”, as applied to any Person, means any Contractual Obligation, contingent or otherwise, of that Person with respect to any Indebtedness of another or other obligation or liability of another, including, without limitation, any such Indebtedness, obligation or liability of another directly or indirectly guaranteed, endorsed (otherwise than for collection or deposit in the ordinary course of business), co-made or discounted or sold with recourse by that Person, or in respect of which that Person is otherwise directly or indirectly liable, including Contractual Obligations (contingent or otherwise) arising through any agreement to purchase, repurchase, or otherwise acquire such Indebtedness, obligation or liability or any security therefor, or to provide funds for the payment or discharge thereof (whether in the form of loans, advances, stock purchases, capital contributions or otherwise), or to maintain solvency, assets, level of income, or other financial condition, or to make payment other than for value received.

“**Contracts Balance**” means the sum of the outstanding aggregate principal balance under the Retail Contracts (the amount financed for the purchase of the Financed Vehicles plus only those add-ons which have received Lender’s written consent) less (i) the outstanding aggregate principal balance under all Retail Contracts for which any payments from an Obligor

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are received 60 days or more after the monthly due date, as set forth in the applicable Retail Contract, and less (ii) the provision for loss reserve.

“**Contractual Obligation**” as applied to any Person, means any material provision of any equity or debt securities issued by that Person or any material indenture, mortgage, deed of trust, security agreement, pledge agreement, guaranty, contract, undertaking, agreement or instrument, in each case in writing, to which that Person is a party or by which it or any of its properties is bound, or to which it or any of its properties is subject.

“**Contribution Agreement**” means the Second Amended and Restated Contribution Agreement dated as of even date herewith, as it may be amended, restated or otherwise modified and in effect from time to time, and each of those certain Binding Acknowledgments dated as of various dates and executed by Dealership Guarantors acquired pursuant to Permitted Acquisitions, and any future Binding Acknowledgments executed by Dealership Guarantors acquired pursuant to any future Permitted Acquisitions.

“**Controlled Group**” means the group consisting of (i) any corporation which is a member of the same controlled group of corporations (within the meaning of Section 414(b) of the Code) as the Borrower; (ii) a partnership or other trade or business (whether or not incorporated) which is under common control (within the meaning of Section 414(c) of the Code) with the Borrower; and (iii) a member of the same affiliated service group (within the meaning of Section 414(m) of the Code) as the Borrower, any corporation described in clause (i) above or any partnership or trade or business described in clause (ii) above.

“**Controlled Subsidiary**” of any Person means a Subsidiary of such Person (i) 80% or more of the total Equity Interests or other ownership interests of which (other than directors’ qualifying shares) shall at the time be owned by such Person or by one or more wholly-owned Subsidiaries of such Person and (ii) of which such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies, whether through the ownership of voting securities, by agreement or otherwise.

“**Cross-Default Agreement**” means the Second Amended and Restated Cross-Default Agreement dated as of even date herewith, as it may be amended, restated or otherwise modified and in effect from time to time, and each of those certain Binding Acknowledgments dated as of various dates and executed by Dealership Guarantors acquired pursuant to Permitted Acquisitions, and any future Binding Acknowledgments executed by Dealership Guarantors acquired pursuant to any future Permitted Acquisitions.

“**Current Assets**” means, at a particular date, all amounts that would, in conformity with Agreement Accounting Principles, be included under current assets on a balance sheet as at such date.

“**Current Liabilities**” means, at a particular date, all amounts that would, in conformity with Agreement Accounting Principles, be included under current liabilities on a balance sheet as at such date.

“**Current Ratio**” is defined in Section 5.4(A) hereof.

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“Customary Permitted Liens” means:

(i) Liens (other than Environmental Liens, Liens in favor of the IRS and Liens in favor of the PBGC) with respect to the payment of taxes, assessments or governmental charges in all cases which are not yet due or (if foreclosure, distraint, sale or other similar proceedings shall not have been commenced) which are being contested in good faith by appropriate proceedings properly instituted and diligently conducted and with respect to which adequate reserves or other appropriate provisions are being maintained in accordance with Agreement Accounting Principles;

(ii) statutory Liens of landlords and Liens of suppliers, mechanics, carriers, materialmen, warehousemen or workmen and other similar Liens imposed by law created in the ordinary course of business for amounts not yet due or which are being contested in good faith by appropriate proceedings properly instituted and diligently conducted and with respect to which adequate reserves or other appropriate provisions are being maintained in accordance with Agreement Accounting Principles;

(iii) Liens (other than Environmental Liens, Liens in favor of the IRS and Liens in favor of the PBGC) incurred or deposits made, in each case, in the ordinary course of business in connection with worker’s compensation, unemployment insurance or other types of social security benefits or to secure the performance of bids, tenders, sales, contracts (other than for the repayment of borrowed money), surety, appeal and performance bonds; provided that (a) all such Liens do not in the aggregate materially detract from the value of the Borrower’s or such Subsidiary’s assets or property taken as a whole or materially impair the use thereof in the operation of the businesses taken as a whole, and (b) with respect to Liens securing bonds to stay judgments or in connection with appeals do not secure at any time an aggregate amount exceeding \$2,500,000.00;

(iv) Liens arising with respect to zoning restrictions, easements, licenses, reservations, covenants, rights-of-way, utility easements, building restrictions and other similar charges or encumbrances on the use of real property which do not in any case materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of the Borrower or any of its Subsidiaries;

(v) Liens of attachment or judgment with respect to judgments, writs or warrants of attachment, or similar process against the Borrower or any of its Subsidiaries which do not constitute an Event of Default under Section 6.1(h) hereof; and

(vi) any interest or title of the lessor in the property subject to any operating lease entered into by the Borrower or any of its Subsidiaries in the ordinary course of business.

“Dealership Guarantors” means each entity listed on Schedule 1.1.5 hereof providing a Dealership Guaranty and a Dealership Security Agreement to the Agent, and each other entity providing a Dealership Guaranty and a Dealership Security Agreement to Agent pursuant to Section 5.2 (L) of this Agreement, and their respective successors and assigns.

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“**Dealership Guaranty**” means each Guaranty in the form attached hereto as Exhibit C-1, provided by a Sonic Dealership to the Agent, as the same may be amended, modified, supplemented, reaffirmed and/or restated, and as in effect from time to time.

“**Dealership Security Agreement**” means any Security Agreement in the form attached hereto as Exhibit D-1, pursuant to which a Sonic Dealership grants the Agent a security interest in all of its assets, as the same may be amended, modified, supplemented and/or restated, and as in effect from time to time.

“**Debt Offering Notes**” means, collectively, each of these certain promissory notes from the Borrower to various investors issued in accordance with and pursuant to the terms of either Indenture.

“**Decision Period**” is defined in Section 5.2(G) hereof.

“**Decision Reserve**” is defined in Section 5.2(G) hereof.

“**Default Rate**” shall mean the rate set forth in Section 2.6 hereof.

“**Defaulted Amount**” means, with respect to any Lender, any amount required to be paid by such Lender to the Agent or any other Lender hereunder or under any other Loan Document at or prior to such time that has not been so paid as of such time. In the event that a portion of a Defaulted Amount shall be deemed paid pursuant to Section 2.15, the remaining portion of such Defaulted Amount shall be considered a Defaulted Amount originally required to be paid hereunder or under any other Loan Document on the same date as the Defaulted Amount so deemed paid in part.

“**Defaulted Advance**” means, with respect to any Lender at any time, the portion of any Advance or L/C Advance which such Lender has not made when due in accordance with the terms hereof.

“**Defaulting Lender**” means, at any time, any Lender that, at such time, (i) owes a Defaulted Advance or (ii) shall take any action or be the subject of any action or proceeding of a type described in Section 6.1(F) or 6.1(G).

“**Disqualified Stock**” means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to the date that is 91 days after the Termination Date.

“**DOL**” means the United States Department of Labor and any Person succeeding to the functions thereof.

“**Dollar**” and “**\$**” means dollars in the lawful currency of the United States.

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

- (i) Net Income,

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- plus (ii) Interest Expense, to the extent deducted in computing Net Income,
- plus (iii) charges against income for foreign, federal, state and local taxes, to the extent deducted in computing Net Income,
- plus (iv) depreciation expense, to the extent deducted in computing Net Income,
- plus (v) amortization expense, including, without limitation, amortization of goodwill, other intangible assets and Transaction Costs, to the extent deducted in computing Net Income,
- plus (vi) other non-cash charges classified as long-term deferrals in accordance with Agreement Accounting Principles, to the extent deducted in computing Net Income,
- minus (vii) all extraordinary gains (and any nonrecurring unusual gains arising in or outside of the ordinary course of business not included in extraordinary gains determined in accordance with Agreement Accounting Principles which have been included in the determination of Net Income).

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

“**EBITDAR**” means, for any period, on a consolidated basis for the Borrower and its Subsidiaries, the sum of the amounts for such period, without duplication, of (i) EBITDA and (ii) Rentals.

“**Effective Date**” is defined in Section 1.3 hereof.

“**Eligible Assignee**” is defined in Section 10.3 hereof.

“**Environmental, Health or Safety Requirements of Law**” means all Requirements of Law derived from or relating to federal, state and local laws or regulations relating to or addressing pollution or protection of the environment, or protection of worker health or safety, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601 et seq., the Occupational Safety and Health Act of 1970, 29 U.S.C. § 651 et seq., and the Resource Conservation and Recovery Act of 1976, 42 U.S.C. § 6901 et seq., in each case including any amendments thereto, any successor statutes, and any regulations or guidance promulgated thereunder, and any state or local equivalent thereof.

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“**Environmental Property Transfer Act**” means any applicable requirement of law that conditions, restricts, prohibits or requires any notification or disclosure triggered by the closure of any property or the transfer, sale or lease of any property or deed or title for any property for environmental reasons, including, but not limited to, any so-called “Industrial Site Recovery Act” or “Responsible Property Transfer Act.”

“**Equipment**” means all of the Borrower’s and each Dealership Guarantor’s present and future furniture, machinery, service vehicles, supplies and other equipment and any and all accessions, parts and appurtenances attached to any of the foregoing or used in connection therewith, and any substitutions therefor and replacements, products and proceeds thereof.

“**Equity Interests**” means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

“**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended from time to time including (unless the context otherwise requires) any rules or regulations promulgated thereunder.

“**Event of Default**” means an event described in Article VI hereof.

“**Excluded Proceeds**” is defined in Section 5.2(G) hereof.

“**Existing Letters of Credit**” means any letter of credit issued under the Original Credit Agreement.

“**Fair Value**” means (i) with respect to the Capital Stock of the Borrower, the closing price for such Capital Stock on the trading date immediately preceding the date of the applicable acquisition agreement; and (ii) with respect to other assets, the value of the relevant asset as of the date of acquisition or sale determined in an arm’s-length transaction conducted in good faith between an informed and willing buyer and an informed and willing seller under no compulsion to buy.

“**Financed Vehicles**” means motor vehicles, services and other products sold by Affiliated Dealers to Obligors.

“**Fixed Charge Coverage Ratio**” is defined in Section 5.4(B) hereof.

“**Floor Plan Indebtedness**” means any and all loans, advances, debts, liabilities and obligations, owing by a Sonic Dealership to GMAC or any Lender or any Affiliate or Subsidiary thereof, of any kind or nature, present or future, arising under a Wholesale Line, whether or not evidenced by any note, guaranty or other instrument, whether or not for the payment of money, whether arising by reason of an extension of credit, loan, guaranty, indemnification, or in any other manner, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising and however acquired. The term includes, without limitation, all interest, charges, expenses, fees, attorneys’ fees and disbursements, paralegals’ fees (in each case whether or not allowed), and any other sum chargeable to the Borrower, a Sonic Dealership or Sonic Financial under this Agreement or any other Loan Document.

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“**Ford Credit**” means Ford Motor Credit Company, a Delaware corporation, and its successors and assigns.

“**Governmental Authority**” means any nation or government, any federal, state, local or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“**Gross Negligence**” means recklessness, the absence of the slightest care or the complete disregard of consequences. Gross Negligence does not mean the absence of ordinary care or diligence, or an inadvertent act or inadvertent failure to act. If the term “gross negligence” is used with respect to the Lender or any indemnitee in any of the other Loan Documents, it shall have the meaning set forth herein.

“**Guarantor**” means each Dealership Guarantor, Subsidiary Holding Company Guarantor and Non-Dealership Guarantor.

“**Guaranty**” means each Dealership Guaranty, Subsidiary Holding Company Guaranty and Non-Dealership Guaranty.

“**Hedging Obligations**” of a Person means any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefore), under (i) any and all agreements, devices or arrangements designed to protect at least one of the parties thereto from the fluctuations of interest rates, exchange rates or forward rates applicable to such party’s assets, liabilities or exchange transactions, including, but not limited to, dollar-denominated or cross-currency interest rate exchange agreements, forward currency exchange agreements, interest rate cap or collar protection agreements, forward rate currency or interest rate options, puts and warrants, and (ii) any and all cancellations, buy backs, reversals, terminations or assignments of any of the foregoing.

“**HMC Finance**” means, and Sonic Automotive – 3741 S. Nova Rd., PO, Inc., a Florida corporation.

“**HMC Finance’s Address**” means 3741 S. Nova Rd., Port Orange, Florida 32119.

“**Honor Date**” is defined in Section 12.3(B) hereof.

“**Indebtedness**” of any Person means, without duplication, such Person’s (i) obligations for borrowed money, (ii) obligations representing the deferred purchase price of property or services (other than accounts payable arising in the ordinary course of such Person’s business payable on terms customary in the trade), (iii) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from property or assets now or hereafter owned or acquired by such Person, (iv) obligations which are evidenced by notes, acceptances or other instruments, (v) Capitalized Lease Obligations, (vi) reimbursement obligations with respect to letters of credit (other than commercial letters of credit) issued for the account of such Person, (vii) Hedging Obligations, (viii) Off Balance Sheet Liabilities, (ix) the Construction Mortgage Line, and (x) Contingent Obligations in respect of obligations of another Person of the type described in the foregoing clauses (i) through (viii). The amount of Indebtedness of any Person at any date shall be without duplication (a) the outstanding balance at such date of all unconditional obligations as described above and the maximum liability of any such Contingent

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Obligations at such date and (b) in the case of Indebtedness of others secured by a Lien to which the property or assets owned or held by such Person is subject, the lesser of the fair market value at such date of any asset subject to a Lien securing the Indebtedness of others and the amount of the Indebtedness secured.

“**Indemnified Matters**” is defined in Section 9.6(B)(ii) hereof.

“**Indemnitees**” is defined in Section 9.6(B) hereof.

“**Indenture**” means, collectively, (i) the Indenture dated as of July 1, 1998 and entered into by and among Borrower, certain of its Subsidiaries and U.S. Bank Trust National Association, as trustee (the “**1998 Indenture**”), or (ii) upon execution and delivery, an Indenture or Indentures to be entered into by and among Borrower, certain of its Subsidiaries and U.S. Bank Trust National Association, as trustee, providing for the issuance of an aggregate of no more than \$300,000,000.00 of senior subordinated debt of the Borrower, which such debt will be subordinated in right of payment to the Indebtedness under this Agreement and the Notes, on terms identical to those in the 1998 Indenture (collectively, the “**Approved Indenture**”).

“**Insolvency Proceeding**” means (i) any case, action or proceeding relating to bankruptcy, reorganization, insolvency, liquidation, receivership, dissolution, winding-up or relief of debtors, or (ii) any general assignment for the benefit of creditors, composition, marshaling of assets for creditors, or other, similar arrangements in respect of its creditors generally or any substantial portion of a Person’s creditors, undertaken under federal law.

“**Interest Coverage Rate**” is defined in Section 5.4(c) hereof.

“**Interest Expense**” means, for any period, the total interest expense of the Borrower and its consolidated Subsidiaries, whether paid or accrued (including the interest component of Capitalized Leases, commitment and letter of credit fees), but excluding interest expense not payable in cash (including amortization of discount), all as determined in conformity with Agreement Accounting Principles.

“**Interest Reconciliation Date**” is defined in Section 2.1 (B)(i)(b) hereof.

“**Inventory**” shall mean any and all motor vehicles, tractors, trailers, service parts and accessories and other inventory of the Borrower and each Dealership Guarantor.

“**Investment**” means, with respect to any Person, (i) any purchase or other acquisition by that Person of any Indebtedness, Equity Interests or other securities, or of a beneficial interest in any Indebtedness, Equity Interests or other securities, issued by any other Person, (ii) any purchase by that Person of all or substantially all of the assets of a business conducted by another Person, and (iii) any loan, advance (other than deposits with financial institutions available for withdrawal on demand, prepaid expenses, accounts receivable, advances to employees and similar items made or incurred in the ordinary course of business) or capital contribution by that Person to any other Person, including all Indebtedness to such Person arising from a sale of property by such Person other than in the ordinary course of its business.

“**Irregular Franchise Agreement**” means any franchise agreement listed on Schedule 1.1.0.

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“**IRS**” means the Internal Revenue Service and any Person succeeding to the functions thereof.

“**Issue**” means, with respect to any Letter of Credit, to issue or to extend the expiration date of, or to renew or increase the amount of, such Letter of Credit; and the terms “Issued,” “Issuing” and “Issuance” have corresponding meanings.

“**L/C Advance**” means, with respect to each Lender, such Lender’s funding of its participation in any L/C Borrowing in accordance with its Pro Rata Share.

“**L/C Borrowing**” means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made or has not been refinanced with an Advance hereunder.

“**L/C Credit Extension**” means, with respect to any Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the renewal or increase of the amount thereof.

“**L/C Issuer**” means the Permitted L/C Issuer of a particular Letter of Credit.

“**L/C Obligations**” means, as of any date of determination, the aggregate undrawn amount of all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts, including all L/C Borrowings.

“**Lenders**” means, collectively, Ford Credit, Chrysler Financial, Toyota Credit and Bank of America, and their respective successors and Eligible Assignees; each of the Lenders may be referred to individually as a “Lender.”

“**Letter of Credit**” means any letter of credit issued hereunder and shall include the Existing Letters of Credit. Each Letter of Credit shall be a standby letter of credit.

“**Letter of Credit Application**” means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by the L/C Issuer.

“**Letter of Credit Expiration Date**” means the day that is 60 days prior to the Termination Date then in effect (or, if such day is not a Business Day, the next preceding Business Day).

“**Letter of Credit-Related Documents**” means the Letters of Credit, the Letter of Credit Applications and any other document relating to any Letter of Credit, including any of the Agent’s or L/C Issuer’s standard documents for Letters of Credit.

“**Letter of Credit Termination Date**” is defined in Section 12.1(A).

“**Letter of Credit Sublimit**” means an amount equal to \$25,000,000.00. The Letter of Credit Sublimit is part of, and not in addition to, the Aggregate Commitments.

“**LIBOR Rate**” means the monthly arithmetic average of the per annum interest rate announced from time to time as the one month London Interbank Offered Rates quoted each Monday for the previous Friday under the Money Rates Column of the Wall Street Journal, or, if

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the Wall Street Journal is unavailable for any reason, as published in such other publications as Lender may designate. In the event such rate is not quoted on Monday for the previous Friday, the rate quoted on the first business day of the week for the last business day of the previous week shall be utilized.

“**Lien**” means any lien (statutory or other), mortgage, pledge, hypothecation, assignment, encumbrance or security agreement or preferential arrangements of any kind or nature whatsoever (including, without limitation, the interest of a vendor or lessor under any conditional sale, Capitalized Lease or other title retention agreement).

“**Loan**” means the revolving credit facility from Lenders to Borrower in the principal amount of \$500,000,000.00, evidenced by the Notes and secured by the Loan Documents.

“**Loan Documents**” means this Agreement, the Reaffirmation of Guaranty, the Notes, the Sonic Guaranties, the Collateral Documents and all other documents, instruments and agreements executed in connection therewith or contemplated thereby, as the same may be amended, restated or otherwise modified and in effect from time to time.

“**Margin Stock**” shall have the meaning ascribed to such term in Regulation U.

“**Master Intercreditor Agreement**” means that certain Second Amended and Restated Intercreditor Agreement among each of the Lenders, and others, as amended, restated or modified from time to time.

“**Material Adverse Effect**” means a material adverse effect upon (i) the business, condition (financial or otherwise), operations, performance, properties or prospects of the Borrower, any Material Subsidiary of the Borrower, or the Borrower and its Subsidiaries, taken as a whole, (ii) the ability of the Borrower or any of its Subsidiaries to perform their respective obligations under the Loan Documents in any material respect, or (iii) the ability of the Lender to enforce in any material respect the Obligations or its rights with respect to the Collateral.

“**Material Subsidiary**” means (i) any “Significant Subsidiary” as defined in Regulation S-X issued pursuant to the Securities Act and the Exchange Act and (ii) any other Subsidiary of the Borrower which at any time comprises five percent (5%) or more of the Borrower’s Tangible Base Capital.

“**Maximum Availability**” means the lesser of (i) the Aggregate Commitments in effect from time to time (as reduced pursuant to Section 2.3 from time to time) and (ii) the sum of (a) the Scaled Assets of the Sonic Group, plus (b) fifty percent (50%) of the Speedway Stock Value, and plus (c) \$200,000,000.00, as either such amount may be reduced pursuant to Section 2.3 hereof.

“**Maximum Rate**” means the maximum nonusurious interest rate under applicable law.

“**Minority Holder**” means any holder of an Equity Interest in a Subsidiary which such Equity Interest may not exceed 20% of the Capital Stock of such Subsidiary.

“**Multi-employer Plan**” means a “Multi-employer Plan” as defined in Section 4001(a)(3) of ERISA which is, or within the immediately preceding six (6) years was, contributed to by either the Borrower or any member of the Controlled Group.

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“**Net Income**” means, for any period, the net earnings (or loss) after taxes of the Borrower and its Subsidiaries on a consolidated basis for such period taken as a single accounting period determined in conformity with Agreement Accounting Principles.

“**New Subsidiary**” is defined in [Section 5.3\(F\)\(ii\)](#).

“**Non-Dealership Guarantor**” means each entity listed on [Schedule 1.1.6](#) and each other Subsidiary which is not a Sonic Dealership or Subsidiary Holding Company but which has been designated as a “Non-Dealership Guarantor” pursuant to [Section 5.2 \(L\) \(ii\)](#).

“**Non-Dealership Guaranty**” means each Guaranty in the form attached hereto as [Exhibit C-3](#), provided by a Non-Dealership Guarantor to Agent, as the same may be amended, modified, supplemented, reaffirmed and/or restated, and as in effect from time to time.

“**Non-Dealership Security Agreement**” means each Security Agreement, in the form attached hereto as [Exhibit C-4](#), provided by a Non-Dealership Guarantor to Agent, as the same may be amended, modified, supplemented, reaffirmed and/or restated, and as in effect from time to time.

“**Notes**” means collectively, all promissory notes of the Borrower payable to the order of a Lender, in substantially the form of [Exhibit A](#) hereto, evidencing the indebtedness of the Borrower to such Lender pursuant to this Agreement, including any amendment, restatement, modification, renewal, increase or replacement thereof.

“**Obligations**” means all Advances, L/C Obligations, debts, liabilities, obligations, covenants and duties owing by the Borrower, a Non-Dealership Guarantor, a Sonic Dealership or Sonic Financial to the Lenders or any Indemnitee, of any kind or nature, present or future, arising under this Agreement, the Notes, the Collateral Documents or any other Loan Document, whether or not evidenced by any note, guaranty or other instrument, whether or not for the payment of money, whether arising by reason of an extension of credit, loan, guaranty, indemnification, or in any other manner, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising and however acquired. The term includes, without limitation, all interest, charges, expenses, fees, attorneys’ fees and disbursements, paralegals’ fees (in each case whether or not allowed), and any other sum chargeable to the Borrower, a Non-Dealership Guarantor, a Sonic Dealership or Sonic Financial under this Agreement or any other Loan Document.

“**Obligor**” means, collectively, the purchasers and co-purchasers of the Financed Vehicles or any other person who owes payments under the Retail Contracts.

“**Off Balance Sheet Liabilities**” of a Person means (i) any repurchase obligation or liability of such Person or any of its Subsidiaries with respect to accounts or notes receivable sold by such Person or any of its Subsidiaries, (ii) any liability under any sale and leaseback transactions which do not create a liability on the consolidated balance sheet of such Person, (iii) any liability under any financing lease or so-called “synthetic” lease transaction, or (iv) any obligations arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the consolidated balance sheets of such Person and its Subsidiaries.

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“**Original Credit Agreement**” means that certain Credit Agreement between Borrower, Ford Credit, and Chrysler Financial dated as of August 10, 2000, as amended by the Amended and Restated Credit Agreement between Borrower, Ford Credit, Chrysler Financial and Toyota Credit dated June 20, 2001, as amended by the Amendment to Credit Agreement dated August 15, 2001, as further amended by the Amendment to Credit Agreement dated April 11, 2002.

“**Other Taxes**” is defined in Section 2.11(B) hereof.

“**Outstanding Amount**” means (i) with respect to the Notes on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments, as the case may be, occurring on such date; and (ii) with respect to any L/C Obligations on any date, the amount of such L/C Obligations on such date after giving effect to any L/C Credit Extension occurring on such date and any other changes in the aggregate amount of the L/C Obligations as of such date, including as a result of any reimbursements of outstanding unpaid drawings under any Letters of Credit or any reductions in the maximum amount available for drawing under Letters of Credit taking effect on such date.

“**Participants**” is defined in Section 10.2(A) hereof.

“**Payment Date**” means the fifteenth day of each calendar month, **provided, however** if such day is not a Business Day, then the Payment Date shall be the next succeeding Business Day following such fifteenth day.

“**PBGC**” means the Pension Benefit Guaranty Corporation, or any successor thereto.

“**Permitted Acquisition**” is defined in Section 5.3(F)(iii) hereof.

“**Permitted Existing Indebtedness**” means the Indebtedness of the Borrower and its Subsidiaries identified as such on Schedule 1.1.1 to this Agreement, which includes Indebtedness under the Construction Mortgage Line.

“**Permitted Existing Investments**” means the Investments of the Borrower and its Subsidiaries identified as such on Schedule 1.1.2 to this Agreement.

“**Permitted Existing Liens**” means the Liens on assets of the Borrower and its Subsidiaries identified as such on Schedule 1.1.3 to this Agreement, which include Liens related to the Construction Mortgage Line.

“**Permitted L/C Issuer**” means from the date hereof up to and including December 31, 2004: (a) Ford Credit in its capacity as issuer of Letters of Credit hereunder, or any successor issuer of Letters of Credit hereunder; (b) Bank of America, at Agent’s request; and (c) any other Lender that may, at the Agent’s request issue a Letter of Credit hereunder (but only if the Borrower and the Required Lenders consent to such other Lender’s issuance of such Letter of Credit). Thereafter, Permitted L/C Issuer shall mean (a) Bank of America; and (b) any other Lender that may, at Agent’s request, issue a Letter of Credit hereunder (but only if Borrower and the Required Lenders consent to such other Lender’s issuance of such Letter of Credit).

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“**Permitted Refinancing Indebtedness**” means any replacement, renewal, refinancing or extension of any Indebtedness permitted by this Agreement that (i) does not exceed the aggregate principal amount (plus associated fees and expenses) of the Indebtedness being replaced, renewed, refinanced or extended, (ii) does not rank at the time of such replacement, renewal, refinancing or extension senior to the Indebtedness being replaced, renewed, refinanced or extended, and (iii) does not contain terms (including, without limitation, terms relating to security, amortization, interest rate, premiums, fees, covenants, event of default and remedies) materially less favorable to the Borrower or to the Lenders than those applicable to the Indebtedness being replaced, renewed, refinanced or extended.

“**Person**” means any individual, corporation, firm, enterprise, partnership, trust, incorporated or unincorporated association, joint venture, joint stock company, limited liability company or other entity of any kind, or any government or political subdivision or any agency, department or instrumentality thereof.

“**Plan**” means an employee benefit plan defined in Section 3(3) of ERISA in respect of which the Borrower or any member of the Controlled Group is, or within the immediately preceding six (6) years was, an “employer” as defined in Section 3(5) of ERISA.

“**Principal Reconciliation Date**” is defined in Section 2.1 (B)(ii)(a) hereof.

“**Principals**” means O. Bruton Smith and B. Scott Smith.

“**Pro Rata Share**” means, with respect to each Lender at any time, a fraction (expressed as a percentage), the numerator of which is the amount of the Commitment of such Lender at such time and the denominator of which is the amount of the Aggregate Commitments at such time; provided that if the commitment of each Lender to make Advances and the obligation of the L/C Issuer to make L/C Credit Extensions have been terminated pursuant to the terms hereof, then the Pro Rata Share of each Lender shall be determined based on a fraction (expressed as a percentage), the numerator of which is the Outstanding Amount of each Lender under its Note and L/C Advances and the denominator of which is the Outstanding Amount under the Notes and L/C Advances. Notwithstanding the foregoing, Ford Credit’s Commitment shall be deemed to be \$50,000,000 (or such lesser amount as may be required as a result of a reduction in the Aggregate Commitments pursuant to Section 2.3 hereof) for purposes of calculating each Lender’s Pro Rata Share.

“**Reaffirmation of Guaranty**” means any Reaffirmation of Guaranty under which Guarantor confirms and/or restates Guarantor’s liabilities, obligations and agreements under the Guaranty of the Indebtedness and Obligations of Borrower to the Lenders and the Agent under the Agreement.

“**Receivable(s)**” means and includes all of the Borrower’s and each Dealership Guarantor’s presently existing and hereafter arising or acquired accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds and other obligations of third persons of any kind, now or hereafter existing, whether arising out of or in connection with the sale or lease of goods, the rendering of services or otherwise, and all rights now or hereafter existing in and to all security agreements, leases, and other contracts securing or otherwise relating to any such accounts, contract rights, chattel paper, instruments, notes,

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letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds or obligations of third persons.

“**Register**” has the meaning set forth in Section 10.3 (D).

“**Regulation T**” means Regulation T of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by and to brokers and dealers of securities for the purpose of purchasing or carrying margin stock (as defined therein).

“**Regulation U**” means Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying Margin Stock applicable to member banks of the Federal Reserve System.

“**Regulation X**” means Regulation X of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by foreign lenders for the purpose of purchasing or carrying margin stock (as defined therein).

“**Related Party**” with respect to any Principal means (i) any spouse or immediate family member of such Principal or (ii) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding the outstanding Equity Interest of which consist of such Principal and/or such other Persons referred to in the immediately preceding clause (i).

“**Release**” means any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration into the indoor or outdoor environment, including the movement of Contaminants through or in the air, soil, surface water or groundwater.

“**Rentals**” of a Person means the aggregate fixed amounts payable by such Person under any lease of real or personal property but does not include any amounts payable under Capitalized Leases of such Person.

“**Reportable Event**” means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days after such event occurs, **provided, however**, that a failure to meet the minimum funding standards of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

“**Required Lenders**” means, as of any date, a minimum of at least two Lenders having Commitments representing at least 50% of the Aggregate Commitments of all Lenders on such date; provided, however, that a Defaulting Lender shall be excluded from the determination of Required Lenders (and the Aggregate Commitments shall be reduced, for purposes of

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calculating such percentage, by the Commitment of such Defaulting Lender). Notwithstanding the foregoing and so long as Ford Credit is not a Defaulting Lender, Ford Credit's Commitment shall be deemed to be \$50,000,000 (or such lesser amount as may be required as a result of a reduction in the Aggregate Commitments pursuant to Section 2.3 hereof) for purposes of calculating the foregoing percentage after giving effect to Section 2.1(B).

"Requirements of Law" means, as to any Person, the charter and by-laws or other organizational or governing documents of such Person, and any law, rule or regulation, or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject including, without limitation, the Securities Act of 1933, the Securities Exchange Act of 1934, Regulations T, U and X, ERISA, the Fair Labor Standards Act, the Worker Adjustment and Retraining Notification Act, Americans with Disabilities Act of 1990, and any certificate of occupancy, zoning ordinance, building, environmental or land use requirement or permit or environmental, labor, employment, occupational safety or health law, rule or regulation, including Environmental, Health or Safety Requirements of Law.

"Restricted Payment" means (i) any dividend or other distribution, direct or indirect, on account of any Equity Interests of the Borrower now or hereafter outstanding, except a dividend payable solely in the Borrower's Capital Stock (other than Disqualified Stock) or in options, warrants or other rights to purchase such Capital Stock, (ii) any redemption, retirement, purchase or other acquisition for value, direct or indirect, of any Equity Interests of the Borrower or any of its Subsidiaries now or hereafter outstanding, other than in exchange for, or out of the proceeds of, the substantially concurrent sale (other than to a Subsidiary of the Borrower) of other Equity Interests of the Borrower (other than Disqualified Stock), and (iii) any payment of a claim for the rescission of the purchase or sale of, or for material damages arising from the purchase or sale of any Equity Interests of the Borrower or any of the Borrower's Subsidiaries, or of a claim for reimbursement, indemnification or contribution arising out of or related to any such claim for damages or rescission.

"Restricted Franchise Agreement" is defined in Section 5.3(F)(iii)(b).

"Retail Contracts" means the chattel paper purchased by HMC Finance from the Affiliated Dealers consisting of retail installment sale contracts for motor vehicles and any amendments, modifications or supplements to any such chattel paper, and any documents and customer files pertaining thereto, and all monies paid thereon and due thereunder which contracts Agent in its sole discretion elects to make advances on (such election to be based on criteria established by Agent, in its sole discretion, from time to time).

"Revolving Credit Availability" means, at any particular time, the amount by which the Aggregate Commitments at such time exceeds the Revolving Credit Obligations at such time.

"Revolving Credit Obligations" means the aggregate Outstanding Amount of all Notes and all L/C Obligations.

"Scaled Assets" means with respect to the Sonic Group, the sum of (i) an amount equal to 75% of the Sonic Group's Receivables which constitute factory receivables, (ii) an amount equal to 60% of the Sonic Group's Receivables which constitute current finance receivables, (iii) an amount equal to 60% of the Sonic Group's Receivables which constitute receivables for parts and services (after netting any amounts payable in connection with such parts and services by any member of the Sonic Group), (iv) an amount equal to 55% of the

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Sonic Group's Inventory which constitutes parts and accessories, (v) an amount equal to 80% of the that portion of the Sonic Group's Inventory which constitutes used vehicles less the amount of any outstanding Floor Plan Indebtedness of any member of the Sonic Group incurred in connection with such used vehicles, (vi) an amount equal to 45% of the difference between (a) the value of the Sonic Group's Equipment and (b) the amount of Indebtedness of any member of the Sonic Group incurred in connection with such Equipment and (vii) an amount equal to 50% of the Contracts Balance. The value of the Sonic Group's Scaled Assets shall be calculated by the Agent and shall be determined based on the financial statements, monthly factory statements and other reports delivered to the Agent pursuant to Section 5.1(A). Scaled Assets shall be measured as of the most recent quarterly report of Scaled Assets published by Borrower prior to the date of this Agreement and as of the end of each calendar quarter.

"Secretary's Certificate" with respect to any entity in the Sonic Group, means any certificate, delivered by a secretary, assistant secretary, managing member, general partner or governor of such entity which certifies (i) the names and true signatures of the incumbent officers or managers of such entity authorized to sign each Transaction Document to which it is a party and the other documents to be executed thereunder, (ii) a true and correct copy of such entity's Certificate of Incorporation, or similar charter document and all amendments thereto, (iii) a true and correct copy of the by-laws or similar governing document of such entity and all amendments thereto, and (iv) a true and correct copy of the resolutions of such entity's board of directors or members approving and authorizing the execution, delivery and performance by such entity of each Transaction Document to which it is a party and the other documents to be executed thereunder;

"Secured Parties" means the Lenders and the Agent.

"Single Employer Plan" means a Plan maintained by the Borrower or any member of the Controlled Group for employees of the Borrower or any member of the Controlled Group.

"Solvent" means, with respect to any Person on a particular date, that on such date (i) the fair value of the property of such Person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such Person, (ii) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (iii) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay such debts and liabilities as they mature and (iv) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute an unreasonably small capital. The amount of contingent liabilities at any time shall be computed as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

"Sonic Dealership" means any Subsidiary dealership and/or related body shop or service repair center owned, operated or acquired by the Borrower or any Subsidiary of the Borrower.

"Sonic Financial" means Sonic Financial Corporation, a Delaware corporation.

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“**Sonic Financial’s Pledge**” means that certain Pledge Agreement, from Sonic Financial to the Agent pursuant to which Sonic Financial pledges 5,000,000 shares of capital stock in Speedway Motor Sports, Inc., as it may be amended, restated or otherwise modified and in effect from time to time.

“**Sonic Group**” means each of the Borrower and each Subsidiary of the Borrower.

“**Sonic Guaranties**” means each Subsidiary Holding Company Guaranty, each Dealership Guaranty, each Non-dealership Guaranty and the Contribution Agreement.

“**Speedway Stock Value**” means the value of the 5,000,000 shares of stock in Speedway Motor Sports, Inc., pledged by Sonic Financial to Lender pursuant to the terms of Sonic Financial’s Pledge, and determined by multiplying 5,000,000 by the closing price for Speedway Motor Sports Inc. stock as reported on the New York Stock Exchange on the last trading day of the month. Any such calculation of the Speedway Stock Value will be in effect for the next calendar month until the final trading day of such month, upon which Agent will recalculate the Speedway Stock Value.

“**Successor Agent**” is defined in Section 7.6 of this Agreement.

“**Subsidiary**” of a Person means (i) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or controlled, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (ii) any partnership, association, joint venture or similar business organization more than 50% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled. Unless otherwise expressly provided, all references herein to a “Subsidiary” shall mean a Subsidiary of the Borrower.

“**Subsidiary Holding Companies**” means each of Sonic Automotive of Tennessee, Inc., a corporation organized under the laws of the State of Tennessee, Sonic Automotive of Nevada, Inc., a corporation organized under the laws of the State of Nevada, Sonic Automotive of Georgia, Inc., a corporation organized under the laws of the State of Georgia, Sonic of Texas, Inc., a corporation organized under the laws of the State of Texas, and any other Subsidiary of Borrower which owns any Equity Interests in any other entity in the Sonic Group, in each case together with its successors and assigns.

“**Subsidiary Holding Company Guaranty**” means each Guaranty in the form attached hereto as Exhibit C-2, provided by a Subsidiary Holding Company to Agent, as the same may be amended, modified, supplemented, reaffirmed and/or restated, and in effect from time to time.

“**Subsidiary Holding Company Pledges**” means each Pledge Agreement delivered by any Subsidiary Holding Company to Lender, pursuant to which such Persons pledge their Capital Stock of certain corporation, limited liability company and/or partnership subsidiaries, as such pledge agreement may be amended, restated or otherwise modified from time to time.

“**Subsidiary Holding Company Security Agreements**” means any Security Agreement in the form attached hereto as Exhibit D-2, pursuant to which a Subsidiary Holding company grants the Lender a security interest in all of its assets, as the same may be amended, modified, supplemented and/or restated, and in effect from time to time.

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“**Tangible Base Capital**” means, at a particular date of calculation, the amount determined by the Agent to be equal to:

(i) Consolidated Net Worth

plus

(ii) the sum of

- (a) Indebtedness of the Borrower or its Subsidiaries to officers of the Borrower, which Indebtedness is subordinated in writing to the Obligations on terms and conditions acceptable to the Lenders; and
- (b) an amount equal to 64% of the LIFO reserve (as determined in accordance with Agreement Accounting Principles) reflected on the Borrower’s balance sheet;
- (c) Indebtedness of the Borrower and/or its Subsidiaries evidenced by the Debt Offering Notes;

minus

(iii) the sum of

- (a) Receivables with respect to which the account debtor is a director, officer, employee, Subsidiary or Affiliate of the Borrower or other amounts (whether or not classified as Receivables) from Affiliates of the Borrower or its Subsidiaries (other than those payable within 30 days and incurred in the ordinary course of business); and
- (b) the value of leasehold improvements after deductions for depreciation of the Borrower and its Subsidiaries on a consolidated basis;
- (c) that part of the Borrower’s and its Subsidiaries (on a consolidated basis) capitalization or reserves attributable to any writing up of book values on any fixed assets after the date of the most recently delivered financial statements of the Borrower and its Subsidiaries;
- (d) the aggregate amount of the Borrower’s and its Subsidiaries Investments in Affiliates (other than the Borrower’s Subsidiaries);
- (e) organizational expenses related to start-up of operations with respect to the Borrower and its Subsidiaries;
- (f) goodwill and other intangible assets (as determined in accordance with Agreement Accounting Principles);
- (g) any amount paid to a third-party as consideration for no-competition agreements;

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- (h) the value of daily rental franchise payments made by the Borrower or its Subsidiaries under any franchise agreements (net of any amounts owed by a franchisor to Borrower or its Subsidiaries); and
- (i) other assets (including, without limitation, airplanes, cattle, etc.) not related to the operations of the Dealerships as automobile dealerships.

“**Taxes**” is defined in Section 2.11(A) hereof.

“**Termination Date**” means the earlier of (i) October 31, 2006 or such other “Termination Date” specified in an Extension Notice and agreed to by all Lenders and (ii) the date of termination of the Commitment pursuant to either of Section 2.3 or Section 8.1 hereof.

“**Termination Event**” means (i) a Reportable Event with respect to any Benefit Plan; (ii) the withdrawal of the Borrower or any member of the Controlled Group from a Benefit Plan during a plan year in which the Borrower or such Controlled Group member was a “substantial employer” as defined in Section 4001(a)(2) of ERISA or the cessation of operations which results in the termination of employment of twenty percent (20%) of Benefit Plan participants who are employees of the Borrower or any member of the Controlled Group; (iii) the imposition of an obligation on the Borrower or any member of the Controlled Group under Section 4041 of ERISA to provide affected parties written notice of intent to terminate a Benefit Plan in a distress termination described in Section 4041(c) of ERISA; (iv) the institution by the PBGC of proceedings to terminate a Benefit Plan; (v) any event or condition which might constitute grounds under Section 4042 of ERISA for the Termination of, or the appointment of a trustee to administer, any Benefit Plan; or (vi) the partial or complete withdrawal of the Borrower or any member of the Controlled Group from a Multi-employer Plan.

“**Total Adjusted Debt**” means, for any period, on a consolidated basis for the Borrower and its Subsidiaries, the amount of Total Debt less any Floor Plan Indebtedness, less the outstanding principal balance of the Debt Offering Notes, and less the outstanding principal balance of any Additional Subordinated Debt, and further less accounts payable and accruals.

“**Total Debt**” means, for any period, on a consolidated basis for the Borrower and its Subsidiaries, the sum of Indebtedness of the Borrower and its Subsidiaries, other than Hedging Obligations.

“**Toyota Credit**” means Toyota Motor Credit Corporation, a California corporation, and its successors and assigns.

“**Transaction Costs**” means the fees, costs and expenses payable by the Borrower in connection with the execution, delivery and performance of the Transaction Documents.

“**Transaction Documents**” means the Loan Documents and the Acquisition Documents.

“**UCC**” means the Uniform Commercial Code, as the same may be amended, restated, modified or supplemented from time to time, in effect in the State of North Carolina.

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“**Unfunded Liabilities**” means (i) in the case of Single Employer Plans, the amount (if any) by which the present value of all vested nonforfeitable benefits under all Single Employer Plans exceeds the fair market value of all such Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plans, and (ii) in the case of Multi-employer Plans, the withdrawal liability that would be incurred by the Controlled Group if all members of the Controlled Group completely withdrew from all Multi-employer Plans.

“**Unmatured Default**” means an event which, but for the lapse of time or the giving of notice, or both, would constitute an Event of Default.

“**Unreimbursed Amount**” has the meaning set forth in Section 12.3 (B).

“**Unused Commitment**” means, with respect to any Lender, such Lender’s Commitment at such time minus the aggregate principal amount of the Outstanding Amount of all Advances and L/C Obligations made by such Lender and outstanding at such time.

“**Waiver, Guaranty and Disbursement Agreement**” means each Waiver, Guaranty and Disbursement Agreement delivered by Borrower or any Subsidiary Holding Company in the form attached hereto as Exhibit G to Lender, as the same may be amended, restated, or otherwise modified from time to time.

“**Wholesale Agreement**” means the Amended and Restated Wholesale Agreement among Borrower, the Lenders and others regarding which Lender will fund future Wholesale Lines, as the same may be amended, modified, supplemented, reaffirmed and/or restated, and in effect from time to time.

“**Wholesale Line**” means any automotive floor plan wholesale credit line, service loaner, daily rental or demonstrator line and/or arrangements for the purchase of chattel paper made by Ford Credit, Chrysler Financial, General Motors Acceptance Corporation, Toyota Credit, Bank of America, any Lender or any affiliate or subsidiary thereof to a Sonic Dealership.

Any accounting terms used in this Agreement which are not specifically defined herein shall have the meanings customarily given them in accordance with generally accepted accounting principles in existence as of the date hereof.

1.2 References. The existence throughout the Agreement of references to the Borrower’s Subsidiaries is for a matter of convenience only. Any references to Subsidiaries of the Borrower set forth herein shall (i) with respect to representations and warranties which deal with historical matters be deemed to include each of the Subsidiaries existing on the date hereof; and (ii) shall not in any way be construed as consent by a Lender to the establishment, maintenance or acquisition of any Subsidiary, except as may otherwise be permitted hereunder.

1.3 Effectiveness of this Agreement. Upon the satisfaction of all of the conditions precedent set forth in Section 3.1 of this Agreement (the date upon which such conditions precedent are satisfied being hereinafter referred to as the “**Effective Date**”), this Agreement shall become effective. Up until the Effective Date, the terms and conditions of the Original Agreement and all Loan Documents related thereto shall be in full force and effect and shall control the obligations and requirements between the Borrower, Guarantor and Ford Credit, as both Agent and a Lender, Chrysler Financial and Toyota Credit.

ARTICLE II: THE LOAN FACILITIES

2.1 Making Advances; Accounting for Advances.

(A) Making Advances. Upon satisfaction of the conditions precedent set forth in Sections 3.1 and 3.2, from and including the Effective Date of this Agreement and prior to the Termination Date, Agent will (on behalf of each Lender), on the terms and conditions set forth in this Agreement, make Advances to the Borrower from time to time, in Dollars, in an amount not to exceed the Revolving Credit Availability at such time; provided, however, at no time shall the Revolving Credit Obligations exceed the Maximum Availability at such time. Subject to the terms of this Agreement, the Borrower may borrow, repay and re-borrow Advances at any time prior to the Termination Date. The Borrower shall repay in full the outstanding principal balance of each Advance on or before the Termination Date. Agent may make Advances (on behalf of each Lender) in reliance upon the agreement of each Lender to make available to Agent funds required to perform the accounting as described in the following Section 2.1 (B), unless all Lenders will have jointly decided, as provided for in Section 8.1 hereof, to terminate or suspend their obligations to make Advances hereunder.

(B) Accounting for Advances. From the Effective Date until the Termination Date, Agent and Lenders will account for all activity under this Section 2.1 in the following manner:

(i) Interest.

(a) By the tenth (10th) day of each month, or if such day is not a Business Day, on the next succeeding Business Day, no later than 12:00 noon (Eastern Standard Time), Agent will provide to each Lender a written statement identifying the amount of interest payment to be received from Borrower by Agent on all Outstanding Amounts from time to time existing under each Lender's Note and L/C Advances during the immediately preceding calendar month (such amount is referred to herein as the "Interest Due Lenders");

(b) No later than 12:00 noon (Eastern Standard Time) on the first Business Day following a Payment Date upon which Agent has received payment from Borrower of the amount required pursuant to Section 2.9 hereof (each such date being referred to herein as an "Interest Reconciliation Date"), Agent will make remittance to each Lender (via wire transfer, pursuant to wire transfer instructions provided to Agent by each Lender in writing from time to time) of each such Lender's share of the Interest Due Lenders; provided, however that the Administration Fee due to Agent (pursuant to Section 2.13 hereof) for the month immediately preceding such Interest Reconciliation Date will be netted out of the Interest Due Lenders and be maintained by Agent for the benefit of Agent. For purposes of calculating interest, each Lender's Note and L/C Advances shall be reduced only upon the Agent's distribution of principal as set forth in Subsection (c) below; and

(ii) Principal.

(a) Agent will make a written demand on all of the Lenders (which demand shall be made in accordance with Section 2.1 (B) (ii) (c); (the date each such demand is made is referred to herein as a "Principal Reconciliation Date"), which such demand will identify (a) the then current (as of such Principal Reconciliation Date) Outstanding

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Amount under the Notes and L/C Borrowings, and (b) the aggregate amount of Advances and L/C Advances made to Borrower by Ford Credit from and after the immediately preceding Principal Reconciliation Date (or if no previous demand has been made, since the Effective Date).

(b) No later than 1:00 p.m. (Eastern Standard Time) on the first Business Day following the Principal Reconciliation Date, each Lender will pay to Agent an amount equal to: (i) the Lender's Pro Rata Share of the Outstanding Amount under the Notes and L/C Borrowings; less (ii) the Outstanding Amount of the Lender's Note and L/C Advances before giving effect to the Lender's payment of such amount. Each Lender shall pay such amount in same day funds to the Agent. Notwithstanding the foregoing, the Outstanding Amount at any time owed to any Lender (other than Agent) shall not at any time exceed the amount of such Lender's Commitment. If and to the extent that any Lender shall not have so made the amount of such Advance or L/C Advance available when due hereunder, such Lender shall become a Defaulting Lender. If such Lender shall have made such amount available to Agent, such amount so paid in respect of principal shall constitute an Advance and/or L/C Advance made by such Lender on such Business Day for purposes of this Agreement, the Borrower's payment obligations with respect to each such Advance and L/C Advance shall be evidenced by the Note held by such Lender and the aggregate outstanding principal amount of the Advances and L/C Advances made by Agent shall be reduced by such amount on such Business Day. Agent shall notify the Lenders of all Advances and L/C Advances made by Lenders pursuant to this Section 2.2(B) (ii) (b).

(c) No later than 1:00 p.m. (Eastern Standard Time) on the first Business Day following the Principal Reconciliation Date, Agent will pay to each Lender an amount equal to the Lender's Pro Rata Share of the principal repayments received by Agent pursuant to Section 2.2 and Section 2.3.

(d) Agent may make demand under Section 2.1 (B) (ii) (b) on (i) any Business Day on which the aggregate Revolving Credit Obligations owing to Agent on such Business Day (after giving effect to any Advances to be made by Agent on such Business Day) exceed \$50,000,000.00 and (ii) the last Business Day of any month or more often at Agent's sole discretion, in each case no later than 5:00 p.m. Eastern Standard Time on such Business Day. Notwithstanding the foregoing, Agent shall make such demands at least once each calendar month.

(e) After giving effect to Section 2.1, the Outstanding Amount owed to Agent shall not exceed \$50,000,000.00.

(iii) Fees.

Agent will distribute all fees as promptly as practicable after receipt (but in no event later than the Business Day following receipt by Agent).

(C) The Borrower shall not be entitled to obtain any Advance, and the L/C Issuer shall not be obligated to issue any Letter of Credit, if such Advance or issuance would result in a violation of the lending limits set forth herein.

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2.2 Prepayments

(A) Optional Payments. The Borrower may from time to time repay or prepay, without penalty or premium all or any part of outstanding Advances **provided, however,** that the Borrower may not so prepay Advances unless it shall have provided notice to Agent of such prepayment by 12:00 noon on the day such payment will be made, and the amount of such prepayment is not less than \$500,000.00.

(B) Mandatory Prepayments. Notwithstanding any contrary provision set forth herein or in any other Loan Document: (i) the Revolving Credit Obligations shall not at any time exceed the Maximum Availability then in effect; and (ii) Outstanding Amount owed to any Lender at any time shall not exceed the Commitment of such Lender then in effect. If at any time the Revolving Credit Obligations or such Outstanding Amount owed to any Lender would exceed the foregoing limitations, the Borrower shall immediately pay to the Agent, for the account of the Lenders, the amount of such excess. All payments made by the Borrower pursuant to this Section 2.2(B) shall be applied as mandatory prepayments of principal]. Amounts equal to a Decision Reserve or net cash proceeds of an Asset Sale in connection with or following restoration, rebuilding or replacement of insured property shall be mandatorily applied against the Revolving Credit Obligations in the amounts and in the manner set forth in Section 5.2(G) hereof.

2.3 Reduction of Aggregate Commitments. The Borrower may permanently reduce the Aggregate Commitments in whole, or in part, in an aggregate minimum amount of \$50,000,000.00 and integral multiples of \$10,000,000.00 in excess of that amount (unless the Aggregate Commitments are reduced in whole); any reductions in the Aggregate Commitments will be made ratably among the Lenders in accordance with each Lender's Commitment. Any such reduction may be made only upon at least three (3) Business Day's written notice to Agent, which notice shall specify the amount of any such reduction, and upon payment of a termination/reduction fee (payable to Agent for the account of each Lender) equal to the amount by which the Aggregate Commitments are reduced multiplied by:

- (i) one-half of one percent (0.50%), if Borrower terminates/reduces the Aggregate Commitments on or before October 31, 2003; or
 - (ii) three-eighths of one percent (0.375%), if Borrower terminates/reduces the Aggregate Commitments after October 31, 2003 but on or before October 31, 2004;
- or
- (iii) one-quarter of one percent (0.25%), if Borrower terminates/reduces the Aggregate Commitments after October 31, 2004 but before October 31, 2005; or
 - (iv) one-eighth of one percent (0.125%), if Borrower terminates/reduces the Aggregate Commitments after October 31, 2005 but before October 31, 2006.

Notwithstanding the foregoing, the amount of the Aggregate Commitments may not be reduced below the Revolving Credit Obligations. All accrued commitment fees and termination fees shall be payable on the effective date of any partial or complete termination of the obligations of the Lenders to make Advances hereunder. Lenders will share in any termination/reduction fee paid under this Section 2.3 in proportion with each such Lender's Commitment. On the first Business Day following Agent's receipt of a termination/reduction fee

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hereunder, Agent will remit to each Lender its portion of the termination/reduction fee received by Agent hereunder.

2.4 Method of Borrowing. The Borrower shall give Agent irrevocable notice in substantially the form of Exhibit B hereto (a "**Borrowing Notice**") not later than 12:00 noon (Eastern Standard Time) on the Borrowing Date of each Advance, specifying: (i) the Borrowing Date (which must be a Business Day) of such Advance; (ii) the aggregate amount of such Advance; (iii) the use of proceeds of such Advance, and (iv) the account or accounts into which the Advances should be funded. Each Borrowing Notice shall be irrevocable and binding on the Borrower. The Borrower shall indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure to fulfill on or before the date specified in such Notice of Borrowing for such Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Advance to be made by such Lender as part of such Borrowing when such Advance, as a result of such failure, is not made on such date. Not later than 2:00 p.m. (Eastern Standard Time) on each Borrowing Date, Agent (on behalf of each Lender) shall make available the Advance, in funds immediately available to the Borrower at such account or accounts as shall have been notified to the Agent. Each Advance shall bear interest from and including the date of the making of such Advance to (but not including) the date or repayment thereof at the Applicable LIBOR Rate, changing when and as the underlying LIBOR Rate changes, which such interest shall be payable in accordance with Section 2.9(B).

2.5 Minimum Amount of Each Advance. Each Advance shall be in the minimum amount of \$500,000.00, **provided, however**, that any Advance may be in the amount of the Unused Commitment.

2.6 Default Rate: Late Payment Fee. After the occurrence and during the continuation of an Event of Default, at the option of the Required Lenders, the interest rate(s) applicable to the Advances shall be equal to the Applicable LIBOR Rate plus three percent (3.0%) per annum. To the extent not in excess of the Maximum Rate and in accordance with applicable law, any amount not paid by the Borrower when due shall accrue interest at an additional five percent (5.0%) per annum above the rate applicable thereto until such amounts have been paid in full and shall be payable on demand by the Agent, at the direction of the Required Lenders, and at any rate no later than the next succeeding Payment Date.

2.7 Method of Payment. (A) All payments of principal, interest, and fees hereunder shall be made, without setoff, deduction or counterclaim, in immediately available funds to Agent at the Agent's address specified pursuant to Article XI, at any other address specified in writing by Agent to the Borrower, or via wire transfer pursuant to wire transfer instructions provided by Agent from time to time, by 12:00 noon (Eastern Standard Time) on the date when due. Agent will thereafter cause like funds to be distributed in accordance with Section 2.1 (i) if such payment by the Borrower is in respect of principal, interest, fees or any other Obligation then payable hereunder and/or under the Notes to more than one Lender, to such Lender for its account ratably in accordance with the amounts of such respective Obligations then payable to such Lenders and (ii) if such payment by the Borrower is in respect of any Obligation then payable hereunder to one Lender, to such Lender for its account, in each case to be applied in accordance with the terms of this Agreement; **provided, however** that the Administration Fee due to Agent (pursuant to Section 2.13 hereof) for the month immediately preceding such date will be netted out of such amounts and be maintained in or remitted to the Agent's Account by

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and for the benefit of the Agent. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 10.3 from and after the effective date of such Assignment and Acceptance, the Agent shall make all payments hereunder and under the Notes in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(B) Unless the Agent shall have received notice from the Borrower prior to the date on which any payment is due to any Lender hereunder that the Borrower will not make such payment in full, the Agent may assume that the Borrower has made such payment in full to the Agent on such date and the Agent may (but shall not be obligated to), in reliance upon such assumption, cause to be distributed to each such Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Borrower shall not have so made such payment in full to the Agent, each such Lender shall repay to the Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Agent, at the Applicable LIBOR Rate.

2.8 Advances and Telephonic Notices. Agent is authorized to record the principal amount of each Advance and each repayment with respect to its Advances on the schedules attached to the Notes; **provided, however,** that the failure to so record shall not affect the Borrower's obligations under the Notes. The Borrower authorizes the Lender to extend Advances and Agent to transfer funds based on telephonic notices made by any person or persons Agent in good faith believes to be acting on behalf of the Borrower. The Borrower agrees to deliver promptly to Agent a written confirmation, signed by an Authorized Officer, if such confirmation is requested by Agent, of each telephonic notice. If the written confirmation differs in any material respect from the action taken by Agent, (i) the telephonic notice shall govern absent manifest error and (ii) Agent shall promptly notify the Authorized Officer who provided such confirmation of such difference.

2.9 Payments, Fees and Taxes.

(A) Promise to Pay. The Borrower shall repay to the Agent, for the ratable account of the Lenders, on the Termination Date, the aggregate principal amount of the Advances and L/C Obligations then outstanding. The Borrower unconditionally promises to pay when due the principal amount of each Advance, L/C Advance and all other Obligations incurred by it, and to pay all unpaid interest accrued thereon, in accordance with the terms of this Agreement, the Notes and the other Loan Documents.

(B) Interest Payment Date.

(i) Interest Payable on Advances and L/C Advances Interest accrued on each Advance and L/C Advance, owing to each Lender shall be payable to the Agent on each Payment Date, commencing with the first such date to occur after the date hereof and on the Termination Date (whether by acceleration or otherwise). Borrower will make interest payments to the Agent on each Payment Date via wire transfer (pursuant to wire transfer instructions provided to Borrower by Agent from time to time).

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(ii) Interest on other Obligations. Interest accrued on the principal balance of all other Obligations shall be payable in arrears (i) on the last Business Day of each calendar month, commencing on the first such day following the incurrance of such Obligation, (ii) upon repayment thereof in full or in part, and (iii) if not theretofore paid in full, at the time such other Obligation becomes due and payable (whether by acceleration or otherwise).

(C) Commitment Fees.

(i) Commitment Fees. The Borrower shall pay to Agent (for the account of the Lenders), from and after the date hereof and from the effective date specified in the Assignment and Acceptance pursuant to which it became a Lender (in the case of each other Lender) until the date on which the Commitment shall be terminated in whole, a commitment fee equal to one-quarter of one percent (0.25%) per annum, on the amount by which (a) the Aggregate Commitments in effect from time to time exceed (b) the Revolving Credit Obligations in effect from time to time, **provided, however**, that any commitment fee accrued with respect to any of the Commitments of a Defaulting Lender during the period prior to the time such Lender became a Defaulting Lender and unpaid at such time shall not be payable by the Borrower so long as such Lender shall be a Defaulting Lender except to the extent that such commitment fee shall otherwise have been due and payable by the Borrower prior to such time; and provided, further that no commitment fee shall accrue on any of the Commitments of a Defaulting Lender so long as such Lender shall be a Defaulting Lender. All such commitment fees payable under this Subsection (C) shall be payable annually in arrears (via wire transfer, pursuant to wire transfer instructions provided to Borrower by Agent in writing from time to time) on each November 15th occurring after the Effective Date (**provided, however**, that if any such November 15th is not a Business Day, the commitment fee must be paid on the next succeeding Business Day) and, in addition, on the date on which the Commitment shall be terminated in whole.

(ii) Accounting for Commitment Fees. In accordance with Section 2.1, Agent will remit promptly to each Lender such Lender's Pro Rata Share of the commitment fee received by Agent, based on each such Lender's Commitment (via wire transfer, pursuant to wire transfer instructions provided to Agent by Lender in writing from time to time).

(iii) Previously Accrued Commitment Fees. Borrower acknowledges that commitment fees have accrued under the Original Credit Agreement and pursuant to Section 2.9(C) of the Original Credit Agreement, and only Ford Credit, Chrysler Financial and Toyota Credit may share in such previously accrued commitment fees. Bank of America acknowledges that it may not share in such previously accrued commitment fees. Ford Credit, Chrysler Financial and Toyota Credit will share in such previously accrued commitment fees in the following percentage amounts: 41.67% to Ford Credit, 41.67% to Chrysler Financial and 16.66% to Toyota Credit; which commitment fees must be paid by Borrower to Agent on November 15, 2003. Agent will remit the commitment fee amounts due to Chrysler Financial and Toyota Credit, respectively, on the first Business Day after the first Principal Reconciliation Date following November 15, 2003.

(D) Interest and Fee Basis. Agent will calculate interest and fees for actual days elapsed on the basis of a 365-day year. Interest shall be payable for the day an Obligation is incurred but not for the day of any payment on the amount paid if payment is received prior to 12:00 noon (Eastern Standard Time) at the place of payment. If any payment of principal of or interest on an Advance or any payment of any other Obligations shall become due on a day

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which is not a Business Day, such payment shall be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment. Absent manifest error, each determination by the Agent of an interest rate, fee or commission hereunder shall be conclusive and binding for all purposes.

2.10 **Termination Date.** This Agreement shall be effective until the Termination Date. The Borrower shall have the right to submit a notice (an “**Extension Notice**”) requesting an extension of the initial Termination Date for additional one-year periods. The Borrower shall deliver the Extension Notice to Agent on or before the date that is at least 45 and not more than 90 days prior to the first anniversary of the Effective Date (and each like period in each subsequent year thereafter in which such option is available). All of the Lenders, acting collectively, shall, on or before the date that is 30 days after receipt of any such Extension Notice notify the Borrower in writing whether or not the then applicable Termination Date is extended for one year; **provided, however**, failure to give such notice shall mean that no such extension shall have been granted; and **provided further, nothing herein shall obligate the Lenders to extend the initial Termination Date or any other Termination Date and any determination whether or not to so extend the Termination Date shall be made by the Lenders in their sole discretion.** Notwithstanding the termination of this Agreement on the Termination Date, until all of the Obligations (other than contingent indemnity obligations, but including all Floor Plan Indebtedness owed to Lenders and any of their Subsidiaries or Affiliates) shall have been fully and indefeasibly paid and satisfied and all financing arrangements between the Borrower and each Lender in connection with this Agreement shall have been terminated (other than with respect to Hedging Obligations), all of the rights and remedies under this Agreement and the other Loan Documents shall survive and each Lender shall be entitled to retain its security interest in and to all existing and future Collateral.

2.11 **Taxes.** (A) Any and all payments by the Borrower hereunder shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings or any liabilities with respect thereto including those arising after the date hereof as a result of the adoption of or any change in any law, treaty, rule, regulation, guideline or determination of a Governmental Authority or any change in the interpretation or application thereof by a Governmental Authority but excluding such taxes (including income taxes, franchise taxes and branch profit taxes) as are imposed on or measured by any Lender’s income by the United States of America or any Governmental Authority of the jurisdiction under the laws of which any Lender is organized or having jurisdiction over any Lender by virtue of any Lender’s location(s) (other than solely as a result of the transaction evidenced by this Agreement) (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings, and liabilities which any Lender determines to be applicable to this Agreement, the other Loan Documents, the Letters of Credit, the Commitment or the Advances being hereinafter referred to as “**Taxes**”). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under the other Loan Documents to any Lender, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this **Section 2.11(A)**) any Lender receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

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(B) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges, or similar levies which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement, the other Loan Documents, the Commitment or the Advances (hereinafter referred to as "**Other Taxes**").

(C) The Borrower indemnifies each Lender for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any Governmental Authority on amounts payable under this Section 2.11 paid by any Lender and any liability (including penalties, interest, and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within thirty (30) days after the date a Lender makes written demand therefor. A certificate as to any additional amount payable to a Lender under this Section 2.11 submitted to the Borrower by such Lender shall show in reasonable detail the amount payable and the calculations used to determine such amount and shall, absent manifest error, be final, conclusive and binding upon each of the parties hereto. With respect to such deduction or withholding for or on account of any Taxes and to confirm that all such Taxes have been paid to the appropriate Governmental Authorities, the Borrower shall promptly (and in any event not later than thirty (30) days after receipt) furnish to such Lender such certificates, receipts and other documents as may be required (in the judgment of the Lender) to establish any tax credit to which such Lender may be entitled.

(D) Within thirty (30) days after the date of any payment of Taxes or Other Taxes by the Borrower, the Borrower shall furnish to the Lender having made such payment and seeking reimbursement the original or a certified copy of a receipt evidencing payment thereof.

(E) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in this Section 2.11 shall survive the payment in full of principal and interest hereunder and the termination of this Agreement.

2.12 Loan Account. Each Lender may maintain, in accordance with its respective usual practices, an account or accounts (a "**Loan Account**") evidencing the Obligations of the Borrower to such Lender owing to such Lender from time to time, including the amount of principal and interest payable and paid to such Lender from time to time hereunder and under the Notes. The entries made in any Loan Account maintained by Agent shall be conclusive and binding for all purposes, absent manifest error, unless the Borrower or another Lender objects to information contained in such Loan Account within thirty (30) days of the Borrower's receipt of such information. Any Lender's failure to maintain such an account shall not affect the Borrower's obligations under the Notes

2.13 Loan Administration Fee. On each Interest Reconciliation Date, each Lender will pay Agent a fee in consideration for Agent's performance of the administrative functions more particularly described herein (the "**Administration Fee**"). With respect to each Lender, such fee will be in an amount equal to fifteen hundredths of one percent (0.15%) per annum on all Outstanding Amounts and L/C Advances from time to time existing during the immediately preceding calendar month. Each Lender agrees to pay Agent the Administration Fee, on each Interest Reconciliation Date, by allowing Agent to net the Administration Fee out of the Interest Due Lenders.

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2.14. Defaulting Lenders. (A) In the event that, at any one time, (i) any Lender shall be a Defaulting Lender, (ii) such Defaulting Lender shall owe a Defaulted Amount to the Agent or any of the other Lenders and (iii) the Borrower shall make any payment hereunder or under any other Loan Document to the Agent for the account of such Defaulting Lender, then (a) the Agent may, on its behalf or on behalf of such other Lenders and to the fullest extent permitted by applicable law, apply at such time the amount so paid by the Borrower to or for the account of such Defaulting Lender to the payment of each such Defaulted Amount to the extent required to pay such Defaulted Amount, and (b) such Defaulting Lender shall be liable to the Agent or any other Lender with respect to such Defaulted Advance for an amount equal to the Applicable LIBOR Rate plus two and fifty-five hundredths percent (2.55%) per annum on the Defaulted Advance for so long as such Defaulted Advance remains outstanding. In the event that the Agent shall so apply any such amount to the payment of any such Defaulted Amount on any date, the amount so applied by the Agent shall constitute for all purposes of this Agreement and the other Loan Documents payment, to such extent, of such Defaulted Amount on such date. Any such amount so applied by the Agent shall be retained by the Agent or distributed by the Agent to such other Agent or such other Lenders, ratably in accordance with the respective portions of such Defaulted Amounts payable at such time to the Agent, such other Agent and such other Lenders and, if the amount of such payment made by the Borrower shall at such time be insufficient to pay all Defaulted Amounts owing at such time to the Agent, such other Agent and such other Lenders, in the following order of priority:

(1) **first**, to the Agent for any Defaulted Amounts then owing to it, in its capacity as such, ratably in accordance with such respective Defaulted Amounts then owing to the Agent; and

(2) **second**, to any other Lenders for any Defaulted Amounts then owing to such other Lenders, ratably in accordance with such respective Defaulted Amounts then owing to such other Lenders.

Any portion of such amount paid by the Borrower for the account of such Defaulting Lender remaining, after giving effect to the amount applied by the Agent pursuant to this Subsection (A), shall be applied by the Agent as specified in Subsection (B) of this Section 2.14.

(B) In the event that, at any one time, (i) any Lender shall be a Defaulting Lender, (ii) such Defaulting Lender shall not owe a Defaulted Advance or a Defaulted Amount and (iii) the Borrower, any Agent or any other Lender shall be required to pay or distribute any amount hereunder or under any other Loan Document to or for the account of such Defaulting Lender, then the Borrower or such Agent or such other Lender shall pay such amount to the Agent to be held by the Agent, to the fullest extent permitted by applicable law, in escrow or the Agent shall, to the fullest extent permitted by applicable law, hold in escrow such amount otherwise held by it. Any funds held by the Agent in escrow under this Subsection (B) shall be deposited by the Agent in an account with an escrow agent (which is a bank or financial institution which acts as escrow agent in the ordinary course of its business and is reasonably acceptable to the Agent and the Required Lenders), in the name and under the control of the Agent, but subject to the provisions of this Subsection (B). The terms applicable to such escrow account, including the rate of interest payable with respect to the credit balance of such account from time to time, shall be such escrow agent's standard terms applicable to escrow accounts maintained with it. Any interest credited to such account from time to time shall be held by the Agent in escrow under, and applied by the Agent from time to time in accordance

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with the provisions of, this Subsection (B). The Agent shall, to the fullest extent permitted by applicable law, apply all funds so held in escrow from time to time to the extent necessary to make any Advances required to be made by such Defaulting Lender and to pay any amount payable by such Defaulting Lender hereunder and under the other Loan Documents to the Agent or any other Lender, as and when such Advances or amounts are required to be made or paid and, if the amount so held in escrow shall at any time be insufficient to make and pay all such Advances and amounts required to be made or paid at such time, in the following order of priority:

(a) **first**, to the Agent for any amounts then due and payable by such Defaulting Lender to it hereunder, in its capacity as such, ratably in accordance with such amounts then due and payable to the Agent; and

(b) **second**, to any other Lenders for any amount then due and payable by such Defaulting Lender to such other Lenders hereunder, ratably in accordance with such respective amounts then due and payable to such other Lenders.

In the event that any Lender that is a Defaulting Lender shall, at any time, cease to be a Defaulting Lender, any funds held by the Agent in escrow at such time with respect to such Lender shall be distributed by the Agent to such Lender and applied by such Lender to the Obligations owing to such Lender at such time under this Agreement and the other Loan Documents ratably in accordance with the respective amounts of such Obligations outstanding at such time.

(C) The rights and remedies against a Defaulting Lender under this Section 2.14 are in addition to other rights and remedies that the Borrower may have against such Defaulting Lender with respect to any Defaulted Advance and that any Agent or any Lender may have against such Defaulting Lender with respect to any Defaulted Amount.

2.15. Evidence of Debt. (A) The Register maintained by the Agent pursuant to Section 10.3 shall record (i) the date and amount of each Advance made hereunder, (ii) the terms of each Assignment and Acceptance delivered to and accepted by it, (iii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder, and (iv) the amount of any sum received by the Agent from the Borrower hereunder and each Lender's share thereof.

(B) Entries made in good faith by the Agent in the Register pursuant to Subsection (A) above, shall be *prima facie* evidence of the amount of principal and interest due and payable or to become due and payable from the Borrower to, in the case of the Register, each Lender and, in the case of such account or accounts, such Lender, under this Agreement, absent manifest error; **provided, however**, that the failure of the Agent or such Lender to make an entry, or any finding that an entry is incorrect, in the Register or such account or accounts shall not limit or otherwise affect the obligations of the Borrower under this Agreement.

(C) Each Lender is authorized to record the principal amount of each Advance and each repayment with respect to its Advances on the schedules attached to the Notes; **provided, however**, that the failure to so record shall not affect the Borrower's obligations under the Notes; and provided further that notwithstanding the face amount of any Note, the aggregate principal amount of all Advances outstanding at any time by a Lender under a Note shall not exceed the aggregate principal amount of all Advances outstanding to such Lender.

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The Borrower authorizes the Lenders to extend Advances and the Agent to transfer funds based on telephonic notices made by any person or persons the Agent in good faith believes to be acting on behalf of the Borrower. The Borrower agrees to deliver promptly to Agent a written confirmation, signed by an Authorized Officer, if such confirmation is requested by Agent, of each telephonic notice. If the written confirmation differs in any material respect from the action taken by Agent, (i) the telephonic notice shall govern absent manifest error and (ii) Agent shall promptly notify the Authorized Officer who provided such confirmation of such difference.

ARTICLE III: CONDITIONS PRECEDENT

3.1 Conditions of Effectiveness. The Effective Date of this Agreement shall be February 5, 2003; on condition that:

- (A) no law, regulation, order, judgment or decree of any Governmental Authority shall, and no Lender shall have received any notice that litigation is pending or threatened which is likely to, (i) enjoin, prohibit or restrain the making of an Advance hereunder or (ii) impose or result in the imposition of a Material Adverse Effect;
- (B) all due diligence materials requested by the Lenders from the Borrower shall have been delivered to the Lenders and such due diligence materials shall be in form and substance satisfactory to the Lenders;
- (C) the Borrower has furnished to the Agent each of the following, all in form and substance satisfactory to the Agent:
 - (i) this Agreement, duly executed by the Borrower;
 - (ii) the Notes, duly executed by the Borrower in favor of each Lender;
 - (iii) the Cross-Default Agreement executed by Borrower, each Dealership Guarantor, each Non-Dealership Guarantor and each Subsidiary Holding Company;
 - (iv) the Reaffirmation of Guaranty executed by each Guarantor;
 - (v) a Second Amended and Restated Borrower Security Agreement executed by Borrower to Agent;
 - (vi) a Second Amended and Restated Guarantor Security Agreement executed by each Guarantor to Agent;
 - (vii) the Contribution Agreement;
 - (viii) *the Borrower Pledges, the Subsidiary Holding Company Pledges and Sonic Financial's Pledge, together with, for each corporate entity so acquired, a stock certificate evidencing the issued and outstanding pledged stock and undated stock powers executed in blank;***

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- (ix) to the extent any Sonic Dealership, Non-Dealership Guarantor or Subsidiary Holding Company has any Indebtedness other than Permitted Indebtedness, pay-out letters, releases and UCC-3 Termination Statements, where applicable, from all third-party creditors releasing all Liens securing any such Indebtedness;
 - (x) Certificate of good standing from the Borrower its jurisdiction of incorporation
 - (xi) a Secretary's Certificate from the Borrower, each Subsidiary Holding Company, each Non-Dealership Guarantor and each Sonic Dealership acquired by the Borrower on or prior to the date hereof.
 - (xii) a certificate, in form and substance satisfactory to the Lender, signed by the chief financial officer of the Borrower stating that as of the Effective Date, no Event of Default or Unmatured Default has occurred and is continuing and setting forth the calculation of the Sonic Group's Scaled Assets as of most recent quarterly report of Scaled Assets published by Borrower prior to the date of this Agreement, and the representations and warranties of the Borrower are true and correct with full force and effect as if made on the Effective Date;
 - (xiii) to the extent not included in the foregoing, the documents, instruments and agreements set forth on the closing list attached as Exhibit E hereto;
 - (xiv) such consents, waivers or other documents as the Lender or its counsel may have reasonably requested;
 - (xv) the Master Intercreditor Agreement executed by all parties thereto;
 - (xvi) the Wholesale Agreement executed by all parties thereto; and
 - (xvii) any required consent letters from manufacturers with whom any of the Dealership Guarantors have sales and service agreements.
- 3.2 Conditions Precedent to Each Advance. No Lender shall be required to make any Advance, unless on the applicable Borrowing Date:
- (A) There exists no Event of Default or Unmatured Default; and
 - (B) The representations and warranties contained in Article IV are true and correct as of such Borrowing Date (unless such representation and warranty expressly relates to an earlier date or is no longer true solely as a result of transactions permitted by this Agreement).

Each Borrowing Notice with respect to each such Advance shall constitute a representation and warranty by the Borrower that the conditions contained in Sections 3.2(A) and (B) have been satisfied. If Agent has a reasonable basis for believing an Event of Default or Unmatured Default may have occurred and is continuing or that the Borrower is not able to make one or more of the representations and warranties set forth in Article IV, Agent may

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require a duly completed officer's certificate in substantially the form of Exhibit F hereto as a condition to making an Advance.

3.3 Condition Precedent to Additional Advance. Notwithstanding anything to the contrary in this Agreement, Agent (on behalf of the Lenders) shall be under no obligation to make an Advance to the Borrower hereunder, until and unless the following requirements shall have been satisfied:

(i) There shall exist no Liens on the Collateral other than Permitted Existing Liens and those Permitted Existing Liens appearing on Schedule 1.1.3 marked with an asterisk shall have been released and or terminated, and the Borrower shall have confirmed delivery of such releases, UCC-3 termination statements or other documentation reasonably requested by the Agent evidencing such release or termination; and

(ii) The loss payable endorsements referenced in Section 5.2(G) shall have been delivered to Agent.

3.4 Obligations to Purchase Advances. Notwithstanding any term or condition of this Agreement to the contrary, if, on the date that any Advance is made by Ford Credit pursuant to Section 2.1(A), the Agent deemed each of the conditions in Sections 3.1 and 3.2 applicable to such Advance satisfied or waived in accordance with this Agreement, then each Lender other than Ford Credit shall be obligated to purchase Advances pursuant to Section 2.1(B) regardless of whether such conditions have been satisfied or waived as of the date such purchase under Section 2.1(B) is required to be made.

ARTICLE IV: REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants as follows to the Lenders as of the date hereof and as of the Effective Date:

4.1 Organization; Corporate Powers. The Borrower and each of its Subsidiaries (i) is a corporation, limited liability company or limited partnership duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (ii) is duly qualified to do business and is in good standing under the laws of each jurisdiction in which failure to be so qualified and in good standing could reasonably be expected to have a Material Adverse Effect, and (iii) has all requisite corporate, company or partnership power and authority to own, operate and encumber its property and to conduct its business as presently conducted and as proposed to be conducted.

4.2 Authority.

(A) The execution, delivery, performance and filing, as the case may be, of each of the Transaction Documents which must be executed or filed by the Borrower or any of its Subsidiaries or which have been executed or filed as required by this Agreement and to which the Borrower or any of its Subsidiaries is party, and the consummation of the transactions contemplated thereby, have been duly approved by the respective boards of directors or managers, or by the partners, as applicable, and, if necessary, the shareholders, members or partners, as applicable, of the Borrower and its Subsidiaries, and such approvals have not been rescinded. No other corporate, company or partnership action or proceeding on the part of the Borrower or its Subsidiaries is necessary to consummate such transactions.

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(B) Each of the Transaction Documents to which the Borrower or any of its Subsidiaries is a party has been duly executed, delivered or filed, as the case may be, by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, is in full force and effect and no material term or condition thereof has been amended, modified or waived without the prior written consent of the Required Lenders, and the Borrower and its Subsidiaries have, and, to the best of the Borrower's and its Subsidiaries' knowledge, all other parties thereto have, performed and complied with all the material terms, provisions, agreements and conditions set forth therein and required to be performed or complied with by such parties on or before the date hereof, and no unmatured default, default or breach of any material covenant by any such party exists thereunder.

4.3 **No Conflict; Governmental Consents.** The execution, delivery and performance of each of the Loan Documents and other Transaction Documents to which the Borrower or any of its Subsidiaries is a party do not and will not (i) conflict with the Charter Documents of the Borrower or any such Subsidiary, (ii) constitute a tortious interference with any Contractual Obligation of any Person or conflict with, result in a breach of or constitute (with or without notice or lapse of time or both) a default under any Requirement of Law (including, without limitation, any Environmental Property Transfer Act) or Contractual Obligation of the Borrower or any such Subsidiary, or require termination of any Contractual Obligation, (iii) result in or require the creation or imposition of any Lien whatsoever upon any of the property or assets of the Borrower or any such Subsidiary, other than Liens permitted by the Loan Documents, or (iv) require any approval of the Borrower's or any such Subsidiary's shareholders except such as have been obtained. The execution, delivery and performance of each of the Transaction Documents to which the Borrower or any of its Subsidiaries is a party do not and will not require any registration with, consent or approval of, or notice to, or other action to, with or by any Governmental Authority, including under any Environmental Property Transfer Act, except (i) filings, consents or notices which have been made, obtained or given, or which, if not made, obtained or given, individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect and (ii) filings necessary to create or perfect security interests in the Collateral.

4.4 **Financial Statements.** All balance sheets, statements of profit and loss and other financial data that have been given to each Lender by or on behalf of Borrower and the Subsidiaries (the "**Financial Information**") are complete and correct in all material respects, accurately present the financial condition of Borrower and the Subsidiaries as of the dates, and the results of its operations for the periods specified in the Financial Information, and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods covered thereby. Except as specifically disclosed (as to creditor, debtor, amount and security) by the Financial Information, Borrower and Subsidiaries do not have outstanding any loan or indebtedness, direct or contingent, to any party, other than the indebtedness due and owing to Lenders, and none of its assets is subject to any security interest, lien or other encumbrance in favor of anyone other than Agent (except for the Permitted Existing Liens). There has been no change in the assets, liabilities or financial condition of Borrower from that set forth in the Financial Information other than changes in the ordinary course of affairs, none of which changes has been materially adverse to Borrower. After giving effect to the Acquisitions, neither Borrower nor any of the Guarantors are or will be rendered insolvent by the indebtedness incurred in connection therewith, will be left with unreasonably small capital with which to engage its business or will have incurred debts beyond its ability to pay such debts as they mature.

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4.5 No Material Adverse Change As of the Effective Date, and since the date hereof, there has occurred no event or circumstance that has had or could reasonably be expected to have a Material Adverse Effect.

4.6 Taxes.

(A) Tax Examinations. All material deficiencies which have been asserted against the Borrower or any of the Borrower's Subsidiaries as a result of any federal, state, local or foreign tax examination for each taxable year in respect of which an examination has been conducted have been fully paid or finally settled or are being contested in good faith, and as of the date hereof no issue has been raised by any taxing authority in any such examination which, by application of similar principles, reasonably can be expected to result in assertion by such taxing authority of a material deficiency for any other year not so examined which has not been reserved for in the Borrower's consolidated financial statements to the extent, if any, required by Agreement Accounting Principles.

(B) Payment of Taxes. All tax returns and reports of the Borrower and its Subsidiaries required to be filed have been timely filed, and all taxes, assessments, fees and other governmental charges thereupon and upon their respective property, assets, income and franchises which are shown in such returns or reports to be due and payable have been paid except those items which are being contested in good faith and have been reserved for in accordance with Agreement Accounting Principles or for which the failure to file could not be reasonably expected to result in the payment of amounts by the Borrower and its Subsidiaries in the aggregate in excess of \$2,500,000.00. The Borrower has no knowledge of any proposed tax assessment against the Borrower or any of its Subsidiaries that will have or could reasonably be expected to have a Material Adverse Effect.

4.7 Litigation; Loss Contingencies and Violations. There is no action, suit, proceeding, arbitration or (to the Borrower's knowledge after diligent inquiry) investigation before or by any Governmental Authority or private arbitrator pending or, to the Borrower's knowledge after diligent inquiry, threatened against the Borrower or any of its Subsidiaries or any property of any of them (i) challenging the validity or the enforceability of any material provision of the Transaction Documents or (ii) which will have or could reasonably be expected to have a Material Adverse Effect. There is no material loss contingency within the meaning of Agreement Accounting Principles that has not been reflected in the consolidated financial statements of the Borrower and its Subsidiaries prepared and delivered pursuant to Section 5.1(A) for the fiscal period during which such material loss contingency was incurred. Neither the Borrower nor any of its Subsidiaries is (a) in violation of any applicable Requirements of Law which violation will have or could reasonably be expected to have a Material Adverse Effect, or (b) subject to or in default with respect to any final judgment, writ, injunction, restraining order or order of any nature, decree, rule or regulation of any court or Governmental Authority which will have or could reasonably be expected to have a Material Adverse Effect.

4.8 Subsidiaries. Schedule 4.8 to this Agreement (i) contains a description as of the Effective Date (or as of the date of any supplement thereto) of the corporate structure of, the Borrower and its Subsidiaries and any other Person in which the Borrower or any of its Subsidiaries holds an Equity Interest; and (ii) accurately sets forth as of the Effective Date (or as of the date of any supplement thereto) (a) the correct legal name, the jurisdiction of incorporation or formation and the jurisdictions in which each of the Borrower and the Subsidiaries of the Borrower is qualified to transact business as a foreign corporation or other

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foreign entity and (b) a summary of the direct and indirect partnership, joint venture, or other Equity Interests, if any, of the Borrower and each Subsidiary of the Borrower in any Person that is not a corporation. After the formation or acquisition of any New Subsidiary permitted under Section 5.3(F)(ii), if requested by the Agent, the Borrower shall provide a supplement to Schedule 4.8 to this Agreement. None of the issued and outstanding Capital Stock of the Borrower or any of its Subsidiaries is subject to any redemption or repurchase agreement. The outstanding Capital Stock of the Borrower and each of the Borrower's Subsidiaries is duly authorized, validly issued, fully paid and nonassessable. The Borrower has no Subsidiaries other than (i) the Subsidiaries set forth on Schedule 4.8 and (ii) any Subsidiaries acquired in connection with a Permitted Acquisition, in connection with which the Borrower shall have provided all of the documents, instruments and agreements as required by this Agreement.

4.9 ERISA. No Benefit Plan has incurred any material accumulated funding deficiency (as defined in Sections 302(a)(2) of ERISA and 412(a) of the Code) whether or not waived. Neither the Borrower nor any member of the Controlled Group has incurred any material liability to the PBGC, which remains outstanding other than the payment of premiums, and there are no premium payments that have become due which are unpaid. Schedule B to the most recent annual report filed with the IRS with respect to each Benefit Plan and, if so requested, furnished to the Lender, is complete and accurate. Since the date of each such Schedule B, there has been no material adverse change in the funding status or financial condition of the Benefit Plan relating to such Schedule B. Neither the Borrower nor any member of the Controlled Group has (i) failed to make a required contribution or payment to a Multiemployer Plan or (ii) made a complete or partial withdrawal under Sections 4203 or 4205 of ERISA from a Multiemployer Plan, in either event which could result in any material liability. Neither the Borrower nor any member of the Controlled Group has failed to make a required installment or any other required payment under Section 412 of the Code, in either case involving any material amount, on or before the due date for such installment or other payment. Neither the Borrower nor any member of the Controlled Group is required to provide security to a Benefit Plan under Section 401(a)(29) of the Code due to a Plan amendment that results in an increase in current liability for the plan year. Neither the Borrower nor any of its Subsidiaries maintains or contributes to any employee welfare benefit plan within the meaning of Section 3(1) of ERISA, which provides benefits to employees after termination of employment other than as required by Section 601 of ERISA. Each Plan which is intended to be qualified under Section 401(a) of the Code as currently in effect is so qualified, and each trust related to any such Plan is exempt from federal income tax under Section 501(a) of the Code as currently in effect. The Borrower and all Subsidiaries are in compliance in all material respects with the responsibilities, obligations and duties imposed on them by ERISA and the Code with respect to all Plans. Neither the Borrower nor any of its Subsidiaries nor any fiduciary of any Plan has engaged in a nonexempt prohibited transaction described in Sections 406 of ERISA or 4975 of the Code which could reasonably be expected to subject the Borrower or any Dealership Guarantor to material liability. Neither the Borrower nor any member of the Controlled Group has taken or failed to take any action that would constitute or result in a Termination Event, which action or inaction could reasonably be expected to subject the Borrower to material liability. Neither the Borrower nor any Subsidiary is subject to any liability under Sections 4063, 4064, 4069, 4204 or 4212(c) of ERISA and no other member of the Controlled Group is subject to any liability under Sections 4063, 4064, 4069, 4204 or 4212(c) of ERISA which could reasonably be expected to subject the Borrower or any Dealership Guarantor to material liability. Neither the Borrower nor any of its Subsidiaries has, by reason of the transactions contemplated hereby, any obligation to make any payment to any employee pursuant to any Plan or existing contract or arrangement. For purposes of this Section 4.9 "material" means any noncompliance or basis for liability which could reasonably be

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likely to subject the Borrower or any of its Subsidiaries to liability individually or in the aggregate for all such matters in excess of \$2,500,000.00.

4.10 Accuracy of Information. The information, exhibits and reports furnished by or on behalf of the Borrower and any of its Subsidiaries to the Lenders in connection with the negotiation of, or compliance with, the Loan Documents, the representations and warranties of the Borrower and its Subsidiaries contained in the Transaction Documents, and all certificates and documents delivered to the Lenders pursuant to the terms thereof, taken as a whole, do not contain as of the date furnished any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained herein or therein, taken as a whole, in light of the circumstances under which they were made, not misleading.

4.11 Securities Activities. Neither the Borrower nor any of its Subsidiaries is engaged in the business of extending credit for the purpose of purchasing or carrying Margin Stock.

4.12 Material Agreements. Neither the Borrower nor any of its Subsidiaries is a party to any Contractual Obligation or subject to any charter or other corporate restriction that individually or in the aggregate will have or could reasonably be expected to have a Material Adverse Effect. Neither the Borrower nor any of its Subsidiaries has received notice or has knowledge that (i) it is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any Contractual Obligation applicable to it, or (ii) any condition exists which, with the giving of notice or the lapse of time or both, would constitute a default with respect to any such Contractual Obligation, in each case, except where such default or defaults, if any, individually or in the aggregate will not have or could not reasonably be expected to have a Material Adverse Effect.

4.13 Compliance with Laws and Franchise Agreements. The Borrower and its Subsidiaries are in compliance with all Requirements of Law applicable to them and their respective businesses, in each case where the failure to so comply individually or in the aggregate could reasonably be expected to have a Material Adverse Effect. The execution, delivery and performance by each Sonic Dealership of any Loan Document to which it is a party does not and will not conflict with the franchise agreement to which it is a party. Each Sonic Dealership is operating under a valid and enforceable franchise agreement.

4.14 Assets and Properties. The Borrower and each of its Subsidiaries has good and marketable title to all of its assets and properties (tangible and intangible, real or personal) owned by it or a valid leasehold interest in all of its leased assets (except insofar as marketability may be limited by any laws or regulations of any Governmental Authority affecting such assets), except where the failure to have any such title will not have or could not reasonably be expected to have a Material Adverse Effect, and all such assets and property are free and clear of all Liens, except Liens permitted under Section 5.3(C). Substantially all of the assets and properties owned by, leased to or used by the Borrower and/or each such Subsidiary of the Borrower are in adequate operating condition and repair, ordinary wear and tear excepted. Neither this Agreement nor any other Transaction Document, nor any transaction contemplated under any such agreement, will affect any right, title or interest of the Borrower or such Subsidiary in and to any of its assets in a manner that will have or could reasonably be expected to have a Material Adverse Effect.

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4.15 Statutory Indebtedness Restrictions. Neither the Borrower nor any of its Subsidiaries is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act, or the Investment Company Act of 1940, or any other federal, state or local statute, ordinance or regulation which limits its ability to incur indebtedness or its ability to consummate the transactions contemplated hereby.

4.16 Insurance. The Borrower's and its Subsidiaries' insurance policies and programs reflect coverage that is reasonably consistent with prudent industry practice.

4.17 Labor Matters. As of the date hereof, to the Borrower's and its Subsidiaries' knowledge, there are no material labor disputes to which the Borrower or any of its Subsidiaries may become a party, including, without limitation, any strikes, lockouts or other disputes relating to such Persons' plants and other facilities.

4.18 Acquisitions. As of the Effective Date and as of the date of each Acquisition, all material conditions precedent to, all consents from applicable Governmental Authorities, and all other material consents necessary to permit, the Acquisitions pursuant to the Acquisition Documents have been or will be satisfied or waived by the Borrower with the prior written consent of the Lender.

4.19 Environmental Matters. (A) (i) The operations of the Borrower and its Subsidiaries comply in all material respects with Environmental, Health or Safety Requirements of Law;

(ii) the Borrower and its Subsidiaries have all material permits, licenses or other authorizations required under Environmental, Health or Safety Requirements of Law and are in material compliance with such permits;

(iii) neither the Borrower, any of its Subsidiaries nor any of their respective present property or operations, or, to the best of, the Borrower's or any of its Subsidiaries' knowledge, any of their respective past property or operations, are subject to or the subject of, any investigation known to the Borrower or any of its Subsidiaries, any judicial or administrative proceeding, order, judgment, decree, settlement or other agreement respecting: (a) any material violation of Environmental, Health or Safety Requirements of Law; (b) any material remedial action; or (c) any material claims or liabilities arising from the Release or threatened Release of a Contaminant into the environment;

(iv) there is not now, nor to the best of the Borrower's or any of its Subsidiaries' knowledge has there ever been on or in the property of the Borrower or any of its Subsidiaries any landfill, waste pile, underground storage tanks, aboveground storage tanks, surface impoundment or hazardous waste storage facility of any kind, any polychlorinated biphenyls (PCBs) used in hydraulic oils, electric transformers or other equipment, or any asbestos containing material that in the case of any of the foregoing could be reasonably expected to result in any material claims or liabilities; and

(v) neither the Borrower nor any of its Subsidiaries has any material Contingent Obligation in connection with any Release or threatened Release of a Contaminant into the environment.

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(B) For purposes of this Section 4.19 “material” means any noncompliance or basis for liability which could reasonably be likely to subject the Borrower or any of its Subsidiaries to liability individually or in the aggregate in excess of \$5,000,000.00.

4.20 Benefits. The Borrower, each of its Subsidiaries and Sonic Financial will benefit from the financing arrangement established by this Agreement. Each Lender has stated and the Borrower acknowledges that, but for the agreement by Borrower, Sonic Financial and each Guarantor to execute and deliver the Loan Documents, no Lender would have made available the credit facilities established hereby on the terms set forth herein.

4.21 Solvency. Before and after giving effect to the execution, delivery and performance of the Transaction Documents and at the time of each Advance, the Borrower and each of its Subsidiaries are Solvent (it being understood that for purposes of this Section 4.21, “Subsidiary” does not include any Subsidiary of Borrower which has assets with a value of less than \$1,000,000 if the total value of all assets of all Subsidiaries which are not Solvent at the time of a given Advance is less than \$5,000,000; **provided, however**, that Borrower must identify each such Subsidiary to Agent in writing at the time of delivery of the proposed Borrowing Notice being delivered in connection with the requested Advance).

4.22 Retail Contracts. (A) No legal or governmental proceedings are pending which would reasonably be seen as likely to materially impair the value of the Retail Contracts taken as a whole, and to the knowledge of Borrower and HMC Finance, no such proceedings are threatened or contemplated by governmental authorities or threatened by others.

(B) each Retail Contract shall represent the genuine, legal, valid, and binding payment obligation in writing of the Obligor, enforceable by the holder thereof in accordance with its terms subject to the effect of bankruptcy, insolvency, reorganization, or other similar laws affecting the enforcement of creditor’s rights generally.

(C) the Obligor on each Retail Contract has obtained or agreed to obtain physical damage insurance covering the Financed Vehicles financed pursuant to the applicable Retail Contract.

(D) the numerical data relating to the characteristics of the Retail Contracts contained in the Borrower’s and the Affiliated Dealers’ financial statements provided to Lender are true and correct in all material respects.

(E) each Retail Contract constitutes “chattel paper” or “electronic chattel paper” as each is defined in the UCC.

(F) there is only one original executed copy of each Retail Contract.

ARTICLE V: COVENANTS

The Borrower covenants and agrees that so long as any Commitment is outstanding and thereafter until payment in full of all of the Obligations (other than contingent indemnity obligations, but including Floor Plan Indebtedness owed to any Lender or any of its Subsidiaries or Affiliates), unless each Lender shall otherwise give its prior written consent:

5.1 **Reporting.** The Borrower shall:

(A) **Financial Reporting.** Furnish to Agent (with sufficient copies for each Lender), or with respect to **Subsection (iii)** below, to each Lender in the manner more particularly set forth therein:

(i) **Quarterly Reports.** As soon as practicable, and in any event within forty five (45) days after the end of each fiscal quarter in each fiscal year, the consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such period and the related consolidated statements of income and cash flows of the Borrower and its Subsidiaries for such fiscal quarter and for the period from the beginning of the then current fiscal year to the end of such fiscal quarter, certified by the chief financial officer of the Borrower on behalf of the Borrower as fairly presenting the consolidated financial position of the Borrower and its Subsidiaries as at the dates indicated and the results of their operations and cash flows for the periods indicated in accordance with Agreement Accounting Principles, subject to normal year end adjustments.

(ii) **Annual Reports.** As soon as practicable, and in any event within ninety (90) days after the end of each fiscal year, (a) the consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal year and the related consolidated statements of income, stockholders' equity and cash flows of the Borrower and its Subsidiaries for such fiscal year, and in comparative form the corresponding figures for the previous fiscal year and (b) an audit report on the items listed in **clause (a)** hereof of independent certified public accountants of recognized national standing, which audit report shall be unqualified and shall state that such financial statements fairly present the consolidated financial position of the Borrower and its Subsidiaries as of the dates indicated and the results of their operations and cash flows for the periods indicated in conformity with Agreement Accounting Principles and that the examination by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards. The deliveries made pursuant to this **clause (ii)** shall be accompanied by any management letter prepared by the above-referenced accountants.

(iii) **Monthly Statements.** As soon as practicable after a Lender's request, and in any event within five (5) Business Days after such request, with respect to any Sonic Dealership, certified copies of direct (factory) statements provided by such Sonic Dealership to a manufacturer, and with respect to any Non-Dealership Guarantor, certified Financial Information.

(iv) **Officer's Certificate.** Together with each delivery of any financial statement pursuant to **clauses (i) and (ii)** of this **Section 5.1(A)**, an Officer's Certificate of the Borrower, substantially in the form of **Exhibit F** attached hereto and made a part hereof, stating that no Event of Default or Unmatured Default exists, or if any Event of

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Default or Unmatured Default exists, stating the nature and status thereof and setting forth (a) such financial statements and information as shall be reasonably acceptable to the Lender and (b) a valuation of the Collateral.

(v) **Liquidation Report.** Within twenty (20) Business Days after the end of each fiscal quarter, or at such other frequency as Agent may request from time to time, reports covering the BHPH Collateral, which include: (a) trial balance of customer contracts, certified as true and accurate by an authorized corporate officer of HMC Finance, (b) customer delinquency report, (c) loss experience analysis, (d) paid off contracts report, (e) charged off contracts report, (f) repossession report, (g) auction report, (h) new contracts report, (i) cash and transaction report, and (j) systems security features.

(vi) **Agreed Upon Procedures Report.** As soon as practicable, and in any event within ninety (90) days after the end of each fiscal year, an agreed upon procedures report (with respect to the BHPH Collateral) from an independent outside accounting firm, acceptable to Lender.

(vii) **Consolidating Statements.** Such consolidating statements, as any Lender may from time to time reasonably request.

(viii) **Miscellaneous.** Such other statements respecting written lending, leasing and underwriting standards and/or guidelines, as Lender may from time to time reasonably request.

(B) **Notice of Event of Default.** Promptly upon any of the chief executive officer, chief operating officer, chief financial officer, treasurer or controller of the Borrower or any of its Subsidiaries obtaining knowledge (i) of any condition or event which constitutes an Event of Default or Unmatured Default, or (ii) that any Person has given any written notice to the Borrower or any Subsidiary of the Borrower or taken any other action with respect to a claimed default or event or condition of the type referred to in Section 6.1(E), deliver to the Agent a notice specifying (a) the nature and period of existence of any such claimed default, Event of Default, Unmatured Default, condition or event, (b) the notice given or action taken by such Person in connection therewith, and (c) what action the Borrower has taken, is taking and proposes to take with respect thereto.

(C) **Lawsuits.** (i) Promptly upon the Borrower obtaining knowledge of the institution of, or written threat of, any action, suit, proceeding, governmental investigation or arbitration against or affecting the Borrower or any of its Subsidiaries or any property of the Borrower or any of its Subsidiaries, which action, suit, proceeding, governmental investigation or arbitration exposes, or in the case of multiple actions, suits, proceedings, governmental investigations or arbitrations arising out of the same general allegations or circumstances which expose, in the Borrower's reasonable judgment, the Borrower or any of its Subsidiaries to liability in an amount aggregating \$5,000,000.00 or more, give written notice thereof to Agent and provide such other information as may be reasonably available to enable each Lender and its respective counsel to evaluate such matters; and (ii) in addition to the requirements set forth in clause (i) of this Section 5.1(C), upon request of Agent, promptly give written notice of the status of any action, suit, proceeding, governmental investigation or arbitration covered by a report delivered pursuant to clause (i) above or disclosed in any filing with the Commission and provide such other information as may be reasonably available to it that would not violate any attorney-client

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privilege by disclosure to each Lender and the Agent to enable each Lender or the Agent and its counsel to evaluate such matters.

(D) ERISA Notices. Deliver or cause to be delivered to Agent, at the Borrower's expense, the following information and notices as soon as reasonably possible, and in any event:

(i) (a) within ten (10) Business Days after the Borrower obtains knowledge that a Termination Event has occurred, a written statement of the chief financial officer of the Borrower describing such Termination Event and the action, if any, which the Borrower has taken, is taking or proposes to take with respect thereto, and when known, any action taken or threatened by the IRS, DOL or PBGC with respect thereto and (b) within ten (10) Business Days after any member of the Controlled Group obtains knowledge that a Termination Event has occurred which could reasonably be expected to subject the Borrower or any member of the Controlled Group to liability individually or in the aggregate in excess of \$2,500,000.00, a written statement of the chief financial officer of the Borrower describing such Termination Event and the action, if any, which the member of the Controlled Group has taken, is taking or proposes to take with respect thereto, and when known, any action taken or threatened by the IRS, DOL or PBGC with respect thereto;

(ii) within ten (10) Business Days after the Borrower or any of its Subsidiaries obtains knowledge that a prohibited transaction (defined in Sections 406 of ERISA and Section 4975 of the Code) has occurred, a statement of the chief financial officer of the Borrower describing such transaction and the action which the Borrower or such Subsidiary has taken, is taking or proposes to take with respect thereto;

(iii) within ten (10) Business Days after the Borrower or any of its Subsidiaries receives notice of any unfavorable determination letter from the IRS regarding the qualification of a Plan under Section 401(a) of the Code, copies of each such letter;

(iv) within ten (10) Business Days after the filing thereof with the IRS, a copy of each funding waiver request filed with respect to any Benefit Plan and all communications received by the Borrower or a member of the Controlled Group with respect to such request;

(v) within ten (10) Business Days after receipt by the Borrower or any member of the Controlled Group of the PBGC's intention to terminate a Benefit Plan or to have a trustee appointed to administer a Benefit Plan, copies of each such notice;

(vi) within ten (10) Business Days after receipt by the Borrower or any member of the Controlled Group of a notice from a Multi-employer Plan regarding the imposition of withdrawal liability, copies of each such notice;

(vii) within ten (10) Business Days after the Borrower or any member of the Controlled Group fails to make a required installment or any other required payment under Section 412 of the Code on or before the due date for such installment or payment, a notification of such failure; and

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(viii) within ten (10) Business Days after the Borrower or any member of the Controlled Group knows or has reason to know that (a) a Multi-employer Plan has been terminated, (b) the administrator or plan sponsor of a Multi-employer Plan intends to terminate a Multi-employer Plan, or (c) the PBGC has instituted or will institute proceedings under Section 4042 of ERISA to terminate a Multi-employer Plan.

For purposes of this Section 5.1(D), the Borrower, any of its Subsidiaries and any member of the Controlled Group shall be deemed to know all facts known by the Administrator of any Plan of which the Borrower or any member of the Controlled Group or such Subsidiary is the plan sponsor.

(E) Labor Matters. Notify Agent in writing, promptly upon the Borrower's learning thereof, of (i) any material labor dispute to which the Borrower or any of its Subsidiaries may become a party, including, without limitation, any strikes, lockouts or other disputes relating to such Persons' plants and other facilities and (ii) any material liability incurred under the Worker Adjustment and Retraining Notification Act with respect to the closing of any plant or other facility of the Borrower or any of its Subsidiaries.

(F) Other Indebtedness. Deliver to Agent (i) a copy of each notice or communication regarding potential or actual defaults (including any accompanying officer's certificate) delivered by or on behalf of the Borrower or any of its Subsidiaries to the holders of funded Indebtedness pursuant to the terms of the agreements governing such Indebtedness, such delivery to be made at the same time and by the same means as such notice or other communication is delivered to such holders, and (ii) a copy of each notice or other communication regarding potential or actual defaults received by the Borrower or any of its Subsidiaries from the holders of funded Indebtedness pursuant to the terms of such Indebtedness, such delivery to be made promptly after such notice or other communication is received by the Borrower or any such Subsidiary.

(G) Other Reports. Deliver or cause to be delivered to Agent copies of all financial statements, reports and notices, if any, sent or made available generally by the Borrower to its securities holders or filed with the Commission by the Borrower, all press releases made available generally by the Borrower or any of the Borrower's Subsidiaries to the public concerning material developments in the business of the Borrower or any such Subsidiary and all notifications received from the Commission by the Borrower or its Subsidiaries pursuant to the Securities Exchange Act of 1934 and the rules promulgated thereunder (other than customary comment letters received in connection with registration statements or other routine communications between the Commission and the Borrower).

(H) Environmental Notices. As soon as possible and in any event within ten (10) days after receipt by the Borrower or any of its Subsidiaries, a copy of (i) any notice or claim to the effect that the Borrower or any of its Subsidiaries is or may be liable to any Person as a result of the Release by the Borrower, any of its Subsidiaries, or any other Person of any Contaminant into the environment, and (ii) any notice alleging any violation of any Environmental, Health or Safety Requirements of Law by the Borrower or any of its Subsidiaries if, in either case, such notice or claim relates to an event which could reasonably be expected to subject the Borrower or any Subsidiary to liability individually or in the aggregate in excess of \$5,000,000.00.

(I) Other Information. Promptly upon receiving a request therefore from Agent, prepare and deliver to Agent such other information with respect to the Borrower, any of its Subsidiaries,

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or the Collateral, including, without limitation, schedules identifying and describing the Collateral and any dispositions thereof, as from time to time may be reasonably requested by Agent.

5.2 Affirmative Covenants.

(A) Existence, Etc. Except for mergers permitted pursuant to Section 5.3(H), the Borrower shall, and shall cause each of its Subsidiaries to, at all times maintain its corporate company or partnership existence, as applicable, and preserve and keep, or cause to be preserved and kept, in full force and effect its rights and franchises material to its businesses.

(B) Powers; Conduct of Business. The Borrower shall, and shall cause each of its Subsidiaries to, qualify and remain qualified to do business in each jurisdiction in which the nature of its business requires it to be so qualified and where the failure to be so qualified will have or could reasonably be expected to have a Material Adverse Effect. The Borrower will, and will cause each Subsidiary to, carry on and conduct its business in substantially the same manner and in substantially the same fields of enterprise as it is presently conducted.

(C) Compliance with Laws, Etc. The Borrower shall, and shall cause its Subsidiaries to, (a) comply with all Requirements of Law and all restrictive covenants affecting such Person or the business, properties, assets or operations of such Person, and (b) obtain as needed all permits necessary for its operations and maintain such permits in good standing, unless failure to comply or obtain could not reasonably be expected to have a Material Adverse Effect.

(D) Payment of Taxes and Claims; Tax Consolidation. The Borrower shall pay, and cause each of its Subsidiaries to pay, (i) all taxes, assessments and other governmental charges imposed upon it or on any of its properties or assets or in respect of any of its franchises, business, income or property before any penalty or interest accrues thereon, and (ii) all claims (including, without limitation, claims for labor, services, materials and supplies) for sums which have become due and payable and which by law have or may become a Lien (other than a Lien permitted by Section 5.3(C)) upon any of the Borrower's or such Subsidiary's property or assets, prior to the time when any penalty or fine shall be incurred with respect thereto; **provided, however,** that no such taxes, assessments and governmental charges referred to in clause (i) above or claims referred to in clause (ii) above (and interest, penalties or fines relating thereto) need be paid if being contested in good faith by appropriate proceedings diligently instituted and conducted and if such reserve or other appropriate provision, if any, as shall be required in conformity with Agreement Accounting Principles shall have been made therefor. The Borrower will not, nor will it permit any of its Subsidiaries to, file or consent to the filing of any consolidated income tax return with any other Person other than the consolidated return of the Borrower.

(E) Insurance. The Borrower shall maintain for itself and its Subsidiaries, or shall cause each of its Subsidiaries to maintain in full force and effect, insurance policies and programs reflecting coverage that is reasonably consistent with prudent industry practice.

(F) Inspection of Property; Books and Records; Discussions. The Borrower shall permit and cause each of the Borrower's Subsidiaries to permit, any authorized representative(s) designated by Agent or any Lender to visit and inspect any of the properties of the Borrower or any of its Subsidiaries, to examine, audit, check and make copies of their respective financial and accounting records, books, journals, orders, receipts and any correspondence and other data relating to their respective businesses or the transactions contemplated hereby or by the

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Acquisitions (including, without limitation, in connection with environmental compliance, hazard or liability), and to discuss their affairs, finances and accounts with their officers and independent certified public accountants, all upon reasonable notice and at such reasonable times during normal business hours, as often as may be reasonably requested; **provided**, that while no Event of Default exists, all of the foregoing shall be at the joint expense of the Lenders. The Borrower shall keep and maintain, and cause each of the Borrower's Subsidiaries to keep and maintain, in all material respects, proper books of record and account in which entries in conformity with Agreement Accounting Principles shall be made of all dealings and transactions in relation to their respective businesses and activities, including, without limitation, transactions and other dealings with respect to the Collateral. If an Event of Default has occurred and is continuing, the Borrower, upon the request of Agent or any Lender, shall turn over any such records to Agent, such Lender, or their respective representatives.

(G) **Insurance and Condemnation Proceeds.** The Borrower directs (and, if applicable, shall cause its Subsidiaries to direct) all insurers under policies of property damage, boiler and machinery and business interruption insurance and payors of any condemnation claim or award relating to the property to pay all proceeds payable under such policies or with respect to such claim or award for any loss with respect to the Collateral directly to Agent (for the benefit of the Lenders); **provided, however**, in the event that such proceeds or award are less than \$250,000.00 ("**Excluded Proceeds**"), unless an Event of Default shall have occurred and be continuing, Agent shall remit such Excluded Proceeds to the Borrower or Subsidiary, as applicable. Each such policy shall contain a long-form loss-payable endorsement naming Agent (for the benefit of the Lenders) as loss payee, which endorsement shall be in form and substance acceptable to Agent. Agent shall, upon receipt of such proceeds (other than Excluded Proceeds) and at the Borrower's direction, either apply the same to the principal amount of the Advances outstanding at the time of such receipt and create a corresponding reserve against the Commitment in an amount equal to such application (the "**Decision Reserve**") or hold them as cash collateral for the Obligations in an interest bearing account. For up to 150 days from the date of any loss (the "**Decision Period**"), the Borrower may notify Agent that it intends to restore, rebuild or replace the property subject to any insurance payment or condemnation award and shall, as soon as practicable thereafter, provide Agent detailed information, including a construction schedule and cost estimates. Should an Event of Default occur at any time during the Decision Period, should the Borrower notify Agent that it has decided not to rebuild or replace such property during the Decision Period, or should the Borrower fail to notify Agent of the Borrower's decision during the Decision Period, then the amounts held as cash collateral pursuant to this Section 5.2(G) or as the Decision Reserve shall be applied as a mandatory prepayment of the Advances pursuant to Section 2.2(B). Proceeds held as cash collateral pursuant to this Section 5.2(G) or constituting the Decision Reserve shall be disbursed as payments for restoration, rebuilding or replacement of such property become due **provided, however**, should an Event of Default occur after the Borrower has notified Agent that it intends to rebuild or replace the property, the Decision Reserve or amounts held as cash collateral shall be applied as a mandatory prepayment of the Advances pursuant to Section 2.2(B). In the event the Decision Reserve is to be applied as a mandatory prepayment to the Advances, the Borrower shall be deemed to have requested Advances in an amount equal to the Decision Reserve, and such Advances shall be made regardless of any failure of the Borrower to meet the conditions precedent set forth in Article III. Upon completion of the restoration, rebuilding or replacement of such property, the unused proceeds shall constitute net cash proceeds of an Asset Sale and shall be applied as a mandatory prepayment of the Advances pursuant to Section 2.2(B).

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(H) ERISA Compliance. The Borrower shall, and shall cause each of the Borrower's Subsidiaries to, establish, maintain and operate all Plans, if any, to comply in all material respects with the provisions of ERISA, the Code, all other applicable laws, and the regulations and interpretations thereunder and the respective requirements of the governing documents for such Plans, except where the failure to comply will not or could not reasonably be expected to subject the Borrower and its Subsidiaries to liability individually or in the aggregate in excess of \$2,500,000.00.

(I) Maintenance of Property. The Borrower shall cause all property used or useful in the conduct of its business or the business of any Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Borrower may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; **provided, however**, that nothing in this Section 5.2(I) shall prevent the Borrower from discontinuing the operation or maintenance of any of such property if such discontinuance is, in the judgment of the Borrower, desirable in the conduct of its business or the business of any Subsidiary and not disadvantageous in any material respect to any Lender.

(J) Environmental Compliance. The Borrower and its Subsidiaries shall comply with all Environmental, Health or Safety Requirements of Law, except where noncompliance could not reasonably be expected to subject the Borrower and its Subsidiaries to liability individually or in the aggregate in excess of \$5,000,000.00. Neither the Borrower nor any of its Subsidiaries shall be the subject of any proceeding or investigation pertaining to (i) the Release by the Borrower or any of its Subsidiaries of any Contaminant into the environment or (ii) the liability of the Borrower or any of its Subsidiaries arising from the Release by any other Person of any Contaminant into the environment, which, in either case, subjects or is reasonably likely to subject the Borrower and its Subsidiaries individually or in the aggregate to liability in excess of the amount set forth above.

(K) Use of Proceeds. Except as otherwise provided in Section 2.1 (A) hereof, the Borrower shall use the proceeds of Advances to (i) fund Permitted Acquisitions and (ii) provide funds for working capital needs and other general corporate purposes of the Borrower. The proceeds of Advances hereunder may not be used to make any mandatory prepayment under Section 2.2(B). The Borrower will not, nor will it permit any Subsidiary to, use any of the proceeds of the Loans to purchase or carry any "Margin Stock" or to make any Acquisition, other than any Permitted Acquisition pursuant to Section 5.3(F).

(L) Addition of Guarantors.

(i) Dealership Guarantors and Subsidiary Holding Company Guarantors. The Borrower shall cause each present and future Subsidiary Holding Company and each Sonic Dealership which has not heretofore provided a Subsidiary Holding Company Guaranty or a Dealership Guaranty to Agent, to deliver to Agent a Subsidiary Holding Company Guaranty, in the form of Exhibit C-2, or a Dealership Guaranty, in the form of Exhibit C-1, a Subsidiary Holding Company Security Agreement, in the form of Exhibit D-2, or a Dealership Security Agreement, in the form of Exhibit D-1, UCC-1 Financing Statements, an acknowledgment to be bound by the Cross-Default Agreement, and an acknowledgment to be bound by the Contribution Agreement, together with appropriate corporate resolutions, opinions and other documentation in form and substance reasonably satisfactory to Agent. Each Subsidiary

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Holding Company and each Sonic Dealership shall provide such Subsidiary Holding Company Guaranty or Dealership Guaranty and Collateral Documents prior to or simultaneously with its Acquisition.

(ii) Non-Dealership Guarantors. The Borrower may, but shall not be obligated to, designate from time to time by written notice to Agent, additional Subsidiaries whose principal line of business is incidental to the retail sales of automobiles and related services, to guaranty the Obligations as “Non-Dealership Guarantors.” Upon such designation, Borrower will cause each such Non-Dealership Guarantor to deliver to Agent a Non-Dealership Guaranty, in the form of Exhibit C-3, a Non-Dealership Security Agreement, in the form of Exhibit D-3, UCC-1 Financing Statements, an acknowledgment to be bound by the Cross-Default Agreement, and an acknowledgment to be bound by the Contribution Agreement, together with appropriate corporate resolutions, opinions and other documentation in form and substance reasonably satisfactory to Agent.

(M) Franchise Agreements. The Borrower shall use commercially reasonable efforts to obtain waivers under existing and future franchise agreements on terms and conditions acceptable to the Lenders sufficient to permit the security interests and liens contemplated hereunder. To the extent any franchise agreement materially limits the security interests and liens contemplated hereunder or under any Collateral Document, the Borrower shall notify the Agent of such restriction or limitation and to the extent such franchise agreement relates to an Acquisition to be effected by the Borrower, prior to such Acquisition becoming a Permitted Acquisition, the Required Lenders shall have provided their written approval of such franchise agreement.

(N) Pledge of Capital Stock. The Borrower shall, and shall cause each of the Subsidiary Holding Companies and any Subsidiary owning any Capital Stock in a Non-Dealership Guarantor to pledge to and grant Agent (for the benefit of the Lenders) a first perfected security interest in all of its Capital Stock in each Sonic Dealership and/or other Subsidiary Holding Company and/or Non-Dealership Guarantor, as the case may be; provided, however, such Capital Stock will be required to be pledged only to the extent permitted by the manufacturer under the applicable franchise agreement, framework agreement or other agreement with the relevant manufacturer. In the event that a manufacturer refuses to consent to the pledge by the Borrower or a Subsidiary Holding Company of the Borrower’s or Subsidiary Holding Companies’ Capital Stock in a Sonic Dealership, the Borrower and/or Subsidiary Holding Company must execute a Waiver, Guaranty and Disbursement Agreement.

(O) HMC Finance Retail Contracts. Borrower shall cause HMC Finance to

(i) stamp each Retail Contract with a notation, in order to perfect the Agent’s security interest, containing such language as Agent may require to indicate Agent’s valid first lien, and/or at Agent’s sole discretion, Agent or its authorized agent may take possession of the Retail Contracts.

(ii) purchase only those Retail Contracts originating from an Affiliated Dealer.

(iii) purchase only those Retail Contracts which (a) were originated by an Affiliated Dealer in the state in which the applicable Affiliated Dealer conducts business for the retail sale of a Financed Vehicle in the ordinary course of such Affiliated Dealer’s business, (b) were fully and properly executed by the parties thereto, (c) were originated by an Affiliated Dealer

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with whom HMC Finance is operating under an existing agreement and (d) were validly assigned by such Affiliated Dealer to HMC Finance.

(iv) purchase only those Retail Contracts which (a) create a valid, subsisting, and enforceable first priority security interest in favor of the Affiliated Dealer in the Financed Vehicle, (b) contain customary and enforceable provisions such that the rights and remedies of the holder thereof shall be adequate for realization against the collateral, and (c) provide for, in the event that such Retail Contract is prepaid, a prepayment that fully pays the principal balance.

(v) purchase only those Retail Contracts originated pursuant to the sale of a Financed Vehicle which such sale complied (at the time it was originated or made) and shall comply (at the execution of this Agreement) in all material respects with all requirements of applicable federal, state, and local laws, and the regulations thereunder, including, without limitation, usury laws, the Federal Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Federal Trade Commission Act, the Magnuson-Moss Warranty Act, the Federal Reserve Board's Regulations B, M and Z, and the State adaptations of the National Consumer Act and of the Uniform Consumer Credit Code, and other consumer credit laws and equal credit opportunity and disclosure laws.

(vi) keep the Retail Contracts at HMC Finance's Address, unless otherwise directed by Agent, in a reasonably secured area, protected by fire, and with adequate protection to resume business in a reasonable amount of time, in case of loss.

(vii) maintain accounts and records as to each Retail Contract accurately and in sufficient detail to permit the reader thereof to know at any time the status of each Retail Contract, including payments and recoveries made and payments owing (and the nature of each).

(viii) give to any prospective purchaser, lender, or other transferee, computer tapes, records, or print-outs (including restored from back-up archives), which, if containing references in any manner whatsoever to any Retail Contract shall indicate clearly that Agent has a first and valid lien against such Retail Contract, if at any time HMC Finance propose to sell, grant a security interest in, or otherwise transfer any interest in the Retail Contracts to any prospective purchaser, lender, or other transferee.

(ix) defend the rights, title, and interest of the Agent in, to and under such Retail Contracts against all claims of third parties claiming through or under the HMC Finance, and Borrower shall join in such defense.

(x) cause the Affiliated Dealers to use only such retail contracts as will have been approved by Agent in writing, it being understood, however, that any such approval shall not indicate compliance with any applicable laws or with this Agreement.

(xi) promptly notify Agent in writing of any material change occurring in or to the BPHH Collateral, including any event causing a material loss or depreciation of the Collateral and the amount of such loss or depreciation.

5.3 Negative Covenants.

(A) Indebtedness. Neither the Borrower nor any of its Subsidiaries shall directly or indirectly create, incur, assume or otherwise become or remain directly or indirectly liable with respect to any Indebtedness, except:

- (i) the Obligations;

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- (ii) Permitted Existing Indebtedness and Permitted Refinancing Indebtedness;
 - (iii) Indebtedness in respect of obligations secured by Customary Permitted Liens;
 - (iv) Indebtedness constituting Contingent Obligations in respect of Indebtedness otherwise permitted hereunder;
 - (v) Indebtedness arising from intercompany loans from the Borrower to any Guarantor or from any Subsidiary to the Borrower or any Guarantor **provided** that in each case such Indebtedness is subordinated upon terms satisfactory to the Agent and the Required Lenders to the obligations of the Borrower and its Subsidiaries with respect to the Obligations;
 - (vi) Guaranties by the Borrower of Indebtedness permitted to be incurred by any Subsidiary;
 - (vii) Indebtedness with respect to surety, appeal and performance bonds obtained by the Borrower or any of its Subsidiaries in the ordinary course of business;
 - (viii) Indebtedness arising under any Guaranty;
 - (ix) Indebtedness constituting that portion of the deferred purchase price payable by the Borrower in connection with an Acquisition, which such Indebtedness shall not be secured by any of the Collateral;
 - (x) Indebtedness not in excess of \$2,500,000.00 in connection with the Liens set forth in Section 5.3(C)(v);
 - (xi) Floor Plan Indebtedness incurred by a Subsidiary;
 - (xii) Indebtedness existing under the 1998 Indenture;
 - (xiii) Indebtedness issued by Borrower, (which may or may not be guaranteed by the Subsidiaries of Borrower) and otherwise pari passu or subordinated in right of payment to Indebtedness, under the Approved Indentures and subordinated to the Obligations on terms reasonably satisfactory to the Required Lenders (it being acknowledged that the subordination provisions relating to the Indebtedness issued pursuant to the Indentures are and would be satisfactory to the Required Lenders), **provided, however**, that the aggregate amount of Indebtedness allowed pursuant to the Approved Indentures under this Section 5.3 (A) (xiii) may not exceed \$300,000,000.00;
- (B) Sales of Assets. Neither the Borrower nor any of its Subsidiaries shall sell, assign, transfer, lease, convey or otherwise dispose of any property (including the Capital Stock of any Subsidiary), whether now owned or hereafter acquired, or any income or profits therefrom, or enter into any agreement to do so, except:
- (i) sales of inventory in the ordinary course of business;

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- (ii) the disposition in the ordinary course of business of equipment that is obsolete, excess or no longer useful in the Borrower's or its Subsidiaries' business; and
 - (iii) sales, assignments, transfers, leases, conveyances or other dispositions of other assets (including sales of Capital Stock of a Subsidiary) if such transaction (a) is for all cash consideration, (b) is for not less than Fair Value, (c) when combined with all such other transactions (each such transaction being valued at book value) (1) during the immediately preceding twelve-month period, represents the disposition of not greater than \$2,500,000.00, and (2) during the period from the date hereof to the date of such proposed transaction, represents the disposition of not greater than \$5,000,000.00 and (d) is a sale by the Borrower of Capital Stock in any Subsidiary, except as provided in Subclause (c) above, the Borrower shall continue to own, of record and beneficially, with sole voting and dispositive power, 100% (unless required by the Subsidiary's franchise agreement to be less, in which event at least 80%) of the outstanding shares of Capital Stock of any such Subsidiary.
 - (iv) the sale of accounts receivable and general intangibles consisting of parts, service and equipment rental invoices to Compass Bank, an Alabama bank d/b/a Commercial Billing Services ("**Commercial Billing**"), *provided however*, that any such sales may be made only in the ordinary course of business and shall not violate the terms and conditions set forth in the Intercreditor Agreement dated September 19, 2002 between Agent and Commercial Billing.
- (C) Liens. Neither the Borrower nor any of its Subsidiaries shall directly or indirectly create, incur, assume or permit to exist any Lien on or with respect to any of their respective property or assets, except:
- (i) Permitted Existing Liens;
 - (ii) Customary Permitted Liens;
 - (iii) Liens securing the Obligations;
 - (iv) Liens securing Floor Plan Indebtedness, provided, however, that with respect to Floor Plan Indebtedness owing to any finance source which is not a Lender, only the following assets may be encumbered by a Lien: (a) the Inventory specifically financed under the terms of such Floor Plan Indebtedness, and (b) any and all proceeds of the sale or other disposition of or realization upon any such item of Inventory;
 - (v) Liens (other than on the stock of any Subsidiaries) securing other obligations not exceeding \$2,500,000.00 in the aggregate at any time outstanding.

In addition, neither the Borrower nor any of its Subsidiaries shall become a party to any agreement, note, indenture or other instrument, or take any other action, which would prohibit the creation of a Lien on any of its properties or other assets in favor of the Agent (for the benefit of the Lenders), as collateral for the Obligations; **provided** that any agreement, note, indenture or other instrument in connection with Liens permitted pursuant to clause (i) above may prohibit the creation of a Lien in favor of the Agent (for the benefit of the Lenders) on the items of property subject to such Lien.

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(D) Investments. Except to the extent permitted pursuant to Subsection (G) below, neither the Borrower nor any of its Subsidiaries shall directly or indirectly make or own any Investment except:

- (i) Investments in Cash Equivalents;
- (ii) Permitted Existing Investments in an amount not greater than the amount thereof on the date hereof;
- (iii) Investments in trade receivables or received in connection with the bankruptcy or reorganization of suppliers and customers and in settlement of delinquent obligations of, and other disputes with, customers and suppliers arising in the ordinary course of business;
- (iv) Investments consisting of intercompany loans from any Subsidiary to the Borrower or any other Subsidiary permitted by Section 5.3(A)(v);
- (v) Investments in any Guarantor;
- (vi) Investments constituting Permitted Acquisitions;
- (vii) loans and advances made by Borrower to employees of Borrower, provided, however that the aggregate amount of such loans and advances outstanding at any given time may not exceed \$1,000,000.00; and
- (viii) Investments in addition to those referred to elsewhere in this Section 5.3(D) in an amount not to exceed \$500,000.00 in the aggregate at any time outstanding;

provided, however, that the making of further Investments as described in clauses (vi), (vii) and (viii) above shall not be permitted if either an Event of Default or Unmatured Default shall have occurred and be continuing on the date thereof or would result therefrom.

(E) Restricted Payments. Neither the Borrower nor any of its Subsidiaries shall declare or make any Restricted Payments, except:

- (i) where the consideration therefor consists solely of Equity Interests (but excluding Disqualified Stock) of the Borrower or its Subsidiaries provided no Change of Control would occur as a result thereof;
- (ii) in connection with the payment of dividends by a Subsidiary to its parent provided such parent is a Guarantor; and
- (iii) the redemption or repurchase by Borrower of any Equity Interests of the Borrower or a Subsidiary of Borrower, now or hereafter outstanding, provided that after giving effect to such redemption or repurchase, Borrower remains in compliance with the Financial Covenants set forth in Section 5.4 hereof.

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(F) Conduct of Business; Subsidiaries; Acquisitions.

(i) Conduct of Business. Neither the Borrower nor any of its Subsidiaries shall engage in any business other than the businesses engaged in by the Borrower on the date hereof and any business or activities which are substantially similar, related or incidental thereto.

(ii) Subsidiaries. The Borrower may create, acquire and/or capitalize any Subsidiary (a "**New Subsidiary**") after the date hereof pursuant to any transaction that is permitted by or not otherwise prohibited by this Agreement; **provided** that upon the creation or acquisition of each New Subsidiary, the requirements set forth in Section 5.2(L) hereof shall have been satisfied and all New Subsidiaries that are Material Subsidiaries shall be Controlled Subsidiaries. To the extent any Subsidiary has Equity Interests issued to a Minority Holder, the franchise agreement under which such Subsidiary operates shall be limited to a Restricted Franchise Agreement.

(iii) Acquisitions. The Borrower shall not make any Acquisitions, other than Acquisitions meeting the following requirements (each such Acquisition constituting a "**Permitted Acquisition**"):

(a) no Event of Default or Unmatured Default shall have occurred and be continuing or would result from such Acquisition or the incurrence of any Indebtedness in connection therewith;

(b) in the case of an Acquisition of Equity Interests of an entity, such Acquisition shall be of one hundred percent (100%) of the Equity Interests of such entity or if so restricted by such entity's franchise agreement (a "**Restricted Franchise Agreement**"), such Acquisition shall be of at least eighty percent (80%) of the Equity Interests of such entity, **provided, however**, that such Equity Interests of Minority Holders will be required to be pledged directly to the Agent as a precondition to such Acquisition;

(c) the businesses being acquired shall be substantially similar, related or incidental to the businesses or activities engaged in by the Borrower and its Subsidiaries on the date hereof;

(d) after the end of each Quarter, or at such other frequency as Agent may request, the Borrower shall deliver to Agent a certificate from one of the Authorized Officers, demonstrating to the reasonable satisfaction of Agent and the Required Lenders that after giving effect to such Acquisition and the incurrence of any Indebtedness hereunder and in connection herewith, on a pro forma basis (both historically and on a projected basis), as if the Acquisition and such incurrence of Indebtedness had occurred on the first day of the twelve-month period ending on the last day of the Borrower's most recently completed fiscal quarter, the Borrower would have been in compliance with all of the covenants contained in this Agreement, including, without limitation, the financial covenants set forth in Section 5.4;

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(f) the purchase is consummated pursuant to a negotiated acquisition agreement on a non-hostile basis;

(g) after giving effect to such Acquisition, the representations and warranties set forth in Article IV hereof shall be true and correct in all material respects on and as of the date of such Acquisition with the same effect as though made on and as of such date; and

(h) the written consent of the Agent and the Required Lenders shall have been obtained, which such consent shall not be unreasonably withheld, in connection with any Acquisition if the acquisition price therefore (including the maximum amount of any deferred portion thereof or contingency payments payable in connection therewith) (computed with any non-cash portion of the acquisition price being valued at the fair value thereof as of the date of computation) exceeds \$3,000,000.00 for such Acquisition or series of related Acquisitions.

(i) the Borrower shall have obtained (and shall have based the calculations set forth above on) historical audited financial statements for the target and/or reviewed unaudited financial statements for the target for a period of not less than (1) two (2) years for Acquisitions in excess of \$20,000,000.00 and (2) one (1) year for any other Acquisition, together with tax returns for the one year prior to such year, in each case obtained from the seller or provided by independent certified public accountants retained for the purposes of such Acquisition, broken down by fiscal quarter in the Borrower's reasonable judgment, copies of which shall be provided to Agent.

(j) the Borrower shall have obtained either (1) a new franchise agreement between the Sonic Dealership and the manufacturer on substantially the same terms as the franchise agreement entered into between the manufacturer and the entity to be acquired in such Permitted Acquisition or (2) any consent required from a manufacturer for the continued enforceability and validity of such franchise agreement after the completion of a Permitted Acquisition shall have been obtained.

(G) Transactions with Shareholders, Affiliates or Holders of Equity Interests Neither the Borrower nor any of its Subsidiaries shall directly or indirectly enter into or permit to exist any transaction (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with any holder or holders of any of the Equity Interests of the Borrower, or with any Affiliate of the Borrower which is not a Guarantor, on terms that are less favorable to the Borrower or any of its Subsidiaries, as applicable, than those that might be obtained in an arm's length transaction at the time from Persons who are not such a holder or Affiliate.

(H) Restriction on Fundamental Changes. Neither the Borrower nor any of its Subsidiaries shall enter into any merger or consolidation, or liquidate, wind-up or dissolve (or suffer any liquidation or dissolution), or convey, lease, sell, transfer or otherwise dispose of, in one transaction or series of transactions, all or substantially all of the Borrower's or any such Subsidiary's business or property, whether now or hereafter acquired, except (i) transactions permitted under Sections 5.3(B) or 5.3(G) (ii) the merger of a Subsidiary of the Borrower into a Person acquired in connection with a Permitted Acquisition; (iii) the merger of a wholly-owned Subsidiary of the Borrower with and into the Borrower; and (iv) the merger of a Subsidiary of the Borrower with another Subsidiary of the Borrower; **provided, however**, (i) with respect to any

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such permitted mergers involving any Guarantor, the surviving corporation in the merger shall also be or become a Guarantor; and (ii) after the consummation of any such transaction, the Borrower shall be in compliance with the provisions of Sections 5.2(K) and 5.3(E).

(I) Sales and Leasebacks. Except for transactions relating to any real property financed by Toyota Credit under the Construction Mortgage Line, neither the Borrower nor any of its Subsidiaries shall, without the prior written consent of the Agent and the Required Lenders, become liable, directly, by assumption or by Contingent Obligation, with respect to any lease, whether an operating lease or a Capitalized Lease, of any property (whether real or personal or mixed) (a) which it or one of its Subsidiaries sold or transferred or is to sell or transfer to any other Person, or (b) which it or one of its Subsidiaries intends to use for substantially the same purposes as any other property which has been or is to be sold or transferred by it or one of its Subsidiaries to any other Person in connection with such lease.

(J) Margin Regulations. Neither the Borrower nor any of its Subsidiaries, shall use all or any portion of the proceeds of any credit extended under this Agreement to purchase or carry Margin Stock.

(K) ERISA. The Borrower shall not

(i) engage, or permit any of its Subsidiaries to engage, in any prohibited transaction described in Sections 406 of ERISA or 4975 of the Code for which a statutory or class exemption is not available or a private exemption has not been previously obtained from the DOL;

(ii) permit to exist any accumulated funding deficiency (as defined in Sections 302 of ERISA and 412 of the Code), with respect to any Benefit Plan, whether or not waived;

(iii) fail, or permit any Controlled Group member to fail, to pay timely required contributions or annual installments due with respect to any waived funding deficiency to any Benefit Plan;

(iv) terminate, or permit any Controlled Group member to terminate, any Benefit Plan which would result in any liability of the Borrower or any Controlled Group member under Title IV of ERISA;

(v) fail to make any contribution or payment to any Multiemployer Plan which the Borrower or any Controlled Group member may be required to make under any agreement relating to such Multiemployer Plan, or any law pertaining thereto;

(vi) fail, or permit any Controlled Group member to fail, to pay any required installment or any other payment required under Section 412 of the Code on or before the due date for such installment or other payment; or

(vii) amend, or permit any Controlled Group member to amend, a Plan resulting in an increase in current liability for the plan year such that the Borrower or any Controlled Group member is required to provide security to such Plan under Section 401(a)(29) of the Code,

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except where such transactions, events, circumstances, or failures will not have or is not reasonably likely to subject the Borrower and its Subsidiaries to liability individually or in the aggregate in excess of \$2,500,000.00.

(L) Issuance of Equity Interests. The Borrower shall not issue any Equity Interests if as a result of such issuance a Change of Control shall occur. None of the Borrower's Subsidiaries shall issue any Equity Interests other than to the Borrower or if required by the applicable manufacturer in connection with a Restricted Franchise Agreement or the state motor vehicle dealer licensing authority, to Minority Holders whose Equity Interests (i) do not exceed twenty percent (20%) of the Equity Interests of such Subsidiary and (ii) have been pledged to the Agent (other than with respect to Equity Interests held by Minority Holders as of the Effective Date); **provided, however,** that no such issuance of Equity Interests shall be permitted hereunder unless the Subsidiary with respect to which operates only under a Restricted Franchise Agreement.

(M) Corporate Documents; Franchise Agreements. Neither the Borrower nor any of its Subsidiaries shall amend, modify or otherwise change any of the terms or provisions in any of their respective constituent documents as in effect on the date hereof in any manner adverse in any material respect to the interests of any Lender without the prior written unanimous consent of all Lenders. The Borrower shall not permit any Sonic Dealership to amend, modify or otherwise change any of the terms or provisions of such Sonic Dealership's franchise agreement in any manner adverse in any material respect to the interests of any Lender without the prior written unanimous consent of all Lenders.

(N) Fiscal Year. Neither the Borrower nor any of its consolidated Subsidiaries shall change its fiscal year for accounting or tax purposes from a period consisting of the 12-month period ending on December 31 of each calendar year.

(O) Subsidiary Covenants. The Borrower will not, and will not permit any Subsidiary to, create or otherwise cause to become effective any consensual encumbrance or restriction of any kind on the ability of any Subsidiary to pay dividends or make any other distribution on its stock, or make any other Restricted Payment, pay any Indebtedness or other Obligation owed to the Borrower or any other Subsidiary, make loans or advances or other Investments in the Borrower or any other Subsidiary, or sell, transfer or otherwise convey any of its property to the Borrower or any other Subsidiary.

(P) Hedging Obligations. The Borrower shall not and shall not permit any of its Subsidiaries to enter into any interest rate, commodity or foreign currency exchange, swap, collar, cap or similar agreements evidencing Hedging Obligations, other than interest rate, foreign currency or commodity exchange, swap, collar, cap or similar agreements entered into by the Borrower or a Subsidiary pursuant to which the Borrower or such Subsidiary has hedged its actual interest rate, foreign currency or commodity exposure.

(Q) Payments on Subordinated Debt. The Borrower shall not make any payments on any of the Debt Offering Notes except in accordance with the Indenture.

(R) Retail Contracts. (i) The Borrower shall not permit HMC Finance to purchase any Retail Contract which shall have been originated in, or shall be subject to the laws of, any jurisdiction under which the sale, transfer, and assignment of such Retail under this Agreement shall be unlawful, void, or voidable.

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(ii) Except for the conveyances hereunder, the Borrower will not permit HMC Finance to sell, pledge, assign or transfer to any other person, or grant, create, incur, assume or suffer to exist any lien on any interest therein, and

(iii) The Borrower shall not permit HMC Finance to enter into any agreements of sale with an Affiliated Dealer containing any waiver of any Affiliated Dealer's obligations to repurchase the Retail Contracts and Financed Vehicles.

5.4 Financial Covenants. The Borrower shall comply with the following:

(A) Current Ratio. The Borrower shall not at any time permit the ratio (the "**Current Ratio**") of Current Assets of the Sonic Group on a consolidated basis to Current Liabilities of the Sonic Group on a consolidated basis to be less than 1.23 : 1.

(B) Fixed Charge Coverage Ratio. The Borrower shall maintain a ratio ("**Fixed Charge Coverage Ratio**") of (i) EBITDAR less Capital Expenditures, to (ii) the sum of (a) Interest Expense plus (b) scheduled amortization of the principal portion of all Indebtedness for money borrowed plus (c) Rentals plus (d) taxes paid in cash during such period of the Borrower and its consolidated Subsidiaries of at least 1.40 : 1 for each fiscal quarter ending from and after the Effective Date. In each case the Fixed Charge Coverage Ratio shall be determined as of the last day of each fiscal quarter for the four-quarter period ending on such day.

(C) Interest Coverage Ratio. The Borrower shall maintain a ratio (the "**Interest Coverage Ratio**") of EBITDA to Interest Expense of at least 2.00 : 1 for each fiscal quarter ending from and after the Effective Date. In each case the Interest Coverage Ratio shall be determined as of the last day of each fiscal quarter for the four-quarter period ending on such day.

(D) Total Adjusted Debt to EBITDA Ratio. The Borrower shall not at any time permit the ratio (the "**Adjusted Leverage Ratio**") of (i) Total Adjusted Debt of the Borrower and its consolidated Subsidiaries to (ii) EBITDA of the Borrower and its consolidated Subsidiaries, to be greater than 2.25 : 1. The Adjusted Leverage Ratio shall be calculated, in each case, determined as of the last day of each fiscal quarter based upon (a) for Total Adjusted Debt, Total Adjusted Debt as of the last day of each such fiscal quarter; and (b) for EBITDA, EBITDA for the twelve-month period ending on such day calculated as set forth in the definition thereof.

All financial covenants set forth in this Section 5.4 shall be calculated by Agent based on the calculations set forth in and the financial statements attached to Officer's Certificates delivered hereunder and shall be binding on the Borrower for all purposes of this Agreement absent manifest error.

ARTICLE VI: EVENT OF DEFAULTS

6.1 Event of Defaults. Each of the following occurrences shall constitute an Event of Default under this Agreement:

(A) Failure to Make Payments When Due. The Borrower shall (i) fail to pay when due any of the Obligations consisting of principal with respect to the Advances or (ii) shall fail to pay within ten (10) days of the date when due any of the other Obligations under this Agreement or the other Loan Documents.

(B) Breach of Certain Covenants. The Borrower shall fail duly and punctually to perform or observe any agreement, covenant or obligation binding on the Borrower under Sections 5.2(F), 5.2(K), 5.3 or 5.4.

(C) Breach of Representation or Warranty. Any representation or warranty made or deemed made by the Borrower to the Lenders herein or by the Borrower or any of its Subsidiaries in any of the other Loan Documents or in any written statement or certificate at any time given by any such Person pursuant to any of the Loan Documents shall be false or misleading in any material respect on the date as of which made (or deemed made).

(D) Other Defaults. The Borrower shall default in the performance of or compliance with any term contained in this Agreement (other than as covered by Subsections (A), (B) or (C) of this Section 6.1), or the Borrower or any of its Subsidiaries shall default in the performance of or compliance with any term contained in any of the other Loan Documents, and such default shall continue for thirty (30) days after the occurrence thereof.

(E) Default as to Other Indebtedness. The Borrower or any of its Subsidiaries shall fail to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) with respect to any Indebtedness (other than Indebtedness constituting the deferred portion of the purchase price of an asset which is subject to a good faith dispute, which, together with all such other outstanding disputed Indebtedness, is not in excess of \$5,000,000.00 and which is being contested by the Borrower, and provided that the Borrower has set aside adequate reserves covering such disputed Indebtedness) the outstanding principal amount of which Indebtedness is in excess of \$1,000,000.00; or any breach, default or event of default shall occur, or any other condition shall exist under any instrument, agreement or indenture pertaining to any such Indebtedness, if the effect thereof is to cause an acceleration, mandatory redemption, a requirement that the Borrower offer to purchase such Indebtedness or other required repurchase of such Indebtedness, or permit the holder(s) of such Indebtedness to accelerate the maturity of any such Indebtedness or require a redemption or other repurchase of such Indebtedness; or any such Indebtedness shall be otherwise declared to be due and payable (by acceleration or otherwise) or required to be prepaid, redeemed or otherwise repurchased by the Borrower or any of its Subsidiaries (other than by a regularly scheduled required prepayment) prior to the stated maturity thereof.

(F) Involuntary Bankruptcy; Appointment of Receiver, Etc.

(i) An involuntary case shall be commenced against the Borrower or any of the Borrower's Subsidiaries and the petition shall not be dismissed, stayed, bonded or discharged within sixty (60) days after commencement of the case; or a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the

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Borrower or any of the Borrower's Subsidiaries in an involuntary case, under any applicable bankruptcy, insolvency or other similar law now or hereinafter in effect; or any other similar relief shall be granted under any applicable federal, state, local or foreign law.

(ii) A decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over the Borrower or any of the Borrower's Subsidiaries or over all or a substantial part of the property of the Borrower or any of the Borrower's Subsidiaries shall be entered; or an interim receiver, trustee or other custodian of the Borrower or any of the Borrower's Subsidiaries or of all or a substantial part of the property of the Borrower or any of the Borrower's Subsidiaries shall be appointed or a warrant of attachment, execution or similar process against any substantial part of the property of the Borrower or any of the Borrower's Subsidiaries shall be issued and any such event shall not be stayed, dismissed, bonded or discharged within sixty (60) days after entry, appointment or issuance.

(G) Voluntary Bankruptcy; Appointment of Receiver, Etc. The Borrower or any of the Borrower's Subsidiaries shall (i) commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, (ii) consent to the entry of an order for relief in an involuntary case, or to the conversion of an involuntary case to a voluntary case, under any such law, (iii) consent to the appointment of or taking possession by a receiver, trustee or other similar custodian for the benefit of creditors for all or a substantial part of its property, (iv) make any assignment for the benefit of creditors or (v) take any corporate action to authorize any of the foregoing.

(H) Judgments and Attachments. Any money judgment(s) (other than a money judgment covered by insurance as to which the insurance company has not disclaimed coverage or if it has reserved the right to disclaim coverage, such letter reserving the right to disclaim coverage is outstanding twelve months after such money judgment was rendered), writ or warrant of attachment, or similar process against the Borrower or any of its Subsidiaries or any of their respective assets involving in any single case or in the aggregate an amount in excess of \$2,500,000.00 is or are entered and shall remain undischarged, unvacated, unbonded or unstayed for a period of sixty (60) days or in any event later than fifteen (15) days prior to the date of any proposed sale thereunder.

(I) Dissolution. Any order, judgment or decree shall be entered against the Borrower or any of its Subsidiaries decreeing its involuntary dissolution or split up and such order shall remain undischarged and unstayed for a period in excess of sixty (60) days; or the Borrower or any of its Subsidiaries shall otherwise dissolve or cease to exist except as specifically permitted by this Agreement.

(J) Loan Documents; Failure of. At any time, for any reason, (i) any Loan Document as a whole that materially affects the ability of the Lender to enforce the Obligations or enforce its rights against the Collateral ceases to be in full force and effect or the Borrower or any of the Borrower's Subsidiaries party thereto seeks to repudiate its obligations thereunder and the Liens intended to be created thereby are, or the Borrower or any such Subsidiary seeks to render such Liens, invalid or unperfected, or (ii) any Lien on Collateral in favor of Agent (for the benefit of the Lenders) contemplated by the Loan Documents shall, at any time, for any reason, be invalidated or otherwise cease to be in full force and effect or such Lien shall not have the

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priority contemplated by this Agreement or the Loan Documents and such failure shall continue for three (3) days after the occurrence thereof.

(K) Termination Event. Any Termination Event occurs which is reasonably likely to subject the Borrower or any of its Subsidiaries to liability individually or in the aggregate in excess of \$2,500,000.00, and such Termination Event shall continue for three (3) days after the occurrence thereof, provided however, if such Termination Event is a Reportable Event, then prior to such Termination Event causing an Event of Default under this Section 6.1(K), such Termination Event shall continue for ten (10) days after the occurrence thereof.

(L) Waiver of Minimum Funding Standard. If the plan administrator of any Plan applies under Section 412(d) of the Code for a waiver of the minimum funding standards of Section 412(a) of the Code and the Required Lenders believe the substantial business hardship upon which the application for the waiver is based could reasonably be expected to subject either the Borrower or any Controlled Group member to liability individually or in the aggregate in excess of \$2,500,000.00.

(M) Change of Control. A Change of Control shall occur.

(N) Hedging Agreements. Nonpayment by the Borrower or any Subsidiary of any obligation under any contract with respect to Hedging Obligations entered into by the Borrower or such Subsidiary with a Lender (or Affiliate thereof) or the breach by the Borrower or Subsidiary of any other term, provision or condition contained in any agreement and such nonpayment or breach shall continue for ten (10) days after the occurrence thereof.

(O) Guarantor Default or Revocation. Any Sonic Guaranty shall fail to remain in full force or effect or any action shall be taken by the Borrower or any Guarantor to discontinue or to assert the invalidity or unenforceability of any Sonic Guaranty or any Guarantor shall fail to comply with any of the terms or provisions of any Sonic Guaranty to which it is a party, or the Borrower or any Guarantor denies that it has any further liability under any Sonic Guaranty to which it is a party, or gives notice to such effect.

(P) Environmental Matters. The Borrower or any of its Subsidiaries shall be the subject of any proceeding or investigation pertaining to (i) the Release by the Borrower or any of its Subsidiaries of any Contaminant into the environment, (ii) the liability of the Borrower or any of its Subsidiaries arising from the Release by any other person of any Contaminant into the environment, or (iii) any violation of any Environmental, Health or Safety Requirements of Law by the Borrower or any of its Subsidiaries, which, in any case, has subjected or is reasonably likely to subject the Borrower or any of its Subsidiaries to liability individually or in the aggregate in excess of \$2,500,000.00.

(Q) L/C Borrowing. An L/C Borrowing shall have occurred.

An Event of Default shall be deemed "continuing" until cured or until waived in writing in accordance with Section 8.3.

ARTICLE VII: THE AGENT

7.1 **Authorization and Action.** (A) Each Lender hereby appoints and authorizes Agent to take such action as agent on its own behalf and to exercise such powers and discretion under this Agreement and the other Loan Documents as are delegated to Agent by the terms hereof and thereof, together with such powers and discretion as are reasonably incidental thereto. As to any matters not expressly provided for by the Loan Documents (including, without limitation, enforcement or collection of the Notes), Agent shall be required to exercise only such discretion or take only such action as is: (i) in accordance with the manner in which Agent acts or refrains from acting (and shall be fully protected in so acting or refraining from acting) in connection with matters in which it is the sole lender, and (ii) jointly agreed upon by Agent and the Lenders in writing (such agreement will be binding upon each Lender and all holders of the Note); **provided, however,** that Agent shall not be required to take any action that exposes it to personal liability or that is contrary to this Agreement or applicable law.

(B) For so long as Ford Credit is acting as Agent hereunder, each Lender agrees that with respect to any documents executed to evidence either (i) a consent the Agent and the Required Lenders have agreed to grant or (ii) a waiver of any condition or Event of Default the Agent and the Required Lenders have agreed to grant, Ford Credit, as Agent, may execute any such letter individually in its capacity as Agent, without the need for any other Lender to join in the execution thereof, **provided, however,** that prior to executing any such letter, Ford Credit, as Agent, will have received written confirmation from each of the Lenders required to consent to such consent or waiver, evidencing each such Lender's agreement to grant such consent or waiver, as the case may be.

Nothing contained in this Section 7.1 (B) may be construed to obligate either Ford Credit or a Lender to grant any such consents or forbear from exercising any of its rights with respect to any Event of Default which may occur from time to time. The rights and powers set forth in this Section 7.1 (B) apply only to Ford Credit acting as Agent and are not intended to benefit any Successor Agent.

(C) Agent will provide to each Lender the following:

- (i) copies of all reports and notices furnished by Borrower to Agent pursuant to the Loan Documents, within 5 Business Days after Agent's receipt thereof;
- (ii) reports of the calculation of Scaled Assets and all other calculations made by Agent pursuant to Section 5.4 hereof, within 5 Business Days after Agent will have made such calculations; and
- (iii) copies of all documents delivered to Agent by Borrower pursuant to Sections 5.2 (L) and 5.2 (N) hereof, within 30 Business Days after Agent's receipt thereof.

7.2 **Agent's Reliance, Etc.** Neither Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with the Loan Documents, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, Agent: (i) may treat the payee of the Note as the holder thereof until it receives written notice of the assignment thereof signed by such payee and including the agreement of the assignee to be bound thereby as it would have been if it had been an original party to this Agreement, in form satisfactory to Agent, as

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provided for in Section 10.3; (ii) may consult with legal counsel (including counsel for any Lender), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations (whether written or oral) made in or in connection with the Loan Documents; (iv) shall not, other than as specifically set forth in the Loan Documents, have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of any Loan Document on the part of any party to any of the Loan Documents or to inspect the property of any party to any of the Loan Documents; (v) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of, or the perfection or priority of any lien or security interest created or purported to be created under or in connection with, any Loan Document or any other instrument or document furnished pursuant thereto; and (vi) shall incur no liability under or in respect of any Loan Document by acting upon any notice, consent, certificate or other instrument or writing (which may be by telegram, teletype or telex) believed by it to be genuine and signed or sent by the proper party or parties.

7.3 Agent and Affiliates. With respect to its Commitments, the Advances made by it and the Notes issued to it, Agent shall have the same rights and powers under the Loan Documents as any other Lender and may exercise the same as though it were not an agent.

7.4 Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon Agent and based on the financial statements referred to in Section 4.4 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon Agent and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

7.5 Indemnification. (A) Each Lender agrees to indemnify Agent, the L/C Issuer and their respective directors, officers, agents and employees (to the extent not promptly reimbursed by the Borrower) from and against each Lender's Pro Rata Share (determined as provided below) of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against Agent in any way relating to or arising out of the Loan Documents or any action taken or omitted by Agent or the L/C Issuer under or with respect to the Loan Documents or any Letter of Credit (collectively, the "**Indemnified Costs**"); **provided, however**, that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from Agent's or the L/C Issuer's Gross Negligence or willful misconduct as determined by a final, non-appealable judgment by a court of competent jurisdiction. Without limitation of the foregoing, each Lender agrees to reimburse Agent and the L/C Issuer promptly upon demand for its Pro Rata Share of any costs and expenses (including, without limitation, fees and expenses of counsel) payable by the Borrower under Section 9.6 (A), to the extent that Agent or the L/C Issuer is not promptly reimbursed for such costs and expenses by the Borrower. In the case of any investigation, litigation or proceeding giving rise to any Indemnified Costs, this Section 7.5 applies whether any such investigation, litigation or proceeding is brought by any Lender or any other Person. An L/C Issuer shall be entitled to an

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indemnification only to the extent the L/C Issuer's obligations arose from a Letter of Credit issued by such L/C Issuer.

(B) For purposes of this Section 7.5, each Lender's Pro Rata Share of any amount shall be determined, at any time, according to the Outstanding Amount at such time owing to the respective Lender after settlement under Section 2.1. Without prejudice to the survival of any other agreement of any Lender hereunder, the agreement and obligations of the Lenders contained in this Section 7.5 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the other Loan Documents.

7.6 Successor Agents. An Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower, which resignation will become effective at such times as more specifically set forth in this Section 7.6. Upon any such resignation, the Required Lenders shall have the right to appoint a successor agent, provided, however, that any such appointment of a successor agent must have been consented to in writing by Borrower, which consent shall not be unreasonably withheld or delayed, unless an Event of Default shall have occurred and be continuing, in which case no consent of Borrower shall be required. If no successor agent shall have been so appointed by the Lenders, and shall have accepted such appointment, within 30 days after Agent's giving of notice of resignation, then Agent may, on behalf of the Lenders, appoint a successor agent, which shall be a commercial bank or finance company organized under the laws of the United States or of any State thereof and having a combined capital and surplus of at least \$250,000,000 (any successor agent appointed under this Section 7.6 is referred to herein as a "**Successor Agent**"). Upon the acceptance of any appointment as Agent hereunder by a Successor Agent and, in the case of a Successor Agent to Agent's agency duties with respect to the Collateral and as provided for in the Collateral Documents, upon the execution and filing or recording of such financing statements, or amendments thereto, and amendment to such other instruments or notices, as may be necessary or desirable, or as the Lenders may request, in order to continue the perfection of the Liens granted or purported to be granted by the Collateral Documents, such Successor Agent shall succeed to and become vested with such rights, powers, discretion, privileges and duties of Agent in its capacity as agent, and Agent shall be discharged from such duties and obligations as Agent under the Loan Documents. If within 45 days after written notice is given of the retiring Agent's resignation under this Section 7.6 no Successor Agent shall have been appointed and shall have accepted such appointment, then on such 45th day (i) Agent's resignation shall become effective, (ii) Agent shall thereupon be discharged from such agency duties and obligations under the Loan Documents and as identified in its notice of resignation and (iii) the Lenders shall thereafter perform all duties of Agent under the Loan Documents until such time, if any, as the Lenders appoint a Successor Agent as provided above. After Agent's resignation hereunder as agent shall have become effective, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was acting in its capacity as agent under this Agreement.

ARTICLE VIII: ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES

8.1 **Termination of Commitments and Acceleration.** If any Event of Default described in Section 6.1(F) or 6.1(G) occurs with respect to the Borrower, the obligations of any Lender to make Advances hereunder shall automatically terminate and the Obligations shall immediately become due and payable without any election or action on the part of any Lender. If any other Event of Default occurs, Agent shall at the request, and may with the consent, of the Required Lenders, declare the obligations of the Lenders to make Advances hereunder to be terminated, whereupon the same shall be terminated, and/or shall at the request, and may with the consent, of the Required Lenders, declare the Obligations to be due and payable, or both, whereupon, after written notice to the Borrower, the Obligations shall become immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which the Borrower expressly waives.

8.2 **Amendments.** Other than as specifically set forth in Section 7.1 of this Agreement, no amendment or waiver of any provision of the Loan Documents, nor consent to any departure therefrom by the Borrower or any Affiliate or Subsidiary of the Borrower shall in any event be effective unless the same shall be in writing and signed (or, in the case of the Collateral Documents, consented to) by the Agent and the Required Lenders. Such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; **provided, however**, that (i) no amendment, waiver or consent shall, unless in writing and signed by the Agent and all of the Lenders (excluding a Defaulting Lender), do any of the following at any time: (a) waive any of the conditions specified in Section 3.1, (b) change the number of Lenders or the percentage of (1) the Commitments or (2) the aggregate unpaid principal amount of the Advances that, in each case, shall be required for the Lenders or any of them to take any action hereunder, (c) reduce or limit the obligations of any Guarantor or otherwise limit such Guarantor's liability with respect to the Obligations owing to the Agent and the Lenders, (d) if an Event of Default shall have occurred and be continuing, release Collateral in any transaction or series of related transactions or permit the creation, incurrence, assumption or existence of any Lien on Collateral in any transaction or series of related transactions to secure any Obligations other than Obligations under the Loan Documents, provided, however, that if no Event of Default shall have occurred and be continuing, only the consent of the Agent and Required Lenders shall be required pursuant to this Section 8.2(i)(d), (e) amend this Section 8.2, (f) increase the Commitments of the Lenders other than in accordance with terms of the Loan Documents, (g) reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder, (h) postpone any date scheduled for any payment of principal of, or interest on, the Notes or any date fixed for payment of fees or other amounts payable hereunder, (i) limit the liability of the Borrower or any of its Affiliates under any of the Loan Documents, (j) amend, modify or extend the Termination Date, (k) amend, modify or change the Applicable LIBOR Rate, (l) waive any Payment Default under Section 6.1(A) and (ii) no amendment, waiver or consent shall, unless in writing and signed by the Lenders (other than any Lender that is, at such time, a Defaulting Lender) that has a Commitment if such Lender is directly affected by such amendment, waiver or consent, (a) increase the Commitments of such Lender, (b) reduce the principal of, or interest on, the Notes held by such Lender or any fees or other amounts payable hereunder to such Lender, (c) postpone any date fixed for any payment of principal of, or interest on, the Notes held by such Lender or any fees or other amounts payable hereunder to such Lender, (d) change the order of application of any prepayment under the Loan Documents in any manner that materially affects such Lender; and **provided further** that no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Lenders required above to

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take such action, affect the rights or duties of the Agent under this Agreement or the other Loan Documents. If the amendment is one that can be approved by the Required Lenders, the Agent cannot refuse to sign, in its capacity as Agent, an amendment that is approved by the Required Lenders.

8.3 Preservation of Rights. No delay or omission of any Lender or Agent to exercise any right under the Loan Documents shall impair such right or be construed to be a waiver of any Event of Default or an acquiescence therein, and the making of an Advance or L/C Credit Extension notwithstanding the existence of an Event of Default or the inability of the Borrower to satisfy the conditions precedent to such Advance or L/C Credit Extension shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of the Loan Documents whatsoever shall be valid unless in writing signed by the Required Lenders, and then only to the extent in such writing specifically set forth. All remedies contained in the Loan Documents or by law afforded shall be cumulative and all shall be available to any Lender until the Obligations have been paid in full.

ARTICLE IX: GENERAL PROVISIONS

9.1 Survival of Representations. All representations and warranties of the Borrower contained in this Agreement shall survive delivery of the Note and the making of the Advances herein contemplated.

9.2 Governmental Regulation. Anything contained in this Agreement to the contrary notwithstanding, no Lender shall be obligated to extend credit to the Borrower in violation of any limitation or prohibition provided by any applicable statute or regulation.

9.3 Performance of Obligations. The Borrower agrees that Agent may, at the direction of the Required Lenders, but shall have no obligation to (i) at any time, pay or discharge taxes, liens, security interests or other encumbrances levied or placed on or threatened against any Collateral, unless such claims are being contested in good faith by the Borrower and the Borrower has set aside adequate reserves covering such tax, lien, security interest or other encumbrance and no Event of Default has occurred and is outstanding and (ii) after the occurrence and during the continuance of an Event of Default to make any payment or perform any act required of the Borrower under any Loan Document or take any other action which the Required Lenders, in their reasonable discretion deem necessary or desirable to protect or preserve the Collateral, including, without limitation, any action to (a) effect any repairs or obtain any insurance called for by the terms of any of the Loan Documents and to pay all or any part of the premiums therefor and the costs thereof and (b) pay any rents payable by the Borrower which are more than 30 days past due, or as to which the landlord has given notice of termination, under any lease. Agent shall use its reasonable efforts to give the Borrower notice of any action taken under this Section 9.3 prior to the taking of such action or promptly thereafter provided the failure to give such notice shall not affect the Borrower's obligations in respect thereof. The Borrower agrees to pay Agent (for the benefit of the Lenders), upon demand, the principal amount of all funds advanced by each Lender under this Section 9.3, together with interest thereon at the rate from time to time applicable to Advances from the date of such advance until the outstanding principal balance thereof is paid in full. All outstanding principal of, and interest on, advances made under this Section 9.3 shall constitute Obligations for purposes hereof.

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9.4 Headings. Section headings in the Loan Documents are for convenience of reference only, and shall not govern the interpretation of any of the provisions of the Loan Documents.

9.5 Entire Agreement. The Loan Documents embody the entire agreement and understanding among the Borrower and the Lenders and the Loan Documents delivered on the Effective Date supersede all prior agreements and understandings among the Borrower and the Lenders relating to the subject matter thereof.

9.6 Expenses; Indemnification.

(A) Expenses. The Borrower shall reimburse the Agent and each Lender for any reasonable costs, internal charges and out-of-pocket expenses (including reasonable attorneys' and paralegals' fees and time charges of attorneys and paralegals for the Agent or any Lender, which attorneys and paralegals may be employees of the Agent or any Lender) paid or incurred by Agent or any Lender in connection with the preparation, negotiation, execution, delivery, review, amendment, modification, and administration of the Loan Documents. The Borrower also agrees to reimburse the Agent and each Lender for any reasonable costs, internal charges and out-of-pocket expenses (including attorneys' and paralegals' fees and time charges of attorneys and paralegals for the Agent and each Lender, which attorneys and paralegals may be employees of the Agent or any Lender) paid or incurred by the Agent or any Lender in connection with the collection of the Obligations and enforcement of the Loan Documents. In addition to expenses set forth above, the Borrower agrees to reimburse the Agent and each Lender, promptly after the Agent's or any Lender's request therefor, for each audit or other business analysis performed by it in connection with this Agreement or the other Loan Documents at a time when an Event of Default exists in an amount equal to the Agent's or a Lender's then reasonable and customary charges for each person employed to perform such audit or analysis, plus all costs and expenses (including without limitation, travel expenses) incurred by the Agent or a Lender in the performance of such audit or analysis. The Agent or the Lender shall provide the Borrower with a detailed statement of all reimbursements requested under this Section 9.6(A).

(B) Indemnity. The Borrower further agrees to defend, protect, indemnify, and hold harmless the Agent, each Lender and each of its respective Affiliates, and each of the Agent's, Lender's, or Affiliate's respective officers, directors, employees, attorneys and agents (including, without limitation, those retained in connection with the satisfaction or attempted satisfaction of any of the conditions set forth in Article III) (collectively, the "Indemnitees") from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses of any kind or nature whatsoever (including, without limitation, the fees and disbursements of counsel for such Indemnitees in connection with any investigative, administrative or judicial proceeding, whether or not such Indemnitees shall be designated a party thereto), imposed on, incurred by, or asserted against such Indemnitees in any manner relating to or arising out of:

(i) this Agreement, the other Loan Documents or any of the Transaction Documents, or any act, event or transaction related or attendant thereto, the making of the Advances, hereunder, the management of such Advances, the use or intended use of the proceeds of the Advances hereunder, or any of the other transactions contemplated by the Transaction Documents; or

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(ii) any liabilities, obligations, responsibilities, losses, damages, personal injury, death, punitive damages, economic damages, consequential damages, treble damages, intentional, willful or wanton injury, damage or threat to the environment, natural resources or public health or welfare, costs and expenses (including, without limitation, attorney, expert and consulting fees and costs of investigation, feasibility or remedial action studies), fines, penalties and monetary sanctions, interest, direct or indirect, known or unknown, absolute or contingent, past, present or future relating to violation of any Environmental, Health or Safety Requirements of Law arising from or in connection with the past, present or future operations of the Borrower, its Subsidiaries or any of their respective predecessors in interest, or, the past, present or future environmental, health or safety condition of any respective property of the Borrower or its Subsidiaries, the presence of asbestos-containing materials at any respective property of the Borrower or its Subsidiaries or the Release or threatened Release of any Contaminant into the environment (collectively, the “**Indemnified Matters**”);

provided, however, the Borrower shall have no obligation to an Indemnitee hereunder with respect to Indemnified Matters caused by or resulting from the willful misconduct or Gross Negligence of such Indemnitee as determined by the final non-appealed judgment of a court of competent jurisdiction. If the undertaking to indemnify, pay and hold harmless set forth in the preceding sentence may be unenforceable because it is violative of any law or public policy, the Borrower shall contribute the maximum portion which it is permitted to pay and satisfy under applicable law, to the payment and satisfaction of all Indemnified Matters incurred by the Indemnitees.

(C) Notwithstanding anything else in this Agreement to the contrary, no party shall have any obligation to reimburse any person for attorneys’ fees and expenses unless such fees and expenses are (i) reasonable in amount, (ii) determined without reference to any statutory presumption and (iii) calculated using the actual time expended and the standard hourly rate for the attorneys and paralegals performing the tasks in question and the actual out-of-pocket expenses incurred.

(D) Waiver of Certain Claims; Settlement of Claims. The Borrower further agrees to assert no claim against any of the Indemnitees on any theory of liability for consequential, special, indirect, exemplary or punitive damages. No settlement shall be entered into by the Borrower or any of its Subsidiaries with respect to any claim, litigation, arbitration or other proceeding relating to or arising out of the transactions evidenced by this Agreement, the other Loan Documents (whether or not any Lender or any Indemnitee is a party thereto) unless such settlement releases all Indemnitees from any and all liability with respect thereto.

(E) Survival of Agreements. The obligations and agreements of the Borrower under this Section 9.6 shall survive the termination of this Agreement.

9.7 Accounting. Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with Agreement Accounting Principles.

9.8 Severability of Provisions. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that

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jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

9.9 **Nonliability of Lender.** The relationship between the Borrower and each Lender shall be solely that of borrower and lender. No Lender shall have fiduciary responsibilities to the Borrower and no Lender takes any responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations.

9.10 **GOVERNING LAW.** ANY DISPUTE BETWEEN THE BORROWER AND A LENDER, OR ANY INDEMNITEE ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN THEM IN CONNECTION WITH, THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS, AND WHETHER ARISING IN CONTRACT, TORT, EQUITY, OR OTHERWISE, SHALL BE RESOLVED IN ACCORDANCE WITH THE INTERNAL LAWS (WITHOUT REGARD TO THE CONFLICTS OF LAWS PROVISIONS) OF THE STATE OF NORTH CAROLINA.

9.11 **CONSENT TO JURISDICTION; SERVICE OF PROCESS; JURY TRIAL.** EXCEPT AS PROVIDED IN SUBSECTION (B), EACH OF THE PARTIES HERETO AGREES THAT ALL DISPUTES AMONG THEM ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH, THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS WHETHER ARISING IN CONTRACT, TORT, EQUITY, OR OTHERWISE, SHALL BE RESOLVED EXCLUSIVELY BY STATE OR FEDERAL COURTS LOCATED IN NORTH CAROLINA, BUT THE PARTIES HERETO ACKNOWLEDGE THAT ANY APPEALS FROM THOSE COURTS MAY HAVE TO BE HEARD BY A COURT LOCATED OUTSIDE OF NORTH CAROLINA. EACH OF THE PARTIES HERETO WAIVES IN ALL DISPUTES BROUGHT PURSUANT TO THIS SUBSECTION (A) ANY OBJECTION THAT IT MAY HAVE TO THE LOCATION OF THE COURT CONSIDERING THE DISPUTE.

(B) **OTHER JURISDICTIONS.** THE BORROWER AGREES THAT ANY LENDER OR ANY INDEMNITEE SHALL HAVE THE RIGHT TO PROCEED AGAINST THE BORROWER OR ITS PROPERTY IN A COURT IN ANY LOCATION TO ENABLE SUCH PERSON TO (1) OBTAIN PERSONAL JURISDICTION OVER THE BORROWER OR (2) REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS OR ENFORCE A JUDGMENT OR OTHER COURT ORDER ENTERED IN FAVOR OF SUCH PERSON. THE BORROWER AGREES THAT IT WILL NOT ASSERT ANY PERMISSIVE COUNTERCLAIMS IN ANY PROCEEDING BROUGHT BY SUCH PERSON TO REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF SUCH PERSON. THE BORROWER WAIVES ANY OBJECTION THAT IT MAY HAVE TO THE LOCATION OF THE COURT IN WHICH SUCH PERSON HAS COMMENCED A PROCEEDING DESCRIBED IN THIS SUBSECTION (B).

(C) **SERVICE OF PROCESS.** THE BORROWER WAIVES PERSONAL SERVICE OF ANY PROCESS UPON IT AND IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OF ANY WRITS, PROCESS OR SUMMONSES IN ANY SUIT, ACTION OR PROCEEDING BY THE MAILING THEREOF BY AGENT BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO THE BORROWER ADDRESSED AS PROVIDED HEREIN. NOTHING HEREIN SHALL IN ANY WAY BE DEEMED TO LIMIT THE ABILITY OF AGENT TO SERVE ANY SUCH WRITS, PROCESS OR SUMMONSES IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW THE BORROWER IRREVOCABLY WAIVES ANY

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OBJECTION (INCLUDING, WITHOUT LIMITATION, ANY OBJECTION OF THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS) WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY SUCH ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH IN ANY JURISDICTION SET FORTH ABOVE.

(D) WAIVER OF JURY TRIAL. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, ARISING OUT OF, CONNECTED WITH, RELATED TO OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH. EACH OF THE PARTIES HERETO AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

(E) WAIVER OF BOND. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, THE BORROWER WAIVES THE POSTING OF ANY BOND OTHERWISE REQUIRED OF ANY PARTY HERETO IN CONNECTION WITH ANY JUDICIAL PROCESS OR PROCEEDING TO REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS OR TO ENFORCE ANY JUDGMENT OR OTHER COURT ORDER ENTERED IN FAVOR OF SUCH PARTY, OR TO ENFORCE BY SPECIFIC PERFORMANCE, TEMPORARY RESTRAINING ORDER, PRELIMINARY OR PERMANENT INJUNCTION, THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT.

(F) ADVICE OF COUNSEL. EACH OF THE PARTIES REPRESENTS TO EACH OTHER PARTY HERETO THAT IT HAS DISCUSSED THIS AGREEMENT AND, SPECIFICALLY, THE PROVISIONS OF THIS SECTION 9.11, WITH ITS COUNSEL.

9.12 No Strict Construction. The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

9.13 Subordination of Intercompany Indebtedness. The Borrower agrees that any and all claims of the Borrower against any Guarantor, any endorser or any other guarantor of all or any part of the Obligations, or against any of its properties, including, without limitation, pursuant to any intercompany Indebtedness permitted under Section 5.3(A)(v), shall be subordinate and subject in right of payment to the prior payment, in full and in cash, of all Obligations. Notwithstanding any right of the Borrower to ask, demand, sue for, take or receive any payment from any Guarantor, all rights, liens and security interests of the Borrower, whether now or hereafter arising and howsoever existing, in any assets of any Guarantor shall be and are subordinated to the rights, if any, of the Lender in those assets. The Borrower shall have no right to possession of any such asset or to foreclose upon any such asset, whether by

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judicial action or otherwise, unless and until all of the Obligations shall have been paid in full in cash and satisfied and all financing arrangements under this Agreement and the other Loan Documents between the Borrower and each Lender have been terminated. If, during the continuance of an Event of Default, all or any part of the assets of any Guarantor, or the proceeds thereof, are subject to any distribution, division or application to the creditors of any Guarantor, whether partial or complete, voluntary or involuntary, and whether by reason of liquidation, bankruptcy, arrangement, receivership, assignment for the benefit of creditors or any other action or proceeding, then, and in any such event, any payment or distribution of any kind or character, either in cash, securities or other property, which shall be payable or deliverable upon or with respect to any indebtedness of any Guarantor to the Borrower, including, without limitation, pursuant to any intercompany Indebtedness permitted under Section 5.3(A)(v) ("**Intercompany Indebtedness**") shall be paid or delivered directly to Agent (for the benefit of the Lenders) for application on any of the Obligations, due or to become due, until such Obligations shall have first been paid in full in cash and satisfied; **provided, however,** ordinary course payments or distributions made by any Guarantor to the Borrower shall be required to be paid or delivered to Agent (for the benefit of the Lenders) only upon Agent's request. The Borrower irrevocably authorizes and empowers Agent (if directed to do so by the Required Lenders) to demand, sue for, collect and receive every such payment or distribution and give acquittance therefor and to make and present for and on behalf of the Borrower such proofs of claim and take such other action, in Agent's own name or in the name of the Borrower or otherwise, as Required Lenders may deem necessary or advisable for the enforcement of this Section 9.13. Agent may vote such proofs of claim in any such proceeding, receive and collect any and all dividends or other payments or disbursements made thereon in whatever form the same may be paid or issued and apply the same on account of any of the Obligations. Should any payment, distribution, security or instrument or proceeds thereof be received by the Borrower upon or with respect to the Intercompany Indebtedness during the continuance of an Event of Default and prior to the satisfaction of all of the Obligations and the termination of all financing arrangements under this Agreement and the other Loan Documents between the Borrower and the Lenders, the Borrower shall receive and hold the same in trust, as trustee, for the benefit of each Lender and shall forthwith deliver the same to Agent (for the benefit of the Lenders), in precisely the form received (except for the endorsement or assignment of the Borrower where necessary), for application to any of the Obligations, due or not due, and, until so delivered, the same shall be held in trust by the Borrower as the property of each Lender; **provided, however,** ordinary course payments or distributions made to or by any Guarantor to the Borrower shall be required to be paid or delivered to Agent (for the benefit of the Lenders) only upon Initial Lender's request after the occurrence and Continuance of an Event of Default. If the Borrower fails to make any such endorsement or assignment to Agent (for the benefit of the Lenders), Agent or any of its officers or employees are irrevocably authorized to make the same. The Borrower agrees that until the Obligations have been paid in full in cash and satisfied and all financing arrangements under this Agreement and the other Loan Documents between the Borrower and the Lender have been terminated, the Borrower will not assign or transfer to any Person (other than Agent (for the benefit of the Lenders)) any claim the Borrower has or may have against any Guarantor.

9.14 **Usury Not Intended.** It is the intent of the Borrower and each Lender in the execution and performance of this Agreement and the other Loan Documents to contract in strict compliance with applicable usury laws, including conflicts of law concepts, governing the Advances of each Lender including such applicable laws of the State of North Carolina and the United States of America from time-to-time in effect. In furtherance thereof, each Lender and the Borrower stipulate and agree that none of the terms and provisions contained in this

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Agreement or the other Loan Documents shall ever be construed to create a contract to pay, as consideration for the use, forbearance or detention of money, interest at a rate in excess of the Maximum Rate and that for purposes hereof "interest" shall include the aggregate of all charges which constitute interest under such laws that are contracted for, charged or received under this Agreement; and in the event that, notwithstanding the foregoing, under any circumstances the aggregate amounts taken, reserved, charged, received or paid on the Advances, include amounts which by applicable law are deemed interest which would exceed the Maximum Rate, then such excess shall be deemed to be a mistake and each Lender receiving same shall credit the same on the principal of the Notes (or if the Notes shall have been paid in full, refund said excess to the Borrower). In the event that the maturity of the Notes is accelerated by reason of any election of the holder thereof resulting from any Event of Default under this Agreement or otherwise, or in the event of any required or permitted prepayment, then such consideration that constitutes interest may never include more than the Maximum Rate and excess interest, if any, provided for in this Agreement or otherwise shall be canceled automatically as of the date of such acceleration or prepayment and, if theretofore paid, shall be credited on the applicable Notes (or, if the Notes shall have been paid in full, refunded to the Borrower of such interest). In determining whether or not the interest paid or payable under any specific contingencies exceeds the Maximum Rate, the Borrower and each Lender shall to the maximum extent permitted under applicable law amortize, prorate, allocate and spread in equal parts during the period of the full stated term of the Notes all amounts considered to be interest under applicable law at any time contracted for, charged, received or reserved in connection with the Obligations. The provisions of this Section shall control over all other provisions of this Agreement or the other Loan Documents that may be in apparent conflict herewith.

ARTICLE X: BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

10.1 Successors and Assigns. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Borrower, each Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights or obligations under the Loan Documents.

10.2 Participations.

(A) Permitted Participants; Effect. Subject to the terms set forth in this Section 10.2, any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other financial institutions ("Participants") participating interests in any Advance owing to such Lender, the Notes, the Commitment or any other interest of such Lender under the Loan Documents on a pro rata or non-pro rata basis. Notice of such participation to the other Lenders and to the Borrower shall be required prior to any participation becoming effective. In the event of any such sale by any Lender of participating interests to a Participant, such Lender's obligations under the Loan Documents shall remain unchanged, such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, such Lender shall remain the holder of the Note for all purposes under the Loan Documents, all amounts payable by the Borrower under this Agreement shall be determined as if such Lender had not sold such participating interests, and the Borrower shall continue to deal solely and directly with Agent in connection with each Lender's rights and obligations under the Loan Documents.

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(B) Voting Rights. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents other than any amendment, modification or waiver with respect to any Advance or Commitment in which such Participant has an interest.

10.3 Assignments. (A) Each Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other financial institutions approved by the Borrower and each other Lender (each referred to as an "Eligible Assignee") within 10 days of notice to the Borrower by such Lender of such assignment (which such approval shall not be unreasonably withheld) all or a portion of its rights and obligations under this Agreement (including, without limitation, its Commitment and all Advances owing to it) pursuant to an assignment and acceptance agreement in form and substance satisfactory to each Initial Lender (each referred to as an "Assignment and Acceptance"). Notwithstanding the foregoing, the Borrower shall not have any right to approve an assignee under this Section 10.3, after the occurrence and continuance of an Event of Default or to the extent such assignee is an Affiliate of either Lender, provided, however, that to the extent any Lender assigns its obligations hereunder, such Affiliate shall be a United States Person and the Lender shall have provided such financial statements as the Borrower shall have reasonably requested.

(B) Upon such execution, delivery and acceptance of, and from and after the effective date specified in such Assignment and Acceptance, (i) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (ii) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights (other than its rights under Section 2.11 and Section 9.6 to the extent any claim thereunder relates to an event arising prior to such assignment) and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto).

(C) By executing and delivering an Assignment and Acceptance, each Lender assignor thereunder and each assignee thereunder confirm to and agree with each other and the other parties thereto and hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with any Loan Document or the execution, legality, validity, enforceability, genuineness, sufficiency or value of, or the perfection or priority of any lien or security interest created or purported to be created under or in connection with, any Loan Document or any other instrument or document furnished pursuant thereto; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of Borrower, any Guarantor or any other party to the Loan, or the performance or observance by Borrower, any Guarantor or any other party to the Loan of any of its obligations under any Loan Document or any other instrument or document furnished pursuant thereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 4.4 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in

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taking or not taking action under this Agreement; (v) such assignee confirms that it is an Eligible Assignee; (vi) such assignee appoints and authorizes Agent to take such action as agent on its behalf and to exercise such powers and discretion under the Loan Documents as are delegated to such Agent by the terms hereof and thereof, together with such powers and discretion as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as a Lender.

(D) The Agent, acting for this purpose (but only for this purpose) as the agent of the Borrower, shall maintain at its address a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lender and the Commitment of, and principal amount of the Advances owing to, each Lender from time to time (the "**Register**"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or Agent or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(E) Upon its receipt of an assignment and acceptance agreement executed pursuant to the preceding Subsection (A), together with any Note or Notes subject to such assignment, the Agent will (i) accept such assignment and acceptance agreement executed pursuant to the preceding Subsection (A), (ii) record the information contained therein in the Register, and (iii) give prompt notice thereof to Borrower. In the case of any assignment by a Lender, within five (5) Business Days after its receipt of such notice, the Borrower, at its own expense, shall execute and deliver to the Agent in exchange for the surrendered Note or Notes a new Note to the order of such Eligible Assignee in an amount equal to the Lender's Commitment assumed by it pursuant to such assignment and acceptance agreement and, if any assigning Lender has retained a commitment hereunder, a new Note to the order of such assigning Lender in an amount equal to such assigning Lender's Commitment retained by it hereunder. Such new Note or Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Note or Notes, shall be dated the effective date of such assignment and acceptance agreement and shall be in substantially the form of Exhibit A hereto.

Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 10.3, disclose to the assignee or participant or proposed assignee or participant any information relating to the Borrower furnished to such Lender by or on behalf of the Borrower; **provided, however**, that, prior to any such disclosure, the assignee or participant or proposed assignee or participant shall agree to preserve the confidentiality of any Confidential Information received by it from such Lender.

10.4 Confidentiality. Subject to Section 10.3 and Section 10.5, each Lender shall hold all nonpublic information obtained pursuant to the requirements of this Agreement and identified as such by the Borrower in accordance with each respective Lender's customary procedures for handling confidential information of this nature and in any event may make disclosure reasonably required by a prospective Transferee in connection with the contemplated participation or as required or requested by any Governmental Authority or representative thereof or pursuant to legal process and shall require any such Transferee to agree (and require any of its Transferees to agree) to comply with this Section 10.4. In no event shall any Lender be obligated or required to return any materials furnished by the Borrower **provided**.

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however, each prospective Transferee shall be required to agree that if it does not become a participant it shall return all materials furnished to it by or on behalf of the Borrower in connection with this Agreement.

10.5 **Dissemination of Information.** The Borrower authorizes each Lender to disclose to any Participant or Eligible Assignee or any other Person acquiring an interest in the Loan Documents by operation of law (each a "**Transferee**") and any prospective Transferee any and all information in the Lender's possession concerning the Borrower and its Subsidiaries; **provided** that prior to any such disclosure, such prospective Transferee shall agree to preserve in accordance with **Section 10.4** the confidentiality of any confidential information described therein.

ARTICLE XI: NOTICES

11.1 **Giving Notice.** Except as otherwise permitted by **Section 2.8** with respect to borrowing notices, all notices and other communications provided to any party hereto under this Agreement or any other Loan Documents shall be in writing or by telex or by facsimile and addressed or delivered to such party at its address set forth below its signature hereto or at such other address as may be designated by such party in a notice to the other parties. Any notice, if mailed and properly addressed with postage prepaid, shall be deemed given when received; any notice, if transmitted by telex or facsimile, shall be deemed given when transmitted (answerback confirmed in the case of telexes).

11.2 **Change of Address.** The Borrower, the Agent and each Lender may each change the address for service of notice upon it by a notice in writing to the other parties hereto.

ARTICLE XII. LETTERS OF CREDIT

12.1 **General.**

(A) On the terms and conditions set forth herein (i) the L/C Issuer agrees from time to time on any Business Day during the period from the Effective Date to the last Business Day sixty (60) days prior to the Termination Date (the "**Letter of Credit Termination Date**") to issue Letters of Credit for the account of the Borrower, and to amend or renew Letters of Credit previously issued by it, in accordance with this Article XII; and (ii) the Lenders severally agree to participate in Letters of Credit Issued for the account of the Borrower. Notwithstanding the foregoing, the L/C Issuer shall not be obligated to make any L/C Credit Extension with respect to any Letter of Credit, and no Lender shall be obligated to participate in, any Letter of Credit if, as of the date of such L/C Credit Extension, (i) the aggregate Outstanding Amount of the Notes held by any Lender, plus such Lender's Pro Rata Share of the Outstanding Amount of all L/C Obligations, would exceed such Lender's Commitment, (ii) the Revolving Credit Obligations would exceed the Maximum Availability, or (iii) the Outstanding Amount of the L/C Obligations would exceed the Letter of Credit Sublimit. Within the foregoing limits, and subject to the other terms and conditions hereof, the ability of Borrower to obtain Letters of Credit shall be fully revolving, and, accordingly, Borrower may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit which have expired or which have been drawn upon and reimbursed. All Existing Letters of Credit shall be deemed to have been issued pursuant

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hereto, and from and after the date hereof shall be subject to and governed by the terms and conditions hereof.

(B) The L/C Issuer is under no obligation to Issue any Letter of Credit if: (i) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain the Agent or any L/C Issuer from Issuing such Letter of Credit, or any Requirements of Law applicable to the Agent or any L/C Issuer, any directive (whether or not having the force of law) from any Governmental Authority over the Agent or any L/C Issuer shall prohibit Agent or any L/C Issuer from the Issuance of Letters of Credit generally or such Letter of Credit in particular or shall impose upon the Agent or any L/C Issuer with respect to such Letter of Credit any materially adverse restriction, reserve or capital requirement (for which the L/C Issuer is not otherwise compensated hereunder) not in effect on the date hereof, or shall impose upon the L/C Issuer any unreimbursed loss, cost or expense which was not applicable on the Closing Date and which the L/C Issuer in good faith deems material to it; (ii) the Agent and the L/C Issuer has received written notice from any Lender or Borrower, prior to the Issuance of such Letter of Credit, that one or more of the applicable conditions contained in Article III is not then satisfied; (iii) the expiration date of any requested Letter of Credit is more than one (1) year from the date of Issuance thereof or after the Termination Date; (iv) the requested Letter of Credit does not permit Agent and/or the L/C Issuer to cancel, at any time, the Letter of Credit upon thirty (30) days prior written notice; (v) any requested Letter of Credit does not provide for drafts, or is not otherwise in form and substance acceptable to the Agent and the L/C Issuer, or the Issuance of a Letter of Credit shall violate any applicable policies of the Agent or L/C Issuer, or the Issuance of a Letter of Credit is for an amount less than One Hundred Thousand Dollars (\$100,000) or to be denominated in a currency other than U.S. Dollars. If the Borrower requests that the Agent and the L/C Issuer issue a Letter of Credit that does not permit the Agent and/or L/C Issuer to cancel the Letter of Credit at any time upon thirty (30) days prior written notice, the Agent and the L/C Issuer shall consent to such change only upon receipt of the written consent of all Lenders.

12.2 Issuance, Amendment and Renewal of Letters of Credit.

(A) Each Letter of Credit shall be issued or amended upon the irrevocable written request of Borrower received by the Agent (with a copy to the L/C Issuer) at least five (5) Business Days (or such shorter time as the Agent and L/C Issuer may agree in a particular instance in its sole discretion) prior to the proposed date of Issuance, or in the case of automatically renewable Letters of Credit, five (5) Business Days prior to the date Agent or the L/C Issuer must notify the beneficiary of a non renewal. Each such request for Issuance of a Letter of Credit shall be by written request and, if by facsimile, confirmed immediately in an original writing, in the form of a Letter of Credit Application, and shall specify in form and detail satisfactory to the Agent and the L/C Issuer such matters as the Agent and the L/C Issuer may require. Unless otherwise agreed to by the Lenders in writing, each Letter of Credit (i) will be for the account of Borrower or any Subsidiary, (ii) will be (a) a non-transferable standby letter of credit to support certain performance obligations of such Borrower or Subsidiary, or (b) a non-transferable standby letter of credit to support certain payment obligations of Borrower or Subsidiaries that are not prohibited by this Agreement, and (iii) will contain such terms and provisions as may be reasonably and customarily required by the Agent and L/C Issuer.

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(B) From time to time while a Letter of Credit is outstanding and prior to the Letter of Credit Termination Date, the L/C Issuer will, upon the written request of the Borrower received by the L/C Issuer and the Agent at least one hundred twenty (120) days prior to the proposed date of an extension, extend the expiry date, provided, however, the L/C Issuer shall not issue any Letter of Credit until it has requested and received written confirmation from the Agent of such Letter of Credit issuance. From time to time while a Letter of Credit is outstanding and prior to the Letter of Credit Termination Date, the L/C Issuer will, upon the written request of Borrower received by the L/C Issuer and the Agent at least five (5) Business Days prior to the proposed date of an amendment, amend the Letter of Credit, provided, however, the L/C Issuer shall not amend any Letter of Credit until it has requested and received written confirmation from the Agent of such amendment of the Letter of Credit. Each such request for amendment or extension of a Letter of Credit shall be made in writing and, if by facsimile, confirmed immediately in an original writing, made in such form as the Agent and the L/C Issuer shall require. The L/C Issuer shall be under no obligation to amend or extend the expiry date of any Letter of Credit if: (i) the L/C Issuer would have no obligation at such time to Issue such Letter of Credit in its amended form under the terms of this Agreement; or (ii) the beneficiary of any such Letter of Credit does not accept the proposed amendment to the Letter of Credit.

(C) Upon receipt of a Letter of Credit Application from Borrower, the Agent will promptly notify the Lenders of the future Issuance of a Letter of Credit (including any amendment or extension thereto) and the purpose for issuing the Letter of Credit.

(D) If any outstanding Letter of Credit shall provide that it shall be automatically renewed unless the beneficiary thereof receives notice from the L/C Issuer that such Letter of Credit shall not be renewed, the L/C Issuer with Agent's prior written concurrence shall be permitted to allow such Letter of Credit to renew, and Borrower and the Lenders hereby authorize such renewal. The L/C Issuer shall not allow such Letter of Credit to renew if the L/C Issuer would have no obligation at such time to Issue or amend such Letter of Credit under the terms of this Agreement.

(E) Each of the Agent and the L/C Issuer may, at its election (or at the direction of the Required Lenders), deliver any notices of termination or other communications to any Letter of Credit beneficiary or transferee, and take any other action as necessary or appropriate, at any time and from time to time, in order to cause the expiration date of any Letter of Credit to be a date not later than the Termination Date.

(F) This Agreement shall control in the event of any conflict with any Letter of Credit-Related Document.

(G) At anytime after the occurrence and during the continuation of an Event of Default or an Unmatured Default by the Borrower or at any time 60 days prior to the Termination Date, any Lender may, at any time, send a written request to the Agent (with a copy to the L/C Issuer) to cancel a Letter of Credit that contains a cancellation provision. Upon receipt of such written request, the Agent shall instruct the L/C Issuer to cancel such Letter of Credit and the Agent and the L/C Issuer shall take the actions necessary to effect such cancellation.

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12.3 Risk Participations, Drawings and Reimbursements.

(A) Immediately upon the Issuance of each Letter of Credit, the Lenders shall be deemed to, and hereby irrevocably and unconditionally agree to, purchase from the L/C Issuer participation interests in such Letters of Credit and each drawing thereunder, ratably in amounts equal to the product of (i) each such Lender's Pro Rata Share, and (ii) the maximum amount available to be drawn under such Letter of Credit and the amount of such drawing respectively. Each Issuance of a Letter of Credit shall be deemed to utilize the Commitment of each Lender by an amount equal to the amount of such participation.

(B) Upon receipt from the beneficiary of any Letter of Credit notice of any drawing under such Letter of Credit, the L/C Issuer shall notify the Borrower and the Agent thereof. The Agent shall promptly notify the Borrower not later than **11:00 a.m. (Eastern Standard Time)** on the date of any payment by the L/C Issuer under a Letter of Credit (each such date, an "**Honor Date**"), and the Borrower shall prior to such time reimburse the L/C Issuer through the Agent in an amount equal to the amount of such drawing (which amount shall be immediately remitted by the Agent to the L/C Issuer). If the Borrower fails to so reimburse the L/C Issuer by such time, the Agent shall promptly notify (for informational purposes) each Lender of the Honor Date, the amount of the unreimbursed drawing (the "Unreimbursed Amount"), and the amount of such Lender's Pro Rata Share thereof, and not later than 1:00 p.m. (Eastern Standard Time) on the Honor Date the Agent shall fund the Unreimbursed Amount to the L/C Issuer in immediately available funds. In such event, the Borrower shall be deemed to have requested an Advance to be disbursed on the Honor Date in an amount equal to the Unreimbursed Amount, subject to the amount of the unutilized portion of the Aggregate Commitments and the conditions set forth herein with respect to Advances. Each such payment of the Unreimbursed Amount by the Agent to the L/C Issuer shall be deemed to be an Advance by the Agent hereunder. Any notice given by the Agent or the L/C Issuer pursuant to this Section 12.3(B) may be oral if immediately confirmed in writing (including by facsimile); provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(C) Settlement between the Lenders and Agent for all Unreimbursed Amounts shall be made as set forth in Section 2.1(B)(ii).

(D) With respect to any Unreimbursed Amount that is not fully refinanced by an Advance because the conditions set forth herein cannot be satisfied or for any other reason, the Borrower shall be deemed to have incurred from the L/C Issuer an L/C Borrowing in the amount of the Unreimbursed Amount that is not so refinanced, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the Default Rate. In such event, each Lender's payment to the Agent for the account of the L/C Issuer pursuant to Section 12.3(C) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this Section.

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(E) If the Agent for any reason fails to remit the full amount of any drawing under any Letter of Credit to the L/C Issuer in immediately available funds on or before **1:00 p.m. (Eastern Standard Time)** on the fifth Business Day following the Honor Date, the L/C Issuer may notify each Lender of the Honor Date, the Unreimbursed Amount and the amount of each Lender's Pro Rata Share thereof. In such event, the Borrower shall be deemed to have requested an Advance to be disbursed on the Honor Date in an amount equal to the Unreimbursed Amount, subject to the amount of the unutilized portion of the Aggregate Commitments and the conditions set forth herein with respect to Advances. Any notice given by the L/C Issuer pursuant to this Section may be given by telephone if immediately confirmed in writing. Each Lender (including the Lender acting as L/C Issuer) shall upon any notice pursuant to this Section make funds available to the L/C Issuer at the L/C Issuer's office in an amount equal to its Pro Rata Share of the Unreimbursed Amount not later than 2:00 p.m. on the Business Day specified in such notice (which Business Day must be at least one Business Day after notice) by the L/C Issuer, whereupon, subject to the provisions of this subparagraph, each Lender that so makes funds available shall be deemed to have made an Advance to the Borrower in such amount. With respect to any Unreimbursed Amount that is not fully refinanced by an Advance because the conditions set forth herein cannot be satisfied or for any other reason, the Borrower shall be deemed to have incurred from the L/C Issuer an L/C Borrowing in the amount of the Unreimbursed Amount that is not so refinanced, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the Default Rate. In such event, each Lender's payment to the L/C Issuer pursuant to this Section 12.3(E) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this Section. Notwithstanding the foregoing, this Section 12.3(E) shall not be applicable if the Agent is the L/C Issuer.

(F) Until Agent funds an Advance or L/C Advance pursuant to Section 12.3(B) to reimburse the L/C Issuer for any amount drawn under any Letter of Credit or, if applicable, until each Lender funds its Advance or L/C Advance pursuant to Section 12.3(E) to reimburse the L/C Issuer for any amount drawn under any Letter of Credit, interest in respect of such Lender's Pro Rata Share of such amount shall be solely for the account of the L/C Issuer.

(G) Each Lender's obligation to make Advances or L/C Advances to reimburse the L/C Issuer for amounts drawn under Letters of Credit, or to make Advances or L/C Advances to reimburse the L/C Issuer for amounts drawn under Letters of Credit, as contemplated by this Section 12.3, shall be absolute and unconditional and without recourse to the Agent or any L/C Issuer and shall not be affected by any circumstance, including (i) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against the Agent, the L/C Issuer, the Borrower or any other Person for any reason whatsoever, (ii) the occurrence or continuance of a Default, an Event of Default or a Material Adverse Effect; or (iii) any other occurrence, event or condition whether or not similar to any of the foregoing; provided, however, that each Lender's obligation to make Advances pursuant to this Section 12.3 is subject to the conditions set forth herein (other than delivery by the Borrower of a request for an Advance). No making of an L/C Advance shall relieve or otherwise impair the obligation of the Borrower to reimburse the L/C Issuer for the amount of any payment made by the L/C Issuer under any Letter of Credit, together with interest as provided herein.

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12.4 Repayment of Participation.

(A) When the Agent receives (and only if the Agent receives) immediately available funds from the Borrower (i) in respect of which any Lender has paid the Agent for the account of the Agent for such Lender's participation in the L/C Advance or (ii) in payment of interest thereon, the Agent will pay to each Lender, in the same funds as those received by the Agent for the account of the Lender as set forth in Article II of the Agreement.

(B) If the Agent is required at any time to return to Borrower or to a trustee, receiver, liquidator, custodian, or any official in an Insolvency Proceeding, any portion of the payments made by Borrower to Agent in reimbursement of a payment made under the L/C Advance, L/C Borrowing or interest thereon, each of the Lenders shall, on demand of the Agent and within one Business Day, in accordance with each Lender's Pro Rata Share of the Aggregate Commitments, forthwith return to the Agent the amount so returned by the Agent plus interest thereon from the date such demand is made to the date such amounts are returned by such Lender to the Agent, at a rate per annum equal to the Applicable LIBOR Rate in effect from time to time.

12.5 Role of the Agent and L/C Issuer.

(A) Each Lender and the Borrower agree that, in paying any drawing under a Letter of Credit, neither the Agent nor the L/C Issuer shall have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document.

(B) Neither the L/C Issuer, the Agent nor any of their respective correspondents, participants or assignees shall be liable to any Lender for: (i) any action taken or omitted in connection herewith at the request or with the approval of the Lenders (including the Required Lenders, as applicable); (ii) any action taken or omitted in the absence of Gross Negligence or willful misconduct as determined by a final, non-appealable judgment by a court of competent jurisdiction; or (iii) the due execution, effectiveness, validity or enforceability of any Letter of Credit-Related Document.

(C) The Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude the Borrower from pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. Neither the Agent, the L/C Issuer nor any of their respective correspondents, participants or assignees, shall be liable or responsible for any of the matters described in clauses (i) through (vii) of Section 12.6; provided, however, that anything in such clauses to the contrary notwithstanding, the Borrower may have a claim against the L/C Issuer, and the L/C Issuer may be liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrower which the Borrower proves were caused by the L/C Issuer's willful misconduct or Gross Negligence as determined by a final, non-appealable judgment by a court of competent jurisdiction in failing to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing, the L/C Issuer may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of

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any notice or information to the contrary, and the L/C Issuer shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

12.6 Obligations Absolute. The obligations of Borrower under this Agreement and any Letter of Credit-Related Documents to reimburse the Agent or L/C Issuer for a drawing under a Letter of Credit, and to repay any L/C Borrowing and any drawing under a Letter of Credit converted into an Advance, shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement and each such other Letter of Credit-Related Document under all circumstances, including the following: (i) any lack of validity or enforceability of this Agreement or any Letter of Credit-Related Document; (ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations of Borrower in respect of any Letter of Credit, (iii) the existence of any claim, set-off, defense or other right that the Borrower may have at any time against any beneficiary or any such transferee of any Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), the Agent, any L/C Issuer or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by the Letter of Credit-Related Documents or any unrelated transaction; (iv) any draft, demand, certificate or other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any Letter of Credit; (v) any payment by the L/C Issuer under any Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of any Letter of Credit; or any payment made by the L/C Issuer or Agent under any Letter of Credit to any trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of a successor to any beneficiary or any transferee of any Letter of Credit, including any arising in connection with any Insolvency Proceeding; (vi) any exchange, release or non-perfection of any Collateral, or any release or amendment or waiver of or consent to departure from any other guarantee, for all or any of the Obligations of the Borrower in respect of any Letter of Credit; or (vii) any other circumstance that might otherwise constitute a defense available to, or discharge of, the Borrower.

12.7 Letter of Credit Fees.

(A) The Borrower shall pay to the Agent for the account of each Lender in accordance with its Pro Rata Share a Letter of Credit fee for each Letter of Credit issued, renewed or extended equal to 1.5% per annum times the daily maximum amount available to be drawn under such Letter of Credit (whether or not such maximum amount is then in effect under such Letter of Credit). Such Letter of Credit fees shall be computed on an annual basis and shall be paid in advance on the issuance, renewal or extension of each Letter of Credit and annually on the anniversary date of each such issuance, renewal or extension thereafter. In the event that the Borrower requests an increase in the amount of a Letter of Credit and there is not an extension of the original Letter of Credit's expiration or expiry date, the Borrower shall pay to the Agent for the account of each Lender in accordance with its Pro Rata Share a Letter of Credit fee of 1.5% per annum times the difference between the original Letter of Credit amount and the increased Letter of Credit amount annualized from the date of the increase to the Letter of Credit expiration or expiry date. If the Borrower requests an increase in the amount of the Letter of Credit and an extension to the original Letter of Credit's expiration or expiry date, the Borrower shall pay to the Agent for the account of each Lender in accordance with its Pro Rata

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Share a Letter of Credit fee of 1.5% per annum times the difference between the original Letter of Credit amount and the increased Letter of Credit amount annualized from the date of the increase to the original Letter of Credit expiration or expiry date, and 1.5% per annum times the daily maximum amount available to be drawn under the increased Letter of Credit (whether or not such maximum amount is then in effect under such Letter of Credit) from the original Letter of Credit expiration or expiry date to the new Letter of Credit expiration or expiry date. The Borrower shall not be charged a fee if the Borrower requests a reduction in the amount of a Letter of Credit and there is no extension of the expiration or expiry date.

(B) The Borrower may pay directly to the L/C Issuer for its own account a fronting fee with respect to each Letter of Credit in the amounts and at the times specified in any separate fee letter or agreement now or hereafter in effect between the Borrower and such L/C Issuer. The Borrower shall pay directly to the L/C Issuer for its own account the customary issuance, presentation, amendment and other processing fees, and other standard costs and charges, of the L/C Issuer relating to letters of credit as from time to time in effect. Such customary fees and standard costs and charges are due and payable on demand and are nonrefundable. Borrower's failure to pay to the L/C Issuer the fees described in this Section 12.7(B) will not be deemed to be an Event of Default under this Agreement.

12.8 Cash Collateralization.

(A) If any Event of Default shall occur and be continuing, or if the Commitment is terminated or reduced to an amount insufficient to fund the outstanding L/C Obligations, or upon the occurrence of the Termination Date, Borrower agrees that it shall on the Business Day it receives notice from the Agent, acting upon instructions of the Required Lenders, deposit in an account (the "**Cash Collateral Account**") held by the Agent, for the benefit of the Lenders, an amount of cash equal to the L/C Obligations as of such date. Such deposit shall be held by Agent as Collateral for the payment and performance of the Obligations. The Agent shall have exclusive dominion and control, including exclusive right of withdrawal, over such account. Cash Collateral shall be held in a blocked, interest-bearing account held by the Agent upon such terms and in such type of account as customary at the depository institution. Borrower shall pay any fees paid by the Agent, which fees are of the type customarily charged by such institution with respect to such accounts. Moneys in such account shall (i) be applied by the Agent to the payment of L/C Borrowings and interest thereon, (ii) be held for the satisfaction of the reimbursement Obligations of Borrower in respect of Letters of Credit, and (iii) in the event the payment of the Advances has been accelerated, with the consent of the Required Lenders, be applied to satisfy the Obligations. If Borrower shall provide Cash Collateral under this Section 12.8(A) or shall prepay any Letter of Credit and thereafter (i) drafts or other demands for payment complying with the terms of such Letters of Credit are not made prior to the respective expiration dates thereof, and (ii) such Event of Default shall have been waived or cured, then the Agent, and the Lenders agree that the Agent is hereby authorized, without further action by any other Person, to release the Lien in such cash and will direct the Agent to remit to Borrower amounts for which the contingent obligations evidenced by such Letters of Credit have ceased.

(B) As security for the payment of all Obligations, Borrower hereby grants, conveys, assigns, pledges, sets over and transfers to the Agent, and creates in the Agent's favor a Lien on, and security interest in, all money, instruments and securities at any time held in or acquired in connection with the Cash Collateral Account, together with all proceeds thereof. At any time and from time to time, upon the Agent's request, Borrower promptly shall execute and deliver

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any and all such further instruments and documents as may be reasonably necessary, appropriate or desirable in the Agent's judgment to obtain the full benefits (including perfection and priority) of the security interest created or intended to be created by this [Section 12.8\(B\)](#) and of the rights and powers herein granted.

12.9 [Applicability of ISP98 and UCP.](#)

Unless otherwise expressly agreed by the Agent, L/C Issuer and the Borrower when a Letter of Credit is issued (including any such agreement applicable to an Existing Letter of Credit), (i) the rules of the "International Standby Practices 1998" published by the Institute of International Banking Law & Practice (or such later version thereof as may be in effect at the time of issuance) shall apply to each standby Letter of Credit, and (ii) the rules of the Uniform Customs and Practice for Documentary Credits, as most recently published by the International Chamber of Commerce (the "ICC") at the time of issuance (including the ICC decision published by the Commission on Banking Technique and Practice on April 6, 1998 regarding the European single currency (euro)) shall apply to each commercial Letter of Credit.

12.10 [Conflict with Letter of Credit Application](#)

In the event of any conflict between the terms hereof and the terms of any Letter of Credit-Related Document, the terms hereof shall control.

ARTICLE XIII: COUNTERPARTS

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when the Borrower and each Lender have executed it.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[SIGNATURE PAGES TO FOLLOW]

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IN WITNESS WHEREOF, the Borrower, the Agent and each Lender have executed this Agreement as of the date first above written.

SONIC AUTOMOTIVE, INC.,
as the Borrower

By: /s/ THEODORE M. WRIGHT

Name: **Theodore M. Wright**

Title: **President**

Address:
6415 Idlewild Road
Suite 109
Charlotte, North Carolina 28212
Attention: Theodore M. Wright
Telephone No.: (704) 566-2400
Facsimile No.: (704) 566-6031

[SIGNATURE PAGE TO CREDIT AGREEMENT]

FORD MOTOR CREDIT COMPANY,
as Lender, and as Agent

By: /s/ STEVE GRACZ

Name: **Steve Gracz**
Title: **National Account Manager**

Address:
One American Road
Dearborn, Michigan 48121
Attention: Steve Gracz
Telephone No.: (313) 594-3841
Facsimile No.: (313) 390-5459

[SIGNATURE PAGE TO CREDIT AGREEMENT]

**DAIMLERCHRYSLER SERVICES
NORTH AMERICA LLC,**
as Lender

By: /s/ R.D. KNIGHT

Name: **R. D. Knight**
Title: **Vice President of Credit**

Address:
27777 Inkster Road
Farmington Hills, MI 48334-5326
Attention: Michele Nowak
Telephone No.: (248) 427-6524
Facsimile No.: (248) 427-6550

[SIGNATURE PAGE TO CREDIT AGREEMENT]

TOYOTA MOTOR CREDIT CORPORATION,
as Lender

By: /s/ P. REID BOOZER

Name: **P. Reid Boozer**

Title: **National Accounts Development Manager**

Address:

19001 South Western Avenue

Torrance, California 90501

Attention: _____

Telephone No.: (310) 468-3756

Facsimile No.: (310) 468-3501

[SIGNATURE PAGE TO CREDIT AGREEMENT]

BANK OF AMERICA, N.A.,
as Lender

By: /s/ M. PATRICIA KAY

Name: M. Patricia Kay
Title: Senior Vice President

Address:
7 North Laurens Street
Greenville, South Carolina 29601
Attention: M. Patricia Kay
Telephone No.: (864) 271-5662
Facsimile No.: (864) 271-5664

With copy to:

Bank of America, N.A.
CLSC Automotive Group
NC4-105-03-17
4161 Piedmont Parkway
Greensboro, North Carolina 27410
Attention: M. Patricia Kay
Telephone No.: (336) 805-3991
Facsimile No.: (336) 805-3249

[SIGNATURE PAGE TO CREDIT AGREEMENT]

SECOND AMENDED AND RESTATED PROMISSORY NOTE
(Acquisition/Revolving Line of Credit)
(LIBOR Rate)

\$500,000,000.00

Charlotte, North Carolina

February 5, 2003

FOR VALUE RECEIVED, **SONIC AUTOMOTIVE, INC.**, a Delaware corporation ("**Borrower**"), whose address is 6415 Idlewild Road, Suite 109, Charlotte, North Carolina 28212, promises to pay to **FORD MOTOR CREDIT COMPANY**, a Delaware corporation, ("**Lender**"), or order, at 6302 Fairview Road, Suite 500, Charlotte, North Carolina 28210, or at such other place as Lender may from time to time in writing designate, in lawful money of the United States of America, the principal sum of **FIVE HUNDRED MILLION AND 00/100 DOLLARS (\$500,000,000.00)**, or so much thereof as may be advanced from time to time, together with interest, adjusted monthly, on the principal balance outstanding from time to time (the "**Principal Balance**"), in like money, from the Effective Date (as defined herein) of this Second Amended and Restated Promissory Note (this "**Note**"), to and including the Termination Date, at the LIBOR Rate (as defined in the Agreement) plus two and fifty-five hundredths percent (2.55%) per annum.

Capitalized terms used herein and not otherwise defined herein shall have the meaning given to such terms in the Second Amended and Restated Credit Agreement dated as of February 5, 2003, among Borrower, the Lenders, Ford Credit, as Agent, and certain other lender parties thereto (the "**Agreement**").

The term "**Effective Date**" means February 5, 2003.

Borrower promises to pay interest on the unpaid principal balance outstanding until such principal amount is paid in full, at the Applicable LIBOR Rate, and payable at such times as are specified in the Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Agent under the Agreement, in same day funds. Each Advance owing to the Lender by the Borrower, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto, which is part of this Note; provided, however, that the failure of the Lender to make any such recordation or endorsement will not affect the Obligations of the Borrower under this Note.

This Note is one of the Notes referred to in, and is entitled to the benefits of, the Agreement. The Agreement, among other things, (i) provides for the making of Advances by the Lender to or for the benefit of the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the U.S. Dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated

events and (iii) contains provisions for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

The Obligations of Borrower under this Note and the Loan Documents, and the obligations of the Dealership Guarantors and any other parties to the loan are secured by the Collateral as provided in the Loan Documents.

In no circumstance may the aggregate principal amount of all Advances outstanding under the Notes and Letters of Credit exceed the Aggregate Commitments or the Maximum Availability.

IN WITNESS WHEREOF, Borrower, intending to be legally bound hereby, has duly executed this Note under seal, the day and year first above written.

SONIC AUTOMOTIVE, INC.,
a Delaware corporation

By: /s/ THEODORE M. WRIGHT (SEAL)

Name: **Theodore M. Wright**
Title: **President**

[SIGNATURE PAGE TO PROMISSORY NOTE]

SECOND AMENDED AND RESTATED PROMISSORY NOTE
(Acquisition/Revolving Line of Credit)
(LIBOR Rate)

\$250,000,000.00

Charlotte, North Carolina

February 5, 2003

FOR VALUE RECEIVED, **SONIC AUTOMOTIVE, INC.**, a Delaware corporation ("**Borrower**"), whose address is 6415 Idlewild Road, Suite 109, Charlotte, North Carolina 28212, promises to pay to **DAIMLERCHRYSLER SERVICES NORTH AMERICA LLC**, a Michigan limited liability company, ("**Lender**"), or order, at 27777 Franklin Road, Southfield, Michigan 48034-8286 or at such other place as Lender may from time to time in writing designate, in lawful money of the United States of America, the principal sum of **TWO HUNDRED FIFTY MILLION AND 00/100 DOLLARS (\$250,000,000.00)**, or so much thereof as may be advanced from time to time, together with interest, adjusted monthly, on the principal balance outstanding from time to time (the "**Principal Balance**"), in like money, from the Effective Date (as defined herein) of this Second Amended and Restated Promissory Note (this "**Note**"), to and including the Termination Date, at the LIBOR Rate (as defined in the Agreement) plus two and fifty-five hundredths percent (2.55%) per annum.

Capitalized terms used herein and not otherwise defined herein shall have the meaning given to such terms in the Second Amended and Restated Credit Agreement dated as of February 5, 2003, among Borrower, the Lenders, Ford Credit, as Agent, and certain other lender parties thereto (the "**Agreement**").

The term "**Effective Date**" means February 5, 2003.

Borrower promises to pay interest on the unpaid principal balance outstanding until such principal amount is paid in full, at the Applicable LIBOR Rate, and payable at such times as are specified in the Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Agent under the Agreement, in same day funds. Each Advance owing to the Lender by the Borrower, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto, which is part of this Note; provided, however, that the failure of the Lender to make any such recordation or endorsement will not affect the Obligations of the Borrower under this Note.

This Note is one of the Notes referred to in, and is entitled to the benefits of, the Agreement. The Agreement, among other things, (i) provides for the making of Advances by the Lender to or for the benefit of the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the U.S. dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof

upon the terms and conditions therein specified. The Obligations of Borrower under this Note and the Loan Documents, and the obligations of the Dealership Guarantors and any other parties to the loan are secured by the Collateral as provided in the Loan Documents.

In no circumstance may the aggregate principal amount of all Advances outstanding under the Notes and Letters of Credit exceed the Aggregate Commitments or the Maximum Availability.

IN WITNESS WHEREOF, Borrower, intending to be legally bound hereby, has duly executed this Note under seal, the day and year first above written.
SONIC AUTOMOTIVE, INC.,
a Delaware corporation

By: /s/ THEODORE M. WRIGHT (SEAL)

Name: **Theodore M. Wright**
Title: **President**

[SIGNATURE PAGE TO PROMISSORY NOTE]

AMENDED AND RESTATED PROMISSORY NOTE
(Acquisition/Revolving Line of Credit)
(LIBOR Rate)

\$150,000,000.00

Charlotte, North Carolina

February 5, 2003

FOR VALUE RECEIVED, **SONIC AUTOMOTIVE, INC.**, a Delaware corporation ("**Borrower**"), whose address is 6415 Idlewild Road, Suite 109, Charlotte, North Carolina 28212, promises to pay to **TOYOTA MOTOR CREDIT CORPORATION**, a California corporation, ("**Lender**"), or order, at 19001 South Western Avenue, Torrance, California 90501 or at such other place as Lender may from time to time in writing designate, in lawful money of the United States of America, the principal sum of **ONE HUNDRED FIFTY MILLION AND 00/100 DOLLARS (\$150,000,000.00)**, or so much thereof as may be advanced from time to time, together with interest, adjusted monthly, on the principal balance outstanding from time to time (the "**Principal Balance**"), in like money, from the Effective Date (as defined herein) of this Amended and Restated Promissory Note (this "**Note**"), to and including the Termination Date, at the LIBOR Rate (as defined in the Agreement) plus two and fifty-five hundredths percent (2.55%) per annum.

Capitalized terms used herein and not otherwise defined herein shall have the meaning given to such terms in the Second Amended and Restated Credit Agreement dated as of February 5, 2003, among Borrower, the Lenders, Ford Credit, as Agent, and certain other lender parties thereto (the "**Agreement**").

The term "**Effective Date**" means February 5, 2003.

Borrower promises to pay interest on the unpaid principal balance outstanding until such principal amount is paid in full, at the Applicable LIBOR Rate, and payable at such times as are specified in the Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Agent under the Agreement, in same day funds. Each Advance owing to the Lender by the Borrower, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto, which is part of this Note; provided, however, that the failure of the Lender to make any such recordation or endorsement will not affect the Obligations of the Borrower under this Note.

This Note is one of the Notes referred to in, and is entitled to the benefits of, the Agreement. The Agreement, among other things, (i) provides for the making of Advances by the Lender to or for the benefit of the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the U.S. dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated

events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified. The Obligations of Borrower under this Note and the Loan Documents, and the obligations of the Dealership Guarantors and any other parties to the loan are secured by the Collateral as provided in the Loan Documents.

In no circumstance may the aggregate principal amount of all Advances outstanding under the Notes and Letters of Credit exceed the Aggregate Commitments or the Maximum Availability.

IN WITNESS WHEREOF, Borrower, intending to be legally bound hereby, has duly executed this Note under seal, the day and year first above written.

SONIC AUTOMOTIVE, INC.,
a Delaware corporation

By: /s/ THEODORE M. WRIGHT (SEAL)

Name: **Theodore M. Wright**
Title: **President**

[SIGNATURE PAGE TO PROMISSORY NOTE]

PROMISSORY NOTE
(Acquisition/Revolving Line of Credit)
(LIBOR Rate)

\$50,000,000.00

Charlotte, North Carolina

February 5, 2003

FOR VALUE RECEIVED, **SONIC AUTOMOTIVE, INC.**, a Delaware corporation ("**Borrower**"), whose address is 6415 Idlewild Road, Suite 109, Charlotte, North Carolina 28212, promises to pay to **BANK OF AMERICA, N.A.**, a national banking association ("**Lender**"), or order, at Bank of America, N.A., CLSC Automotive Group, NC4-105-03-17, 4161 Piedmont Parkway, Greensboro, North Carolina 27410 or at such other place as Lender may from time to time in writing designate, in lawful money of the United States of America, the principal sum of **FIFTY MILLION AND 00/100 DOLLARS (\$50,000,000.00)**, or so much thereof as may be advanced from time to time, together with interest, adjusted monthly, on the principal balance outstanding from time to time (the "**Principal Balance**"), in like money, from the Effective Date (as defined herein) of this Promissory Note (this "**Note**"), to and including the Termination Date, at the LIBOR Rate (as defined in the Agreement) plus two and fifty-five hundredths percent (2.55%) per annum.

Capitalized terms used herein and not otherwise defined herein shall have the meaning given to such terms in the Second Amended and Restated Credit Agreement dated as of February 5, 2003, among Borrower, the Lenders, Ford Credit, as Agent, and certain other lender parties thereto (the "**Agreement**").

The term "**Effective Date**" means February 5, 2003.

Borrower promises to pay interest on the unpaid principal balance outstanding until such principal amount is paid in full, at the Applicable LIBOR Rate, and payable at such times as are specified in the Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Agent under the Agreement, in same day funds. Each Advance owing to the Lender by the Borrower, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto, which is part of this Note; provided, however, that the failure of the Lender to make any such recordation or endorsement will not affect the Obligations of the Borrower under this Note.

This Note is one of the Notes referred to in, and is entitled to the benefits of, the Agreement. The Agreement, among other things, (i) provides for the making of Advances by the Lender to or for the benefit of the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the U.S. dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon

the terms and conditions therein specified. The Obligations of Borrower under this Note and the Loan Documents, and the obligations of the Dealership Guarantors and any other parties to the loan are secured by the Collateral as provided in the Loan Documents.

In no circumstance may the aggregate principal amount of all Advances outstanding under the Notes and Letters of Credit exceed the Aggregate Commitments or the Maximum Availability.

IN WITNESS WHEREOF, Borrower, intending to be legally bound hereby, has duly executed this Note under seal, the day and year first above written.

SONIC AUTOMOTIVE, INC.,
a Delaware corporation

By: /s/ THEODORE M. WRIGHT (SEAL)

Name: **Theodore M. Wright**
Title: **President**

[SIGNATURE PAGE TO PROMISSORY NOTE]

REAFFIRMATION OF GUARANTY

Dated as of February 5, 2003

The undersigned guarantors (collectively, the "**Guarantor**") confirms and restates Guarantor's liabilities, obligations and agreements under the guaranty or guaranties by the undersigned of the indebtedness and obligations of SONIC AUTOMOTIVE, INC., a Delaware corporation, ("**Borrower**") to the Lenders and the Agent, under the Credit Agreement dated as of August 10, 2000, as amended by that certain Amended and Restated Credit Agreement dated as of June 20, 2001, as amended by the Amendment to Credit Agreement dated August 15, 2001, as amended by the Amendment to Credit Agreement dated April 11, 2002 (collectively, the "**Agreement**"), as amended by the Second Amended and Restated Credit Agreement (the "**Amendment**") to which this Reaffirmation of Guaranty is attached, and acknowledges and agrees that every right, power and remedy of Lender thereunder is in full force and effect, including without limitation, such right, powers and remedies relating to the Agreement, as amended, and the payment of the indebtedness and the performance of the obligations thereunder. Without limiting the foregoing, Guarantor intends by execution and delivery of this Reaffirmation of Guaranty to absolutely, irrevocably and unconditionally reaffirm Guarantor's guaranty to Lender and Agent of (i) the due and punctual payment of the indebtedness due and payable under the Agreement, as amended, and (ii) the performance by Borrower of the obligations under the Agreement. Guarantor acknowledges and declares that Guarantor has no defense, claim, charge, plea or set-off whatsoever in law or equity against the Lender, the Agent, the guaranty or guaranties, the Agreement, the Amendment, or any other instrument or document executed by Guarantor or Borrower in connection with the Agreement, or the Amendment. Guarantor waives and releases any and all defenses that might accrue to Guarantor by the execution of the Amendment.

Guarantor has executed this Reaffirmation of Guaranty of the date first above written.

SONIC - MONTGOMERY FLM, INC.,
COBB PONTIAC-CADILLAC, INC.,
ROYAL MOTOR COMPANY, INC.,
CAPITAL CHEVROLET AND IMPORTS, INC.,
SONIC AUTOMOTIVE - 21699 U.S. HWY 19 N., INC.,
HMC FINANCE ALABAMA, INC.
SONIC AUTOMOTIVE OF GEORGIA, INC.,
SONIC AUTOMOTIVE 5260 PEACHTREE
INDUSTRIAL BLVD., LLC,
FRONTIER OLDSMOBILE-CADILLAC, INC.,
MARCUS DAVID CORPORATION,

SONIC AUTOMOTIVE - 9103 E.
INDEPENDENCE, NC, LLC,
SONIC LAKE NORMAN CHRYSLER JEEP, LLC,
TOWN AND COUNTRY FORD, INCORPORATED,
SONIC AUTOMOTIVE-3700 WEST BROAD
STREET, COLUMBUS, INC.,
SONIC AUTOMOTIVE-1455 AUTOMALL DRIVE, COLUMBUS, INC.,
SONIC AUTOMOTIVE-1495 AUTOMALL DRIVE, COLUMBUS, INC.,
SONIC AUTOMOTIVE-4000 WEST BROAD
STREET, COLUMBUS, INC.,
SONIC AUTOMOTIVE-1500 AUTOMALL
DRIVE, COLUMBUS, INC.,
SONIC AUTOMOTIVE-1400 AUTOMALLDRIVE, COLUMBUS, INC.,
SONIC-FORT MILL DODGE, INC.,
SONIC AUTOMOTIVE 2752 LAURENS RD., GREENVILLE, INC.,
SONIC AUTOMOTIVE 2424 LAURENS RD., GREENVILLE, INC.,
SONIC-FORT MILL CHRYSLER JEEP, INC.,
SONIC AUTOMOTIVE OF HATTANOOGA, LLC,
SONIC AUTOMOTIVE OF NASHVILLE, LLC,
SONIC AUTOMOTIVE – 6025
INTERNATIONAL DRIVE, LLC,
SONIC-CREST CADILLAC, LLC, ,
TOWN AND COUNTRY JAGUAR, LLC,
TOWN AND COUNTRY FORD OF CLEVELAND, LLC,
SONIC - 2185 CHAPMAN RD., CHATTANOOGA, LLC,
SONIC OF TEXAS, INC.,
SONIC - WILLIAMS IMPORTS, INC.,
SONIC - WILLIAMS BUICK, INC.,
SONIC - WILLIAMS CADILLAC, INC.,
SONIC - WILLIAMS MOTORS, LLC,
SONIC-NEWSOME CHEVROLET WORLD, INC.,
SONIC - NEWSOME OF FLORENCE, INC.,
SONIC - CLASSIC DODGE, INC.
SONIC - ROCKVILLE MOTORS, INC.,
SONIC - ROCKVILLE IMPORTS, INC.,
SONIC - MANHATTAN WALDORF, INC.,
SONIC - MANHATTAN FAIRFAX, INC.,
SONIC - NORTH CHARLESTON, INC.,

SONIC AUTOMOTIVE - 5585 PEACHTREE
INDUSTRIAL BLVD., LLC,
SONIC - NORTH CHARLESTON DODGE, INC.,
VILLAGE IMPORTED CARS, INC.,
FIRSTAMERICA AUTOMOTIVE, INC.,
FA SERVICE CORPORATION,
FAA AUTO FACTORY, INC.,
FAA BEVERLY HILLS, INC.,
FAA CAPITOL N, INC.,
FAA CONCORD H, INC.,
FAA CONCORD N, INC.,
FAA CONCORD T, INC.,
FAA DUBLIN N, INC.,
FAA MARIN D, INC.,
FAA POWAY D, INC.,
FAA POWAY G, INC.,
FAA SAN BRUNO, INC.,
FAA SERRAMONTE H, INC.,
FAA SERRAMONTE L, INC.,
FAA SERRAMONTE, INC.,
FAA STEVENS CREEK, INC.,
SONIC – COAST CADILLAC, INC. f/k/a
FAA WOODLAND HILLS VW, INC.,
FAA TORRANCE CPJ, INC.,
FAA DUBLIN VWD, INC.,
KRAMER MOTORS INCORPORATED,
FAA SANTA MONICA V, INC.,
FAA LAS VEGAS H, INC.,
L DEALERSHIP GROUP, INC.,
WINDWARD, INC.,
AUTOBAHN, INC.,
SONIC – STEVENS CREEK B, INC.,
FAA HOLDING CORP.,
FRANCISCAN MOTORS, INC.,
SANTA CLARA IMPORTED CARS, INC.,
STEVENS CREEK CADILLAC, INC.,

FAA MARIN F, INC.,
FAA POWAY H, INC.,
FAA POWAY T, INC.,
FAA MARIN LR, INC.,
SONIC-RIVERSIDE, INC.,
SONIC-GLOVER, INC., and
RIVERSIDE NISSAN, INC.,
SPEEDWAY CHEVROLET, INC.
FORT MILL FORD, INC.,
FREEDOM FORD, INC.,
SONIC AUTOMOTIVE - CLEARWATER, INC.,
SONIC AUTOMOTIVE COLLISION CENTER OF CLEARWATER, INC.,

SONIC AUTOMOTIVE - 1919 N. DIXIE HWY., NSB, INC.,
SONIC AUTOMOTIVE - 1307 N. DIXIE HWY., NSB, INC.,
SONIC AUTOMOTIVE - 1720 MASON AVE., DB, INC.,
SONIC AUTOMOTIVE - 3741 S. NOVA RD., PO, INC.,
SONIC AUTOMOTIVE - 241 RIDGEWOOD AVE., HH, INC.,
SONIC AUTOMOTIVE - 6008 N. DALE MABRY, FL, INC.,
SONIC AUTOMOTIVE OF NEVADA, INC.,
SONIC AUTOMOTIVE OF TENNESSEE, INC.,
SONIC AUTOMOTIVE - BONDESEN, INC.,
SONIC - LLOYD PONTIAC - CADILLAC, INC.,
SONIC - LLOYD NISSAN, INC.,
SONIC - SUPERIOR OLDSMOBILE, LLC,
SONIC - SHOTTENKIRK, INC.,
SONIC - INTEGRITY DODGE LV, LLC,
SONIC - VOLVO LV, LLC,
SONIC - FM AUTOMOTIVE, LLC,
SONIC - FM, INC.,
SONIC - FM VW, INC.,
SONIC - NORTH CADILLAC, INC.,
SONIC - FREELAND, INC., and
SONIC AUTOMOTIVE - 1720 MASON AVE., DB, LLC
SONIC AUTOMOTIVE SERVICING COMPANY, LLC
SONIC AUTOMOTIVE F & I, LLC
SONIC – RIVERSIDE AUTO FACTORY, INC.
TRANSCAR LEASING, INC.
SONIC AUTOMOTIVE – 2490 SOUTH LEE HIGHWAY, L.L.C.
FAA CAPITOL F, INC.,
SONIC – LAS VEGAS C EAST, LLC,
SONIC – LAS VEGAS C WEST, LLC,
SONIC - CAPITOL CHEVROLET, INC.
SONIC - LAS VEGAS C EAST, LLC
SONIC DEVELOPMENT, LLC
SONIC – HARBOR CITY H, INC.
SONIC – BUENA PARK H, INC.
SONIC – WEST COVINA T, INC.
SONIC – BETHANY H, INC.
SONIC – WEST RENO CHEVROLET, INC.
AVALON FORD, INC.
SONIC-CARSON F, INC.
SONIC-CARSON LM, INC.

SONIC-DOWNEY CADILLAC, INC.
SONIC-MASSEY CHEVROLET, INC.
SONIC-LONE TREE CADILLAC, INC.
SONIC-ENGLEWOOD M, INC.
SONIC-MASSEY PONTIAC BUICK GMC, INC.
SONIC-SANFORD CADILLAC, INC.
SONIC-PLYMOUTH CADILLAC, INC.
SONIC-CAPITOL CADILLAC, INC.
ARNGAR, INC.
MASSEY CADILLAC, INC. (TX)
MASSEY CADILLAC, INC. (TN)
SMART NISSAN, INC.
SONIC-LS, LLC
SONIC-AUTOMOTIVE WEST, LLC
SONIC-RESOURCES, INC.
SONIC-LAKE NORMAN DODGE, LLC
SONIC-CREST H, LLC
SONIC – CALABASAS A, INC.
SONIC – OKLAHOMA T, INC.
SONIC – CAPITOL IMPORTS, INC.
FRANK PARRA AUTOPLEX, INC.
MOUNTAIN STATES MOTORS CO., INC.
Z MANAGEMENT, INC.
SONIC-SERRAMONTE I, INC.

By: /s/ THEODORE M. WRIGHT (seal)

Name: **Theodore M. Wright**

Title: **Vice President of each of the above named entities**

SONIC AUTOMOTIVE OF TEXAS, L.P.,
SONIC AUTOMOTIVE-4701 I-10 EAST, TX, L.P.,
SONIC AUTOMOTIVE - 3401 N. MAIN, TX, L.P.,
SONIC AUTOMOTIVE - 5221 I-10 EAST, TX, L.P.,
SONIC - SAM WHITE NISSAN, L.P.,
SONIC - LUTE RILEY, L.P.,
SONIC - READING, L.P.,
SONIC - CAMP FORD, L.P.,
SONIC-FORT WORTH T, L.P.,
PHILPOTT MOTORS, LTD.
SONIC – RICHARDSON F, L.P.
SONIC – CARROLLTON V, L.P.
SONIC – HOUSTON V, L.P.
SONIC – LS CHEVROLET, L.P., f/k/a/
LAWRENCE MARSHALL CHEVROLET, L.P.
SONIC UNIVERSITY PARK A, L.P.
SONIC-MASSEY CADILLAC, L.P.
SONIC – FRANK PARRA AUTOPLEX, L.P.
SONIC – CADILLAC D, L.P.
SONIC SAM WHITE OLDSMOBILE, LP

By: Sonic of Texas, Inc., a Texas
corporation, as General Partner

By: /s/ THEODORE M. WRIGHT (SEAL)

Name: **Theodore M. Wright**
Title: **Vice President**

[SIGNATURE PAGE TO GUARANTY]

SONIC PEACHTREE INDUSTRIAL BLVD., L.P.,
SONIC - GLOBAL IMPORTS, L.P. and
SONIC-STONE MOUNTAIN CHEVROLET, L.P.

By: Sonic Automotive of Georgia, Inc.,
a Georgia corporation, as General
Partner

By: /s/ THEODORE M. WRIGHT (SEAL)

Name: **Theodore M. Wright**

Title: **Vice President**

[SIGNATURE PAGE TO GUARANTY]

**SECOND AMENDED AND RESTATED
SECURITY AGREEMENT**

SECOND AMENDED AND RESTATED SECURITY AGREEMENT (the "**Agreement**") dated as of February 5, 2003 made by SONIC AUTOMOTIVE, INC., a Delaware corporation (the "**Borrower**"), to FORD MOTOR CREDIT COMPANY, a Delaware corporation, as agent (the "**Agent**") for the lenders (the "**Lenders**") under the Credit Agreement defined below. Capitalized terms used herein and not otherwise defined herein shall have the respective meanings given to such terms in the Credit Agreement defined below.

PRELIMINARY STATEMENTS:

On August 10, 2000, Ford Credit and Chrysler Financial made a loan (the "**Loan**") to Borrower in the principal amount of \$500,000,000.00, pursuant to the terms of the Credit Agreement dated as of August 10, 2000. Thereafter, the parties agreed to increase the principal amount of such loan to \$600,000,000.00 and to add Toyota Credit as a Lender pursuant to the Amended and Restated Credit Agreement dated as of June 20, 2001 (Ford Credit, Chrysler Financial and Toyota Credit referred to as the "**Original Lender**"). Further, the parties entered into an Amendment to Credit Agreement dated August 15, 2001 that provided for converting the interest rate on a portion of the principal balance on the Loan to a fixed rate and an Amendment to Credit Agreement dated April 11, 2002 that eliminated the fixed rate conversion and allowed a certain portion of the Loan available for Letters of Credit (collectively, the "**Original Credit Agreement**");

Now the parties wish to decrease the principal balance of the Loan to \$500,000,000.00, add Bank of America as a Lender under the Credit Agreement and incorporate the terms of the foregoing Amendments, all as set forth in the Second Amended and Restated Credit Agreement dated as of even date herewith (the "**Credit Agreement**");

As a condition to entering into the Original Credit Agreement, Original Lender required that the Borrower execute and deliver the Amended and Restated Security Agreement dated June 20, 2001 (the "**Original Security Agreement**");

As a condition of the decrease of the Loan and the addition of Bank of America as a Lender, the Lenders have required that Borrower execute the Credit Agreement, and the Notes (as defined in the Credit Agreement);

It is a condition precedent to the making Advances under the Credit Agreement, that Borrower reaffirms its obligations under the Original Security Agreement and agrees that the security interests granted pursuant to the Original Security Agreement secure the Loan; and

NOW, THEREFORE, for and in consideration of the foregoing and of any financial accommodations or extensions of credit (including, without limitation, any loan or advance by renewal, refinancing or extension of the agreements described hereinabove or otherwise) heretofore, now or hereafter made to or for the benefit of the Borrower pursuant to the Credit Agreement any other agreement, instrument or document executed pursuant to or in connection therewith, and for other good and valuable consideration, the receipt and sufficiency

of which are hereby acknowledged, the Borrower and the Agent hereby agree, for the benefit of the Lenders, that Borrower's obligations under the Original Security Agreement are hereby reaffirmed and the Original Security Agreement is hereby amended and restated in its entirety as follows:

SECTION 1. Grant of Security. The Borrower hereby assigns and pledges to Agent, for the benefit of the Lenders, and hereby grants to Agent, for the benefit of the Lenders, a security interest in, all of its respective right, title and interest in and to the following, whether now owned or hereafter acquired (the "Collateral"):

(A) all equipment in all of its forms, including furniture, machinery, service vehicles, supplies and other equipment (the "Equipment");

(B) all inventory in all of its forms, including motor vehicles, tractors, trailers, service parts and accessories and other inventory ("Inventory");

(C) all accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds and other obligations of third persons of any kind, now or hereafter existing, whether or not arising out of or in connection with the sale or lease of goods, the rendering of services or otherwise, and all rights now or hereafter existing in and to all security agreements, leases, and other contracts securing or otherwise relating to any such accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds or obligations of third persons (any and all such accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds and obligations of third persons being the "Receivables", and any and all such leases, security agreements and other contracts being the "Related Contracts");

(D) all of the Borrower's governmental approvals and authorizations to the maximum extent permitted by applicable law;

(E) all property and interests in property of the Borrower now or hereafter coming into the actual possession, custody or control of the Agent or a Lender in any way or for any purpose (whether for safekeeping, deposit, custody, pledge, transmission, collection or otherwise);

(F) leasehold interests in and fixtures located on any real property from which the Borrower conducts business;

(G) all security entitlements;

(H) all intellectual property;

(I) all goods; and all computer hardware and software;

(J) all present and future Commercial Tort Claims;

(K) Electronic Chattel Paper, Letter-of-Credit Rights, Payment Intangibles, Supporting Obligations and Tangible Chattel Paper;

(L) records and other books and records relating to the foregoing; and

(M) all accessions and additions to, substitutions for, and replacements, products and proceeds of any of the foregoing (including, without limitation, proceeds which constitute property of the types described in clauses (A) through (L) of this Section 1 and, to the extent not otherwise included, all (i) payments under insurance (whether or not the Agent or the Lenders are the loss payee thereof), or any indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the foregoing Collateral and (ii) cash.

Provided that the term "Collateral" shall exclude (i) any contract rights (other than any contract rights pursuant to a franchise agreement between Borrower and an automobile manufacturer), equity interests or general intangibles of the Borrower or owned by the Borrower to the extent the Borrower may not grant a security interest in the same without breach of the terms thereof and (ii) unless the relevant automobile manufacturer grants its consent thereto, any contract rights, equity interests or general intangibles related to a franchise agreement, framework agreement or other agreement with an automobile manufacturer if the granting of the foregoing security interest would permit such automobile manufacturer to terminate or materially alter or exercise other remedial rights in respect of such franchise agreement, framework agreement or other agreement with the Borrower, provided that Borrower shall use its commercially reasonable efforts to obtain agreements from the relevant manufacturers (a) permitting the grant of a security interest described in Subsection (i) above and (b) granting the consent described in Subsection (ii) above ("Excluded Collateral").

It is hereby acknowledged that certain of the franchise agreements, framework agreements and/or other agreements between the various automobile manufacturers and the Borrower may contain (i) restrictions on the ability of Borrower to transfer its ownership interest in any Sonic Dealership without the consent of the relevant automobile manufacturer, (ii) provisions giving the automobile manufacturer a right of first refusal over any proposed sale or transfer of the ownership interests in any Sonic Dealership or any portion of the assets of any Sonic Dealership (provided, however, that for the purposes of this acknowledgment, the interpretation of the Agent and the Lenders is that "transfer" does not include the granting of a security interest in assets other than ownership interests in a Sonic Dealership and contract rights under franchise agreements), and (iii) requirements that under certain circumstances (including, without limitation, upon termination of the relevant franchise agreement) the Borrower must sell certain property (consisting primarily of a particular manufacturer's vehicles, parts, accessories, signs, tools and other similar items) to the manufacturer free and clear of any liens and encumbrances. It is understood and agreed that the existence or occurrence of any of the foregoing shall not result in a breach of or default under this Agreement, provided, however, that it is understood that for purposes of this acknowledgment, the interpretation of the Agent and the Lenders is that nothing contained in clause (iii) of the preceding sentence may be construed as invalidating the Liens in the Collateral.

Notwithstanding anything contained in the two immediately preceding paragraphs, any proceeds (whether in the form of cash, property, debt or other tangible or intangible rights or assets) that Borrower or any direct or indirect Subsidiary of Borrower receives from, under or in connection with any contract rights, equity interests, general intangibles, franchise agreements,

framework agreements or other agreements with any automobile manufacturer that Agent and the Lenders have agreed to exclude from the definition of Collateral under the two immediately preceding sentences shall be included in the definition of Collateral.

To the extent that the Agent or the Lenders has obtained a Lien on any of the Excluded Collateral such Lien is hereby null and void.

Unless otherwise defined in this Section 1 or in the Credit Agreement, terms used in this Section 1 and within this Agreement that are also defined in Article 9 of the UCC have the same meaning as set forth in the UCC.

SECTION 2. Security for Obligations. This Agreement secures the payment of (i) all obligations of the Borrower now or hereafter existing under the Credit Agreement (including, without limitation, the Revolving Credit Obligations) and (ii) all obligations of the Borrower hereafter existing under this Agreement (all such obligations of the Borrower being the "**Obligations**"). Without limiting the generality of the foregoing, this Agreement secures the payment of all amounts which constitute part of the Obligations and would be owed by Borrower to the Agent or any Lender under the Loan but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving the Borrower.

SECTION 3. Borrower Remains Liable. Anything herein to the contrary notwithstanding, (i) the Borrower shall remain liable under the contracts and agreements included in the Collateral to the extent set forth therein to perform all of its respective duties and obligations thereunder to the same extent as if this Agreement had not been executed, (ii) the exercise by the Agent of any of the rights hereunder shall not release the Borrower from any of its respective duties or obligations under the contracts and agreements included in the Collateral, and (iii) neither the Agent nor the Lenders shall have any obligation or liability under the contracts and agreements included in the Collateral by reason of this Agreement, nor shall Agent or the Lenders be obligated to perform any of the obligations or duties of the Borrower thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

SECTION 4. Representations and Warranties. The Borrower represents and warrants as follows:

(A) All of its Equipment and Inventory is located at the places specified on Exhibit A hereto. The chief place of business and chief executive office of the Borrower and the office where the Borrower keeps its records concerning the Receivables, and the originals of all chattel paper that evidence Receivables, are located at its address specified in Section 16. Except for the Receivables constituting BHPH Collateral (as defined in the Credit Agreement) none of the Receivables is evidenced by a promissory note or other instrument.

(B) The Borrower is the legal and beneficial owner of the Collateral free and clear of any lien, security interest, option or other charge or encumbrance except for (i) the security interest created by this Agreement, and (ii) any security interests consented to by the Required Lenders (as defined in the Credit Agreement) (collectively, the "**Permitted Liens**"). Except for financing statements with respect to Permitted Liens, no effective financing statement or other document similar in effect covering all or any part of the Collateral is on file

in any recording office, except such as may have been filed in favor of the Lender relating to this Agreement. The Borrower does not have a trade name.

(C) The Borrower has exclusive possession and control of its Equipment and Inventory.

(D) Subject to the Permitted Liens, this Agreement creates a valid and perfected first priority security interest in the Collateral, securing the payment of the Obligations, and all filings and other actions necessary or desirable to perfect and protect such security interest have been duly taken or are being taken substantially contemporaneously with the execution and delivery of this Agreement.

(E) No consent of any other person or entity and no authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required (i) for the grant by the Borrower of the security interest granted hereby or for the execution, delivery or performance of this Agreement by the Borrower, (ii) for the perfection or maintenance of the security interest created hereby (including the first priority nature of such security interest) or (iii) for the exercise by Agent (for the benefit of the Lenders) of its rights and remedies hereunder, in each case, except for (a) filings made or to be made with respect to Agent's security interest in the Collateral, and (b) those that have been made, obtained or given.

(F) There are no conditions precedent to the effectiveness of this Agreement that have not been satisfied or waived.

(G) The Borrower has, independently and without reliance upon any Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement.

SECTION 5. Further Assurances. (A) The Borrower agrees that from time to time, at its expense, it will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that the Agent may reasonably request, in order to perfect and protect any security interest granted or purported to be granted hereby or to enable the Agent (acting for the benefit of the Lenders) to exercise and enforce its rights and remedies hereunder with respect to any Collateral. Borrower hereby irrevocably authorizes Agent at any time, and from time to time, to file in any jurisdiction any initial financing statements and amendments thereto that (i) indicate the Collateral (a) as all assets of Borrower, or words of similar effect, or (b) as being of an equal or lesser scope or within greater detail, and (ii) contain any other information required by Part 5 of Article 9 of the UCC of the jurisdiction wherein such financing statement or amendment is filed regarding the sufficiency or filing office acceptance of any financing statement or amendment, including the type of organization and the organizational identification number issued to Borrower. Without limiting the generality of the foregoing, the Borrower will upon such request: (1) mark conspicuously each chattel paper included in the Receivables and each Related Contract and, at the request of the Agent, each of its records pertaining to the Collateral with a legend, in form and substance satisfactory to the Agent, indicating that such document, chattel paper, Related Contract or Collateral is subject to the security interest granted hereby; (2) if any Receivable shall be evidenced by a promissory note or other instrument or chattel paper, deliver and pledge to the Agent (for the benefit of the Lenders) hereunder such note or instrument or chattel paper duly endorsed and accompanied by duly executed instruments of transfer or

assignment, all in form and substance satisfactory to the Agent; and (3) execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as the Agent may request, in order to perfect and preserve the security interest granted or purported to be granted hereby.

(B) The Borrower hereby authorizes the Agent to file one or more financing or continuation statements, and amendments thereto, relating to all or any part of the Collateral without its signature where permitted by law. A photocopy or other reproduction of this Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law.

(C) The Borrower will furnish to the Agent from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Agent may reasonably request, all in reasonable detail.

(D) Borrower shall promptly (i) notify Agent, in writing, of the existence of any Collateral consisting of deposit accounts, investment property, Letter-of-Credit Rights, which in the aggregate exceed **\$15,000,000.00**, or Electronic Chattel Paper and shall, upon the reasonable request of Agent, promptly execute such other documents, and do such other acts or things deemed appropriate by Agent to deliver to Agent control with respect to such Collateral; provided, however, that the Borrower is only obligated to take action pursuant to this Section 5(d)(i) with respect to Letter-of-Credit Rights that exceed **\$15,000,000.00, in aggregate**, (ii) with respect to Collateral in the possession of a third party, other than certificated securities and goods covered by a document, an acknowledgment from the third party that it is holding the Collateral for benefit of the Agent; and (iii) promptly notify Agent, in writing, upon incurring or otherwise obtaining a Commercial Tort Claim in excess of **One Million Dollars (\$1,000,000.00)** after the date hereof against any third party, and upon the request of Agent, will promptly enter into an amendment to this Agreement, and do such other acts or things deemed appropriate by Agent to give Agent a security interest in such Commercial Tort Claim.

SECTION 6. As to Equipment and Inventory. (A) The Borrower shall keep its Equipment and Inventory at the location referred to in **Section 4(a)** or, upon 30 days' prior written notice to the Agent, at such other places in jurisdictions where all action required by **Section 5** shall have been taken with respect to its Equipment and Inventory.

(B) The Borrower shall cause the Equipment owned by it to be maintained and preserved in the same condition, repair and working order as when new, ordinary wear and tear excepted, and in accordance with any manufacturer's manual, and shall forthwith, or in the case of any loss or damage to any of the Equipment as quickly as practicable after the occurrence thereof, make or cause to be made all repairs, replacements, and other improvements in connection therewith which are necessary or desirable to such end. The Borrower shall promptly furnish to the Agent a statement respecting any material loss or damage to any of its Equipment or Inventory.

(C) The Borrower shall pay promptly when due all property and other taxes, assessments and governmental charges or levies imposed upon, and all claims against, its Equipment or Inventory.

SECTION 7. Insurance. (A) The Borrower shall, at its own expense, maintain insurance with respect to its Equipment and Inventory in such amounts, against such risks, in such form and with such insurers, as shall be satisfactory to the Agent from time to time. Each policy for liability insurance shall provide for all losses to be paid on behalf of the Agent (for the benefit of the Lenders) and the Borrower as their respective interests may appear and each policy for property damage insurance shall provide for all losses to be paid directly to the Agent (for the benefit of the Lenders). Each such policy shall in addition (i) name the Borrower and the Agent (for the benefit of the Lenders) as insured parties thereunder (without any representation or warranty by or obligation upon the Agent) as their interests may appear, (ii) contain the agreement by the insurer that any loss thereunder shall be payable to the Agent (for the benefit of the Lenders) notwithstanding any action, inaction or breach of representation or warranty by the Borrower, (iii) provide that there shall be no recourse against Agent or the Lenders for payment of premiums or other amounts with respect thereto and (iv) provide that at least ten days' prior written notice of cancellation or of lapse shall be given to the Agent by the insurer. The Borrower shall, if so requested by the Agent, deliver to the Agent original or duplicate policies of such insurance and, as often as the Agent may reasonably request, a report of a reputable insurance broker with respect to such insurance. Further the Borrower shall, at the request of the Agent, duly execute and deliver instruments of assignment of such insurance policies to comply with the requirements of Section 5 and cause the insurers to acknowledge notice of such assignment.

(B) Upon the occurrence and during the continuance of an Event of Default, all insurance payments in respect of such Equipment or Inventory shall be paid to and applied by the Agent as specified in Section 13(b).

SECTION 8. As to Receivables. (A) The Borrower shall keep its chief place of business and chief executive office and the office where it keeps its records concerning the Receivables, and the originals of all chattel paper that evidence Receivables, if any, at the location therefor referred to in Section 4(a) or, upon 30 days' prior written notice to the Lender, at any other locations in the United States of America in a jurisdiction where all action required by Section 5 shall have been taken with respect to the Receivables. The Borrower will hold and preserve such records and chattel paper and will permit representatives of the Agent or a Lender at any time during normal business hours to inspect and make abstracts from such records and chattel paper. The Borrower shall not change its name, identity or corporate structure to such an extent that any financing statement filed in connection with this Agreement would become seriously misleading, unless the Borrower shall have given the Agent at least 30 days prior written notice thereof and prior to effecting any such change, taken such steps, at Borrower's expense, as the Agent may deem necessary or desirable to continue the perfecting and priority of the liens in favor of the Lender granted in connection herewith.

(B) Except as otherwise provided in this Subsection (B), the Borrower shall continue to collect, at its own expense, all amounts due or to become due the Borrower under the Receivables. In connection with such collections, the Borrower may take (and, at the Agent's direction, shall take) such action as the Borrower or the Agent may reasonably deem necessary or advisable to enforce collection of the Receivables; **provided, however**, that the Agent shall have the right at any time, upon the occurrence and during the continuance of an Event of Default or an Unmatured Default and upon written notice to the Borrower or its intention to do so, to notify the account debtors or obligors under any Receivables of the assignment of such Receivables to the Agent and to direct such account debtors or obligors to make payment of all amounts due or to become due to the Borrower thereunder directly to the

Agent and, upon such notification and at the expense of the Borrower, to enforce collection of any such Receivables, and to adjust, settle or compromise the amount or payment thereof, in the same manner and to the same extent as the Borrower might have done. After receipt by the Borrower of the notice from the Agent referred to in the proviso to the preceding sentence, (i) all amounts and proceeds (including instruments) received by the Borrower in respect of the Receivables shall be received in trust for the benefit of the Agent hereunder, shall be segregated from other funds of the Borrower and shall be forthwith paid over to the Agent in the same form as so received (with any necessary endorsement) to be held as cash collateral and either (a) released to the Borrower so long as no Event of Default shall have occurred and be continuing or (b) if any Event of Default shall have occurred and be continuing, applied as provided by Section 13(B), and (ii) the Borrower shall not adjust, settle or compromise the amount or payment of any Receivable, release wholly or partly any account debtor or obligor thereof, or allow any credit or discount thereon, except in the ordinary course of business consistent with past practice.

SECTION 9. Transfers and Other Liens. The Borrower shall not (i) sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Collateral, or (ii) create or permit to exist any lien, security interest, option or other charge or encumbrance upon or with respect to any of the Collateral, except for the security interest under this Agreement and Liens permitted under the Credit Agreement.

SECTION 10. Agent Appointed Attorney-in-Fact. The Borrower hereby irrevocably appoints the Agent such Borrower's attorney-in-fact, with full authority in the place and stead of the Borrower and in the name of the Borrower, the Lenders or otherwise, from time to time in the Lender's discretion, to take any action and to execute any instrument which the Agent may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation:

(A) to obtain and adjust insurance required to be paid to the Agent pursuant to Section 7,

(B) to ask, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in connection with the Collateral,

(C) to receive, indorse, and collect any drafts or other instruments, documents and chattel paper, in connection therewith, and

(D) to file any claims or take any action or institute any proceedings which the Agent may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of the Agent or the Lenders with respect to any of the Collateral.

SECTION 11. Agent May Perform. If the Borrower fails to perform any agreement contained herein, the Agent may itself perform, or cause performance of, such agreement, and the expenses of the Agent or the Lenders incurred in connection therewith shall be payable by the Borrower under Section 14(B).

SECTION 12. Agent's Duties. The powers conferred on the Agent hereunder are solely to protect its interest (in its capacity as agent on behalf of the Lenders) in the Collateral and

shall not impose any duty upon it to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Agent shall have no duty as to any Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral. The Agent shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its possession if such Collateral is accorded treatment substantially equal to that which the Agent accords its own property.

SECTION 13. Remedies. If any Event of Default shall have occurred and be continuing:

(A) The Agent may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Uniform Commercial Code, and all amendments, restatements, modifications and supplements thereto, in effect in the State of North Carolina at that time (the "UCC") (whether or not the UCC applies to the affected Collateral), and also may (i) require the Borrower to, and the Borrower hereby agrees that it will at its expense and upon request of the Agent forthwith, assemble all or part of the Collateral as directed by the Agent and make it available to the Agent at a place to be designated by the Agent which is reasonably convenient to both parties and (ii) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Agent's or Lenders' offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Agent may deem commercially reasonable. The Borrower agrees that, to the extent notice of sale shall be required by law, at least ten (10) days' notice to the Borrower of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(B) Any cash held by the Lender as Collateral and all cash proceeds received by the Lender in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Lender, be held by the Lender as collateral for, and/or then or at any time thereafter be applied (after payment of any amounts payable to the Lender pursuant to Section 14) in whole or in part by the Lender against, all or any part of the Obligations in such order as the Lender shall elect. Any surplus of such cash or cash proceeds held by the Lender and remaining after payment in full in cash of all the Obligations shall be paid over to the Borrower or to whomsoever may be lawfully entitled to receive such surplus.

SECTION 14. Indemnity and Expenses. (A) The Borrower agrees to indemnify the Agent and the Lenders from and against any and all claims, losses and liabilities (including reasonable attorneys' fees) growing out of or resulting from this Agreement (including, without limitation, enforcement of this Agreement), except claims, losses or liabilities resulting from the Lender's gross negligence or willful misconduct.

(B) The Borrower shall be liable to the Lender for the amount of any and all reasonable expenses, including the reasonable fees and expenses of its in-house and external

counsel and of any experts and agents, which the Agent or the Lenders may incur in connection with (i) the administration of this Agreement, (ii) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any of the Collateral, (iii) the exercise or enforcement of any of the rights of the Agent or the Lenders hereunder or (iv) the failure by the Borrower to perform or observe any of the provisions hereof.

(C) Notwithstanding anything else in this Agreement to the contrary, no party shall have any obligation to reimburse any person for attorneys' fees and expenses unless such fees and expenses are (i) reasonable in amount, (ii) determined without reference to any statutory presumption and (iii) calculated using the actual time expended and the standard hourly rate for the attorneys and paralegals performing the tasks in question and the actual out-of-pocket expenses incurred.

SECTION 15. Amendments, Etc. Except as otherwise provided in Section 7.1 (B) of the Credit Agreement, no amendment or waiver of any provision of this Agreement, and no consent to any departure by the Borrower herefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 16. Addresses for Notices. All notices and other communications provided for hereunder shall be in writing (including telecopier, telegraphic, telex or cable communication) and mailed, telecopied, telegraphed, telexed, cabled or delivered, if to the Borrower, at its address at 6415 Idlewild Road, Suite 109, Charlotte, North Carolina 28212, if to the Agent, at its address specified in the Credit Agreement; or, as to each party, at such other address as shall be designated by such party in a written notice to the other party. All such notices and communications shall be effective, upon receipt, or in the case of (i) notice by mail, five days after being deposited in the United States mails, first class postage prepaid, (ii) notice by overnight courier, one business day after being deposited with a national overnight courier service, (iii) notice by telex, when telexed against receipt of answer back or (iv) notice by facsimile copy, when transmitted against mechanical confirmation of successful transmission.

SECTION 17. Continuing Security Interest; Assignments under Credit Agreement This Agreement shall create a continuing assignment of and security interest in the Collateral and shall (i) remain in full force and effect until the payment in full in cash of the Obligations and all other amounts payable under this Agreement (such date, the "**Security Termination Date**"), (ii) be binding upon the Borrower, and such Borrower's successors and assigns and (iii) inure to the benefit of, and be enforceable by, the Agent, the Lenders and their respective successors, transferees and assigns. Without limiting the generality of the foregoing clause (iii), any Lender may assign or otherwise transfer all or any portion of its rights and obligations under the Credit Agreement to any other person or entity, and such other person or entity shall thereupon become vested with all the benefits in respect thereof granted to such Lender herein or otherwise subject, however, to the provisions of Article VII of the Credit Agreement. On the Security Termination Date, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to the Borrower. Upon any such termination, the Agent will, at the Borrower's expense, execute and deliver to the Borrower such documents as it shall reasonably request to evidence such termination.

SECTION 18. Governing Law; Terms. **THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (AS OPPOSED TO**

CONFLICTS OF LAW PROVISIONS) AND DECISIONS OF THE STATE OF NORTH CAROLINA.

SECTION 19. Waiver of Jury Trial. To the maximum extent of applicable law, each of the Borrower, the Agent and the Lenders waives any right to trial by jury in any dispute, whether sounding in contract, tort, or otherwise, between the Agent, the Lenders and the Borrower arising out of or related to the transactions contemplated by this Agreement or any other instrument, document or agreement executed or delivered in connection herewith. Either the Borrower, the Agent or the Lenders may file an original counterpart or a copy of this Agreement with any court as written evidence of the consent of the parties hereto to the waiver of their right to trial by jury.

SECTION 20. Consent to Jurisdiction; Counterclaims; Forum Non Conveniens

(A) Exclusive Jurisdiction. Except as provided in Subsection (B) of this Section 20, the Lender and the Borrower agree that all disputes between them arising out of or related to the relationship established between them in connection with this Agreement, whether arising in contract, tort, equity, or otherwise, shall be resolved only by state or federal courts located in North Carolina, but the parties acknowledge that any appeals from those courts may have to be heard by a court located outside of North Carolina.

(B) Other Jurisdictions. The Agent and each Lender shall have the right to proceed against the Borrower or its real or personal property in a court in any location to enable the Agent or the Lenders to obtain personal jurisdiction over the Borrower, to realize on the Collateral or any other security for the Obligations or to enforce a judgment or other court order entered in favor of the Agent or the Lenders. The Borrower shall not assert any permissive counterclaims in any proceeding brought by the Agent or the Lenders under this Section 20(B).

(C) Venue; Forum Non Conveniens. The Agent, Borrower and each Lender waives any objection that it may have (including, without limitation, any objection to the laying of venue or based on forum non conveniens) to the location of the court in which any proceeding is commenced in accordance with this Section 20.

21. Service of Process. The Borrower waives personal service of any process upon it and, as security for the Obligations, irrevocably appoints Theodore M. Wright as its registered agent for the purpose of accepting service of process issued by any court in connection with any dispute between the Borrower, the Agent and the Lender arising out of or related to the relationship established between them in connection with this Agreement or any other document to which the Borrower is a party.

22. Security Interest Absolute. All rights of Agent (for the benefit of the Lenders), and security interests hereunder, and all obligations of the Borrower hereunder, shall be absolute and unconditional irrespective of:

(A) Any lack of validity or enforceability of the Credit Agreement or any other agreement or instrument relating thereto;

(B) Any change in the time, manner or place of payment of, or in any other term of, all or any part of the Liabilities, or any other amendment or waiver of or any consent to any departure from the Credit Agreement;

(C) Any exchange, release or non-perfection of any other collateral, or any release or amendment or waiver of or consent to departure from any guaranty, for all or any part of the Liabilities; or

(D) any other circumstance which might otherwise constitute a defense available to, or a discharge of, the Borrower in respect of the Liabilities.

23. Amendment and Restatement. This Agreement amends and restates with respect to Borrower that certain Amended and Restated Security Agreement dated as of June 15, 2001, by Borrower in favor of Agent.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the Borrower has caused this Agreement to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

SONIC AUTOMOTIVE, INC.

By: /s/ THEODORE M. WRIGHT

Name: **Theodore M. Wright**

Title: **President**

[SIGNATURE PAGE TO BORROWER SECURITY AGREEMENT]

Agreed and Accepted
this 5th day of February, 2003

FORD MOTOR CREDIT COMPANY,
a Delaware corporation, as Agent

By: /s/ STEVE GRACZ

Name: **Steve Gracz**

Title: **National Account Manager**

[SIGNATURE PAGE TO BORROWER SECURITY AGREEMENT]

EXHIBIT A

LOCATION OF EQUIPMENT AND INVENTORY

Facility	Physical Location
Sonic Automotive, Inc.	6415 Idlewild Road, Suite 109 Charlotte, NC 28212
	5401 East Independence Charlotte, NC 28212
Sonic Facilities Group -Bay Area	722 Arguello Blvd. San Francisco, CA 94118-4013
Sonic Facilities Group	6425 Idlewild Road Suite 205 Charlotte, NC 28212

SECOND AMENDED AND RESTATED SECURITY AGREEMENT

SECOND AMENDED AND RESTATED SECURITY AGREEMENT (this "**Security Agreement**") dated as of February 5, 2003 made by each of the entities listed on the signature pages hereto, jointly and severally, (each referred to individually herein as a "**Grantor**" and collectively, the "**Grantors**"), in favor of FORD MOTOR CREDIT COMPANY (the "**Agent**"), as agent for the lenders (the "**Lenders**") under the Credit Agreement defined below. Capitalized terms used herein and not otherwise defined herein shall have the respective meanings given to such terms in the Credit Agreement defined below.

PRELIMINARY STATEMENTS:

On August 10, 2000, Ford Credit and Chrysler Financial made a loan (the "**Loan**") to Borrower in the principal amount of \$500,000,000.00, pursuant to the terms of the Credit Agreement dated as of August 10, 2000. Thereafter, the parties agreed to increase the principal amount of such loan to \$600,000,000.00 and to add Toyota Credit as a Lender pursuant to the Amended and Restated Credit Agreement dated as of June 20, 2001 (Ford Credit, Chrysler Financial and Toyota Credit referred to as the "**Original Lender**"). Further, the parties entered into an Amendment to Credit Agreement dated August 15, 2001 that provided for converting the interest rate on a portion of the principal balance on the Loan to a fixed rate and an Amendment to Credit Agreement dated April 11, 2002 that eliminated the fixed rate conversion and allowed a certain portion of the Loan available for Letters of Credit (collectively, the "**Original Credit Agreement**").

Now the parties wish to decrease the principal balance of the Loan to \$500,000,000.00, add Bank of America as a Lender under the Credit Agreement and incorporate the terms of the foregoing Amendments, all as set forth in the Second Amended and Restated Credit Agreement dated as of even date herewith (the "**Credit Agreement**").

As a condition, among others, to the Lenders' willingness to enter into and the Original Credit Agreement, the Original Lenders required that certain Subsidiaries (as defined in the Original Credit Agreement) existing at the time of the Original Credit Agreement (collectively, the "**Original Grantors**"), jointly and severally, execute and deliver a guaranty agreement (collectively, the "**First Guaranties**"), and a security agreement (collectively, the "**Original Security Agreements**") pursuant to which, among other things, each such Original Grantor agreed to guaranty the Obligations of Borrower under the Notes (as defined in the Original Credit Agreement) and the Original Credit Agreement; and

Under the terms of the Original Credit Agreement, any new Dealership Guarantor acquired by Borrower in a Permitted Acquisition was and is required to guaranty each of the Obligations and execute a guaranty and a security agreement in a form acceptable to the Original Lenders; and

From the date of the Original Credit Agreement to the date hereof, Borrower made several Permitted Acquisitions and each of the entities acquired or created by Borrower in connection with such Permitted Acquisitions (collectively, the "**Additional Grantors**," and together with Original Grantors, "**Grantors**" as defined in the first paragraph hereof) guaranteed the Obligations and executed a guaranty (all referred to together with the First Guaranties as the "**Original Guaranty**"), a security agreement (all referred to together with the First Security Agreement as the "**Original Agreement**"); and

As a condition of the decrease of the Loan and the addition of Bank of America as a Lender , the Lenders have required that Borrower execute the Credit Agreement, and the Notes (as defined in the Credit Agreement; and

It is a condition precedent to the making of Advances under the Credit Agreement, that each Grantor reaffirms its obligations under the Original Guaranty and agrees to guaranty the Increase by executing and delivering the Reaffirmation of Guaranty dated as of February 5, 2003 (referred to together with the Original Guaranty as the "**Guaranty**") and that each Grantor confirms that the security interests granted pursuant to the Credit Agreement secure Loan; and

NOW, THEREFORE, in consideration of the premises and in order to induce each Lender consent to the addition of Bank of America as a Lender, decrease the Loan and make further Advances under the Credit Agreement, each Grantor hereby agrees with Agent, for the benefit of the Lenders, that Grantor's obligations under the Original Agreement are hereby reaffirmed and the Original Agreement hereby amended and restated in its entirety as follows:

SECTION 1. **Grant of Security.** Grantor hereby assigns and pledges to Agent, for the benefit of the Lenders, and hereby grants to Agent, for the benefit of the Lenders, a security interest in, all of its respective right, title and interest in and to the following, whether now owned or hereafter acquired (the "**Collateral**"):

(A) all equipment in all of its forms, including furniture, machinery, service vehicles, supplies and other equipment (the "**Equipment**");

(B) all inventory in all of its forms, including motor vehicles, tractors, trailers, service parts and accessories and other inventory ("**Inventory**");

(C) all accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds and other obligations of third persons of any kind, now or hereafter existing, whether or not arising out of or in connection with the sale or lease of goods, the rendering of services or otherwise, and all rights now or hereafter existing in and to all security agreements, leases, and other contracts securing or otherwise relating to any such accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds or obligations of third persons (any and all such accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds and obligations of third persons being the "**Receivables**", and any and all such leases, security agreements and other contracts being the "**Related Contracts**");

(D) all of the Grantor's governmental approvals and authorizations to the maximum extent permitted by applicable law;

(E) all property and interests in property of the Grantor now or hereafter coming into the actual possession, custody or control of the Agent or a Lender in any way or for any purpose (whether for safekeeping, deposit, custody, pledge, transmission, collection or otherwise);

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- (F) leasehold interests in and fixtures located on any real property;
 - (G) all security entitlements;
 - (H) all intellectual property;
 - (I) all goods; and all computer hardware and software;
 - (J) all present and future Commercial Tort Claims;
 - (K) Electronic Chattel Paper, Letter-of-Credit Rights, Payment Intangibles, Supporting Obligations and Tangible Chattel Paper;
 - (L) records and other books and records relating to the foregoing; and
 - (M) all accessions and additions to, substitutions for, and replacements, products and proceeds of any of the foregoing (including, without limitation, proceeds which constitute property of the types described in clauses (A) through (L) of this Section 1 and, to the extent not otherwise included, all (i) payments under insurance (whether or not the Lender is the loss payee thereof), or any indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the foregoing Collateral and (ii) cash.

Provided that the term "Collateral" shall exclude (i) any contract rights (other than any contract rights pursuant to a franchise agreement between Grantor and an automobile manufacturer), equity interests or general intangibles of the Grantor or owned by the Grantor to the extent the Grantor may not grant a security interest in the same without breach of the terms thereof and (ii) unless the relevant automobile manufacturer grants its consent thereto, any contract rights, equity interests or general intangibles related to a franchise agreement, framework agreement or other agreement with an automobile manufacturer if the granting of the foregoing security interest would permit such automobile manufacturer to terminate or materially alter or exercise other remedial rights in respect of such franchise agreement, framework agreement or other agreement with the Grantor, provided that Grantor shall use its commercially reasonable efforts to obtain agreements from the relevant manufacturers (a) permitting the grant of a security interest described in Subsection (i) above and (b) granting the consent described in Subsection (ii) above ("Excluded Collateral").

It is hereby acknowledged that certain of the franchise agreements, framework agreements and/or other agreements between the various automobile manufacturers and the Grantor may contain (i) restrictions on the ability of Grantor to transfer its ownership interest in any Sonic Dealership without the consent of the relevant automobile manufacturer, (ii) provisions giving the automobile manufacturer a right of first refusal over any proposed sale or transfer of the ownership interests in any Sonic Dealership or any portion of the assets of any Sonic Dealership (provided, however, that for the purposes of this acknowledgment, the interpretation of the Agent and the Lenders is that "transfer" does not include the granting of a security interest in assets other than ownership interests in a Sonic Dealership and contract rights under franchise agreements), and (iii) requirements that under certain circumstances (including, without limitation, upon termination of the relevant franchise agreement) the Grantor must sell certain property (consisting primarily of a particular manufacturer's vehicles, parts, accessories, signs, tools and other similar items) to the manufacturer free and clear of any liens

and encumbrances. It is understood and agreed that the existence or occurrence of any of the foregoing shall not result in a breach of or default under this Agreement, provided, however, that it is understood that for purposes of this acknowledgment, the interpretation of the Agent and the Lenders is that nothing contained in clause (iii) of the preceding sentence may be construed as invalidating the Liens in the Collateral.

Notwithstanding anything contained in the two immediately preceding paragraphs, any proceeds (whether in the form of cash, property, debt or other tangible or intangible rights or assets) that Borrower or any Grantor receives from, under or in connection with any contract rights, equity interests, general intangibles, franchise agreements, framework agreements or other agreements with any automobile manufacturer that Agent and the Lenders have agreed to exclude from the definition of Collateral under the two immediately preceding sentences shall be included in the definition of Collateral.

To the extent that the Agent or the Lenders has obtained a Lien on any of the Excluded Collateral such Lien is hereby null and void.

Unless otherwise defined in this Section 1 or in the Credit Agreement, terms used in this Section 1 and within this Agreement that are also defined in Article 9 of the UCC have the same meaning as set forth in the UCC.

SECTION 2. Security for Obligations. This Agreement secures the payment of (i) all obligations of the Borrower now or hereafter existing under the Credit Agreement (including, without limitation, the Revolving Credit Obligations) and the Notes, (ii) all obligations of Grantor now or hereafter existing under the Guaranty, whether for principal, interest, fees, expenses or otherwise, and (iii) all obligations of Grantor hereafter existing under this Agreement (all such obligations of the Grantors and the Borrower being the "**Obligations**"). Without limiting the generality of the foregoing, this Agreement secures the payment of all amounts which constitute part of the Obligations and would be owed by Grantor to Lender under the Credit Agreement but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving Grantor or the Borrower.

SECTION 3. Grantors Remain Liable. Anything herein to the contrary notwithstanding, (i) Grantor shall remain liable under the contracts and agreements included in the Collateral to the extent set forth therein to perform all of its respective duties and obligations thereunder to the same extent as if this Agreement had not been executed, (ii) the exercise by Agent of any of the rights hereunder shall not release Grantor from any of its duties or obligations under the contracts and agreements included in the Collateral, and (iii) neither Agent nor the Lenders shall have any obligation or liability under the contracts and agreements included in the Collateral by reason of this Agreement, nor shall Agent or the Lenders be obligated to perform any of the obligations or duties of Grantor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

SECTION 4. Representations and Warranties. Grantor represents and warrants as follows:

(A) All of its Equipment and Inventory is located at the places specified on Exhibit A hereto. The chief place of business and chief executive office of Grantor and the office where the Grantor keeps its records concerning the Receivables, and the originals of all chattel paper that evidence Receivables, are located at the address specified in Section 16.

except for that portion of the Receivables constituting BHPH Collateral (as defined in the Agreement), none of the Receivables is evidenced by a promissory note or other instrument.

(B) Grantor is the legal and beneficial owner of its respective Collateral free and clear of any lien, security interest, option or other charge or encumbrance except for (i) the security interest created by this Agreement, and (ii) any security interests consented to by the Required Lenders (as defined in the Credit Agreement) (collectively, the "**Permitted Liens**"). Other than financing statements with respect to Permitted Liens, no effective financing statement or other document similar in effect covering all or any part of the Collateral is on file in any recording office, except such as may have been filed in favor of the Lender relating to this Agreement.

(C) Grantor has exclusive possession and control of its Equipment and Inventory.

(D) Subject to the Permitted Liens, this Agreement creates a valid and perfected first priority security interest in the Collateral, securing the payment of the Obligations, and all filings and other actions necessary or desirable to perfect and protect such security interest have been duly taken or are being taken substantially contemporaneously with the execution and delivery of this Agreement.

(E) No consent of any other person or entity and no authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required (i) for the grant by the Grantor of the security interest granted hereby or for the execution, delivery or performance of this Agreement by the Grantor, (ii) for the perfection or maintenance of the security interest created hereby (including the first priority nature of such security interest) or (iii) for the exercise by Agent (for the benefit of the Lenders) of its rights and remedies hereunder, in each case, except for (a) filings made or to be made with respect to Agent's security interest in the Collateral, and (b) those that have been made, obtained or given.

(F) There are no conditions precedent to the effectiveness of this Agreement that have not been satisfied or waived.

(G) Grantor has, independently and without reliance upon either Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement.

SECTION 5. Further Assurances. (A) Grantor agrees that from time to time, at its expense, it will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that Agent may reasonably request, in order to perfect and protect any security interest granted or purported to be granted hereby or to enable Agent (acting for the benefit of the Lenders) to exercise and enforce its rights and remedies hereunder with respect to any Collateral. Grantor hereby irrevocably authorizes Agent at any time, and from time to time, to file in any jurisdiction any initial financing statements and amendments thereto that (i) indicate the Collateral (a) as all assets of Grantor, or words of similar effect, or (b) as being of an equal or lesser scope or within greater detail, and (ii) contain any other information required by Part 5 of Article 9 of the UCC of the jurisdiction wherein such financing statement or amendment is filed regarding the sufficiency or filing office acceptance of any financing statement or amendment, including the type of organization and the organizational identification number issued to Grantor. Without limiting the generality of the foregoing, Grantor will upon such request: (1) mark conspicuously each chattel paper included

in the Receivables and each Related Contract and, at the request of Agent, each of its records pertaining to the Collateral with a legend, in form and substance satisfactory to Agent, indicating that such document, chattel paper, Related Contract or Collateral is subject to the security interest granted hereby; (2) if any Receivable shall be evidenced by a promissory note or other instrument or chattel paper, deliver and pledge to Agent (for the benefit of the Lenders) hereunder such note or instrument or chattel paper duly endorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to Agent; and (3) execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as the Lender may request, in order to perfect and preserve the security interest granted or purported to be granted hereby.

(B) Grantor hereby authorizes Agent to file one or more financing or continuation statements, and amendments thereto, relating to all or any part of the Collateral without its signature where permitted by law. A photocopy or other reproduction of this Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law.

(C) Grantor will furnish to Agent from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as Agent may reasonably request, all in reasonable detail.

(D) Grantor shall promptly (i) notify Agent, in writing, of the existence of any Collateral consisting of deposit accounts, investment property, Letter-of-Credit Rights, which in the aggregate exceed **\$15,000,000.00**, or Electronic Chattel Paper and shall, upon the reasonable request of Agent, promptly execute such other documents, and do such other acts or things deemed appropriate by Agent to deliver to Agent control with respect to such Collateral; provided, however, that the Grantor is only obligated to take action pursuant to this Section 5(d)(i) with respect to Letter-of-Credit Rights that exceed **\$15,000,000.00, in aggregate**, (ii) with respect to Collateral in the possession of a third party, other than certificated securities and goods covered by a document, an acknowledgment from the third party that it is holding the Collateral for benefit of the Agent; and (iii) promptly notify Agent, in writing, upon incurring or otherwise obtaining a Commercial Tort Claim in excess of **One Million Dollars (\$1,000,000.00)** after the date hereof against any third party, and upon the request of Agent, will promptly enter into an amendment to this Agreement, and do such other acts or things deemed appropriate by Agent to give Agent a security interest in such Commercial Tort Claim.

SECTION 6. As to Equipment and Inventory. (A) Grantor shall keep its Equipment and Inventory at the location referred to in Section 4(a) or, upon 30 days' prior written notice to Agent, at such other places in jurisdictions where all action required by Section 5 shall have been taken with respect to its Equipment and Inventory.

(B) Grantor shall cause the Equipment owned by it to be maintained and preserved in the same condition, repair and working order as when new, ordinary wear and tear excepted, and in accordance with any manufacturer's manual, and shall forthwith, or in the case of any loss or damage to any of the Equipment as quickly as practicable after the occurrence thereof, make or cause to be made all repairs, replacements, and other improvements in connection therewith which are necessary or desirable to such end. Grantor shall promptly furnish to Agent a statement respecting any material loss or damage to any of its Equipment or Inventory.

(C) Grantor shall pay promptly when due all property and other taxes, assessments and governmental charges or levies imposed upon, and all claims against, its Equipment or Inventory.

SECTION 7. Insurance. (A) Grantor shall, at its own expense, maintain insurance with respect to its Equipment and Inventory in such amounts, against such risks, in such form and with such insurers, as shall be satisfactory to Agent from time to time. Each policy for liability insurance shall provide for all losses to be paid on behalf of Agent (for the benefit of the Lenders) and the Grantor as their respective interests may appear and each policy for property damage insurance shall provide for all losses to be paid directly to Agent (for the benefit of the Lenders). Each such policy shall in addition (i) name the Grantor and Agent (for the benefit of the Lenders) as insured parties thereunder (without any representation or warranty by or obligation upon Agent) as their interests may appear, (ii) contain the agreement by the insurer that any loss thereunder shall be payable to Agent (for the benefit of the Lenders) notwithstanding any action, inaction or breach of representation or warranty by the Grantor, (iii) provide that there shall be no recourse against Agent or the Lenders for payment of premiums or other amounts with respect thereto and (iv) provide that at least ten days' prior written notice of cancellation or of lapse shall be given to Agent by the insurer. Grantor shall, if so requested by Agent, deliver to Agent original or duplicate policies of such insurance and, as often as Agent may reasonably request, a report of a reputable insurance broker with respect to such insurance. Further Grantor shall, at the request of Agent, duly execute and deliver instruments of assignment of such insurance policies to comply with the requirements of Section 5 and cause the insurers to acknowledge notice of such assignment.

(B) Upon the occurrence and during the continuance of an Event of Default, all insurance payments in respect of such Equipment or Inventory shall be paid to and applied by Agent as specified in Section 13(B).

SECTION 8. As to Receivables. (A) Grantor shall keep its chief place of business and chief executive office and the office where it keeps its records concerning the Receivables, and the originals of all chattel paper that evidence Receivables, if any, at the location therefor referred to in Section 4(a) or, upon 30 days' prior written notice to Agent, at any other locations in the United States of America in a jurisdiction where all action required by Section 5 shall have been taken with respect to the Receivables. Grantor will hold and preserve such records and chattel paper and will permit representatives of Agent or any Lender at any time during normal business hours to inspect and make abstracts from such records and chattel paper. Grantor shall not change its name, identity or corporate structure to such an extent that any financing statement filed in connection with this Agreement would become seriously misleading, unless the Grantor shall have given Agent at least 30 days prior written notice thereof and prior to effecting any such change, taken such steps, at Grantor's expense, as Agent may deem necessary or desirable to continue the perfecting and priority of the liens in favor of Agent (for the benefit of the Lenders) granted in connection herewith.

(B) Except as otherwise provided in this Subsection (B), the Grantor shall continue to collect, at its own expense, all amounts due or to become due the Grantor under the Receivables. In connection with such collections, the Grantor may take (and, at the Agent's direction, shall take) such action as the Grantor or the Agent may reasonably deem necessary or advisable to enforce collection of the Receivables; **provided, however**, that the Agent shall have the right at any time, upon the occurrence and during the continuance of an Event of Default or an Unmatured Default and upon written notice to the Grantor or its intention to do so, to notify the account debtors or obligors under any Receivables of the assignment of such

Receivables to the Agent and to direct such account debtors or obligors to make payment of all amounts due or to become due to the Grantor thereunder directly to the Agent and, upon such notification and at the expense of the Grantor, to enforce collection of any such Receivables, and to adjust, settle or compromise the amount or payment thereof, in the same manner and to the same extent as the Grantor might have done. After receipt by the Grantor of the notice from the Agent referred to in the proviso to the preceding sentence, (i) all amounts and proceeds (including instruments) received by the Grantor in respect of the Receivables shall be received in trust for the benefit of the Agent hereunder, shall be segregated from other funds of the Grantor and shall be forthwith paid over to the Agent in the same form as so received (with any necessary endorsement) to be held as cash collateral and either (a) released to the Grantor so long as no Event of Default shall have occurred and be continuing or (b) if any Event of Default shall have occurred and be continuing, applied as provided by Section 13(B), and (ii) the Grantor shall not adjust, settle or compromise the amount or payment of any Receivable, release wholly or partly any account debtor or obligor thereof, or allow any credit or discount thereon, except in the ordinary course of business consistent with past practice.

SECTION 9. Transfers and Other Liens. Grantor may not (i) sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Collateral, or (ii) create or permit to exist any lien, security interest, option or other charge or encumbrance upon or with respect to any of the Collateral, except for the security interest under this Agreement and Liens permitted under the Credit Agreement.

SECTION 10. Agent Appointed Attorney-in-Fact. Grantor hereby irrevocably appoints Agent Grantor's attorney-in-fact, with full authority in the place and stead of the Grantor and in the name of the Grantor, the Lenders or otherwise, from time to time in Agent's discretion, to take any action and to execute any instrument which Agent may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation:

- (A) to obtain and adjust insurance required to be paid to Agent pursuant to Section 7,
- (B) to ask, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in connection with the Collateral,
- (C) to receive, indorse, and collect any drafts or other instruments, documents and chattel paper, in connection therewith, and
- (D) to file any claims or take any action or institute any proceedings which Agent may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of Agent or the Lenders with respect to any of the Collateral.

SECTION 11. Agent May Perform. If Grantor fails to perform any agreement contained herein, Agent may itself perform, or cause performance of, such agreement, and the expenses of Agent or the Lenders incurred in connection therewith shall be payable by the Grantors under Section 14(B).

SECTION 12. Agent's Duties. The powers conferred on Agent hereunder are solely to protect its interest (in its capacity as agent on behalf of the Lenders) in the Collateral and shall not impose any duty upon it to exercise any such powers. Except for the safe custody

of any Collateral in its possession and the accounting for moneys actually received by it hereunder, Agent shall have no duty as to any Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral. Agent shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its possession if such Collateral is accorded treatment substantially equal to that which Agent accords its own property.

SECTION 13. Remedies. If any Event of Default shall have occurred and be continuing:

(A) Agent may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Uniform Commercial Code, and all amendments, restatements, modifications and supplements thereto, in effect in the State of North Carolina at that time (the "UCC") (whether or not the UCC applies to the affected Collateral), and also may (i) require Grantor to, and Grantor hereby agrees that it will at its expense and upon request of Agent forthwith, assemble all or part of the Collateral as directed by the Agent and make it available to Agent at a place to be designated by Agent which is reasonably convenient to both parties and (ii) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of Agent's or the Lenders' offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as Agent may deem commercially reasonable. Grantor agrees that, to the extent notice of sale shall be required by law, at least ten (10) days' notice to the Grantor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(B) Any cash held by Agent as Collateral and all cash proceeds received by Agent in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of Agent, be held by Agent as collateral for, and/or then or at any time thereafter be applied (after payment of any amounts payable to Agent or the Lenders pursuant to Section 14) in whole or in part by Agent against, all or any part of the Obligations in such order as Agent shall elect. Any surplus of such cash or cash proceeds held by Agent and remaining after payment in full in cash of all the Obligations shall be paid over to the Grantor or to whomsoever may be lawfully entitled to receive such surplus.

SECTION 14. Indemnity and Expenses. (A) Grantor agrees to indemnify Agent and the Lenders from and against any and all claims, losses and liabilities (including reasonable attorneys' fees) growing out of or resulting from this Agreement (including, without limitation, enforcement of this Agreement), except claims, losses or liabilities resulting from the Lender's gross negligence or willful misconduct.

(B) Grantor shall be liable to Agent and the Lenders for the amount of any and all reasonable expenses, including the reasonable fees and expenses of its in-house and external counsel and of any experts and agents, which Agent or the Lenders may incur in connection with (i) the administration of this Agreement, (ii) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any of the Collateral, (iii)

the exercise or enforcement of any of the rights of Agent or the Lenders hereunder or (iv) the failure by Grantor to perform or observe any of the provisions hereof.

(C) Notwithstanding anything else in this Agreement to the contrary, no party shall have any obligation to reimburse any person for attorneys' fees and expenses unless such fees and expenses are (i) reasonable in amount, (ii) determined without reference to any statutory presumption and (iii) calculated using the actual time expended and the standard hourly rate for the attorneys and paralegals performing the tasks in question and the actual out-of-pocket expenses incurred.

SECTION 15. Amendments, Etc. Except as otherwise provided in Section 7.1 (B) of the Credit Agreement, no amendment or waiver of any provision of this Agreement, and no consent to any departure by Grantor herefrom, shall in any event be effective unless the same shall be in writing and signed by Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 16. Addresses for Notices. All notices and other communications provided for hereunder shall be in writing (including telecopier, telegraphic, telex or cable communication) and mailed, telecopied, telegraphed, telexed, cabled or delivered, if to the Grantor, at its address at 6415 Idlewild Road, Suite 109, Charlotte, North Carolina 28212, if to Agent, at its address specified in the Credit Agreement; or, as to each party, at such other address as shall be designated by such party in a written notice to the other party. All such notices and communications shall be effective, upon receipt, or in the case of (i) notice by mail, five days after being deposited in the United States mails, first class postage prepaid, (ii) notice by overnight courier, one business day after being deposited with a national overnight courier service, (iii) notice by telex, when telexed against receipt of answer back or (iv) notice by facsimile copy, when transmitted against mechanical confirmation of successful transmission.

SECTION 17. Continuing Security Interest; Assignments under Credit Agreement. This Agreement shall create a continuing assignment of and security interest in the Collateral and shall (i) remain in full force and effect until the payment in full in cash of the Obligations and all other amounts payable under this Agreement (such date, the "**Security Termination Date**"), (ii) be binding upon Grantor, and Grantor's successors and assigns and (iii) inure to the benefit of, and be enforceable by, Agent, The Lenders, and each of their respective successors, transferees and assigns. Without limiting the generality of the foregoing clause (iii), any Lender may assign or otherwise transfer all or any portion of its rights and obligations under the Credit Agreement to any other person or entity, and such other person or entity shall thereupon become vested with all the benefits in respect thereof granted to such Lender herein or otherwise subject, however to the provisions of Article VII of the Credit Agreement. On the Security Termination Date, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to the Grantor. Upon any such termination, Agent will, at the Grantors' expense, execute and deliver to Grantor such documents as it shall reasonably request to evidence such termination.

SECTION 18. Governing Law: Terms. **THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (AS OPPOSED TO CONFLICTS OF LAW PROVISIONS) AND DECISIONS OF THE STATE OF NORTH CAROLINA.**

SECTION 19. Waiver of Jury Trial. To the maximum extent of applicable law, Grantor, the Agent and each Lender waives any right to trial by jury in any dispute, whether

sounding in contract, tort, or otherwise, between the Agent, the Lenders and Grantor arising out of or related to the transactions contemplated by this Agreement or any other instrument, document or agreement executed or delivered in connection herewith. Any of the Grantor, the Agent or the Lenders may file an original counterpart or a copy of this Agreement with any court as written evidence of the consent of the parties hereto to the waiver of their right to trial by jury.

SECTION 20. Consent to Jurisdiction; Counterclaims; Forum Non Conveniens

(A) Exclusive Jurisdiction. Except as provided in Subsection (B) of this Section 20, the Agent, each Lender and the Grantor agree that all disputes between them arising out of or related to the relationship established between them in connection with this Agreement, whether arising in contract, tort, equity, or otherwise, shall be resolved only by state or federal courts located in North Carolina, but the parties acknowledge that any appeals from those courts may have to be heard by a court located outside of North Carolina.

(B) Other Jurisdictions. The Agent and each Lender shall have the right to proceed against any Grantor or its real or personal property in a court in any location to enable Agent or the Lenders to obtain personal jurisdiction over the Grantor, to realize on the Collateral or any other security for the Obligations or to enforce a judgment or other court order entered in favor of Agent or the Lenders. No Grantor shall assert any permissive counterclaims in any proceeding brought by Agent or the Lenders under this Section 20(B).

(C) Venue; Forum Non Conveniens. The Agent, the Grantor and each Lender waives any objection that it may have (including, without limitation, any objection to the laying of venue or based on forum non conveniens) to the location of the court in which any proceeding is commenced in accordance with this Section 20.

SECTION 21. Service of Process. Grantor waives personal service of any process upon it and, as security for the Obligations, irrevocably appoints Theodore M. Wright as its registered agent for the purpose of accepting service of process issued by any court in connection with any dispute between Grantor, the Agent and the Lenders arising out of or related to the relationship established between them in connection with this Agreement or any other document to which Grantor is a party.

SECTION 22. Security Interest Absolute. All rights of Agent (for the benefit of the Lenders), and security interests hereunder, and all obligations of the Grantor hereunder, shall be absolute and unconditional irrespective of:

- (A) Any lack of validity or enforceability of the Credit Agreement, Guaranty or any other agreement or instrument relating thereto;
- (B) Any change in the time, manner or place of payment of, or in any other term of, all or any part of the Liabilities, or any other amendment or waiver of or any consent to any departure from the Credit Agreement or Guaranty;
- (C) Any exchange, release or non-perfection of any other collateral, or any release or amendment or waiver of or consent to departure from any guaranty, for all or any part of the Liabilities; or
- (D) any other circumstance which might otherwise constitute a defense available to, or a discharge of, the Grantor in respect of the Liabilities.

SECTION 23. Amendment and Restatement. This Agreement amends and restates with respect to Grantor that certain Amended and Restated Security Agreement dated as of June 15, 2001, by Grantor in favor of Agent.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the Grantor has caused this Agreement to be duly executed under seal and delivered by its officer thereunto duly authorized as of the date first above written.

**each of the entities listed on the remainder
of this page and on the following three pages**

By: /s/ THEODORE M. WRIGHT (SEAL)

Name: Theodore M. Wright
Title: Vice President

SONIC - MONTGOMERY FLM, INC.,
COBB PONTIAC-CADILLAC, INC.,
ROYAL MOTOR COMPANY, INC.,
CAPITAL CHEVROLET AND IMPORTS, INC.,
SONIC AUTOMOTIVE - 21699 U.S. HWY 19 N.,
INC.,
HMC FINANCE ALABAMA, INC.
SONIC AUTOMOTIVE OF GEORGIA, INC.,
SONIC AUTOMOTIVE 5260 PEACHTREE INDUSTRIAL
BLVD., LLC,
FRONTIER OLDSMOBILE-CADILLAC, INC.,
MARCUS DAVID CORPORATION,
SONIC AUTOMOTIVE - 9103 E.
INDEPENDENCE, NC, LLC,
SONIC LAKE NORMAN CHRYSLER JEEP, LLC,
TOWN AND COUNTRY FORD, INCORPORATED,
SONIC AUTOMOTIVE-3700 WEST BROAD
STREET, COLUMBUS, INC.,
SONIC AUTOMOTIVE-1455 AUTOMALL DRIVE,
COLUMBUS, INC.,
SONIC AUTOMOTIVE-1495 AUTOMALL DRIVE,
COLUMBUS, INC.,
SONIC AUTOMOTIVE-4000 WEST BROAD
STREET, COLUMBUS, INC.,
SONIC AUTOMOTIVE-1500 AUTOMALL
DRIVE, COLUMBUS, INC.,
SONIC AUTOMOTIVE-1400 AUTOMALL DRIVE,
COLUMBUS, INC.,
SONIC-FORT MILL DODGE, INC.,
SONIC AUTOMOTIVE 2752 LAURENS RD.,
GREENVILLE, INC.,
SONIC AUTOMOTIVE 2424 LAURENS RD.,
GREENVILLE, INC.,
SONIC-FORT MILL CHRYSLER JEEP, INC.,
SONIC AUTOMOTIVE OF CHATTANOOGA, LLC,
SONIC AUTOMOTIVE OF NASHVILLE, LLC,
SONIC AUTOMOTIVE - 6025

INTERNATIONAL DRIVE, LLC,
SONIC-CREST CADILLAC, LLC, ,
TOWN AND COUNTRY JAGUAR, LLC,
TOWN AND COUNTRY FORD OF CLEVELAND, LLC,
SONIC - 2185 CHAPMAN RD., CHATTANOOGA, LLC,
SONIC OF TEXAS, INC.,
SONIC - WILLIAMS IMPORTS, INC.,
SONIC - WILLIAMS BUICK, INC.,
SONIC - WILLIAMS CADILLAC, INC.,
SONIC - WILLIAMS MOTORS, LLC,
SONIC - NEWSOME CHEVROLET WORLD, INC.,
SONIC - NEWSOME OF FLORENCE, INC.,
SONIC - CLASSIC DODGE, INC.
SONIC - ROCKVILLE MOTORS, INC.,
SONIC - ROCKVILLE IMPORTS, INC.,
SONIC - MANHATTAN WALDORF, INC.,
SONIC - MANHATTAN FAIRFAX, INC.,
SONIC - NORTH CHARLESTON, INC.,
SONIC AUTOMOTIVE - 5585 PEACHTREE
INDUSTRIAL BLVD., LLC,
SONIC - NORTH CHARLESTON DODGE, INC.,
VILLAGE IMPORTED CARS, INC.,
FIRSTAMERICA AUTOMOTIVE, INC.,
FA SERVICE CORPORATION,
FAA AUTO FACTORY, INC.,
FAA BEVERLY HILLS, INC.,
FAA CAPITOL N, INC.,
FAA CONCORD H, INC.,
FAA CONCORD N, INC.,
FAA CONCORD T, INC.,
FAA DUBLIN N, INC.,
FAA MARIN D, INC.,
FAA POWAY D, INC.,
FAA POWAY G, INC.,
FAA SAN BRUNO, INC.,
FAA SERRAMONTE H, INC.,
FAA SERRAMONTE L, INC.,
FAA SERRAMONTE, INC.,
FAA STEVENS CREEK, INC.,
SONIC-COAST CADILLAC, INC. f/k/a FAA
WOODLAND HILLS VW, INC.,
FAA TORRANCE CPJ, INC.,
FAA DUBLIN VWD, INC.,
KRAMER MOTORS INCORPORATED,
FAA SANTA MONICA V, INC.,
FAA LAS VEGAS H, INC.,
L DEALERSHIP GROUP, INC.,
WINDWARD, INC.,
AUTOBAHN, INC.,

SONIC – STEVENS CREEK B, INC.,
FAA HOLDING CORP.,
FRANCISCAN MOTORS, INC.,
SANTA CLARA IMPORTED CARS, INC.,
STEVENS CREEK CADILLAC, INC.,
FAA MARIN F, INC.,
FAA POWAY H, INC.,
FAA POWAY T, INC.,
FAA MARIN LR, INC.,
SONIC-RIVERSIDE, INC.,
SONIC-GLOVER, INC., and
RIVERSIDE NISSAN, INC.,
SPEEDWAY CHEVROLET, INC.
FORT MILL FORD, INC.,
FREEDOM FORD, INC.,
SONIC AUTOMOTIVE - CLEARWATER, INC.,
SONIC AUTOMOTIVE COLLISION CENTER OF
CLEARWATER, INC.,
SONIC AUTOMOTIVE - 1919 N. DIXIE HWY., NSB, INC.,
SONIC AUTOMOTIVE - 1307 N. DIXIE HWY., NSB, INC.,
SONIC AUTOMOTIVE- 1720 MASON AVE., DB,
INC.,
SONIC AUTOMOTIVE - 3741 S. NOVA RD., PO, INC.,
SONIC AUTOMOTIVE - 241 RIDGEWOOD AVE., HH,
INC.,
SONIC AUTOMOTIVE - 6008 N. DALE MABRY, FL, INC.,
SONIC AUTOMOTIVE OF NEVADA, INC.,
SONIC AUTOMOTIVE OF TENNESSEE, INC.,
SONIC AUTOMOTIVE - BONDESEN, INC.,
SONIC - LLOYD PONTIAC - CADILLAC, INC.,
SONIC - LLOYD NISSAN, INC.,
SONIC - SUPERIOR OLDSMOBILE, LLC,
SONIC - SHOTTENKIRK, INC.,
SONIC - INTEGRITY DODGE LV, LLC,
SONIC - VOLVO LV, LLC,
SONIC - FM AUTOMOTIVE, LLC,
SONIC - FM, INC.,
SONIC - FM VW, INC.,
SONIC - NORTH CADILLAC, INC.,
SONIC - FREELAND, INC., and
SONIC AUTOMOTIVE - 1720 MASON AVE., DB, LLC
SONIC AUTOMOTIVE SERVICING COMPANY, LLC
SONIC AUTOMOTIVE F & I, LLC
SONIC – RIVERSIDE AUTO FACTORY, INC.
TRANSCAR LEASING, INC.

SONIC AUTOMOTIVE – 2490 SOUTH LEE
HIGHWAY, L.L.C.
FAA CAPITOL F, INC.,
SONIC – LAS VEGAS C EAST, LLC,
SONIC – LAS VEGAS C WEST, LLC,
SONIC - CAPITOL CHEVROLET, INC.
SONIC - LAS VEGAS C EAST, LLC
SONIC DEVELOPMENT, LLC
SONIC – HARBOR CITY H, INC.
SONIC – BUENA PARK H, INC.
SONIC – WEST COVINA T, INC.
SONIC – BETHANY H, INC.
SONIC – WEST RENO CHEVROLET, INC.
AVALON FORD, INC.
SONIC-CARSON F, INC.
SONIC-CARSON LM, INC.
SONIC-DOWNEY CADILLAC, INC.
SONIC-MASSEY CHEVROLET, INC.
SONIC-LONE TREE CADILLAC, INC.
SONIC-ENGLEWOOD M, INC.
SONIC-MASSEY PONTIAC BUICK GMC, INC.
SONIC-SANFORD CADILLAC, INC.
SONIC-PLYMOUTH CADILLAC, INC.
SONIC-CAPITOL CADILLAC, INC.
ARNGAR, INC.
MASSEY CADILLAC, INC. (TX)
MASSEY CADILLAC, INC. (TN)
SMART NISSAN, INC.
SONIC-LS, LLC
SONIC-AUTOMOTIVE WEST, LLC
SONIC-RESOURCES, INC.
SONIC-LAKE NORMAN DODGE, LLC
SONIC-CREST H, LLC
SONIC SAM WHITE OLDSMOBILE, LP SONIC –
CALABASAS A, INC.
SONIC – OKLAHOMA T, INC.
SONIC – CAPITOL IMPORTS, INC.
FRANK PARRA AUTOPLEX, INC.
MOUNTAIN STATES MOTORS CO., INC.
Z MANAGEMENT, INC.
SONIC-SERRAMONTE I, INC.

By: /s/ THEODORE M. WRIGHT (seal)

Name: Theodore M. Wright
Title: Vice President of each of the
above named entities

SONIC AUTOMOTIVE OF TEXAS, L.P.,
SONIC AUTOMOTIVE-4701 I-10 EAST,
TX, L.P.,
SONIC AUTOMOTIVE - 3401 N. MAIN, TX, L.P.,
SONIC AUTOMOTIVE - 5221 I-10 EAST, TX, L.P.,
SONIC - SAM WHITE NISSAN, L.P.,
SONIC - LUTE RILEY, L.P.,
SONIC - READING, L.P.,
SONIC - CAMP FORD, L.P.,
SONIC-FORT WORTH T, L.P.,
PHILPOTT MOTORS, LTD.
SONIC – RICHARDSON F, L.P.
SONIC – CARROLLTON V, L.P.
SONIC – HOUSTON V, L.P.
SONIC – LS CHEVROLET, L.P., f/k/a/ LAWRENCE
MARSHALL CHEVROLET, L.P.
SONIC UNIVERSITY PARK A, L.P.
SONIC-MASSEY CADILLAC, L.P.
SONIC – FRANK PARRA AUTOPLEX, L.P.
SONIC – CADILLAC D, L.P.

By: Sonic of Texas, Inc.,
a Texas corporation, as General Partner

By: /s/ THEODORE M. WRIGHT (SEAL)

Name: Theodore M. Wright
Title: Vice President

SONIC PEACHTREE INDUSTRIAL BLVD., L.P.,
SONIC - GLOBAL IMPORTS, L.P. and
SONIC-STONE MOUNTAIN CHEVROLET, L.P.

By: Sonic Automotive of Georgia, Inc.,
a Georgia corporation, as General Partner

By: /s/ THEODORE M. WRIGHT (SEAL)

Name: Theodore M. Wright
Title: Vice President

Agreed and Accepted
this 5th day of February, 2003

FORD MOTOR CREDIT COMPANY,
a Delaware corporation, as Agent

By: /s/ STEVE GRACZ _____ (SEAL)

Name: Steve Gracz
Title: National Account Manager

[SIGNATURE PAGE TO SECURITY AGREEMENT]

EXHIBIT A**LOCATION OF EQUIPMENT AND INVENTORY
OF THE GRANTOR**

<i>Name of Entity / Assumed Name</i>	<i>Dealership Location</i>
<i>Arngar, Inc.</i> Arnold Palmer Cadillac	10725 Pineville Road Pineville, NC 28134
	8218 East Independence Boulevard Charlotte, NC 28227
<i>Autobahn, Inc.</i> Autobahn Motors	700 Island Parkway Belmont, CA 94002
<i>Avalon Ford, Inc.</i> Don Kott Chrysler Jeep	21126 South Avalon Boulevard Carson, CA 90745
Don Kott Mazda	21243 South Avalon Boulevard Carson, CA 90745
Don Kott Kia	21243 South Avalon Boulevard Carson, CA 90745
Don Kott Hino	21107 Chico Street Carson, CA 90749
Don Kott Isuzu Truck	21107 Chico Street Carson, CA 90749
<i>Capitol Chevrolet and Imports, Inc. (f/k/a Sonic Automotive-711 Eastern Blvd., Montgomery, Inc.)</i> Capitol Kia	845 Eastern Boulevard Montgomery, AL 36117
Capitol Chevrolet	711 Eastern Boulevard Montgomery, AL 36117
<i>Cobb Pontiac Cadillac, Inc.</i> Classic Cadillac Pontiac	2820 Eastern Bypass Montgomery, AL 36116
<i>FAA Beverly Hills, Inc.</i> Beverly Hills BMW	8825 Wilshire Boulevard Beverly Hills, CA 90211
<i>FAA Capitol F, Inc.</i> Friendly Ford	919 West Capitol Expressway San Jose, CA 95136
<i>FAA Capitol N, Inc.</i> Capitol Nissan	1120 Capitol Expressway San Jose, CA 95136
<i>FAA Concord H, Inc.</i> Concord Honda	1300 Concord Avenue Concord, CA 94520
<i>FAA Concord N, Inc.</i>	

<i>Name of Entity / Assumed Name</i>	<i>Dealership Location</i>
Concord Nissan	1290 Concord Avenue Concord, CA 94520
<i>FAA Concord T, Inc.</i> Concord Toyota	1090 Concord Avenue Concord, CA 94520
<i>FAA Dublin N, Inc.</i> Dublin Nissan	5510 Scarlett Drive Dublin, CA 94568
<i>FAA Dublin VWD, Inc.</i> Dublin Volkswagen Dublin Dodge Hyundai of Dublin	6015 Scarlett Court Dublin, CA 94568 6015 Scarlett Court Dublin, CA 94568 6015 Scarlett Court Dublin, CA 94568
<i>FAA Las Vegas H, Inc.</i> Honda West	7615 West Sahara Avenue Las Vegas, NV 89117
<i>FAA Poway G, Inc.</i> Poway Chevrolet	13742 Poway Road Poway, CA 92064
<i>FAA Poway H, Inc.</i> Poway Honda	13747 Poway Road Poway, CA 92064
<i>FAA Poway T, Inc.</i> Poway Toyota	13760 Poway Road Poway, CA 92064
<i>FAA San Bruno, Inc.</i> Melody Toyota	750 El Camino Real San Bruno, CA 94066
<i>FAA Santa Monica V, Inc.</i> Volvo of Santa Monica	1719 Santa Monica Boulevard Santa Monica, CA 90404
<i>FAA Serramonte H, Inc.</i> Honda of Serramonte	485 Serramonte Boulevard Colma, CA 94014
<i>FAA Serramonte L, Inc.</i> Lexus of Serramonte Lexus of Marin	700 Serramonte Boulevard Colma, CA 94014 513 Francisco Boulevard East San Rafael, CA 94901
<i>FAA Serramonte, Inc.</i> Serramonte Auto Plaza Dodge of Serramonte Serramonte Isuzu	1500 Collins Avenue Colma, CA 94014 1500 Collins Avenue Colma, CA 94014 1500 Collins Avenue Colma, CA 94014

<i>Name of Entity / Assumed Name</i>	<i>Dealership Location</i>
Serramonte Mitsubishi	1500 Collins Avenue Colma, CA 94014
Serramonte Nissan	1500 Collins Avenue Colma, CA 94014
<i>FAA Stevens Creek, Inc.</i> Stevens Creek Nissan	4855 Stevens Creek Boulevard Santa Clara, CA 95051
<i>FAA Torrance CPJ, Inc.</i> South Bay Chrysler Jeep	20900 Hawthorne Boulevard Torrance, CA 90503
<i>Fort Mill Ford, Inc.</i> (f/k/a FMF Management, Inc. f/k/a Fort Mill Ford, Inc.)	801 Gold Mill Road Fort Mill, SC 29708
<i>Franciscan Motors, Inc.</i> Acura of Serramonte	475 Serramonte Boulevard Colma, CA 94014
<i>Freedom Ford, Inc.</i> (f/k/a Ken Marks Ford, Inc.)	24825 US Highway 19N Clearwater, FL 33763
<i>Frontier Oldsmobile-Cadillac, Inc.</i> Freedom Chevrolet-Oldsmobile-Cadillac	3112 Highway 74 West Monroe, NC 28110
<i>Kramer Motors Incorporated</i> Honda of Santa Monica	1726 Santa Monica Boulevard Santa Monica, CA 90404
<i>Marcus David Corporation</i> Town and Country Toyota Town and Country Toyota Certified Used Cars	9101 South Boulevard Charlotte, NC 28273 9101 South Boulevard Charlotte, NC 28273
<i>Massey Cadillac, Inc.</i> Massey Cadillac	24600 Grand River Detroit, MI 48219
<i>Mountain States Motors Co., Inc.</i> Mountain States Motors	1260 S. Colorado Blvd Denver, CO 80246
<i>Philpott Motors, Ltd.</i> Philpott Ford Philpott Toyota Philpott Motors Hyundai	1400 U.S. Highway 69 Nederland, TX 77627 1400 U.S. Highway 69 Nederland, TX 77627 1400 US Highway 69 Nederland, TX 77627
<i>Riverside Nissan, Inc.</i>	8190 East Skelly Drive Tulsa, OK 74129
<i>Royal Motor Company, Inc.</i> City Chrysler Jeep	833 Eastern Bypass Montgomery, AL 36116
<i>Santa Clara Imported Cars, Inc.</i>	

<i>Name of Entity / Assumed Name</i>	<i>Dealership Location</i>
Honda of Stevens Creek	4590 Stevens Creek Boulevard San Jose, CA 95129
<i>Sonic Automotive – Bondesen, Inc.</i> Fred Bondesen Chevrolet, Oldsmobile, Cadillac	2800 South Highway 17-92 DeLand, FL 32720
<i>Sonic Automotive of Chattanooga, LLC</i> BMW of Chattanooga	5949 Brainerd Road Chattanooga, TN 37421
<i>Sonic Automotive-Clearwater, Inc.</i> Clearwater Toyota	21799 US Highway 19N Clearwater, FL 33765
<i>Sonic Automotive of Nashville, LLC</i> MINI of Nashville BMW of Nashville	4040 Armory Oaks Drive Nashville, TN 37204 4040 Armory Oaks Drive Nashville, TN 37204
<i>Sonic Automotive of Texas, L.P.</i> Lone Star Ford	8477 North Freeway Houston, TX 77037
<i>Sonic Automotive - 1307 N. Dixie Hwy., NSB, Inc.</i> Halifax Ford-Mercury	1307 North Dixie Freeway New Smyrna Beach, FL 32168
<i>Sonic Automotive-1400 Automall Drive, Columbus, Inc.</i> Hatfield Hyundai Hatfield Isuzu Hatfield Subaru	1400 Auto Mall Drive Columbus, OH 43228 1400 Auto Mall Drive Columbus, OH 43228 1400 Auto Mall Drive Columbus, OH 43228
<i>Sonic Automotive-1455 Automall Drive, Columbus, Inc.</i> Hatfield Kia Hatfield Volkswagen	1455 Auto Mall Drive Columbus, OH 43228 1495 Auto Mall Drive Columbus, OH 43228
<i>Sonic Automotive-1500 Automall Drive, Columbus, Inc.</i> Toyota West	1500 Automall Drive Columbus, OH 43228
<i>Sonic Automotive - 1720 Mason Ave., DB, LLC</i> Mercedes-Benz of Daytona Beach	1720 Mason Avenue Daytona Beach, FL 32117
<i>Sonic Automotive – 21699 U.S. Hwy 19 N., Inc.</i> Clearwater Mitsubishi	21699 US Highway 19N Clearwater, FL 33765
<i>Sonic Automotive 2752 Laurens Rd., Greenville, Inc.</i> Century MINI Century BMW	2750 Laurens Road Greenville, SC 29607 2750 Laurens Road Greenville, SC 29607

<i>Name of Entity / Assumed Name</i>	<i>Dealership Location</i>
<i>Sonic Automotive - 3401 N. Main, TX, L.P.</i> Ron Craft Chevrolet Cadillac	4114 Highway 10 East Baytown, TX 77521
<i>Sonic Automotive-3700 West Broad Street, Columbus, Inc.</i> Trader Bud's Westside Chrysler Jeep	3700 West Broad Street Columbus, OH 43228
<i>Sonic Automotive-4000 West Broad Street, Columbus, Inc.</i> Trader Bud's Westside Dodge	4000 West Broad Street Columbus, OH 43228
<i>Sonic Automotive - 4701 I-10 East, TX, L.P.</i> Baytown Ford	4110 Highway 10 East Baytown, TX 77521
<i>Sonic Automotive 5260 Peachtree Industrial Blvd., LLC</i> Dyer and Dyer Volvo (Chamblee location) Volvo at Gwinnett Place	5260 Peachtree Industrial Boulevard Chamblee, GA 30341 3373 Satellite Boulevard Duluth, GA 30096
<i>Sonic Automotive - 6008 N. Dale Mabry, FL, Inc.</i> Volvo of Tampa	6008 North Dale Mabry Avenue Tampa, FL 33614
<i>Sonic Automotive - 6025 International Drive, LLC</i> Volkswagen of Chattanooga	6015 International Drive Chattanooga, TN 37421
<i>Sonic Automotive - 9103 E. Independence, NC, LLC</i> Infiniti of Charlotte	9103 East Independence Boulevard Matthews, NC 28105
<i>Sonic - 2185 Chapman Rd., Chattanooga, LLC</i> Economy Honda Superstore	2135 Chapman Road Chattanooga, TN 37421
<i>Sonic - Bethany H, Inc.</i> Steve Bailey Honda	7722 Northwest 39th Expressway Bethany, OK 73008
<i>Sonic - Buena Park H, Inc.</i> Buena Park Honda	6411 Beach Boulevard Buena Park, CA 90621
<i>Sonic - Cadillac D, L.P.</i> Massey Cadillac	11675 LBJ Freeway Garland, TX 75041
<i>Sonic - Calabasas A, Inc.</i> Acura 101 West	24650 Calabasas Road Calabasas, CA 91302
<i>Sonic - Camp Ford, L.P.</i> LaPorte Ford	621 New Highway 146 South LaPorte, TX 77571
<i>Sonic - Capital Chevrolet, Inc.</i> (f/k/a Sonic-Columbus Chevrolet, Inc.) (f/k/a Bill Swad Chevrolet, Inc.)	

Name of Entity / Assumed Name	Dealership Location
Capital Chevrolet	100 South Hamilton Road Columbus, OH 43213
<i>Sonic – Capitol Cadillac, Inc.</i> Capitol Cadillac Capitol Hummer	5901 South Pennsylvania Avenue Lansing, MI 48911 5901 South Pennsylvania Avenue Lansing, MI 48911
<i>Sonic – Capitol Imports, Inc.</i> Capitol Imports Capitol Hyundai Capitol Subaru Capitol Audi	6826 Two Notch Road Columbia, SC 29223 6826 Two Notch Road Columbia, SC 29223 6826 Two Notch Road Columbia, SC 29223 6826 Two Notch Road Columbia, SC 29223
<i>Sonic – Carrollton V, L.P.</i> Volvo of Dallas	2900 I-35E North Carrollton, TX 75007
<i>Sonic – Carson F, Inc.</i> Don Kott Ford	21212 South Avalon Boulevard Carson, CA 90745
<i>Sonic – Carson LM, Inc.</i> Don Kott Lincoln Mercury	21140 South Avalon Boulevard Carson, CA 90745
<i>Sonic – Coast Cadillac, Inc.</i> (f/k/a FAA Woodland Hills VW, Inc.) Coast Cadillac	3399 East Willow Street Long Beach, CA 90806-2310
<i>Sonic – Crest Cadillac, LLC</i> (f/k/a Town and Country Chrysler-Plymouth-Jeep, LLC) Crest Cadillac Crest Hummer	2121 Metrocenter Boulevard Nashville, TN 37228 2121 Metrocenter Boulevard Nashville, TN 37228
<i>Sonic – Crest H, LLC</i> (f/k/a Town and Country Dodge of Chattanooga, LLC) Crest Honda	2215 Metrocenter Boulevard Nashville, TN 37228
<i>Sonic – Downey Cadillac, Inc.</i> Massey Cadillac	10700 Studebaker Road Downey, CA 90241
<i>Sonic - FM Automotive, LLC</i> (f/k/a Sonic Automotive - 6008 N. Dale Mabry, FL, LLC) Mercedes-Benz of Fort Myers	13880 South Tamiami Trail Fort Myers, FL 33912

Name of Entity / Assumed Name	Dealership Location
<p><i>Sonic - FM, Inc.</i> (f/k/a Sonic - FM BMW, Inc.) BMW of Fort Myers</p>	<p>7070 Lakes Terrace Fort Myers, FL 33903-8814</p>
<p><i>Sonic - FM VW, Inc.</i> Volkswagen of Fort Myers</p>	<p>14060 South Tamiami Trail Fort Myers, FL 33912</p>
<p><i>Sonic - Fort Mill Chrysler Jeep, Inc.</i> (f/k/a Town and Country Chrysler-Plymouth-Jeep of Rock Hill, Inc.) Fort Mill Chrysler Jeep</p>	<p>805 Gold Hill Road Fort Mill, SC 29708</p>
<p><i>Sonic - Fort Mill Dodge, Inc.</i> (f/k/a Fort Mill Chrysler-Plymouth-Dodge Inc.) Fort Mill Dodge</p>	<p>800 Gold Hill Road Fort Mill, SC 29708</p>
<p><i>Sonic - Fort Worth T, L.P.</i> Toyota of Fort Worth</p>	<p>9001 Camp Bowie West Fort Worth, TX 76116</p>
<p><i>Sonic - Frank Parra Autoplex, L.P.</i> Frank Parra Chevrolet Frank Parra Mitsubishi Frank Parra Chrysler Jeep</p>	<p>1000 E. Airport Freeway Irving, TX 75062 698 E. Airport Freeway Irving, TX 75062 700 E. Airport Freeway Irving, TX 75062</p>
<p><i>Sonic - Freeland, Inc.</i> Honda of Fort Myers</p>	<p>14020 South Tamiami Trail Fort Myers, FL 33912</p>
<p><i>Sonic - Global Imports, L.P.</i> Global Imports MINI Global Imports BMW</p>	<p>500 Interstate North Parkway Atlanta, GA 30339 500 Interstate North Parkway Atlanta, GA 30339</p>
<p><i>Sonic-Glover, Inc.</i> Expressway Dodge</p>	<p>2920 North Aspen Avenue Broken Arrow, OK 74012</p>
<p><i>Sonic - Harbor City H, Inc.</i> Harbor City Honda</p>	<p>1450 West Pacific Coast Highway Wilmington, CA 90744</p>
<p><i>Sonic - Houston V, L.P.</i> Volvo of Houston</p>	<p>11950 Old Katy Road Houston, TX 77079</p>
<p><i>Sonic - LS Chevrolet, L.P.</i> (f/k/a Lawrence Marshall Chevrolet, L.P.) Lone Star Chevrolet</p>	<p>18900 Northwest Freeway Houston, TX 77065</p>

<i>Name of Entity / Assumed Name</i>	Dealership Location
<p><i>Sonic – Lake Norman Chrysler Jeep, LLC</i> (f/k/a Sonic Chrysler-Plymouth-Jeep, LLC) (f/k/a Sonic Chrysler-Plymouth-Jeep-Eagle, LLC) Lake Norman Chrysler Jeep</p>	<p>20435 Chartwell Center Drive Cornelius, NC 28031</p>
<p>Sonic – Lake Norman Dodge, LLC (f/k/a Sonic Dodge, LLC) Lake Norman Dodge</p>	<p>20070 Torrence Chapel Road Cornelius, NC 28031</p>
<p><i>Sonic - Las Vegas C East, LLC</i> Cadillac of Las Vegas</p>	<p>2711 East Sahara Avenue Las Vegas, NV 89104</p>
<p><i>Sonic - Las Vegas C West, LLC</i> Cadillac of Las Vegas – West</p>	<p>5185 West Sahara Avenue Las Vegas, NV 89146</p>
<p><i>Sonic - Lloyd Nissan, Inc.</i> Lloyd Nissan</p>	<p>120 East 23rd Street Panama City, FL 32405</p>
<p><i>Sonic - Lloyd Pontiac - Cadillac, Inc.</i> Lloyd Pontiac-Cadillac-GMC</p>	<p>100 East 23rd Street Panama City, FL 32405</p>
<p><i>Sonic – Lone Tree Cadillac, Inc.</i> Don Massey Cadillac Don Massey Oldsmobile</p>	<p>8201 Parkway Drive Lone Tree, CO 80124 8301 Parkway Drive Lone Tree, CO 80124</p>
<p><i>Sonic - Lute Riley, L. P.</i> (f/k/a Sonic - Lute Riley Honda, L.P.) Lute Riley Honda</p>	<p>1331 North Central Expressway Richardson, TX 75080</p>
<p><i>Sonic - Manhattan Fairfax, Inc.</i> BMW of Fairfax</p>	<p>8427 Lee Highway Fairfax, VA 22031</p>
<p><i>Sonic – Massey Pontiac Buick GMC, Inc.</i> Don Massey Pontiac-Buick-GMC</p>	<p>8120 West Tufts Avenue Denver, CO 80123</p>
<p><i>Sonic – Massey Chevrolet, Inc.</i> Massey Chevrolet</p>	<p>11146 Florence Avenue Downey, CA 90241</p>
<p><i>Sonic - Montgomery FLM, Inc.</i> Friendly Ford Lincoln Mercury</p>	<p>4000 Eastern Boulevard Montgomery, AL 36116</p>
<p><i>Sonic - Newsome Chevrolet World, Inc.</i> Newsome Chevrolet World</p>	<p>4013 West Beltline Boulevard Columbia, SC 29204</p>
<p><i>Sonic - Newsome of Florence, Inc.</i> Newsome Chevrolet</p>	<p>2199 David McLeod Boulevard Florence, SC 29501</p>

Name of Entity / Assumed Name	Dealership Location
<p>Newsome Automotive (Mercedes)</p> <p>Imports of Florence (BMW)</p> <p>Isuzu of Florence (Isuzu)</p>	<p>2199 David McLeod Boulevard Florence, SC 29501</p> <p>2199 David McLeod Boulevard Florence, SC 29501</p> <p>2199 David McLeod Boulevard Florence, SC 29501</p>
<p><i>Sonic – North Cadillac, Inc.</i> (f/k/a Sonic – FM Nissan, Inc.) Massey Cadillac</p> <p>Massey Saab of Orlando</p>	<p>4241 North John Young Parkway Orlando, FL 32804</p> <p>4241 North John Young Parkway Orlando, FL 32804</p>
<p><i>Sonic - North Charleston, Inc.</i> Altman Lincoln- Mercury</p> <p>Altman Hyundai</p>	<p>8485 Rivers Avenue N. Charleston, SC 29406</p> <p>8475 Rivers Avenue N. Charleston, SC 29406</p>
<p><i>Sonic - North Charleston Dodge, Inc.</i> Altman Dodge</p>	<p>2049 Remount Road Charleston, SC 29406</p>
<p><i>Sonic – Oklahoma T, Inc.</i> Riverside Toyota</p>	<p>10338 East 11th Street Tulsa, OK 74128</p>
<p><i>Sonic – Plymouth Cadillac, Inc.</i> Don Massey Cadillac</p>	<p>40475 Ann Arbor Road Plymouth, MI 48170</p>
<p><i>Sonic - Reading, L.P.</i> Toyota of Baytown</p>	<p>4701 I-10 East Baytown, TX 77521</p>
<p><i>Sonic – Richardson F, L.P.</i> North Central Ford</p>	<p>1819 North Central Expressway Richardson, TX 75080</p>
<p><i>Sonic-Riverside, Inc.</i> Riverside Chevrolet</p>	<p>707 West 51st Street Tulsa, OK 74107</p>
<p><i>Sonic - Rockville Imports, Inc.</i> Rockville Porsche-Audi</p>	<p>15515 Frederick Road Rockville, MD 20855</p>
<p><i>Sonic - Rockville Motors, Inc.</i> Lexus of Rockville</p>	<p>15501 Frederick Road Rockville, MD 20855</p>
<p><i>Sonic – Sanford Cadillac, Inc.</i> Massey Cadillac-Oldsmobile of Sanford</p>	<p>3700 South Highway 17-92 Sanford, FL 32773</p>
<p><i>Sonic – Serramonte I, Inc.</i> Infiniti of Serramonte</p>	<p>800 Serramonte Boulevard Colma, CA 94014</p>
<p><i>Sonic - Shottenkirk, Inc.</i></p>	

<i>Name of Entity / Assumed Name</i>	Dealership Location
Pensacola Honda	5600 Pensacola Boulevard Pensacola, FL 32505
<i>Sonic - Stevens Creek B, Inc.</i> (f/k/a Don Lucas International, Inc.) Stevens Creek BMW	4343 Stevens Creek Boulevard Santa Clara, CA 95051
<i>Sonic – Stone Mountain Chevrolet, L.P.</i> Stone Mountain Chevrolet	6130 Memorial Drive Stone Mountain, GA 30083
<i>Sonic – University Park A, L.P.</i> (f/k/a Sonic – Park Place A, L.P.) (f/k/a Sonic – Dallas Auto Factory, L.P.) University Park Audi	5011 Lemmon Avenue Dallas, TX 75209
<i>Sonic-Volvo LV, LLC</i> Volvo of Las Vegas	5050 East Russell Road Las Vegas, NV 89122
<i>Sonic – West Covina T, Inc.</i> West Covina Toyota	1800 East Garvey Avenue West Covina, CA 91791
<i>Sonic – West Reno Chevrolet, Inc.</i> City Chevrolet	5000 West Reno Oklahoma City, OK 73127
<i>Sonic - Williams Imports, Inc.</i> Tom Williams Imports (Audi) (BMW) (Porsche) (Land Rover)	2200 3rd Avenue South Birmingham, AL 35233 2200 3rd Avenue South Birmingham, AL 35233 2200 3rd Avenue South Birmingham, AL 35233 2200 3rd Avenue South Birmingham, AL 35233
<i>Sonic - Williams Motors, LLC</i> Tom Williams Lexus	300 South 22nd Street Birmingham, AL 35233
<i>Speedway Chevrolet, Inc.</i>	2301 North Aspen Avenue Broken Arrow, OK 74012
<i>Stevens Creek Cadillac, Inc.</i> St. Claire Cadillac	3737 Stevens Creek Boulevard Santa Clara, CA 95051
<i>Town and Country Ford, Incorporated</i>	5401 East Independence Blvd. Charlotte, NC 28212
<i>Town and Country Ford of Cleveland, LLC</i>	2496 South Lee Highway Cleveland, TN 37311
<i>Village Imported Cars, Inc.</i> Village Volvo	728 Bel Air Road Bel Air, MD 21014

Name of Entity / Assumed Name

Dealership Location

Windward, Inc.
Honda of Hayward

24895 Mission Boulevard
Hayward, CA 94544

<i>Name of Entity / Assumed Name</i>	Physical Location
<i>FAA Auto Factory, Inc.</i>	3737 First Street Livermore, CA 94551
<i>Massey Cadillac, Inc (Texas)</i> Massey Cadillac	11675 LBJ Freeway Garland, TX 75041
<i>Sonic Automotive F&I, LLC</i>	7000 Las Vegas Blvd. N., Suite 200 Las Vegas, NV 89115
<i>Sonic Automotive of Georgia, Inc.</i>	4625 Alexander Drive, Suite 140 Alpharetta, GA 30022
<i>Sonic Automotive of Nevada, Inc.</i>	7000 Las Vegas Blvd. N., Suite 200 Las Vegas, NV 89115
<i>Sonic Resources, Inc.</i>	7000 Las Vegas Blvd. N., Suite 200 Las Vegas, NV 89115
<i>Sonic Automotive West, LLC</i>	7000 Las Vegas Blvd. N., Suite 200 Las Vegas, NV 89115
<i>Sonic Automotive - 241 Ridgewood Ave., HH, Inc.</i> Sunrise Auto World Sunrise Fleet Sales	574 Ridgewood Avenue Holly Hill, FL 32117 574 Ridgewood Avenue Holly Hill, FL 32117
<i>Sonic – Englewood M, Inc.</i>	
<i>Don Massey Used Car Center</i>	9400 E. Arapahoe Road Englewood, CO 80112
<i>Sonic Automotive - 3741 S. Nova Rd., PO, Inc.</i> HMC Finance (FL) HMC Finance (NC) HMC Finance (TX)* HMC Finance (AL)* HMC Finance (OK)* HMC Finance (SC) HMC Finance (OH)*	HMC Finance 3741 S. Nova Road Port Orange, FL 32129 Main Office 6415 Idlewild Road Charlotte, NC 28212 11990 N. Central Expressway Dallas, TX 75243 4110 Highway 10 East Baytown, TX 77521 (moving within 30 days) (in the Baytown Ford dealership) 400 Eastern Blvd., Suite 105 Montgomery, AL 36116 8155 E. 21 st Street, Suite F Tulsa, OK 74129 805 Gold Hill Road Fort Mill, SC 29708 (in the Fort Mill Ford Dealership) 100 S. Hamilton Road Columbus, OH 43213 (in the Capitol Chevrolet dealership)
<i>Sonic – Englewood M, Inc.</i>	

Name of Entity / Assumed Name

Physical Location

Don Massey Mitsubishi
Don Massey Used Car Center

9400 E. Arapahoe Road
Englewood, CO 80112
8301 Parkway Drive
Lonetree, CO 80124

Sonic – Massey Cadillac, L.P.

Lone Star Cadillac

11675 LBJ Freeway
Garland, TX 75041

Sonic - Williams Cadillac, Inc.

Tom Williams Cadillac

325 South 20th Street
Birmingham, AL 35233

MASTER LOAN AGREEMENT

This Master Loan Agreement (this "Agreement") is made to be effective as of December 31, 2002, by and among the following parties:

- (i) Toyota Motor Credit Corporation, a Delaware corporation ("TMCC"),
- (ii) Sonic Automotive, Inc., an Delaware corporation ("Sonic"),
- (iii) The entities identified in Schedule 1 attached hereto (collectively the "Borrower").

RECITALS

A. Borrower is or will be the owner of various parcels of real estate located in various cities and states which either have improvements, or upon which Borrower will construct improvements, useful for the retail sales of automobiles.

B. Borrower will lease such parcels and the improvements to related entities who will operate retail automotive dealerships thereon. Borrower and such lessees are wholly owned, directly or indirectly, by Sonic.

C. Borrower has requested TMCC to make loans to Borrower for the purpose of (i) purchasing properties upon which Borrower will construct automobile dealership facilities, (ii) constructing such improvements, and (iii) providing permanent financing of such purchases and improvements. Borrower and Sonic reasonably may be expected to benefit, directly or indirectly, by such loans from TMCC.

NOW, THEREFORE, in consideration of the premises and the mutual agreements set forth below, the parties agree as follows:

ARTICLE 1.**General Definitions**

Section 1.1 **Definitions.** In addition to other defined terms herein, as used in this Agreement and unless the context otherwise requires, the following terms shall have the respective meanings set forth below. Articles 4 and 5 contain additional definitions applicable to the Construction Loan and Permanent Loan respectively.

(a) *Acquisition Advance.* Any advance of loan proceeds under either the Construction Loan or Permanent Loan by TMCC to Borrower or on behalf of Borrower to finance the costs of the purchase of a Property or refinance existing indebtedness secured by a Property pursuant to Article 3.

(b) *Advance*. Any advance of the proceeds of the Loans by TMCC to Borrower or on behalf of Borrower. An Advance shall include: (i) an Acquisition Advance pursuant to Article 3, (ii) a Draw pursuant to Article 4, or (iii) a Permanent Loan pursuant to Article 5.

(c) *Applicable Law*. All laws, rules and regulations applicable to the Person, Property, conduct, transaction, covenant or Loan Document in question, including all (i) applicable common law and equitable principles, (ii) provisions of all applicable city, county, state and federal constitutions, statutes, ordinances, rules, regulations and orders of a Governmental Authority (including, without limitation, all pollution control, environmental protection, zoning and land use regulations, building codes and all restrictions and requirements imposed by cities where the Property is located), and (iii) orders, judgments and decrees of all courts and arbitrators. *Applicable Law* shall not, however, include the *Environmental Laws* (defined below).

(d) *Appraisal*. An MAI appraisal reflecting the value of a particular Property. The Appraisal must meet all the standards and requirements of TMCC, and be prepared by an appraiser acceptable to TMCC.

(e) *Appraised Value* is the value of a Property reflected in an Appraisal.

(f) *Best Knowledge*. Facts that are within the actual knowledge of any officer of Borrower or Guarantor (as applicable) after due inquiry of employees of Borrower or Guarantor reasonably likely to possess information of the nature described.

(g) *Borrower*. The entities listed in Schedule 1. When applicable, the term shall be deemed as reference to all such Borrowers collectively, or to an individual Borrower. All the entities listed in Schedule 1 shall be co-makers of the Construction Promissory Note and the Permanent Promissory Note, and therefore all such entities are Borrowers. However, an individual Borrower shall be the record title owner of each Property.

(h) *Borrowing Notice*. A written notice of Borrower's request for an Acquisition Advance, in the form attached hereto as Exhibit 3.2.

(i) *Business Day*. Any day excluding Saturday, Sunday and any day which is a legal holiday under the laws of the State of California or is a day on which banking institutions located in such state is closed. Unless the terms herein specifically provide that a period of time is measured by *Business Days*, time periods shall be deemed to refer to calendar days.

(j) *Collateral*. All of the Properties, and all other real or personal property and interests in same that now or hereafter secure the payment and performance of the Obligations.

(k) *Construction Loan*. The construction revolving line of credit in the maximum principal amount of \$50,000,000.00 extended to Borrower from TMCC pursuant to Article 4 as evidenced by that certain Construction Loan Promissory Note dated as of even date herewith in the principal amount of \$50,000,000.00, including any and all amendments, modifications, renewals, increases and extensions thereof and any advances thereunder.

(l) *Cost of Acquisition.* For a Property that is purchased by Borrower under an Acquisition Advance, the purchase price of the Property as reflected in the Purchase Contract, together with such other expenses incurred in connection with the acquisition of such Property, approved by TMCC, including, but not limited to title fees, title insurance premiums, legal expenses, survey expenses, recording fees, escrow fees, environmental report expenses, organizational expenses, documentation stamps and taxes and broker's commissions.

(m) *Deed of Trust.* Collectively, or any one or each, of the deeds of trust, mortgages or other instruments now or hereafter granting or evidencing liens on the Properties (whether called a "Deed of Trust", "Mortgage" or other term), executed by one or more Borrowers, as grantor, or mortgagor, as the case may be, to the trustees named therein, if applicable, in trust for TMCC as beneficiary, or to TMCC as mortgagee, as the case may be, which will constitute a first priority lien on a Property, subject only to the Permitted Encumbrances.

(n) *Default or Event of Default.* As defined in Article 12, or in any of the other Loan Documents.

(o) *Effective Date.* The date of this Agreement as set forth above.

(p) *Environmental Laws.* All federal, state and local laws, rules, regulations, ordinances, programs, permits, guidances, and orders relating to health, safety or environmental matters. This term shall include (i) the Comprehensive Environmental Response, Compensation and Liability Act of 1980; Federal Water Pollution Control Act (33 U.S.C. Section 1317), (ii) the Federal Resource Conservation and Recovery Act (42 U.S.C. Section 6901, et seq.), (iii) the Federal Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. Section 9601, et seq.), and (iv) the Toxic Substances Control Act (15 U.S.C., Section 2601 et seq.). It shall also include any rules or regulations adopted by any administrative agency, including but not limited to, the Environmental Protection Agency, the Occupational Safety and Health Administration, and any similar state or local agency having jurisdiction over any Property.

(q) *Environmental Report.* A Phase 1 and/or Phase 2 environmental site assessment of a Property, conforming to the "Standard Practice for Environmental Site Assessments: Phase I Environmental Site Assessments Process" of the American Society for Testing and Materials (the "Standard Practice"). The consultant's report must follow the format recommended under the Standard Practice.

(r) *Force Majeure.* An event that prevents Borrower from the performance of any act required hereunder by reason of acts of God, the elements, governmental regulations or restrictions, unavailability of necessary materials, supplies, or labor, strikes, interruptions of public transportation services or facilities, or other cause beyond its reasonable control.

(s) *GAAP.* Generally accepted accounting principles in the United States of America in effect from time to time.

(t) *Governmental Authority.* Any state, commonwealth, federal, foreign, territorial, or other court or governmental department, commission, board, bureau, agency, or instrumentality.

(u) *Guarantor or Guarantors.* Sonic, and its respective successors and assigns, as applicable, or any other person or entity who may hereafter guarantee payment or performance of the whole or any part of the Obligations.

(v) *Guaranty Agreement or Guaranty Agreements.* The instrument or instruments executed by a Guarantor.

(w) *Hazardous Material.* Any radioactive, hazardous, or toxic substance, material, waste, chemical, or similar item, the presence of which on any Property, or the discharge, emission, release, or threat of release of which on or from the Property, is prohibited or otherwise regulated by any Environmental Laws.

(x) *Improvements.* Any and all buildings and other improvements which are either existing on Property owned or to be purchased by Borrower, or to be constructed by Borrower on the Property as contemplated herein.

(y) *Insurance Policies.* The insurance coverage required by the applicable Deed of Trust or other Loan Document pertaining to a Property. An *Insurance Policy* shall refer to any one of the Insurance Policies.

(z) *Lessee.* Each lessee of a Property.

(aa) *LIBOR.* The London Interbank Offered Rate for one (1) month deposits, as published by the *Wall Street Journal* in its "Money Rates" section. Should the method of establishing LIBOR, or the publication of the London Interbank Offered Rates for one (1) month deposits in the *Wall Street Journal* cease or be abolished, then LIBOR shall be based on a comparable index selected by TMCC. For each Advance LIBOR is initially determined on the date of the applicable amount funded. LIBOR shall be adjusted, as necessary, as of the first calendar day of each month, based on the LIBOR rate in effect as of the last Business Day of the preceding month.

(bb) *Loan Closing Date.* The effective date of either (i) the Construction Loan for a particular Construction Project, or (ii) a Permanent Advance under the Permanent Loan.

(cc) *Loan Documents.* This Agreement, the Construction Promissory Note, Permanent Promissory Note, Deeds of Trust, Guaranty Agreements, Security Agreements, Environmental Indemnity, and all other documents, instruments and agreements now existing or hereafter entered into by Borrower, or any Guarantor, or any other person with TMCC in relation to the Loans. A "*Loan Document*" shall refer to any one of said instruments. To the extent applicable, the term shall also include any assignment of rents and leases (if executed as a separate instrument), consents and agreements executed by an Architect, Engineer and General Contractor.

(dd) *Loans.* All loans and advances of any kind made by TMCC pursuant to this Agreement, being the Construction Loan under Article 4 and the Permanent Loan under Article 5. A *Loan* shall refer to any one of such Loans.

(ee) *Material Adverse Effect.* The effect of any event or condition which, alone or when taken together with other events or conditions occurring or existing concurrently therewith, (i) has a material adverse effect upon the business, operations, Collateral, condition (financial or otherwise) or business prospects of Borrower or Guarantor; (ii) has a material adverse effect upon the condition or value of the whole or any material part of the Collateral, the liens of TMCC with respect to the Collateral or any material part thereof or the priority of such Liens; or (iii) materially impairs the ability of Borrower or Guarantor to perform its obligations under this Agreement, any Guaranty Agreement or any of the other Loan Documents to which it is a party, including repayment of the Obligations when due.

(ff) *Obligations.* All indebtedness (including principal and interest, together with all other amounts, payments, premiums, advances and other indebtedness) of Borrower or Guarantor to TMCC, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, pursuant to or in connection with this Agreement, whether as maker, guarantor, surety, endorser or otherwise, including without limitation the Construction Loan under Article 4 and the Permanent Loan under Article 5.

(gg) *Permanent Loan.* The mortgage revolving loan line of credit from TMCC to Borrower in the maximum principal amount of up to \$100,000,000.00 extended by TMCC to Borrower pursuant to Article 5, to be evidenced by the Permanent Promissory Note to be executed upon the initial funding of loans hereunder, including any amendments, modifications, renewals, increases and extensions thereof and any advances thereunder. *Permanent Loans* may also refer to the Permanent Advances made under the Permanent Loan in respect to a Property or Properties.

(hh) *Permitted Encumbrances.* The encumbrances described in respect of any Property, with particularity, in Schedule B to the Title Policy issued in connection with the Loan made in respect of such Property.

(ii) *Person.* An individual, partnership, corporation, limited liability company, joint stock company, land trust, business trust, or unincorporated organization, or a Governmental Authority.

(jj) *Property.* The real property, Improvements, fixtures and appurtenances already owned or to be purchased by Borrower, which shall be the subject of a Loan, and which shall be pledged as Collateral to secure such Loan. *Properties* shall refer to one or more pieces of Property.

(kk) *Purchase Contract.* The contract or other agreement pursuant to which Borrower shall purchase a Property for which an Acquisition Advance is requested under this Agreement.

(ll) *Purchase Price.* The purchase price paid by Borrower to purchase the Property under a Purchase Contract.

(mm) *Restrictions.* As to each Property, all conditions, restrictions and reservations (whether or not of record) affecting the ownership or use of such Property.

(nn) *Security Agreements.* All lien instruments (other than the Deeds of Trust) now existing or hereafter given to secure payment of the Indebtedness and other Obligations. A *Security Agreement* shall mean any one of such instruments.

(oo) *Survey.* A current certified survey of the applicable Property satisfying the requirements set forth on Exhibit 1.1(kk) attached hereto.

(pp) *Termination Date.* December 31, 2007, the date upon which the obligations of TMCC to make any further Advances hereunder shall cease.

(qq) *Title Commitment.* A Commitment for Title Insurance (or other appropriate designation under the applicable State) issued by the Title Company on the appropriate form obligating the Title Company to issue the Title Policy in respect to a Property in accordance with the terms herein.

(rr) *Title Company.* Chicago Title Insurance Company or its agents.

(ss) *Title Policy.* An ALTA loan policy of title insurance issued by the Title Company, without standard exceptions, in form and substance satisfactory to TMCC, and which must have a liability in the amount of the applicable Loan, if available, insuring, as of the effective date of such Title Policy, that the fee simple title to the Property is vested in the applicable Borrower and that the lien of such Deed of Trust is a valid first priority lien on such Property, and containing the following endorsements to the extent available in the applicable jurisdiction:

(i) Comprehensive Endorsement;

(ii) ALTA form 3.1 Zoning Endorsement;

(iii) Truth in Lending and Usury Endorsements;

(iv) Tie-in Endorsements;

(v) Revolving Credit Endorsement;

(vi) Future Advance Endorsement;

(vii) Last Dollar Endorsement;

(viii) Aggregation Endorsement;

(ix) Tax Parcel Endorsement; and

(x) Such additional endorsements as may be reasonably required by TMCC based upon its review of the Commitment and Survey.

(tt) *TMCC.* Toyota Motor Credit Corporation, or any successor or assign of Toyota Motor Credit Corporation.

ARTICLE 2.

Conditions Precedent

Notwithstanding any other terms of this Agreement, TMCC will not be required to make any Loans or any Advances unless the following conditions have been met as to each Borrower and Guarantor. Unless noted below, all such conditions must be satisfied as of the Effective Date hereof.

Section 2.1 **Representations True.** The representations and warranties contained in this Agreement and in any other Loan Document are true in all material respects; there is not then in existence any Event of Default hereunder or any event which upon the service of notice or passage of time would constitute an Event of Default hereunder. This condition must also be met on the date of each Advance.

Section 2.2 **Opinion of Counsel.** TMCC will have received an opinion of counsel to Borrower and Guarantor in the form required by TMCC.

Section 2.3 **Good Standing and Certified Copies.** TMCC will have received (a) a current certificate with respect to each Borrower and Guarantor, or confirmation by telecommunication, if such confirmation is available, from the jurisdiction of organization of each such entity and each foreign jurisdiction where such entity's failure to be duly qualified or licensed would have a Material Adverse Effect; (b) certified copies of the governing documents of each Borrower and Guarantor, to the extent applicable; (c) signature and incumbency certificates with respect to the officers executing this Agreement, and the other Loan Documents; and (d) a certified copy of the company action taken by Borrower and Guarantor authorizing execution, delivery and performance of this Agreement and the other Loan Documents.

Section 2.4 **Guaranty Agreement.** TMCC will have received the Guaranty Agreement executed and delivered by Guarantor.

Section 2.5 **Loan Documents.** All of the Loan Documents relating to the applicable Loan will have been executed by Borrower and Guarantor, as applicable, or other applicable persons or entities, and delivered to TMCC. This condition must also be met on the date of each Advance.

Section 2.6 **Due Diligence.** TMCC will, to its satisfaction, have completed and received all audits, inspections, examinations and surveys deemed necessary in the sole, absolute discretion of TMCC with respect to the Collateral and the financial and business condition of Borrower and Guarantor.

Section 2.7 **UCC Filings and Searches.** TMCC will, prior to each Loan, have received UCC and other record searches acceptable to TMCC. Financing statements will be filed with the appropriate jurisdiction for each Loan when such Loan is made.

Section 2.8 **Approval by TMCC.** All Properties for which an Advance is requested, and the anticipated use of the Property by Borrower, must be satisfactory to TMCC in its discretion prior to the making of each Advance for that Loan. Without limiting the conditions

for TMCC's approval, the Property must meet with TMCC's approval both in terms of location of the Property and the manufacture brand of automobiles to be sold by Borrower at such location. Borrower acknowledges that TMCC may, in its discretion, decline to approve an Advance on a Property intended for the sale of automobiles other than the Toyota brand.

Section 2.9 **Conditions to Advances.** In addition to any other conditions set forth herein or in any other Loan Document, TMCC shall have no obligation to make any Advance to Borrower unless or until each of the following conditions are satisfied as to each applicable Advance:

- (a) There shall exist no Event of Default on the date of the Advance.
- (b) No event has occurred which has had a Material Adverse Effect on Borrower, Guarantor or the Collateral.
- (c) All Loan Documents required by TMCC to be recorded or filed, shall have been recorded, filed or delivered to Title Company for recording or filing.
- (d) TMCC shall have received counterpart originals of each Insurance Policy (or satisfactory certificates of insurance).
- (e) TMCC shall have received the applicable Title Commitment, together with written assurance from the Title Company to TMCC, in form and substance satisfactory to TMCC, that the Title Policy shall be issued and delivered to TMCC without cost to TMCC, in accordance with the Loan Documents.

Section 2.10 **Automobile Franchises.** Advances shall only be made with respect to Properties upon which:

- (a) A wholly owned subsidiary of Guarantor will operate an automobile dealership for retail sales.
- (b) The entity operating the dealership on a Property holds a franchise, or is approved for a franchise, for the sale of Toyota automobiles, or another brand pursuant to a franchise with other manufactures or distributors approved by TMCC, on such Property.

ARTICLE 3.

Acquisition Advances

Section 3.1 **Acquisition Advances.** Subject to the conditions and limitations set forth herein, TMCC shall make Acquisition Advances for (i) the purchase of a Property, or (ii) the refinance of existing indebtedness on a Property.

Section 3.2 **Allocation of Acquisition Advances.** Each Acquisition Advance shall be funded either under the Construction Loan (for Property upon which Improvements shall be constructed pursuant to Article 4) or the Permanent Loan (for Property upon which there are existing Improvements). Borrower shall provide TMCC the Borrowing Notice. Upon

notification by Borrower to TMCC of a request for an Acquisition Advance, Borrower shall notify TMCC whether the Acquisition Advance shall be funded under the Construction Loan or Permanent Loan.

Section 3.3 **Conditions for All Acquisition Advances.** All Acquisition Advances shall be subject to the following conditions for each particular Property:

- (a) Borrower shall submit a Borrowing Notice.
- (b) Except as noted below, an Appraisal dated no earlier than 120 days before the date of such Acquisition Advance shall have been issued and delivered to TMCC. This requirement shall not apply to a Permanent Advance which is made to pay off a Construction Loan.
- (c) If applicable, the Purchase Contract has been delivered to TMCC.
- (d) The Survey has been delivered to TMCC.
- (e) The Title Policy has been issued and delivered to TMCC.
- (f) Borrower has delivered to TMCC an Environmental Report, in form, scope and substance acceptable to TMCC, reporting no Hazardous Materials on, under or in the Property in violation of Environmental Laws.
- (g) Borrower has provided to TMCC:
 - (i) If the Property is subject to zoning, evidence from the applicable Governmental Authority that the Property is properly zoned for use as an automobile dealership or related uses.
 - (ii) Evidence that all utility and municipal services required for the occupancy and operation of the Improvements (whether existing or to be constructed as contemplated herein), including, but not limited to, water supply, storm and sanitary sewer systems, gas, electric and telephone facilities, are available for use and tap-on at the boundaries of the Property and are or will be available in sufficient amounts for the normal and intended use of the Improvements.
 - (iii) Evidence of compliance with the Restrictions, including, without limitation, evidence that the Property is either a legal and separate lot under any applicable subdivision acts and for tax assessment purposes, or is exempt from any subdivision act.
 - (iv) Evidence that the Improvements (existing or to be constructed, as applicable) comply with Applicable Laws pertaining to building and zoning requirements.
- (h) Borrower has provided TMCC such other items as TMCC shall reasonably require.

Section 3.4 **Limitation on Acquisition Advance.** Each Acquisition Advance shall be limited so as not to exceed 85% of the lesser of:

- (a) the Cost of Acquisition (if applicable), or
- (b) the Appraised Value.

ARTICLE 4.

Construction Loan

Section 4.1 **Construction Loan.** The credit facility and funding terms of the Construction Loan shall be governed in accordance with this Article 4. The provisions of this Article 4 shall apply to each individual Construction Project.

Section 4.2 **Purpose and Use of Construction Loan.** The Construction Loan shall be used solely for the purchase of Property and the construction of Improvements thereon for full sales and service of new and used automobiles, and all related dealership facilities.

Section 4.3 **Additional Definitions.** In addition to other defined terms herein, as used in this Agreement and unless the context otherwise requires, the following terms shall have the respective meanings set forth below:

- (a) *Architect.* The Architect for each Construction Project as identified on the Supplement evidencing such Construction Project.
- (b) *Architect Contract.* The contract entered into between Borrower and Architect for the design of the Improvements for a particular Construction Project, the terms of which must be acceptable to TMCC.
- (c) *As-Built Appraisal.* The estimated value of a Property (with Improvements) upon completion of the Construction Project for that Property. The As-Built Appraisal shall be prepared by an MAI appraiser. *As-Built Appraised Value* is the value of the Property reflected in the As-Built Appraisal. Notwithstanding the foregoing, TMCC may adjust the As-Built Appraisal for a Construction Project in its sole and absolute discretion to establish an adjusted appraised value for a Property (the "*Adjusted As-Built Appraised Value*"). The Adjusted As-Built Appraised Value of a Property may be used by TMCC to calculate the Construction Loan Limit, which TMCC may, in its discretion, consider during the approval and funding process for such Construction Project.
- (d) *Budget.* As to each Construction Project, the Cost of Acquisition of the Property plus the Construction Costs estimated by Borrower to be incurred in connection with such Construction Project, as approved by TMCC and as identified on the Supplement evidencing such Construction Project, as may be amended by Change Orders in accordance with Section 4.16 hereof.

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- (e) *Budgeted Interest.* As to each Construction Project, the portion of the Construction Costs established for interest identified in the Budget for such Construction Project for the payment of interest accrued on the Construction Loan to be funded for such Construction Project.
- (f) *Completion Date.* As to each Construction Project, the date of completion of the Improvements, as evidenced by the issuance of a certificate of occupancy by the appropriate local authorities permitting occupancy of the Improvements. Such certificate of occupancy may be a temporary certificate subject to completion of items which would not affect the Borrower's right to occupy the Improvements.
- (g) *Construction Contract.* The contract entered into between Borrower and General Contractor for the construction of the Improvements for a particular Construction Project, the terms of which must be acceptable to TMCC.
- (h) *Construction Costs.* As to each Construction Project, the costs incurred by Borrower to construct the Improvements on the applicable Property, as follows: (i) labor and material for grading, site preparation, demolition of existing structures, on-site improvements and required off-site improvements, (ii) any fees paid to the Architect or General Contractor, (iii) other architectural fees, engineering fees, surveys, fees of the Construction Monitor and utility tap fees, (iv) the cost incurred by Borrower for soil tests of the Property, building permits, environmental testing and similar tests, and (v) Budgeted Interest. The following costs shall not be included in the Construction Cost: feasibility studies, brokerage fees, appraisal fees, title insurance premiums, and attorney's fees, zoning costs, developer fees, trade fixtures, lifts, paint booths, parts bins, and other automotive related fixtures and equipment.
- (i) *Construction Funding.* As to each Construction Project, that portion of the Construction Costs which will be funded by TMCC under the Construction Loan. For each Construction Project, prior to any Draw, Borrower and TMCC shall establish in writing the amount of Construction Funding for the applicable Construction Project, which shall be in accordance with the terms herein.
- (j) *Construction Indebtedness.* The total amount of principal and accrued interest outstanding from time to time under the Construction Loan.
- (k) *Construction Line of Credit.* The amount available for loan pursuant to Section 4.4 below.
- (l) *Construction Loan Limit.* The limitations on the amount of Construction Indebtedness under the Construction Loan, as set forth in Section 4.5 below.
- (m) *Construction Monitor.* The person or company engaged by TMCC for each Construction Project, as identified on the Supplement evidencing such Construction Project.
- (n) *Construction Project.* The automobile dealership and related Improvements to be constructed on a Property pursuant to the Construction Loan.

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- (o) *Construction Project Loan Amount.* For each Construction Project, the sum of (i) the Acquisition Advance plus (ii) the Construction Funding, subject to the Construction Loan Limit.
- (p) *Construction Project Maturity Date.* As to each Construction Project, the date being the earlier of (i) 15 months from the date of the Acquisition Advance for such Construction Project, (ii) the date of Substantial Completion, or (iii) December 31, 2007.
- (q) *Construction Promissory Note.* The promissory note executed by Borrower and payable to the order of TMCC in the principal amount of \$50,000,000.00, together with all extensions, renewals, modifications and amendments thereto. The form and substance of the Construction Promissory Note shall be acceptable to TMCC in TMCC's sole and absolute discretion.
- (r) *Construction Schedule.* As to each Construction Project, a certified preliminary construction schedule showing a trade-by-trade breakdown of the estimated periods of commencement and completion of the Improvements.
- (s) *Draw.* As to each Construction Project, a disbursement from TMCC under the Construction Loan to the Borrower owning such Construction Project pursuant to a Draw Request for payment of Construction Costs.
- (t) *Draw Request.* A written request (on a form approved by TMCC) for a Draw submitted by Borrower to TMCC, pursuant to Section 4.8(e) below.
- (u) *Draw Termination Date.* November 30, 2007.
- (v) *Engineer's Contract(s).* All agreements, if any, with the civil, geotechnical, mechanical and structural engineers for the Improvements.
- (w) *Excess Amount(s).* If applicable, the amount by which the Construction Indebtedness exceeds the Construction Line of Credit.
- (x) *Final Draw.* The final Draw pursuant to Section 4.11 below.
- (y) *General Contractor.* The general contractor for each Construction Project as identified on the Supplement evidencing such Construction Project.
- (z) *Holdback.* As to each Construction Project, an amount equal to not less than 10% of the amount of the Construction Costs. TMCC shall retain from the amount of each Draw Request approved by TMCC 10% of the amount available for such Draw (or such greater percentage if required by applicable state law). The Holdback shall be released to or for the account of Borrower upon payment of the Final Draw in respect of the applicable Construction Project.
- (aa) *Permits.* All licenses, permits, authorizations and agreements required for the construction, operation, use or occupancy of the Property (as to each Construction Project).

(bb) *Plans.* The final working drawings and specifications for the construction of the Improvements, which must be acceptable to TMCC. The Plans must include an “as-built” survey or plat showing the proposed location of the foundation of the Improvements, showing no encroachment of the Improvements on any boundary line, easement, building setback line, or other restricted area.

(cc) *Substantial Completion.* Completion of the Construction Project as evidenced by satisfaction of all of the following:

(i) A temporary certificate of occupancy (or equivalent thereof) has been issued for the Construction Project.

(ii) Except as provided below, TMCC has received final lien releases or waivers from (i) the General Contractor, (ii) each subcontractor or material supplier whose aggregate contract for the Project exceeds \$100,000.00, and (iii) such other evidence of full and final payment to the other subcontractors and suppliers as may be reasonably requested by TMCC. All such releases or waivers shall be in form and substance acceptable to TMCC, and drafted in conformity with the law of the State and, if applicable, local jurisdiction in which the applicable Property is located. If a lien, lien claim or lien affidavit has been filed and Borrower is unable to procure a lien release or waiver from such party, Borrower may, in lieu of such release or waiver, provide an indemnity bond in accordance with the provisions of Section 4.10(b) below, and such bond shall be deemed to satisfy the requirements of this (ii) with respect to such lien claimant.

(iii) TMCC has received an “as built” Survey of the Construction Project satisfactory in form and substance to TMCC.

(iv) A certificate of substantial completion on the AIA Document Form G704 shall have been executed by the Architect, General Contractor and Borrower.

(dd) *Supplement.* A written instrument signed by the applicable Borrower and delivered to TMCC for each Property upon which Improvements are to be constructed hereunder, and which specifies the (i) legal description and street address of such Property, (ii) Cost of Acquisition, (iii) Construction Costs, (iv) identifies each of the General Contractor and Architect, and contains such other information required or contemplated herein.

Section 4.4 **Establishment of Construction Line of Credit.** Subject to the terms and conditions of this Agreement, TMCC hereby establishes a revolving line of credit for Borrower in an amount not to exceed the *lesser* of:

(a) \$50,000,000.00, or

(b) the Construction Loan Limit.

Section 4.5 **Construction Loan Limits and Restrictions.** The Construction Line of Credit shall be subject to and limited in the following respects:

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- (a) Not more than 5 Construction Projects shall subject to the Construction Loan at any given point in time.
 - (b) The sum of the unpaid (i) Acquisition Advances funded under the Construction Loan for all Construction Projects plus (ii) the Construction Funding for all Construction Projects, shall not exceed \$50,000,000.00. Once Construction Indebtedness applicable to a particular Construction Project has been refinanced as a Permanent Advance hereunder, the amount of the Construction Indebtedness for that Construction Project shall be deemed to have been repaid and such amount may be re-borrowed hereunder.
 - (c) The sum of the outstanding balance under the Construction Loan and Permanent Loan shall not exceed \$100,000,000.00.
 - (d) For each individual Construction Project, the sum of (i) the Acquisition Advance plus (ii) the Construction Funding, shall not exceed the lesser of:
 - (i) 85% of the sum of (x) the Purchase Price of the Property (without regard to any Improvements to be constructed) plus (y) the Construction Costs, or
 - (ii) 85% of the As-Built Appraised Value. It is acknowledged that TMCC may, at its election, not require Borrower to provide an As-Built Appraisal; if TMCC does not require an As-Built Appraisal, the provisions of this Section 4.5(d)(ii) shall not apply.
 - (e) If, for any reason, there exists Excess Amounts, the Construction Line of Credit shall be deemed to include the Excess Amounts for all purposes hereunder, except that Excess Amounts are temporary only and shall not be deemed to permanently increase the Construction Line of Credit.
 - (f) No Acquisition Advances under the Construction Loan shall be made after 45 months from the Effective Date.

Section 4.6 **Loan Documents.** The Construction Loan shall be evidenced by the Construction Promissory Note and the Loan Documents executed in connection therewith.

Section 4.7 **Conditions for Acquisition Advances Under Construction Loan.** In addition to any other conditions herein for Acquisition Advances, Acquisition Advances funded under the Construction Loan shall be subject to the following conditions and limited in the following respects for each particular Property:

Borrower shall have delivered to TMCC the following items:

- (a) Architect Contract. If required by TMCC, Borrower shall also deliver to TMCC an assignment of the Architect Contract on a form acceptable to TMCC and executed by the Architect.
- (b) Budget

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- (c) Construction Contract.
 - (d) Construction Schedule.
 - (e) Engineer's Contract(s). If required by TMCC, Borrower shall also deliver to TMCC an assignment of the Engineer's Contract on a form acceptable to TMCC and executed by the engineer(s).
 - (f) Permits. Borrower shall deliver to TMCC a certificate listing all required or necessary Permits for the applicable Construction Project.
 - (g) Plans.
 - (h) A list of all subcontractors and materialmen scheduled to perform work or deliver materials, provided that the aggregate cost for all work or materials to be provided by any such subcontractor or materialman exceeds \$50,000.00 with respect to such Construction Project, in connection with construction of the Improvements, together with a copy of all preliminary lien notices, if any, already filed by any such subcontractors and materialmen.

Section 4.8 **Draws – Limits and Documents.** In addition to other requirements set forth herein, Draws for Construction Costs shall be governed by the following terms:

- (a) Frequency. Draws may be made monthly, upon compliance by Borrower with this Loan Agreement, after actual commencement of construction of the Improvements, for work actually done during the preceding period.
- (b) Minimum Amount. Except for the Final Draw, TMCC shall not be obligated to fund a Draw in an amount less than \$50,000.00.
- (c) Method and Payee. Except as otherwise provided in this Agreement, or as mutually agreed upon between TMCC and Borrower, Draws shall be made by wire transfer or check payable to Borrower.
- (d) Draw Limitations. Draws are subject to the following limitations:
 - (i) No Draws shall be made until Borrower has provided evidence to TMCC that it has paid, out of its funds (independent from loan proceeds from the Construction Loan) 15% of the sum of (x) the Cost of Acquisition of the Property (without regard to any Improvements to be constructed) plus (y) the Construction Costs for the applicable Construction Project as estimated in the Budget.
 - (ii) The total amount of Draws available for a particular expense item referenced in the Budget shall not exceed 100% of the applicable expense item. No reallocation of Draws available for a particular expense item shall be allowed except pursuant to Section 4.15 herein.

(iii) If required under the Applicable Laws of the State in which the particular Construction Project is located, the Holdback from each Draw shall be increased to ensure compliance with such Applicable Laws.

(e) Draw Request. Borrower shall deliver to TMCC the Draw Request, with a copy to Construction Monitor, at least 30 days prior to the date on which a Draw is desired by Borrower, specifying the amount and date of the Draw applied for substantially in the form of an Application and Certificate for Payment (AIA Document G702).

(f) Invoices. In addition to the Draw Request, Borrower shall deliver to TMCC and Construction Monitor copies of invoices for work actually performed or materials delivered for which payment is to be made from a Draw, and certificates required hereunder and such other information as TMCC or Construction Monitor may from time to time require.

(g) Last Date for Draws. No Draws shall be made after 59 months from the Effective Date.

Section 4.9 **Approval and Payment of Draw Requests.** Subject to the satisfaction of the terms and conditions set forth elsewhere herein, the approval and payment of Draws shall be subject to the following terms:

(a) Approval of Documents. TMCC shall have reviewed and approved the Draw Request and accompanying invoices and documents and Construction Monitor shall have sent a written report to TMCC confirming its approval, indicating, without limitation, (i) that the requisition for funds represents the amount due for work actually completed and materials actually incorporated into the Property (less the Holdback, as defined herein), and (ii) that the work to be completed does not exceed the amount of the undisbursed portion of the Loan.

(b) Approval of Construction. TMCC or Construction Monitor shall have reviewed and approved the Plans and shall have inspected the Improvements and reviewed the expenses incurred, and determined that the work has been performed in a good and workmanlike manner in accordance with the Plans, that construction is progressing within the Construction Schedule, and that the expenses are reasonable and in accordance with the Budget.

(c) Casualty Loss. No part of the Improvements shall have been materially injured or damaged by fire or other casualty unless TMCC shall have received insurance proceeds sufficient in its judgment to effect the satisfactory restoration thereof and to permit completion prior to the applicable Construction Project Maturity Date.

(d) Payment of Draw. Provided that all terms and conditions for a Draw pursuant to this Article 4 have been complied with in accordance with the terms hereof, TMCC shall fund a Draw Request within 30 days after submission of both (i) the Draw Request and related documents pursuant to Section 4.8(e) and (ii) the invoices pursuant to Section 4.8(f).

(e) Loan Interest. Unless paid by Borrower from other funds, TMCC may disburse to itself to pay interest monthly as it accrues on the Construction Promissory Note, the amount allocated for Budgeted Interest for each Construction Project as being available only for payment of that interest on that Construction Project. Disbursements will be made on behalf of Borrower

to TMCC on the payment dates when interest is due and owing in accordance with the terms of the Construction Promissory Note and will be made by a bookkeeping entry on TMCC's records reflecting, as an additional disbursement on a Draw for a Construction Project, an amount equal to the accrued interest due on the relevant payment date. If, after making a Draw for Budgeted Interest as set forth above, Borrower shall pay the interest with other funds, TMCC will, at Borrower's request, reimburse Borrower to the extent of the payment, but (i) only to the extent available from funds allocated for Budgeted Interest for that Construction Project, and (ii) only if all interest owing on other Construction Projects is paid in full. The exhaustion of the amount of Draws available for Budgeted Interest shall not impair the obligation of Borrower to pay interest on the Construction Loan.

Section 4.10 Conditions to Draws. As a condition precedent to each Draw, in addition to all other requirements herein, Borrower must satisfy the following requirements, if applicable, and deliver to TMCC evidence of such satisfaction:

(a) Lien Releases. Borrower will procure and deliver to TMCC, if required by TMCC, releases or waivers of mechanics' liens and receipted bills showing payment of all parties who have furnished materials or services or performed labor of any kind in connection with the construction of any of the Improvements, which releases or waivers shall pertain to all amounts owing to said parties as reflected in the immediately preceding Draw. All such releases or waivers shall be in form and substance acceptable to TMCC, and drafted in conformity with the law of the State and, if applicable, local jurisdiction in which the applicable Property is located. However, if Borrower is unable to procure and deliver such a release or waiver from a party who has filed a lien, lien claim or lien affidavit, Borrower shall be relieved of the requirements of this Section 4.10(a) as to such party if Borrower provides an indemnity bond in accordance with the provisions of Section 4.10(b) herein.

(b) Evidence of No Liens. Borrower will procure and deliver to TMCC evidence that no mechanic's or materialman's lien or other encumbrance has been filed and remains in effect against the Property. However, if a lien, lien claim or lien affidavit has been filed against Borrower or the Property, Borrower may contest such lien by furnishing to TMCC and Title Company an indemnity bond with a corporate surety satisfactory to TMCC and Title Company (in the form required by the Title Company and any Applicable Law), or other security acceptable to them, in an amount not less than the amount being contested, plus such additional sums to cover possible costs, interest, and penalties, and provided further that Borrower shall pay any amount adjudged by a court of competent jurisdiction to be due, with all costs, interest, and penalties thereon, before such judgment becomes a lien on the Property.

(c) Endorsement to Title Policy. The Title Policy shall be endorsed and extended, if available under local rules, to cover each Draw with no additional title exception objectionable to TMCC.

(d) Foundation Survey. A foundation survey shall have been furnished to TMCC within 30 days after laying of the foundation of the Improvements, showing no encroachment of the Improvements on any boundary line, easement, building setback line, or other restricted area.

(e) **Material Adverse Effect.** There shall have occurred no Material Adverse Effect in the physical condition of the Property or the financial condition of Borrower, Guarantor or the General Contractor since the previous Draw made in respect of such Construction Project, and no event shall have occurred which will give TMCC reasonable cause to believe that the construction of the Improvements cannot be completed by the Construction Project Maturity Date, in accordance with the Plans and the terms of this Agreement and the Loan Documents.

Section 4.11 **Conditions to Final Draw.** As a condition precedent to the Final Draw, which shall include the Holdback, in addition to all other requirements herein, Borrower must satisfy the following requirements and, if required by TMCC, deliver to TMCC evidence of such satisfaction:

- (a) All conditions precedent to each of the Draws pursuant to Section 4.10 above shall have been satisfied or waived by TMCC.
- (b) The Construction Project has achieved Substantial Completion.

(c) The Title Policy shall be endorsed and extended, if applicable and available, to (i) delete any exception previously included to account for the pending construction of the Improvements, (ii) insure that there are no encroachments, and (iii) reflect that no mechanic's or materialmen's lien or other encumbrance has been filed. The Title Policy shall contain no additional exception objectionable to TMCC.

Section 4.12 **State Law Requirements.** In addition to the provisions set forth above, Borrower and TMCC shall comply with all requirements of Applicable Law. Exhibit 4.11 may contain additional requirements for Construction Projects of particular states and jurisdictions. From time to time Exhibit 4.11 may be revised by written notice from TMCC to Borrower to incorporate any requirements of such states and jurisdictions; however, even if Exhibit 4.11 does not set forth any or all state or local law requirements for constructions loans in that jurisdiction, such requirements shall be deemed incorporated herein and shall be complied with.

Section 4.13 **Assignment of Construction Contract.** As additional security for the payment of the Construction Loan, Borrower hereby transfers and assigns to TMCC all of Borrower's rights and interest, but not its obligations, in, under, and to the Construction Contract, upon the following terms and conditions:

(a) Borrower represents and warrants that the copy of any Construction Contract it has furnished to TMCC is a true and complete copy thereof and that Borrower's interest therein is not subject to any claim, setoff, or encumbrance.

(b) Neither this assignment nor any action by TMCC shall constitute an assumption by TMCC of any obligation under the Construction Contract, and Borrower shall continue to be liable for all obligations of Borrower thereunder. Borrower hereby agrees to perform all of its obligations under the Construction Contract. Borrower indemnifies and holds TMCC harmless against and from any loss, cost, liability, or expense (including, but not limited to, attorneys' fees and expenses) resulting from any failure of Borrower to so perform.

(c) TMCC shall have the right at any time (but shall have no obligation), to take in its name or in the name of Borrower, such action as TMCC may at any time determine to be necessary or advisable to cure any default under the Construction Contract or to protect the rights of Borrower or TMCC thereunder. TMCC shall incur no liability if any action so taken by it or in its behalf shall prove to be inadequate or invalid, and Borrower agrees to hold TMCC free and harmless against and from any loss, cost, liability or expense (including, but not limited to, attorneys' fees and expenses) incurred in connection with any such action.

(d) Borrower hereby irrevocably constitutes and appoints TMCC as Borrower's attorney-in-fact, in Borrower's name or in TMCC's name, upon the occurrence of and during the continuance of an Event of Default, to enforce all rights of Borrower under the Construction Contract.

(e) Prior to an Event of Default, Borrower shall have the right to exercise its rights as Owner under the Construction Contract, provided that Borrower shall not cancel or amend the Construction Contract (other than change orders pursuant to Section 4.16) or do or suffer to be done any act which would impair the security constituted by this assignment without the prior written consent of TMCC.

(f) This assignment shall inure to the benefit of TMCC, its successors and assigns, including any purchaser upon foreclosure of the applicable Deed of Trust, any receiver in possession of the Property, and any corporation formed by or on behalf of TMCC which assumes TMCC's rights and obligations under this Loan Agreement.

Section 4.14 Assignment of Plans. As additional security for the payment of the Loan, Borrower hereby transfers and assigns to TMCC all of Borrower's right, title, and interest in and to the Architectural Contract and Plans and hereby represents and warrants to and agrees with TMCC as follows:

(a) The schedule of the Plans delivered to TMCC is a complete and accurate description of the Plans.

(b) The Plans are complete and adequate for the construction of the Improvements and there have been no modifications thereof except as described in such schedule. The Plans shall not be materially modified without the prior written consent of TMCC.

(c) TMCC may use the Plans for any purpose relating to the Improvements, including but not limited to inspections of construction and the completion of the Improvements.

(d) TMCC's acceptance of this assignment shall not constitute approval of the Plans by TMCC. TMCC has no liability or obligation whatsoever in connection with the Plans and no responsibility for the adequacy thereof or for the construction of the Improvements contemplated by the Plans. TMCC has no duty to inspect the Improvements, and, if TMCC should inspect the Improvements, TMCC shall have no liability or obligation to Borrower arising out of such inspection. No such inspection nor any failure by TMCC to make objections after any such inspection shall constitute a representation by TMCC that the Improvements are in accordance with the Plans or constitute a waiver of TMCC's right thereafter to insist that the Improvements be constructed in accordance with the Plans.

(e) This assignment shall inure to the benefit of TMCC, its successors and assigns, including any purchaser upon foreclosure of the applicable Deed of Trust, any receiver in possession of the Property, and any corporation formed by or on behalf of TMCC which assumes TMCC's rights and obligations under this Loan Agreement.

Section 4.15 Budget.

(a) Budget Restriction. Except as provided in Section 4.15(b) below, no Draws will be made for a Construction Project to pay for any item, including interest, if the aggregate amount disbursed for such item exceeds the amount shown therefore on the Budget for such Construction Project, as the Budget may be amended from time to time as provided herein.

(b) Budget Reallocation. If Borrower will not fully utilize the amount budgeted for any particular line item in the Budget for a Construction Project, the excess may be reallocated to another line item or line items. In TMCC's discretion, TMCC may, upon the occurrence of and during the continuation of an Event of Default, in addition to all other rights and remedies of TMCC, reallocate any funds then remaining under the Budget item for "Overhead Payments", "Contingency" or similar categories to any other Budget line item.

(c) Undisbursed Funds Insufficient to Complete Improvements. If TMCC shall, in its discretion, determine that the amount of undisbursed proceeds of the Construction Loan allocated to a Construction Project as set forth in the Budget is less than the amount required to complete and pay for the construction of the Improvements and other items contemplated by the Budget for such Construction Project, including, without limitation, Budgeted Interest, then, in addition to all other rights and remedies of TMCC, TMCC may decline to make further Draws of the Loan for such Construction Project until Borrower, upon demand by TMCC, and within 5 days of such demand, shall pay to TMCC money in an amount equal to the total deficiency. Any funds delivered to TMCC hereunder shall be applied to the outstanding balance of the Construction Loan made for the applicable Construction Project in accordance with the terms of the Construction Promissory Note and shall be made available to be re-advanced in respect of the Construction Project in accordance with the terms hereof.

Section 4.16 Covenants Pertaining to Construction Projects. In addition to the covenants contained elsewhere in this Agreement and in the other Loan Documents, Borrower covenants and agrees as follows:

(a) Commencement and Completion of Construction. As to each Construction Project:

(i) Borrower shall designate TMCC as the "Construction Lender" on the application for any building permits for the construction of the Improvements in accordance with Applicable Laws.

(ii) Construction of the Improvements will be performed in a good and workmanlike manner, with materials of high quality, and in substantial accordance with the Plans, except for change orders approved in writing (if required) by TMCC in accordance with Section 4.16(b) below.

(iii) All such work shall be commenced promptly and prosecuted with due diligence and will be completed in substantial accordance with the Plans and the Improvements ready for occupancy no later than the Construction Project Maturity Date.

(iv) At the request of TMCC, Borrower shall, at Borrower's sole cost and expense, correct any material defect in the Improvements or any material departure from the Plans not theretofore approved in writing by TMCC and Construction Monitor if required under Section 4.16(b).

(v) During the course of construction, Borrower will comply in all material respects with the Restrictions and all Permits applicable to the Improvements.

(vi) When completed, the Improvements will in all material respects comply with all the Restrictions, all Permits and all requirements of any appropriate board of fire underwriters.

(vii) Borrower hereby specifically relieves TMCC of any and all liability or responsibility relating in any way whatsoever to the construction of the Improvements, including, but not limited to, the work thereon, the material or labor supplied in connection therewith, and any errors, inconsistencies or other defects in the Plans.

(b) Change Orders - Requirements. Except as provided below, as to each Construction Project, no change will be made in the Plans as approved by TMCC or in the work described in the Construction Contract without the prior written consent of TMCC. TMCC's prior written consent shall not be required for change orders if such change:

(i) Would result in the expenditure or reduction of costs of less than 3% of the Construction Costs for a Construction Project, based on the Budget for that Construction Project.

(ii) Together with all prior changes, would result in an aggregate expenditure or reduction of costs of less than 10% of the Construction Costs for a Construction Project, based on the Budget for that Construction Project.

(iii) Would result in an extension of the time to complete construction under the Contract beyond the Construction Project Maturity Date.

(iv) Would not materially and adversely affect the Improvements or TMCC's security for the Loan.

(c) Change Orders - Submission. As to each Construction Project, Borrower shall submit to TMCC and Construction Monitor copies of all change orders and construction change directives which require TMCC's consent under this Section, together with (i) evidence satisfactory to TMCC and Construction Monitor that all required approvals of any Governmental Authority have been obtained, and (ii) confirmation of the amount of such change in the Budget resulting therefrom. TMCC shall not consider approving any change orders unless all other approvals that are required from other parties or pursuant to the Restrictions have been obtained;

further, TMCC's and Construction Monitor's approval shall not be unreasonably withheld or delayed.

(d) Reports. As to each Construction Project: (i) Borrower shall promptly furnish, or cause to be promptly furnished, to TMCC copies of all reports prepared by or at the request of Borrower in connection with the construction of the Improvements; and (ii) Borrower shall also furnish such additional data and information relating to the affairs, assets and liabilities of Borrower or construction of the Improvements as TMCC may from time to time reasonably request.

(e) Changes to Budget or Construction Schedule. Subject to Sections 4.15(b), as to each Construction Project: (i) if from time to time there is any change in (1) the nature and type of expenses and amount thereof as are presently estimated in the Budget, or (2) the Construction Schedule, Borrower shall submit to TMCC a revised Budget setting forth its good faith estimate of such expenses and the source of payment therefor or a revised Construction Schedule, as appropriate; and (ii) such revised Budget or Construction Schedule must be approved by TMCC, in its discretion, prior to the revised Budget or Construction Schedule replacing the then current Budget or Construction Schedule.

Section 4.17 Construction Monitor and Other Consultants. TMCC, at Borrower's expense, may employ the services of Construction Monitor on each Construction Project to act on its behalf during the construction of the Improvements. In addition to the involvement of Construction Monitor in the construction of the Improvements, as elsewhere described in this Agreement, Construction Monitor shall review and approve all final Plans for the Improvements and any other materials relevant to the construction of the Improvements within 20 days after receipt of such materials. Such review and approval is solely for the benefit of TMCC and it shall not constitute an assumption of any responsibility or liability of whatsoever kind or character by TMCC or Construction Monitor to Borrower, which hereby acknowledges and agrees that it has no right to and is not relying upon such review and approval in deciding to enter into this Agreement nor in proceeding with construction of the Improvements or applying for Draws hereunder. TMCC, at Borrower's expense, may hire such other third party consultants as it deems reasonably necessary to perform such services as may, from time to time, be required by TMCC in connection with the Construction Loan, this Agreement or the Property.

Section 4.18 (not used)

Section 4.19 Interest Rate. Interest on the outstanding balance of the Construction Loan shall accrue at LIBOR from time to time in effect plus 2.25%.

Section 4.20 Payment Terms. The Construction Project Loan Amount for any Construction Project shall be due and payable as follows:

(a) Monthly Payments. Interest only shall be due and payable monthly. TMCC may disburse to itself interest to the extent of the Budgeted Interest for a particular Construction Project as set forth in Section 4.9(e).

(b) Permissive Repayment. Borrower may, at any time and without any prepayment fee or premium or notice or penalty, repay all or any part of the Construction Project Loan Amount to TMCC.

(c) Maturity of Construction Project Loan Amount. The entire unpaid principal balance, together with accrued but unpaid interest, on the Construction Project Loan Amount shall be due and payable on the respective Construction Project Maturity Date.

(d) Mandatory Repayment. The Construction Indebtedness shall be repaid by Borrower to TMCC immediately and without further notice or demand therefore by TMCC upon the Termination Date of this Agreement set forth herein.

Section 4.21 **Release Provisions**. TMCC will release the lien of the Deed of Trust on a Property provided the following conditions are satisfied:

(a) Notice. Prior to such release, Borrower provides TMCC 30 days advance written notice of its request to have a certain Property released.

(b) Information. If applicable, at TMCC's request, Borrower shall provide supplemental information that addresses what effect the requested release might have on the remaining Properties, the operations thereon, or any uses thereof (including public utilities, public access roads and the automobile dealerships).

(c) Endorsement to Title Policy. If applicable, at the time of such release, Borrower shall deliver to TMCC an endorsement to the Title Policy insuring TMCC's first lien granted under the Deed(s) of Trust, in form and substance satisfactory to TMCC, assuring that TMCC's first lien remains in full force and effect as to all Properties remaining subject to such Deed(s) of Trust, subject only to the Permitted Encumbrances, and is in no way adversely affected by such release, and remains in the full Construction Loan amount.

(d) No Violations. Prior to such release, Borrower shall provide evidence acceptable and satisfactory to TMCC demonstrating that the requested release will not violate any local, state or other governmental plat act or other governmental regulatory restriction, or any covenant, condition, restriction, limitation, zoning or other requirement applicable to any other Property.

(e) No Default. No Event of Default on the part of Borrower or Guarantor shall have occurred and be continuing under the Construction Loan or Permanent Loan.

(f) Release Price. Borrower pays a release amount equal to the then outstanding balance (including both principal and interest) of the Construction Project Loan Amount pertaining to the applicable Construction Project, or the pro-rata share of outstanding Draws (together with the pro-rata share of accrued interest) if the Construction Project includes one or more Properties and all are not being released.

(g) Expenses. Borrower will pay TMCC's reasonable out of pocket expenses incurred in connection with any such release, including but not limited to, escrow fees, legal fees and expenses, appraisal fees, recording fees and endorsements to TMCC's Title Policy.

ARTICLE 5.

Permanent Loan

Section 5.1 **Permanent Loan.** The credit facility and funding terms of the Permanent Loan shall be governed in accordance with this Article 5. The provisions of this Article 5 shall apply to each individual Permanent Advance.

Section 5.2 **Additional Definitions.** In addition to other defined terms herein, as used in this Agreement and unless the context otherwise requires, the following terms shall have the respective meanings set forth below:

- (a) *Construction Loan Conversion.* The refinance of a Construction Loan to a Permanent Advance pursuant to Section 5.10 below.
- (b) *Permanent Advance.* An advance under the Permanent Promissory Note for a permitted purpose under Section 5.3 below.
- (c) *Permanent Indebtedness.* The amount of principal outstanding from time to time under the Permanent Loan (or individual loan, as applicable when referenced below).
- (d) *Permanent Line of Credit.* The amount available for loan pursuant to Section 5.4 below.
- (e) *Permanent Loan Limit.* The limitations on the amount of Permanent Indebtedness under the Permanent Loan, as set forth in Section 5.5 below.
- (f) *Permanent Promissory Note.* A Promissory Note executed by Borrower and payable to the order of TMCC in the principal amount of the Permanent Loan, together with all extensions, renewals, modifications and amendments thereto. The form and substance of the Permanent Promissory Note shall be acceptable to TMCC.

Section 5.3 **Purpose of Permanent Advances.** The proceeds of each Permanent Advance under this Article 5 are to be used by Borrower solely to (i) payoff amounts disbursed under the Construction Loan for various Construction Projects upon their completion, and (ii) acquire Properties (not previously financed by TMCC under the Construction Loan) (which includes the Cost of Acquisition), and pay such other expenses incurred in connection with the acquisition of such Property, approved by TMCC, including, but not limited to title fees, title insurance premiums, legal expenses, survey expenses, recording fees, escrow fees, environmental report expenses, organizational expenses, documentary stamp tax and taxes and broker's commissions.

Section 5.4 **Establishment of Permanent Line of Credit.** Subject to the terms and conditions of this Agreement, TMCC hereby establishes a revolving line of credit for Borrower in an amount not to exceed the *lesser* of:

- (a) \$100,000,000.00, or

(b) the Permanent Loan Limit.

Section 5.5 **Permanent Loan Limits and Restrictions.** The Permanent Line of Credit shall be subject to and limited in the following respects:

(a) The sum of the unpaid: (i) Construction Loan Conversions funded under the Permanent Loan plus (ii) Acquisition Advances funded under the Permanent Loan, shall not exceed \$100,000,000.00. Upon the payment of all or any portion of the Permanent Indebtedness, such amount may be re-borrowed hereunder.

(b) The sum of the outstanding balance under the Construction Loan and Permanent Loan shall not exceed \$100,000,000.00.

(c) For each individual Permanent Advance, such Permanent Advance shall not exceed 85% of the Appraised Value of the Property.

(d) For Construction Indebtedness refinanced under the Permanent Loan, only the unpaid principal balance (including any Budgeted Interest paid as provided under Section 4.9(e)) of the Construction Indebtedness for a particular Construction Project may be financed under the Permanent Loan.

(e) Last Date for Permanent Advances. No Permanent Advance shall be made after December 31, 2007.

Section 5.6 **Loan Documents.** The Permanent Loan shall be evidenced by the Permanent Promissory Note, and the Loan Documents executed in connection therewith.

Section 5.7 **Conditions for Acquisition Advances Under Permanent Loan.** In addition to any other conditions herein for Acquisition Advances, Acquisition Advances funded under the Permanent Loan shall be subject to the following conditions and limited in the following respects for each particular Property:

(a) Borrower has provided TMCC with a report from a licensed engineer acceptable to TMCC, in form, scope and substance acceptable to TMCC, reporting that the Improvements have been inspected by the engineer and indicating that the Improvements are structurally sound and evidence no material defects.

(b) For a Permanent Advance to refinance a Construction Loan for a particular Construction Project, Borrower must have complied with all requirements under Section 4.11.

Section 5.8 **Interest Rate.** Interest on the outstanding balance of each Permanent Advance shall accrue at LIBOR from time to time in effect plus 2.00%.

Section 5.9 **Payment Terms.** Each Permanent Advance (whether arising as the result of a Construction Loan Conversion or an Acquisition Advance) shall be due and payable as follows:

(a) Monthly Payments. Each Permanent Advance under the Permanent Promissory Note shall be due in equal monthly installments in an amount sufficient to fully amortize the entire principal balance of such Permanent Advance over a 25-year period. Accrued interest on the unpaid principal balance of each Permanent Advance shall be due and payable monthly on the same date as the monthly principal payments.

(b) Permissive Repayment. Borrower may, at any time and without any prepayment fee or premium or notice or penalty, repay all or any part of a Permanent Advance to TMCC.

(c) Maturity Date. The entire unpaid principal balance, together with accrued but unpaid interest, of the Permanent Loan shall be due and payable on or before December 31, 2012.

(d) Mandatory Repayment. The Permanent Promissory Note shall be repaid by Borrower to TMCC (i) if, following an Event of Default, TMCC makes written demand for payment prior to such Event of Default being cured, or (ii) upon any other event providing for acceleration in the Loan Documents.

Section 5.10 Construction Loan Conversion. Upon request by Borrower and upon satisfaction of the conditions set forth herein, the portion of the Construction Loan applicable to a Construction Project shall be refinanced under the Permanent Loan. In addition to any other requirements set forth herein, as a condition to a Construction Loan Conversion, Borrower shall satisfy the following requirements:

(a) Conversion Notice. Borrower shall submit the Conversion Notice in the form attached hereto as Exhibit 5.10(a). In addition, Borrower shall submit such other certificates as TMCC may require confirming the satisfaction of all conditions for the Permanent Loan hereunder.

(b) Reappraisal of the Property. No later than two weeks prior to the Loan Closing Date for such Permanent Advance, Borrower must furnish to TMCC a current Appraisal of the Property as improved, prepared no sooner than 45 days prior to the Loan Closing Date. The Appraised Value of the Property as improved under such Appraisal shall be the Appraised Value for the purposes of determining the limit on the principal amount of the Permanent Advance under Section 5.5(c) above.

Section 5.11 Release Provisions. TMCC will release the lien of the Deed of Trust on a Property provided the following conditions are satisfied:

(a) Notice. Prior to such release, Borrower provides TMCC 30 days advance written notice of its request to have a certain Property released.

(b) Information. If applicable, at TMCC's request, Borrower shall provide supplemental information that addresses what effect the requested release might have on the remaining Properties, the operations thereon, or any uses thereof (including public utilities, public access roads and the automobile dealerships).

(c) Endorsement to Title Policy. If applicable, at the time of such release, Borrower shall deliver to TMCC an endorsement to the Title Policy insuring TMCC's first lien granted under the Deed(s) of Trust, in form and substance satisfactory to TMCC, assuring that TMCC's first lien remains in full force and effect as to all Properties remaining subject to such Deed(s) of Trust, subject only to the Permitted Encumbrances, and is in no way adversely affected by such release, and remains in the full Permanent Loan amount.

(d) No Violations. Prior to such release, Borrower shall provide evidence acceptable and satisfactory to TMCC demonstrating that the requested release will not violate any local, state or other governmental plat act or other governmental regulatory restriction, or any covenant, condition, restriction, limitation, zoning or other requirement applicable to any other Property.

(e) No Default. No Event of Default on the part of Borrower or Guarantor shall have occurred and be continuing under the Construction Loan or Permanent Loan.

(f) Release Price. Borrower pays a release amount equal to the then outstanding balance (including both principal and interest) of the Permanent Advance in respect to the Property being released. Upon payment of said amount, the total monthly payment due under the Permanent Loan will be adjusted to reflect such payment.

(g) Expenses. Borrower will pay TMCC's reasonable out of pocket expenses incurred in connection with any such release, including but not limited to, escrow fees, legal fees and expenses, appraisal fees, recording fees and endorsements to TMCC's Title Policy.

ARTICLE 6.

Cross Collateralization

Section 6.1 **Cross-Collateralization.** Subject to Section 6.3 below, all Properties now or hereafter subject to a security interest or other lien pursuant to any Deed of Trust or any other Security Agreement shall secure all Obligations, and any proceeds of the sale or other disposition of any Property pursuant to any Deed of Trust or other Security Agreement may be applied to any of the Obligations as TMCC may elect. This agreement for cross collateralization shall constitute and be deemed an amendment to and supplement each Deed of Trust or other Security Agreement now or hereafter executed and shall augment and be in addition to and not in substitution for any provision of any Deed of Trust or other Security Agreement, and shall not otherwise limit or affect the rights and remedies of TMCC under any such Deed of Trust or other Security Agreement.

Section 6.2 **Memorandum of Cross Collateralization.** Upon request by TMCC and to the extent permitted by Applicable Law, the Borrower owning a particular Property shall execute a memorandum, in recordable form sufficient for recording in the applicable real property or other records where the Property is located, reciting that the liens against that Property secures, in addition to any Obligation recited in the applicable Deed of Trust, the Obligations under this Agreement pursuant to this cross-collateralization provision. TMCC and Borrower shall execute such affidavits and documents as necessary and permitted under

Applicable Law to prevent the taxation of any Deed of Trust in excess of the Construction Project Loan Amount or the applicable Permanent Advance, as the case may be.

Section 6.3 **California Properties.** The cross collateralization provisions in Section 6.1 above shall not apply to any loans secured by Property located in California; therefore, Section 6.1 shall not operate to cause any Property located in California to secure any loans or other indebtedness not otherwise covered by specific loan instruments executed in connection with any loan secured by Property in California.

ARTICLE 7.

Representations and Warranties of Borrower

In addition to any other representations and warranties set forth herein, each Borrower, individually and collectively, jointly and severally, represents and warrants to TMCC as follows:

Section 7.1 **Organization, Authority and Qualifications.**

(a) Each Borrower is a limited liability company or limited partnership, as applicable, duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation, and each is duly qualified to transact business or own real property in each state or other jurisdiction in which its principal real properties are located or in which it conducts any important or material part of its business.

(b) Each Borrower has or will have the power and authority to execute, deliver and perform this Agreement and the Loan Documents to which it is a party.

(c) The persons signing this Agreement and the Loan Documents on behalf of each Borrower have full authority to execute the same on behalf of said entity, and to bind said entity to the terms thereof.

Section 7.2 **Authorization and Compliance with Applicable Laws and Material Agreements.** The execution, delivery and performance of this Agreement and the Loan Documents to which such Borrower is a party, and the borrowings hereunder, by Borrower have been duly authorized by all requisite action on the part of said entity and will not violate the articles of organization, regulations, partnership agreement or operating agreement, as applicable, of such Borrower, and will not violate any Applicable Law affecting Borrower in any respect, and will not conflict with, result in a breach of the provisions of, constitute a default under, or result in the imposition of any lien, charge, or encumbrance upon any assets of Borrower pursuant to the provisions of any indenture, mortgage, deed of trust, franchise, permit, license, note or other agreement or instrument to which Borrower may be bound, other than this Agreement and the Loan Documents to which such Borrower is a party. No approval or consent from any Governmental Authority or other third party is required in connection with the execution of or performance under this Agreement and the Loan Documents to which it is a party by Borrower. Except to the extent that failure to comply would not have a Material Adverse Effect, each Borrower has otherwise complied with all Applicable Laws. No Borrower is a party

to any agreement which in the opinion of such Borrower does or will have a Material Adverse Effect on the business, operations or condition, financial or otherwise, of such Borrower.

Section 7.3 **Valid and Binding Obligation.** All of the Loan Documents to which Borrower is a party, will upon execution and delivery by such Borrower, constitute a valid binding obligation of such Borrower, enforceable in accordance with their respective terms.

Section 7.4 (not used)

Section 7.5 **Litigation and Judgments.** There are no suits or proceedings pending, or, to the knowledge of Borrower, threatened, against or affecting Borrower that, if adversely determined, would have a Material Adverse Effect on the financial condition or business of Borrower or on the Collateral owned by Borrower; and there are no proceedings by or before any governmental commission, board, bureau, or other administrative agency pending or to the knowledge of Borrower, threatened against such Borrower, which if adversely determined, would have a Material Adverse Effect on the business, properties, condition, financial or otherwise of such Borrower. There are no outstanding judgments (final or otherwise) against such Borrower. No event has occurred, including, without limitation, any litigation or administrative proceedings, and no condition exists or, to the knowledge of such Borrower, is threatened, which (i) might render such Borrower unable to perform its obligations hereunder or under the Loan Documents to which it is a party or any other document contemplated herein or therein, or, if applicable, might adversely affect such Borrower's ability to perform the contemplated construction of the Improvements for any Construction Project owned by such Borrower by the Completion Date, as defined herein, and in accordance with the Budget for such Construction Project, (ii) constitutes or, after notice or lapse of time or both, would constitute an Event of Default, or (iii) might materially and adversely affect the validity or priority of the liens of the Deed of Trust to which such Borrower is a party or the financial condition of such Borrower.

Section 7.6 **Title to and Perfection of Security Interest in Collateral.** Each Borrower is the owner of all its respective Collateral, free and clear of all liens, security interests, and encumbrances, except the Permitted Encumbrances and those in favor of TMCC, and will execute all Deeds of Trust, Security Agreements, assignments, financing statements or other documents and take such actions as TMCC may deem necessary or desirable to evidence or perfect its first and prior security interest and lien in Collateral under the Loan Documents to which it is a party.

Section 7.7 **Existing Leases and Contracts.** Except as specifically disclosed in writing to TMCC, there are (i) no leases or subleases affecting the Property, and (ii) there are no contracts or agreements affecting the use, operation or maintenance of the Property, which, upon a foreclosure or deed in lieu of foreclosure, would be binding on TMCC or any purchaser at a foreclosure sale.

Section 7.8 **Restrictions.** Each Borrower is familiar with the Restrictions in respect of the Property owned by it, and has obtained, or will be able to obtain, all Permits for the ownership and operations of the Improvements and, as applicable, the construction of Improvements. As of the date hereof, there is no violation or asserted violation of any

Restrictions concerning the Property owned by such Borrower or the existing or contemplated use thereof. No Borrower is aware of any action or proceeding pending or threatened before any Governmental Authority with respect to the validity of any such Permits in respect of the Property owned by it.

Section 7.9 **Zoning.** Each Property is or will be zoned under applicable zoning laws so as to permit the construction, operation and use of the Improvements for the sale and service of new and used automobiles, and related uses. Adequate water, telephone, gas and electrical service, storm and sanitary sewage facilities and any other required public utilities are or will be available for and service the Property. The Property fronts on and has adequate access to public streets for pedestrian and motor vehicles. To the Best Knowledge of Borrower, construction of the Improvements and operation of the Property will not be delayed or impeded by virtue of the requirements under any Applicable Laws. To the Best Knowledge of Borrower, upon completion of the construction of the Improvements, the Property will comply with all Applicable Laws.

Section 7.10 **No Other Financing Statements.** No UCC-1 or other financing statement covering any assets owned by any Borrower has been executed or is of record in any public office, except those financing statements disclosed on the attached Schedule 7.10 and the financing statements of TMCC.

Section 7.11 **Condemnation.** No taking of the Property or any part thereof through eminent domain, conveyance in lieu thereof, condemnation or similar proceeding is pending or, to the knowledge of Borrower, threatened by any Governmental Authority.

Section 7.12 **Purpose of Loans; Use of Proceeds.** Each Borrower has entered into this Agreement for legitimate purposes, and will use the proceeds of the Loans exclusively as set forth in this Agreement. No Borrower is engaged in illegal activities, and the intended use of the proceeds of the Loans is legally permitted.

Section 7.13 **Ownership of Other Assets; Liens.** Each Borrower has good and indefeasible title or valid leasehold interests in all their significant or material properties and assets, real and personal, which are owned or used by such Borrower, and none of such properties or assets or leasehold interests of such Borrower are subject to any mortgage, pledge, security interest, encumbrance, lien or charge of any kind other than the Loan Documents which would materially restrict the manner in which Borrower uses or intends to use such property.

Section 7.14 **Taxes.** Each Borrower has filed all federal and state tax returns or reports required of it, including but not limited to income, franchise, employment, property and sales taxes, and has paid or made adequate provision for the payment of all taxes which have become due pursuant to such returns or reports or pursuant to any assessment which has been received, none of such being outstanding and unpaid, and such Borrower knows of no pending investigations of it by any taxing authority, nor of any material pending but unassessed tax liability.

Section 7.15 (not used)

Section 7.16 (not used)

Section 7.17 (not used)

Section 7.18 **Misrepresentation.** There is no fact which any Borrower has failed to disclose to TMCC, which materially and adversely affects or is reasonably likely to have a Material Adverse Effect on the business, operation, properties, profits, or condition of such Borrower or the Collateral, or the ability of such Borrower to perform this Agreement.

Section 7.19 (not used)

Section 7.20 **Non-Foreign Entity.** Section 1445 of the Internal Revenue Code of 1986, as amended (the "Code"), provides that a transferee of a real property interest in the United States must withhold tax if the transferor is a foreign person. To inform TMCC that the withholding of tax will not be required in the event of a disposition of the Property pursuant to the terms of this Agreement, each Borrower hereby certifies that it is not a foreign person, foreign corporation, foreign partnership, foreign trust or foreign estate (as such terms are defined in the Code and the regulations promulgated thereunder) and that its principal place of business is at the address set forth for notices to Borrower herein. The tax identification number of each Borrower is set forth on Schedule 1. It is agreed that TMCC may disclose the contents of this certification to the Internal Revenue Service.

ARTICLE 8.

Representations and Warranties of Guarantor

In addition to any other representations and warranties set forth herein, Guarantor represents and warrants to TMCC as follows:

Section 8.1 **Organization, Corporate Authority and Qualifications.**

(a) Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, and each is duly qualified to transact business or own real property in each state or other jurisdiction in which its principal real properties are located or in which it conducts any important or material part of its business.

(b) Guarantor has the corporate power and authority to execute, deliver and perform this Agreement and the Guaranty Agreement.

(c) The persons signing this Agreement and the Guaranty Agreement on behalf of Guarantor have full authority to execute the same on behalf of said entity, and to bind said entity to the terms thereof.

Section 8.2 **Authorization and Compliance with Laws and Material Agreements.** The execution, delivery and performance of this Agreement and the Guaranty Agreement by Guarantor have been duly authorized by all requisite corporate action on the part of Guarantor and will not violate the articles of incorporation or bylaws of Guarantor and will not violate any provision of law, or order of any court or governmental agency affecting Guarantor in any material respect, and will not conflict with, result in a breach of the provisions of, constitute a

default under, or result in the imposition of any lien, charge, or encumbrance upon any assets of Guarantor pursuant to the provisions of any indenture, mortgage, deed of trust, franchise, permit, license, note or other agreement or instrument to which Guarantor may be bound. No approval or consent from any Governmental Authority or other third party is required in connection with the execution of or performance under this Agreement and the Guaranty Agreement by Guarantor.

Section 8.3 **Valid and Binding Obligation.** The Guaranty Agreement will upon execution and delivery by Guarantor, constitute a valid binding obligation of Guarantor, enforceable in accordance with its terms.

Section 8.4 **Financial Condition.** All financial statements (including balance sheets and statements of income and retained earnings) of Guarantor heretofore furnished to TMCC, are complete and correct and fairly represent the financial condition of Guarantor as at the dates of said financial statements and the results of their operations for the periods ending on said dates. Guarantor has no material contingent obligations, liabilities for taxes, long-term leases, or unusual forward or long-term commitments not disclosed by, or reserved against in, said balance sheets or the notes thereto; and at the present time, there are no material realized or anticipated losses from any unfavorable commitments of Guarantor. Said financial statements were prepared in accordance with GAAP consistently maintained throughout the periods involved. Since the date of the latest of such statements, there has been no material adverse change in the financial condition of Guarantor from that set forth in said statements.

Section 8.5 **Litigation and Judgments.** There are no suits or proceedings pending, or, to the knowledge of Guarantor, threatened, against or affecting Guarantor that, if adversely determined, would have a Material Adverse Effect on the financial condition or business of Guarantor; and there are no proceedings by or before any Governmental Authority pending or to the knowledge of Guarantor, threatened against Guarantor, which if adversely determined, would have a Material Adverse Effect on the business, properties, condition, financial or otherwise of Guarantor. There are no outstanding judgments (final or otherwise) against Guarantor. No event has occurred, including, without limitation, any litigation or administrative proceedings, and no condition exists or, to the knowledge of Guarantor, is threatened, which (i) might render Guarantor unable to perform its obligations hereunder or under the Guaranty Agreement, or (ii) constitutes or, after notice or lapse of time or both, would constitute an Event of Default.

Section 8.6 (not used)

Section 8.7 (not used)

Section 8.8 (not used)

Section 8.9 (not used)

Section 8.10 (not used)

Section 8.11 (not used)

Section 8.12 (not used)

Section 8.13 (not used)

Section 8.14 **Taxes.** Guarantor has filed all federal and state tax returns or reports required of it, including but not limited to income, franchise, employment and sales taxes, and have paid or made adequate provision for the payment of all taxes which have become due pursuant to such returns or reports or pursuant to any assessment which has been received, none of such being outstanding and unpaid, and Guarantor knows of no pending investigations of them by any taxing authority, nor of any material pending but unassessed tax liability.

Section 8.15 (not used)

Section 8.16 **No Materially Adverse Agreements.** Guarantor is a party to any agreement which, in the opinion of Guarantor, does or will have a Material Adverse Effect on the business, operations or condition, financial or otherwise, of Guarantor.

Section 8.17 (not used)

Section 8.18 **Misrepresentation.** There is no fact which Guarantor has failed to disclose to TMCC, which materially and adversely affects nor, so far as Guarantor can now foresee, is reasonably likely to have a Material Adverse Effect on the business, operation, properties, profits, or condition of Guarantor, or the ability of Guarantor to perform under the Guaranty Agreement.

Section 8.19 (not used)

Section 8.20 (not used)

ARTICLE 9.

Affirmative Covenants

In addition to any other affirmative covenants and agreements set forth herein, each Borrower covenants and agrees that, as long as the Obligations or any part thereof is outstanding, unless otherwise allowed by written instrument of TMCC:

Section 9.1 (not used)

Section 9.2 **Financial Reports of Lessees.** The following will be furnished TMCC for each Lessee:

(a) Within 90 days after the last day of each fiscal year, and within 45 days after the last day of each fiscal quarter, financial statements including (i) income statements, and (ii) balance sheets, as of the end of such year or quarter, as applicable.

(b) From time to time, such further information regarding the financial condition of the Lessee as TMCC may reasonably request.

Section 9.3 **Financial Reports of Guarantor.** The following will be furnished TMCC for Guarantor:

- (a) Within 90 days after the last day of each fiscal year, and within 45 days after the last day of each fiscal quarter, Guarantor's annual Form 10-K and quarterly Form 10-Q, as applicable, filed with the Securities and Exchange Commission.
- (b) From time to time, such further information regarding the financial condition of the Guarantor as TMCC may reasonably request.

All financial statements delivered hereunder shall be prepared on the basis of GAAP applied on a consistent basis, and shall be accompanied in each case by a certificate of an officer stating that said financial statements are true and correct and in all material respects and fairly present the financial condition and results of operations of such Lessee or Guarantor at the date thereof for the period then ended.

Section 9.4 (not used)

Section 9.5 **Continuing Business.** Except to the extent failure to do so will not have a Material Adverse Effect, each Borrower shall maintain and continue its present businesses and maintain its corporate, company or partnership (as applicable) existence in good standing, shall preserve and keep in full force and effect any franchise rights and trade names, and shall pay, before the same become delinquent and before penalties accrue thereon, all taxes, assessments, and other governmental charges against such Borrower or their property, and any and all other liabilities, except to the extent, and so long as the same are being contested in good faith by appropriate proceedings, with adequate reserves provided for such payments.

Section 9.6 **Liens, Etc.** No Borrower will create, incur, or suffer any lien, mortgage, pledge, assignment, or other encumbrance on, or security interest in, any of its properties, assets, or receivables, now owned or hereafter acquired, securing the Obligations (all such security being herein called "*Liens*") without TMCC's consent, except:

- (a) Liens to TMCC.
- (b) Materialmen's, supplier's, tax, and other like liens arising in the ordinary course of business and securing obligations that are not overdue or are being contested in good faith by appropriate proceedings.
- (c) Purchase money security interests in property now owned or hereafter acquired by such Borrower.
- (d) Furniture, trade fixtures and equipment purchased in the ordinary course of business.

Section 9.7 **Taxes, Etc.** All taxes, levies, and assessments of whatever description will be paid by Borrower before interest or penalties accrue thereon, unless the same is being contested in good faith by appropriate proceedings.

Section 9.8 **Inspection.** Each Borrower will permit TMCC or its designee to: (a) visit, at any time during normal business hours upon TMCC's request, each Property owned by it; and (b) inspect during normal business hours all Collateral and any records or documents of such Borrower or which relate to any Collateral.

Section 9.9 (not used)

Section 9.10 **Notices.** Borrower shall give to TMCC, as promptly as possible, notice of:

- (a) The occurrence of any Event of Default, or any event which, with the giving of notice or the passage of time, would constitute and Event of Default.
- (b) Any litigation or proceeding affecting Borrower that is reasonably expected to have a Material Adverse Effect.
- (c) A Material Adverse Effect.
- (d) An event or circumstance that would cause any material warranty, representation, covenant or agreement herein to be breached or inaccurate, as applicable.

Section 9.11 **Further Assurances.** At its costs and expense, upon request of TMCC, Borrower and Guarantor will duly execute and deliver or cause to be duly executed and delivered, to TMCC such further instruments, documents, certificates, financing and continuation statements, and do and cause to be done such further acts that may be reasonably necessary or advisable in the opinion of TMCC to carry out more effectively the provisions and purposes of this Agreement and the other Loan Documents.

Section 9.12 **Warranties, Representations and Agreements, Renewed and Cumulative.** Unless subject to a specific notice pursuant to Section 9.10(d), each warranty, representation, covenant and agreement contained in this Agreement shall be automatically deemed repeated with each Advance and shall be conclusively presumed to have been relied on by TMCC regardless of any investigation made or information possessed by TMCC; subject to any change of fact or circumstances of which Borrower has previously provided TMCC notice under Section 9.10. The warranties, representations, covenants, and agreements set forth herein shall be cumulative and in addition to any and all other warranties, representations, covenants, and agreements which Borrower or Guarantor shall give or cause to be given, to TMCC, either now or hereafter.

ARTICLE 10.

Negative Covenants

In addition to any other covenants and agreements set forth herein, Borrower, individually and collectively, jointly and severally, covenants and agrees that, as long as the Obligations or any part thereof is outstanding, unless otherwise allowed by written instrument of TMCC, Borrower shall not:

Section 10.1 **Reorganizations, Acquisitions, Change of Name.** (a) Merge or consolidate with or into any partnership, trust, or corporation or other entity whatsoever; or (b) sell, lease (other than to Lessees approved by TMCC), transfer, or otherwise dispose of any of its assets which is greater than ten (10%) of the aggregate total assets of Borrower (except in the ordinary course of business), whether now owned or hereafter acquired. The restrictions in (b) above shall not apply to a sale of a Property for which all Obligations for that particular Property (whether under the Construction Loan or Permanent Loan) have been or will be paid in full to TMCC at the time of sale.

Section 10.2 (not used)

Section 10.3 (not used)

Section 10.4 **Loans and Investments.** Lend or advance money, credit or property to any Person, or invest in (by capital contribution or otherwise), or purchase or repurchase the stock or indebtedness, of all or a substantial part of the assets or properties of any Person, or agree to do any of the foregoing, except for:

(a) Direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America and which mature within one year from the date of acquisition thereof.

(b) Investments in commercial paper of any corporation with a maturity not in excess of one year from the date of acquisition thereof and rated P-1 or better by Moody's Investors Services Inc., or A-1 or better by Standard & Poor's Corporation.

(c) Investments in negotiable or non-negotiable time certificates of deposit and time deposits, with a maturity not in excess of one year from the date of acquisition thereof, issued by or placed with, and money market deposit accounts issued or offered by any commercial bank organized and existing under the laws of the United States of America or under any states of the United States of America and having a combined capital and undivided surplus of not less than \$500,000,000.00, *provided, however*, that such certificates of deposit or time deposits at any one bank shall at no time exceed ten percent (10%) of the undivided capital and surplus of such bank.

(d) Advances by any Borrower to another Borrower, whether constituting capital contributions or indebtedness or otherwise made; *provided* that no Event of Default is occurring at the time of such advance and no Event of Default would occur as a result thereof.

(e) Acquisition of all or any portion of any assets or interests of any Person engaged in the automobile dealership business; *provided* that Borrower and Guarantor deliver prior written notice of any such acquisition to TMCC.

(f) (not used)

Section 10.5 **Restriction on Transfer.** Except as expressly permitted pursuant to this Agreement: (a) O. Bruton Smith and B. Scott Smith, or a related party, shall continue to own directly or indirectly, more than 50% of the combined voting power of the Guarantor's capital stock ordinarily having the right to vote at an election of directors, and (b) no Borrower shall,

without TMCC's prior written consent, suffer, permit or enter into (i) any lease of one year or longer, sale, transfer, assignment, agreement for deed, conveyance, hypothecation or encumbrance, whether voluntary or involuntary, of all or any part of the Property owned by it or any interest therein, or (ii) any sale, assignment, pledge, encumbrance or transfer to a third party of an aggregate of more than 20% of the ownership interests of any Borrower, if such entity is a corporation, partnership, or limited liability company, or (iii) seizure of the Property or attachment of any lien on the Property, whether voluntary or involuntary, which has not been removed or bonded over to TMCC's satisfaction within 30 days of such attachment, then and in such event TMCC may by written notice to Borrower, accelerate and declare the principal balance of the Loans and interest accrued thereon immediately due and payable notwithstanding any provision to the contrary contained herein or in any of the Loan Documents. Borrower shall notify TMCC promptly in writing of any transaction or event that may give rise to a right of acceleration hereunder. Any consent by TMCC, or any waiver of an event of default under this Section 10.5, shall not constitute a consent to, or waiver of any right, remedy or power of TMCC under any subsequent event of default hereunder.

Section 10.6 **Sale of Assets.** Sell, lease, transfer, exchange or otherwise dispose of any part of its interest in the Collateral or the Property without the prior written consent of TMCC except for sale of inventory in the ordinary course of business.

ARTICLE 11.

(not used)

ARTICLE 12.

Events of Default

Section 12.1 **Events of Default.** In addition to any other provisions set forth herein included within the definition of a default, the occurrence of any one or more of the following events shall constitute an "*Event of Default*":

- (a) Payment of Construction Loan. Failure to make any payments of principal or interest when and as due under the Construction Loan, or any other instruments evidencing the Construction Loan, and the payment due is not received by TMCC for a period of 10 days after written notice thereof by TMCC to Borrower.
- (b) Payment of Permanent Loan. Failure to make any payments of principal or interest when due under the Permanent Promissory Note or other instruments evidencing the Permanent Loan, and the payment due is not received by TMCC for a period of 10 days after written notice thereof by TMCC to Borrower.
- (c) Payment of Other Obligations. Failure to pay, when due, any other Obligations under any of the Loan Documents, and the payment due is not received by TMCC for a period of 20 days after written notice thereof by TMCC to Borrower.

(d) Noncompliance with Loan Documents. Failure to perform or observe any of the other agreements, covenants or conditions (i.e., other than the payment of money) contained in this Agreement, in any other Loan Document, and such default shall continue for a period of 30 days after written notice thereof from TMCC to Borrower (unless such default, if curable, requires work to be performed, acts to be done or conditions to be remedied which by their nature cannot be performed, done or remedied, as the case may be, within such 30 day period and Borrower shall commence to cure such default within such 30 day period and shall thereafter diligently and continuously process the same to completion but in no event shall the period for cure exceed 120 days unless otherwise agreed by TMCC).

(e) Default on Other Debt. Any Borrower or Guarantor shall fail to pay all or any part of the principal of or interest on any other indebtedness owing to TMCC, when due (whether at maturity, by acceleration or otherwise).

(f) Cessation of Construction. The cessation of the construction of the Improvements for more than 15 days without the written consent of TMCC. However, delays by reason of Force Majeure shall not be counted as part of said 15 days.

(g) Misrepresentations. Any material representation or warranty made or furnished to TMCC by or on behalf of any Borrower or Guarantor in this Agreement, any of the other Loan Documents, or any instrument, certificate or financial statement furnished in compliance with or in reference thereto proves to have been false or misleading in any material respect.

(h) (not used)

(i) Repudiation of or Default Under Guaranty Agreements. Any Guarantor shall (i) revoke or attempt to revoke the Guaranty Agreement signed by such Guarantor, (ii) repudiate such Guarantor's liability thereunder, or (ii) be in default under the terms thereof, following the expiration of any applicable cure or grace period.

(j) Bankruptcy, Insolvency, Etc. The occurrence of any of the following:

(i) The appointment of a receiver, trustee, custodian, conservator, or liquidator, or other similar official for any Borrower or Guarantor, any of its property, or any other property of such Borrower or Guarantor.

(ii) Any Borrower or Guarantor shall generally not pay its debts as they become due or shall admit in writing an inability to pay its debts, or shall make a general assignment for the benefit of creditors.

(iii) Any Borrower or Guarantor shall commence any case, proceeding or other action seeking relief, reorganization, arrangement, adjustment, liquidation, dissolution or composition of such Borrower or Guarantor or its respective debts under any debtor relief laws.

(iv) Any case, proceeding or other action is commenced against any Borrower or Guarantor seeking to have an order for relief entered against such Borrower or

Guarantor, as debtor, or seeking a reorganization, arrangement, adjustment, liquidation, dissolution or composition of such Borrower or Guarantor or its respective debts under any debtor relief laws, or seeking an appointment of a receiver, trustee, custodian or other similar official for such Borrower or Guarantor or for all or any of its property, or any other property of such Borrower or Guarantor and such case, proceeding or other action: (i) results in the entry of an order for relief against such Borrower or Guarantor and (ii) remains undismissed for a period of 60 days after commencement.

(v) Any Borrower or Guarantor shall have concealed, removed or permitted to be concealed or removed, any part of its property, with intent to hinder, delay or defraud any of its creditors; or made or suffered a transfer of any of its property which may be fraudulent under any bankruptcy, fraudulent conveyance or similar law; or shall have made any transfer of its property to or for the benefit of a creditor at a time when other creditors similarly situated have not been paid (unless adequate provision in cash has been made for payment of the similar claim); or shall have suffered or permitted, while insolvent, any creditor to obtain a lien upon any of the Collateral through legal proceedings which is not vacated within 60 days.

(vi) (not used)

(k) Franchise Agreements. Subject to the 120-day time period set forth below, the failure of the Lessee to obtain and maintain approval by (a) the appropriate original manufacturer or distributor of motor vehicles to sell and service the brand of new motor vehicles contemplated by the parties hereto to be sold by such entity (referred to herein as a "*Franchise Agreement*"); and (b) any applicable Governmental Authority agency to purchase, sell, lease, and service motor vehicles as a new and used dealer thereof. If (i) a Lessee's Franchise Agreement is terminated, or (ii) a Lessee loses its approval from the applicable Governmental Authority to purchase, sell, lease or service motor vehicles as aforesaid, such event shall not constitute an Event of Default if, not later than 120 days from such termination or loss of approval, the Lessee's Franchise Agreement is reinstated or the approval is regained or a new Franchise Agreement subject to TMCC's reasonable approval is obtained for such Property, as applicable.

(l) Cross-Default. The occurrence of (i) a default under any other Loan Document and the expiration of any applicable cure or grace period; or (ii) a default under any other agreement between any Borrower or Guarantor and TMCC now existing or hereafter arising and the expiration of any applicable cure or grace period, will constitute an immediate default under this Agreement, the Loan Documents and all other such agreements.

ARTICLE 13.

Remedies

Upon the occurrence of an Event of Default, TMCC shall have, in addition to any other rights or remedies available at law or in equity, the following rights and remedies:

Section 13.1 **Termination of Agreement.** TMCC may terminate this Agreement or any part thereof. By way of example only, TMCC may terminate the Construction Line of Credit under Article 4 and the Permanent Line of Credit under Article 5.

Section 13.2 **Specific Remedies.** TMCC shall have the right to:

- (a) Institute proceedings to collect all or a portion of the Obligations and to recover a judgment for the same and to collect upon such judgment out of any property of any Borrower wherever situated.
- (b) To offset and apply any monies, credits or other proceeds of property of any Borrower that has or may come into possession or under the control of TMCC against any amount owing to TMCC under this Agreement or any other Loan Document.
- (c) (not used)
- (d) (not used)
- (e) (not used)
- (f) (not used)

Section 13.3 **Remedies Cumulative.** TMCC shall have all rights and remedies contained in any other Loan Document, all of which rights and remedies shall be cumulative of those granted herein, or otherwise available at law or in equity. All of TMCC's rights and remedies may be enforced successively or concurrently. TMCC's rights shall include all rights of a secured party under the Uniform Commercial Code applicable in any particular state.

Section 13.4 **Expenses.** Borrower and Guarantor shall pay all expenses and reimburse TMCC for any expenditures, including reasonable attorney fees and legal expenses, in connection with TMCC's exercise of any of its rights and remedies under this Agreement.

Section 13.5 **Proceeds.** Proceeds realized by TMCC on the sale or other disposition of the Collateral, after payment of all expenses incurred by TMCC in enforcing the Obligations or in retaking, holding, preparing for sale or lease, selling, leasing or otherwise disposing of or realizing on the Collateral or the Obligations, shall be applied by TMCC to the remaining Obligations in such manner as TMCC shall elect.

Section 13.6 **No Agency.** Nothing herein contained shall be construed to constitute any Borrower or Guarantor as agent of TMCC for any purpose whatsoever, and TMCC shall not be responsible nor liable for any shortage, discrepancy, damage, loss or destruction of any part of the Collateral wherever the same may be located and regardless of the cause thereof, except to the extent the same results from TMCC's own gross negligence or willful misconduct. TMCC shall not, under any circumstances or in any event whatsoever, have any liability for any error or omission or delay of any kind occurring in the settlement, collection or payment of any of the Collateral or any instrument received in payment thereof or for any damage resulting therefrom, except to the extent the same results from TMCC's own gross negligence or willful misconduct. TMCC does not by anything herein or in any assignment or otherwise, assume Borrower's or

Guarantor's obligations under any contract or agreement assigned to TMCC, and TMCC shall not be responsible in any way for the performance by Borrower or Guarantor of any of the terms and conditions thereof.

ARTICLE 14.

Miscellaneous

Section 14.1 **TMCC's Accounts.** TMCC shall maintain on its books in accordance with its usual practice an account or accounts with respect to the Loans, which account or accounts shall include, without limitation, (i) the outstanding principal amount of each of the Loans, (ii) the amount of principal and interest due under each of the Loans and the required payment dates, (iii) all other fees, costs, expenses, losses and indemnities due under this Agreement or any other Loan Document, and (iv) all amounts received by TMCC with respect to the foregoing. For purposes of any legal action or proceeding arising out of or in connection with this Agreement or any other Loan Document, and for all other purposes, the entries made in such account or accounts maintained by TMCC pursuant to this Section 14.1 shall create a presumption as to the existence and amounts of the foregoing, absent manifest error.

Section 14.2 **Notices.** Any notice required or permitted to be given hereunder by one party to the other shall be in writing and the same shall be given and shall be deemed to have been served and given if (i) delivered in person to the address set forth below for the party to whom the notice is given, (ii) placed in the United States mail by certified mail, return receipt requested, addressed to such party at the address set forth below, (iii) deposited into the custody of FedEx (or other reputable overnight delivery service), addressed to such party at the address set forth below, or (iv) by telecopy to the telecopy number set forth below. Any notice delivered in person shall be deemed to have been served upon such delivery. Any notice by certified mail shall be deemed to have been served and delivered 3 calendar days after its deposit into the custody of the U.S. Postal Service. Any notice by overnight courier shall be deemed to have been served and delivered the first Business Day after its deposit into the custody of such overnight courier. Any notice by telecopy shall be deemed to have been served and delivered upon transmission. All other notices shall be effective and deemed delivered only upon actual receipt. Any party shall have the right to change its address for notice hereunder to any other location within the continental United States, or to change its telecopy number, by the giving of 30 days' notice to the other party in the manner set forth above. The addresses of the parties for purposes of notice hereunder are:

TMCC:

Toyota Financial Services
19001 South Western Avenue
P. O. Box 2958
Torrance, California 90509-2958
Attn: Ms. Katherine E. Adkins, Esq.
Telecopy Number: (310) 468-3501

Borrower and Guarantor:

Sonic Automotive, Inc.
5401 East Independence Boulevard
Charlotte, North Carolina 28212
Attn: Mr. Theodore Wright
Telecopy Number: (704) 536-5116

With a copy to:

Sonic Automotive, Inc.
6415 Idlewild Road
Suite 109
Charlotte, North Carolina 28212
Attn: Mr. Steven Coss, General Counsel
Telecopy: (704) 927-3412

Section 14.3 **Waiver.** No course of dealing, or any failure by TMCC to insist, or any election by TMCC not to insist, upon strict performance of any of the terms, provisions or conditions of the Loan Documents shall not be deemed to be a waiver of same or of any other term, provision or condition thereof; and TMCC shall have the right at any time thereafter to insist upon strict performance of any and all of same. Specifically, no Advance by TMCC when there exists an Event of Default under Article 12 shall in any way preclude TMCC from thereafter declaring such failure to comply to be an Event of Default hereunder.

Section 14.4 **Survival.** All representations and warranties contained in this Agreement shall survive the execution of this Agreement and the other Loan Documents, and the making of the Loans.

Section 14.5 **Limitations on Interest.** All agreements between TMCC, Borrower, whether now existing or hereafter arising and whether written or oral, are hereby limited so that in no contingency, whether by reason of demand for payment or acceleration of the maturity hereof or otherwise, shall the interest contracted for, charged or received by TMCC exceed the maximum amount permissible under Applicable Law. If, from any circumstance whatsoever, interest would otherwise be payable to TMCC in excess of the maximum lawful amount, the interest payable to TMCC shall be reduced to the maximum amount permitted under Applicable Law; and if from any circumstance TMCC shall ever receive anything of value deemed interest by Applicable Law in excess of the maximum lawful amount, an amount equal to any excessive interest shall be applied to the reduction of the principal balance of the Obligations to which such excess pertains and not to the payment of interest, or if such excessive interest exceeds the principal balance such excess shall be refunded to the applicable Borrower or Guarantor. All interest paid or agreed to be paid to TMCC shall, to the extent permitted by Applicable Law, be amortized, prorated, allocated, and spread throughout the full period until payment in full of the principal so that the interest hereon for such full period shall not exceed the maximum amount permitted by Applicable Law. This paragraph shall control all agreements between TMCC and Borrower and Guarantor.

Section 14.6 **Choice of Law.** Except as provided below, this Agreement and the other Loan Documents (except as may be otherwise expressly provided in such other Loan Documents), shall be governed by and construed in accordance with the laws of the State of California and the laws of the United States applicable to transactions within such State. The Loan Documents executed by a Borrower granting a lien on collateral located in a state other than California shall be governed by the laws of the state specified in such documents.

Section 14.7 **Venue and Waiver of Jury Trial.** The parties agree that all actions or proceedings arising in connection with this Agreement and any of the Loan Documents shall be tried and litigated only in the state and federal courts located in the State of California or, at the sole option of TMCC, in any other court in which TMCC shall initiate legal or equitable proceedings and which has subject matter jurisdiction over the matter in controversy. All the parties to this Agreement waive any right each may have to assert the doctrine of *forum non conveniens* or to object to venue to the extent any proceeding is brought in accordance with this Section 14.7. ALL THE PARTIES TO THIS AGREEMENT HEREBY FURTHER JOINTLY AND SEVERALLY WAIVE ANY RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY ACTION, CLAIM, SUIT OR PROCEEDING IN RESPECT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND/OR ANY RELATIONSHIP BETWEEN TMCC AND BORROWER AND GUARANTOR.

Section 14.8 **Severability.** If any provision hereof or of any of the other Loan Documents or the application thereof to any person or circumstance shall, for any reason and to any extent, be invalid or unenforceable, neither the application of such provision to any other person or circumstance nor the remainder of the instrument in which such provision is contained shall be affected thereby, but rather shall be enforced to the greatest extent permitted by law.

Section 14.9 **Construction.** This Agreement and each other Loan Document are being entered into by competent and experienced businessmen, represented by counsel, and the parties acknowledge that each party and its counsel have reviewed and revised this Agreement and the Loan Documents; therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement, the Loan Documents or any amendments or exhibits hereto. The parties intend that all Loan Documents shall be construed and interpreted in a consistent manner.

Section 14.10 **TMCC's Discretion.** Except as expressly stated otherwise herein, in any instance hereunder (including any exhibits, schedules, annexes or addenda hereto) where TMCC's satisfaction, approval or consent or the exercise of TMCC's judgment is required, or TMCC is to exercise its discretion, the granting or denial of such satisfaction, approval or consent and the exercise of such judgment or discretion shall be within the sole discretion of TMCC. This provision shall govern any such satisfaction requirements, consents, approvals or exercise of judgment or discretion required in connection with any of the Loan Documents.

Section 14.11 **No Third Party Beneficiary.** This Agreement is for the sole benefit of TMCC and Borrower and is not for the benefit of any third party.

Section 14.12 **No Partnership.** In no event shall TMCC's rights and interests under the Loan Documents be construed to give TMCC the right to, or be deemed to indicate that TMCC is

in control of the business, management or properties of and Borrower or Guarantor, or has power over the daily management functions and operating decisions made by any Borrower or Guarantor. Nothing contained herein or in any of the other Loan Documents shall be construed as creating joint venture, partnership, tenancy-in-common or joint tenancy arrangement between TMCC, any Borrower and Guarantor. The relationship of TMCC and each Borrower and Guarantor is and at all times shall be solely that of debtor and creditor.

Section 14.13 **Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, successors, legal representatives and assigns. However, no Borrower or Guarantor shall assign or encumber this Agreement or any rights herein, it being expressly understood and agreed that the rights of Borrower and Guarantor hereunder are not assignable.

Section 14.14 **Number and Gender.** Whenever used herein, the singular number shall include the plural and the plural the singular, and the use of any gender shall be applicable to all genders. The duties, covenants, obligations, and warranties of each Borrower in this Agreement shall be joint and several obligations of each Borrower.

Section 14.15 **Captions.** The captions, headings, and arrangements used in this Agreement are for convenience only and do not in any way affect, limit, amplify, or modify the terms and provisions hereof.

Section 14.16 **Time of the Essence.** Time is of the essence with respect to each and every matter pertaining to performance under this Agreement and of each provision hereof.

Section 14.17 **Executed Copies.** This Agreement may be executed in any number of counterpart copies, each of which counterparts shall be deemed an original for all purposes.

Section 14.18 **Entire Agreement of the Parties.** This Agreement, including all agreements referred to or incorporated herein and all recitals hereto, is the entire agreement among the parties relating to the subject matter hereof, and supersedes all prior agreements, commitments and understandings among the parties hereto relating to the subject matter hereof. No variation, modification or changes hereto shall be binding on any party hereto unless set forth in a document executed by such parties or a duly authorized agent, officer or representative thereof. This Agreement shall be deemed effective as of the date hereof. To the extent that the terms of the documents heretofore evidencing the Construction Loan and Permanent Loan are inconsistent with the terms hereof, or if any contemporaneous or subsequent documents evidencing said loans are inconsistent with the terms hereof, the terms of this Agreement shall control.

EXECUTED to be effective as of the date and year first above written.

TMCC:

Toyota Motor Credit Corporation

By: /s/ DAVID E. PELLICIONI

Name: **David E. Pellicioni**
Title: **Group Vice President**

[Additional Signature Pages to Follow]

Guarantor:

Sonic Automotive, Inc.

By: /s/ THEODORE M. WRIGHT

Name: Theodore M. Wright
Title: President

[Additional Signature Pages to Follow]

Borrower:

SRE Holding, LLC,
a North Carolina limited liability company
SRE Alabama - 2, LLC,
an Alabama limited liability company
SRE Alabama - 3, LLC,
an Alabama limited liability company
SRE Alabama - 4, LLC,
an Alabama limited liability company
SRealEstate Arizona -1, LLC,
an Arizona limited liability company
SRealEstate Arizona - 2, LLC,
an Arizona limited liability company
SRealEstate Arizona - 3, LLC,
an Arizona limited liability company
SRealEstate Arizona - 4, LLC,
an Arizona limited liability company
SRealEstate Arizona - 5, LLC,
an Arizona limited liability company
SRealEstate Arizona - 6, LLC,
an Arizona limited liability company
SRealEstate Arizona - 7, LLC,
an Arizona limited liability company
SRE California - 1, LLC,
a California limited liability company
SRE California - 2, LLC,
a California limited liability company
SRE California - 3, LLC,
a California limited liability company
SRE California - 4, LLC,
a California limited liability company
SRE California - 5, LLC,
a California limited liability company
SRE California - 6, LLC,
a California limited liability company
SRE Colorado - 1, LLC,
a Colorado limited liability company
SRE Colorado - 2, LLC,
a Colorado limited liability company
SRE Colorado - 3, LLC,
a Colorado limited liability company
SRE Florida - 1, LLC,
a Florida limited liability company
SRE Florida - 2, LLC,
a Florida limited liability company
SRE Florida - 3, LLC,
a Florida limited liability company
SRE Michigan -1, LLC,
a Michigan limited liability company

SRE Michigan - 2, LLC,
a Michigan limited liability company
SRE Michigan - 3, LLC,
a Michigan limited liability company
SRE Nevada - 1, LLC,
a Nevada limited liability company
SRE Nevada - 2, LLC,
a Nevada limited liability company
SRE Nevada - 3, LLC,
a Nevada limited liability company
SRE Nevada - 4, LLC,
a Nevada limited liability company
SRE Nevada - 5, LLC,
a Nevada limited liability company
SRE Oklahoma – 1, LLC,
an Oklahoma limited liability company
SRE Oklahoma – 2, LLC,
an Oklahoma limited liability company
SRE Oklahoma – 3, LLC,
an Oklahoma limited liability company
SRE Oklahoma – 4, LLC,
an Oklahoma limited liability company
SRE Oklahoma – 5, LLC,
an Oklahoma limited liability company
SRE South Carolina - 2, LLC,
a South Carolina limited liability company
SRE South Carolina - 3, LLC,
a South Carolina limited liability company
SRE South Carolina - 4, LLC,
a South Carolina limited liability company
SRE Tennessee - 1, LLC,
a Tennessee limited liability company
SRE Tennessee - 2, LLC,
a Tennessee limited liability company
SRE Tennessee - 3, LLC,
a Tennessee limited liability company
SRE Virginia - 1, LLC,
a Virginia limited liability company

By: /s/ THEODORE M. WRIGHT

Name: **Theodore M. Wright**
Title: **Vice President and Treasurer of each of
the above companies**

Attest: /s/ STEPHEN K. COSS

**Stephen K. Coss, Secretary
of each of the companies**

[Additional Signature Pages to Follow]

SRE Georgia - 1, L.P.,
a Georgia limited partnership
SRE Georgia - 2, L.P.,
a Georgia limited partnership
SRE Georgia - 3, L.P.,
a Georgia limited partnership

By: Sonic Automotive of Georgia, Inc.,
a Georgia corporation, the general partner of
each of the above partnerships

By: /s/ THEODORE M. WRIGHT

Name: **Theodore M. Wright**
Title: **Vice President and Treasurer**

Attest: /s/ STEPHEN K. COSS

Stephen K. Coss, Secretary

[Additional Signature Pages to Follow]

SRE Texas -1, L.P.,
a Texas limited partnership
SRE Texas - 2, L.P.,
a Texas limited partnership
SRE Texas - 3, L.P.,
a Texas limited partnership
SRE Texas - 4, L.P.,
a Texas limited partnership
SRE Texas - 5, L.P.,
a Texas limited partnership
SRE Texas - 6, L.P.,
a Texas limited partnership
SRE Texas - 7, L.P.,
a Texas limited partnership
SRE Texas - 8, L.P.,
a Texas limited partnership

By: Sonic of Texas, Inc.,
a Texas corporation, the
general partner of each of the
above partnerships

By: /s/ THEODORE M. WRIGHT

Name: **Theodore M. Wright**
Title: **Vice President and Treasurer**

Attest: /s/ STEPHEN K. COSS

Stephen K. Coss, Secretary

EXHIBIT 1.1(kk)

Survey Requirements

Field Note Description. The Survey should contain a certified metes and bounds description and should comply with the following requirements:

- (a) The beginning point should be established by a monument located at the beginning point, or by reference to a nearby monument.
- (b) The sides of the Property should be described by giving the distances and bearings of each.
- (c) The distances, bearings, and angles should be taken from a recent instrument survey, or recently re-certified instrument survey, by a licensed Professional Engineer or Registered Surveyor.
- (d) Curved sides should be described by data including: length of arc, central angle, radius of circle for the arc and chord distance, and bearing.
- (e) The legal description should be a single perimeter description of the entire Property.
- (f) The description should include a reference to all streets, alleys, and other rights-of-way that abut the Property surveyed, and the width of all rights-of-way mentioned should be given the first time these rights-of-way are referred to.
- (g) If the Property surveyed has been recorded on a map or plat as part of an abstract or subdivision, reference to such recording data should be made.

Lot and Block Description. If the Property is included within a properly established, recorded subdivision or addition, then a lot and block description will be an acceptable substitute for a metes and bounds description, provided that the lot and block description must completely and properly identify the name or designation of the recorded subdivision or addition and give the recording information therefore.

Map or Plat. The Survey should also contain a certified map or plat showing the following:

- (a) The plot to be covered by the Mortgage.
- (b) The relation of the point of beginning of said plot to the monument from which it is fixed.
- (c) Monuments for corners and points of curves.
- (d) All easements, showing recording information therefore by volume and page.

-
- (e) The established building line, if any.
 - (f) All easements appurtenant to said plot.
 - (g) The boundary line of the street or streets abutting the plot and the width of said streets.
 - (h) Encroachments and the extent thereof in terms of distance upon said plot or any easement appurtenant thereto.

The Survey should also contain all structures and improvements on said plot with horizontal lengths of all sides and the relation thereof by distances to (a) all boundary lines of the plot, b) easements, (c) established building lines, and (d) street lines.

Certification. The certification for the Property description and the map or plat should be addressed to TMCC (and to the interested title company, if required by the title company), signed by the surveyor, bearing current date, registration number, and seal, and should be in the following form or its substantial equivalent:

The undersigned hereby certifies to TMCC that this survey (i) was made on the ground as per the field notes shown hereon and correctly shows the boundary lines and dimensions and area of the land indicated hereon and each individual parcel thereof indicated hereon; (ii) all monuments shown hereon actually exist, and the location, size and type of such monuments are correctly shown; (iii) this survey correctly shows the location of all buildings, structures, other improvements and visible items on the subject Property; (iv) this survey correctly shows the location and dimensions of all alleys, streets, roads, rights-of-way, easements, and other matters of record of which the undersigned has been advised affecting the subject Property according to the legal description in such easements and other matters (with instrument, book, and page number indicated); (v) except as shown, there are no visible easements, rights-of-way, party walls, drainage ditches, streams, or conflicts, visible encroachments onto adjoining premises, streets, or alleys by any of said buildings, structures, or other improvements, or visible encroachments onto the subject Property by buildings, structures, or other improvements on adjoining premises; (vi) the distance from the nearest intersecting street and road is as shown hereon; and (vii) the subject property has direct access to dedicated public roads accepted for maintenance by the entity to which such roads were dedicated.

EXHIBIT 3.2

**Borrowing Notice
for
Acquisition Advance**

Date: _____, 200__

To: Toyota Motor Credit Corporation
19001 So. Western Avenue, PO Box 2958
Torrance, California 90509-2958

Re: Master Loan Agreement ("Loan Agreement") dated _____, 2002, between Toyota Motor Credit Corporation ("TMCC") and Sonic Automotive, Inc., et al, a Delaware corporation ("Borrower")

By delivery of this Borrowing Notice, Borrower hereby requests an Acquisition Advance under the Loan Agreement. The following information is hereby provided to TMCC by Borrower in accordance with the Section 3.2 of the Loan Agreement:

1. Requested amount of Acquisition Advance: \$ _____
2. Business Day on which Advance to be made: _____
3. Current Applicable Loan Limit: \$ _____
4. Loan Under Which Made (check one):
_____ Construction Loan
_____ Permanent Loan

Borrower understands that this Borrowing Notice is irrevocable. Borrower hereby represents and warrants to TMCC that no Event of Default has occurred and is continuing under the Loan Agreement and no event has occurred and is continuing which with the passage of time or giving of notice would mature into an Event of Default. The Borrower hereby restates and reaffirms to TMCC all the representations and warranties contained in the Loan Agreement the same as if made on the date hereof and fully set forth herein. All capitalized terms used herein unless otherwise defined herein, shall have the meanings ascribed to them in the Loan Agreement.

[Applicable Borrower]

By: _____

Name: _____

Title: _____

EXHIBIT 4.11

State Law Requirements

For Construction Projects in Texas:

In addition to the requirements set forth in Section 4 of the Master Loan Agreement, the following conditions for Draws shall apply:

Section 4.8 Additional Conditions to the First Draw. Borrower and each General Contractor shall have jointly executed and recorded with the county clerk of the county in which the Property is situated an affidavit of commencement of work, in the form and substance approved by TMCC, which contains the information required by §53.124(c) of the Texas Property Code, provided further that the date of commencement of work specified in such affidavit shall be subsequent to the date of recordation of the Deed of Trust. Such affidavit shall be executed and recorded after the date the work actually commenced, but not later than the 30th day thereafter.

Section 4.11 Additional Conditions to Final Draw. The Final Draw shall be withheld until 30 days after (i) the “completion” (as that term is defined in §53.106 of the Texas Property Code) of the Improvements, (ii) an affidavit of completion has been filed with the county clerk of the county in which the Property is located in compliance with §53.106 of the Texas Property Code, and (iii) an second affidavit of completion is provided to TMCC 30 days after the affidavit in (ii) above reflecting that no lien affidavits have been filed, and no notices have been received by any Person claiming a lien.

Exhibit 4.11

EXHIBIT 5.10(a)

Conversion Notice

Date: _____, 200__

To: Toyota Motor Credit Corporation
19001 So. Western Avenue, P0 Box 2958
Torrance, California 90509-2958

Re: Master Loan Agreement ("Loan Agreement") dated _____, 2002, between Toyota Motor Credit Corporation ("TMCC") and Sonic Automotive, Inc., et al, a Delaware corporation ("Borrower")

By delivery of this Conversion Notice pursuant to Section 5.10(a) of the Master Loan Agreement, Borrower hereby elects to convert a Construction Project Loan Amount into a Permanent Loan. The following information is hereby provided to TMCC by Borrower in accordance with the of the Loan Agreement:

1. The amount of Construction Funding to be converted (amount shall not exceed the Loan Value for the relevant Property): \$ _____
2. Conversion Date: _____
3. Location of Property: _____

Borrower hereby represents and warrants to TMCC that no Event of Default has occurred or is continuing under the Loan Agreement and no event has occurred which with the passage of time or giving of notice would mature into an Event of Default. The Borrower hereby restates and reaffirms to TMCC all the representations and warranties contained in the Loan Agreement the same as if made on the date hereof and fully set forth herein. All capitalized terms used herein unless otherwise defined herein, shall have the meanings ascribed to them in the Loan Agreement.

By: _____

Name: _____

Title: _____

SCHEDULE 1

Borrower Information

Co-Borrowers:

1. SRE Alabama - 2, LLC, an Alabama limited liability company
2. SRE Alabama - 3, LLC, an Alabama limited liability company
3. SRE Alabama - 4, LLC, an Alabama limited liability company
4. SRealEstate Arizona - 1, LLC, an Arizona limited liability company
5. SRealEstate Arizona - 2, LLC, an Arizona limited liability company
6. SRealEstate Arizona - 3, LLC, an Arizona limited liability company
7. SRealEstate Arizona - 4, LLC, an Arizona limited liability company
8. SRealEstate Arizona - 5, LLC, an Arizona limited liability company
9. SRealEstate Arizona - 6, LLC, an Arizona limited liability company
10. SRealEstate Arizona - 7, LLC, an Arizona limited liability company
11. SRE California – 1, LLC, a California limited liability company
12. SRE California – 2, LLC, a California limited liability company
13. SRE California – 3, LLC, a California limited liability company
14. SRE California – 4, LLC, a California limited liability company
15. SRE California – 5, LLC, a California limited liability company
16. SRE California – 6, LLC, a California limited liability company
17. SRE Colorado - 1, LLC, a Colorado limited liability company
18. SRE Colorado - 2, LLC, a Colorado limited liability company
19. SRE Colorado - 3, LLC, a Colorado limited liability company
20. SRE Florida - 1, LLC, a Florida limited liability company
21. SRE Florida - 2, LLC, a Florida limited liability company
22. SRE Florida - 3, LLC, a Florida limited liability company
23. SRE Georgia - 1, L.P., a Georgia limited partnership
24. SRE Georgia - 2, L.P., a Georgia limited partnership
25. SRE Georgia - 3, L.P., a Georgia limited partnership
26. SRE Holding, LLC, a North Carolina limited liability company
27. SRE Michigan – 1, LLC, a Michigan limited liability company
28. SRE Michigan – 2, LLC, a Michigan limited liability company
29. SRE Michigan – 3, LLC, a Michigan limited liability company
30. SRE Nevada - 1, LLC, a Nevada limited liability company
31. SRE Nevada - 2, LLC, a Nevada limited liability company
32. SRE Nevada - 3, LLC, a Nevada limited liability company
33. SRE Nevada - 4, LLC, a Nevada limited liability company
34. SRE Nevada - 5, LLC, a Nevada limited liability company
35. SRE Oklahoma – 1, LLC, an Oklahoma limited liability company
36. SRE Oklahoma – 2, LLC, an Oklahoma limited liability company
37. SRE Oklahoma – 3, LLC, an Oklahoma limited liability company

-
38. SRE Oklahoma – 4, LLC, an Oklahoma limited liability company
 39. SRE Oklahoma – 5, LLC, an Oklahoma limited liability company
 40. SRE South Carolina -2, LLC, a South Carolina limited liability company
 41. SRE South Carolina - 3, LLC, a South Carolina limited liability company
 42. SRE South Carolina - 4, LLC, a South Carolina limited liability company
 43. SRE Tennessee - 1, LLC, a Tennessee limited liability company
 44. SRE Tennessee - 2, LLC, a Tennessee limited liability company
 45. SRE Tennessee - 3, LLC, a Tennessee limited liability company
 46. SRE Texas - 1, L.P., a Texas limited partnership
 47. SRE Texas - 2, L.P., a Texas limited partnership
 48. SRE Texas - 3, L.P., a Texas limited partnership
 49. SRE Texas - 4, L.P., a Texas limited partnership
 50. SRE Texas - 5, L.P., a Texas limited partnership
 51. SRE Texas - 6, L.P., a Texas limited partnership
 52. SRE Texas - 7, L.P., a Texas limited partnership
 53. SRE Texas - 8, L.P., a Texas limited partnership
 54. SRE Virginia - 1, LLC, a Virginia limited liability company

Schedule 1 - 2

SCHEDULE 7.10

Financing Statements

Schedule 7.10

PROMISSORY NOTE
(Revolving Line of Credit Construction Loan)

\$50,000,000.00

December 31, 2002

Borrower: The Entities executing this Note in the signatures below

Borrower's Address for Notice: 5401 East Independence Boulevard
Charlotte, North Carolina 28212

Lender: Toyota Motor Credit Corporation

Lender's Address for Payment: 19001 South Western Avenue
Torrance, California 90509-2958

Promise to Pay:

For value received, the undersigned Borrower promises to pay to the order of Lender the sum of Fifty Million and No/100 Dollars (\$50,000,000.00), to the extent advanced by Lender, together with interest on the unpaid balance of such amount, in lawful money of the United States of America, in accordance with all the terms conditions and covenants set forth below. For purposes of this Note, "Borrower" shall include all the entities executing this Note as set forth below.

Definitions: Capitalized terms used in this Note and not defined herein shall have the meanings assigned to such terms in the Loan Agreement (defined below). In addition, the following terms shall have the meanings set forth below:

Acquisition Advance Termination Date – September 30, 2006.

Advance – Each disbursement of loan proceeds under this Note pursuant to the Loan Agreement (unless otherwise noted herein, an "Advance" shall be deemed to include (i) an Acquisition Advance for the purchase of Property under Section 3.1 of the Loan Agreement, (ii) a "Draw" under Section 4.3(s) of the Loan Agreement, and (iii) a disbursement for Budgeted Interest under Section 4.9(e) of the Loan Agreement and as set forth below).

Applicable Rate – A varying or fluctuating rate per annum that is equal to LIBOR plus two and one-quarter percent (2.25%). LIBOR is initially determined on the date of the applicable Advance. LIBOR shall be adjusted, as necessary, as of first calendar day of each month, based on the LIBOR rate in effect as of the last Business Day of the preceding month.

Construction Project Loan Maturity Date - As to each Construction Project Loan Amount, the date being the earlier of (i) 15 months from the date of the Acquisition Advance for

such Construction Project, (ii) the date of Substantial Completion, or (iii) the Loan Maturity Date.

Default Interest Rate – The Maximum Lawful Rate, or if no such Maximum Lawful Rate is established by applicable law, then the Applicable Rate plus three percent (3%) per annum.

Draw Termination Date – November 30, 2007.

LIBOR - The London Interbank Offered Rate for one (1) month deposits, as published by *The Wall Street Journal* in its “Money Rates” section. Should the method of establishing LIBOR, or the publication of the London Interbank Offered Rates for one (1) month deposits in *The Wall Street Journal* cease or be abolished, then LIBOR shall be based on a comparable index selected by Lender.

Loan Agreement - Master Loan Agreement dated as of even date herewith among Borrower, Lender and Sonic Automotive, Inc. This Note is issued pursuant to the terms of the Loan Agreement.

Loan Documents – This Note, the Loan Agreement, the Security Documents, and any other instruments evidencing this Note or otherwise governing, guaranteeing or pertaining to the loan evidenced by this Note.

Loan Maturity Date – December 31, 2007.

Maximum Lawful Amount - The maximum, nonusurious and lawful contractual amount of interest, that may collected or received by Lender under applicable state or federal law.

Maximum Lawful Rate - The maximum, nonusurious and lawful contractual rate of interest that may be charged by Lender under applicable state or federal law.

Permanent Note - The Promissory Note dated of even date herewith executed by Borrower and payable to Lender in the principal amount of \$100,000,000.00.

Principal Balance - The aggregate unpaid principal balance of all Advances, outstanding from time to time.

Security Documents – All deeds of trust, mortgages, security agreements, guaranties, pledges, assignments, or any other instruments securing this Note.

TERMS OF NOTE

Interest and Principal Provisions:

(a) Interest Accrual: The Principal Balance of this Note advanced but from time to time remaining unpaid prior to maturity shall bear interest at the Applicable Rate, but never

greater than the Maximum Lawful Rate. The Applicable Rate will automatically fluctuate upward or downward with changes to LIBOR in accordance with the provisions herein, without notice to Borrower or any other person. The (i) past due installments of principal and interest on this Note, and (ii) entire Principal Balance after acceleration of the Principal Balance, shall bear interest at a per annum rate equal to the Default Interest Rate.

(b) Payment Terms: From the date hereof to and including the Loan Maturity Date, this Note shall be due and payable as follows:

(i) Interest - Accrued interest on the unpaid Principal Balance outstanding shall be due and payable monthly. On the Loan Maturity Date, all accrued but unpaid interest shall be due and payable. Budgeted Interest may be paid as provided in (ii) below.

(ii) Budgeted Interest – Unless paid by Borrower from other funds, Lender may disburse to itself to pay interest monthly as it accrues on this Note, the amount allocated for Budgeted Interest for each Construction Project as being available only for payment of that interest on that Construction Project. Disbursements will be made on behalf of Borrower to Lender on the payment dates when interest is due and owing in accordance with the terms of this Note and will be made by a bookkeeping entry on Lender's records reflecting, as an additional disbursement hereunder, an amount equal to the accrued interest due on the relevant payment date. If, after making a disbursement for Budgeted Interest as set forth above, Borrower shall pay the interest with other funds, Lender will, at Borrower's request, reimburse Borrower to the extent of the payment, but (i) only to the extent available from funds allocated for Budgeted Interest for that Construction Project, and (ii) only if all interest owing on other Construction Projects is paid in full. The exhaustion of the amount of Draws available for Budgeted Interest shall not impair the obligation of Borrower to pay interest on the Construction Loan.

(iii) Principal – On each Construction Project Loan Maturity Date, a principal installment equal to the aggregate amount of all outstanding Advances made for such Construction Project shall be due and payable.

(iv) Loan Maturity Date – On the Loan Maturity Date, a final installment, which shall include all unpaid amounts of the Principal Balance and interest accrued thereon, and any and all other payments due under this Note, shall be due and payable.

(v) Due Dates and Application of Payments – The monthly payments of interest shall commence on the first day of the first month following funding of the first Advance hereunder, and shall continue regularly and monthly thereafter on the first day of each succeeding month. The amount of each of such payments in respect of the outstanding Advances shall be aggregated each month and shall be due as one monthly installment. Each installment shall be applied first to accrued but unpaid interest and the balance to reduction of the Principal Balance.

Advances and Prepayments:

(a) Revolving Line of Credit: This Note shall evidence Borrower's indebtedness for Advances from time to time made under a revolving credit line pursuant to the Loan Agreement, which indebtedness may from time to time be decreased, increased, paid in full and then renewed. Interest will accrue only from the date that Advances are made pursuant to the Loan Agreement, and the liability of the undersigned is limited to the Principal Balance from time to time actually disbursed pursuant to the Loan Agreement, plus unpaid interest actually accrued on such principal, plus any expenses or other charges as more fully provided in this Note, the Loan Agreement and any other Loan Documents. This Note shall evidence all such indebtedness and this Note and all lien instruments securing it and the liens and security interests thereunder shall remain in effect until this Note is formally terminated in writing, and this Note and such lien instruments, liens and security interests shall not otherwise be terminated by payment of all or any part of the indebtedness hereby represented. Lender shall, and is hereby authorized by Borrower to, endorse on Schedule A attached hereto and made a part hereof (or on a continuation of such schedule) an appropriate notation evidencing the date and amount of each Advance, the Property being funded with the Advance, and any payments made thereon; provided, however, that the failure of Lender to make such a notation on this Note shall not affect any obligation of Borrower under this Note. Any such notation shall be prima facie evidence as to the date, amount, and monthly payment of such Advance or payment.

(b) Prepayment: Borrower may prepay the Principal Balance in whole or from time to time in part, at any time, upon payment of interest accrued on the Principal Balance outstanding through the day of prepayment and all other charges due hereunder and under the Security Documents, without premium. All payments and prepayments received by Lender prior to an Event of Default, including, without limitation, any condemnation awards or insurance proceeds received under the Security Documents which Lender is permitted to apply on the indebtedness evidenced hereby will be applied first to accrued unpaid interest on the Principal Balance at the Applicable Rate, and then:

(i) in the case where such prepayment is not made in connection with the release of a Property pursuant to Section 4.21 of the Loan Agreement, but such prepayment is attributable to a condemnation awards or to insurance proceeds relating to a specific Property, to the outstanding balance of Advances attributable to that Property, in the order in which such Advances were made,

(ii) in the case where such prepayment is not made in connection with the release of a Property pursuant to Section 4.21 of the Loan Agreement, but such prepayment is not attributable to a condemnation awards or to insurance proceeds relating to a specific Property, to the outstanding principal balance of all Advances then remaining unpaid in the order in which the Advances were made, and

(iii) in the case where such prepayment is made in connection with the release of a Property pursuant to Section 4.21 of the Agreement, to the outstanding principal balance of the Advance attributable to the Property being released.

Any prepayments made in connection with the release of any Property shall be noted on Schedule B attached hereto and made a part hereof. Lender shall, and is hereby authorized by Borrowers to, endorse on Schedule B an appropriate notation evidencing the date and amount of each such prepayment.

(c) Limitations on Advances: The Loan Agreement contains limitations on the amount of Advances which may be made hereunder, which includes a limitation on the combined amount of unpaid principal under this Note and the Permanent Note.

(d) Acquisition Advance Termination Date: No Advances for an Acquisition Advance for the purchase of Property shall be made after the Acquisition Advance Termination Date.

(e) Draw Termination Date: No Advances for Draws shall be made after the Draw Termination Date.

Default and Waiver Provisions:

(a) Events of Default and Acceleration of Maturity: Lender may, subject to any notice requirements in the Loan Agreement, declare the entire unpaid Principal Balance and all accrued and earned but unpaid interest at once due and payable upon the occurrence of an Event of Default.

(b) Waiver by Borrower: Except as expressly set forth in the Loan Agreement, Borrower and all other parties liable for this Note waive demand, notice of presentment, presentment for payment, notice of nonpayment, protest, notice of protest, grace, notice of dishonor, notice of intent to accelerate, notice of acceleration, and diligence in collection.

(c) Non-Waiver by Lender: Any previous extension of time, forbearance, failure to pursue some remedy, or acceptance of partial payment by Lender, before or after maturity, does not constitute a waiver by Lender of the existence of any event of default nor of its right to strictly enforce the collection of this Note according to its terms. Lender shall not be deemed, by any act of omission or commission, to have waived any of its rights or remedies hereunder unless such waiver is in writing and signed by Lender and, then, only to the extent specifically set forth in the writing. A waiver with reference to one event shall not be construed as continuing or as a bar to or waiver of any right or remedy as to a subsequent event.

(d) Other Remedies Not Required: Lender shall not be required to first file suit, exhaust all remedies, or enforce its rights against any security in order to enforce payment of this Note.

(e) Joint and Several Liability: Each Borrower who signs this Note, and all of the other parties liable for the payment of this Note, such as guarantors, endorsers, and sureties, are jointly and severally liable for the payment of this Note.

(f) Attorney's Fees: If Lender requires the services of an attorney to enforce the payment of this Note or the performance of the other Loan Documents, or if this Note is collected

through any lawsuit, probate, bankruptcy, or other judicial proceeding, Borrower agrees to pay Lender an amount equal to its reasonable attorney's fees and other collection costs. This provision shall be limited by any applicable statutory restrictions relating to the collection of attorney's fees.

Miscellaneous Provisions:

- (a) Usury Disclaimer: All agreements between Lender and Borrower, whether now existing or hereafter arising and whether written or oral, are hereby limited so that in no contingency, whether by reason of demand for payment or acceleration of the maturity hereof or any other circumstance whatsoever, shall the interest contracted for, charged or received by Lender exceed the Maximum Lawful Amount. If, from any circumstance whatsoever, interest would otherwise be payable to Lender in excess of the Maximum Lawful Amount, the interest payable to Lender shall be reduced to the Maximum Lawful Amount; and if from any circumstance Lender shall ever receive any interest in excess of the Maximum Lawful Amount, an amount equal to any excessive interest shall be applied to the reduction of the Principal Amount and not to the payment of interest, or if such excessive interest exceeds the unpaid Principal Amount such excess shall be refunded to Borrower. All interest paid or agreed to be paid to Lender shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full period until payment in full of the Principal Amount (including the period of any renewal or extension hereof) so that the interest hereon for such full period shall not exceed the Maximum Lawful Amount. For purposes of this paragraph, the term interest shall include all considerations and amounts that constitute interest under applicable usury law. This paragraph shall control all agreements between Borrower and Lender.
- (b) Application of Payments: Except as otherwise expressly set forth herein or in the Loan Agreement, all payments on the indebtedness evidenced by this Note and by the other Loan Documents, other than regularly scheduled payments, shall be applied to such indebtedness in such order and manner as Lender may from time to time determine in its absolute discretion.
- (c) Subsequent Holder: All references to Lender in this Note shall also refer to any subsequent owner or holder of this Note by transfer, assignment, endorsement or otherwise.
- (d) Successors and Assigns: The provisions of this Note shall be binding upon and for the benefit of the successors, assigns, heirs, executors and administrators of Lender and Borrower.
- (e) Other Parties Liable: All promises, waivers, agreements and conditions applicable to Borrower shall likewise be applicable to and binding upon any other parties primarily or secondarily liable for the payment of this Note, including all guarantors, endorsers and sureties.
- (f) Modifications: Any modifications agreed to by Lender relating to the release of liability of any of the parties primarily or secondarily liable for the payment of this Note, or relating to the release, substitution, or subordination of all or part of the security for this Note, shall in no way constitute a release of liability with respect to the other parties or security not covered by such modification.

(g) Borrower's Address for Notice: All notices required to be sent by Lender to Borrower shall be sent by United States Mail, postage prepaid, to Borrower's Address for Notice stated on the first page of this Note, until Lender shall receive written notification from Borrower of a new address for notice.

(h) Lender's Address for Payment: All sums payable by Borrower to Lender shall be paid at Lender's Address for Payment stated on the first page of this Note, until Lender shall notify Borrower of a new address for payment.

(i) Applicable Law: This Note has been executed and delivered, and shall be construed, in accordance with the applicable laws of the State of California and the United States of America.

(j) Time of Essence: Time is of the essence in Borrower's performance of all duties and obligations imposed by this Note.

(k) Partial Invalidity: In the event any one or more of the provisions hereof shall be invalid, illegal or unenforceable in any respect, the validity of the remaining provisions hereof shall be in no way affected, prejudiced or disturbed thereby.

(l) Gender: Whenever used, the singular shall include the plural, the plural shall include the singular, and the words "Lender", "Borrowers" and "Borrower" shall be deemed to include their respective heirs, administrators, executors, successors and assigns.

Borrower's Signature:

SRE Holding, LLC,
a North Carolina limited liability company
SRE Alabama - 2, LLC,
an Alabama limited liability company
SRE Alabama - 3, LLC,
an Alabama limited liability company
SRE Alabama - 4, LLC,
an Alabama limited liability company
SRealEstate Arizona - 1, LLC,
an Arizona limited liability company
SRealEstate Arizona - 2, LLC,
an Arizona limited liability company
SRealEstate Arizona - 3, LLC,
an Arizona limited liability company
SRealEstate Arizona - 4, LLC,
an Arizona limited liability company
SRealEstate Arizona - 5, LLC,
an Arizona limited liability company
SRealEstate Arizona - 6, LLC,
an Arizona limited liability company
SRealEstate Arizona - 7, LLC,
an Arizona limited liability company
SRE California - 1, LLC,
a California limited liability company
SRE California - 2, LLC,
a California limited liability company
SRE California - 3, LLC,
a California limited liability company
SRE California - 4, LLC,
a California limited liability company
SRE California - 5, LLC,
a California limited liability company
SRE California - 6, LLC,
a California limited liability company
SRE Colorado - 1, LLC,
a Colorado limited liability company
SRE Colorado - 2, LLC,
a Colorado limited liability company
SRE Colorado - 3, LLC,
a Colorado limited liability company
SRE Florida - 1, LLC,
a Florida limited liability company
SRE Florida - 2, LLC,
a Florida limited liability company
SRE Florida - 3, LLC,
a Florida limited liability company
SRE Michigan -1, LLC,
a Michigan limited liability company
SRE Michigan - 2, LLC,

a Michigan limited liability company
SRE Michigan - 3, LLC,
a Michigan limited liability company
SRE Nevada - 1, LLC,
a Nevada limited liability company
SRE Nevada - 2, LLC,
a Nevada limited liability company
SRE Nevada - 3, LLC,
a Nevada limited liability company
SRE Nevada - 4, LLC,
a Nevada limited liability company
SRE Nevada - 5, LLC,
a Nevada limited liability company
SRE Oklahoma – 1, LLC,
an Oklahoma limited liability company
SRE Oklahoma – 2, LLC,
an Oklahoma limited liability company
SRE Oklahoma – 3, LLC,
an Oklahoma limited liability company
SRE Oklahoma – 4, LLC,
an Oklahoma limited liability company
SRE Oklahoma – 5, LLC,
an Oklahoma limited liability company
SRE South Carolina - 2, LLC,
a South Carolina limited liability company
SRE South Carolina - 3, LLC,
a South Carolina limited liability company
SRE South Carolina - 4, LLC,
a South Carolina limited liability company
SRE Tennessee - 1, LLC,
a Tennessee limited liability company
SRE Tennessee - 2, LLC,
a Tennessee limited liability company
SRE Tennessee - 3, LLC,
a Tennessee limited liability company
SRE Virginia - 1, LLC,
a Virginia limited liability company

By: /s/ THEODORE M. WRIGHT

Name: **Theodore M. Wright**
Title: **Vice President and Treasurer each of
the above Companies**

Attest: /s/ STEPHEN K. COSS

**Stephen K. Coss, Secretary
of each of the Companies**

SRE Georgia - 1, L.P.,
a Georgia limited partnership
SRE Georgia - 2, L.P.,
a Georgia limited partnership
SRE Georgia - 3, L.P.,
a Georgia limited partnership

By: Sonic Automotive of Georgia, Inc.,
a Georgia corporation, the General Partner of each of
the above Partnerships

By: /s/ THEODORE M. WRIGHT

Name: Theodore M. Wright
Title: Vice President and Treasurer

By: /s/ STEPHEN K. COSS

Stephen K. Coss, Secretary

SRE Texas -1, L.P.,
a Texas limited partnership
SRE Texas - 2, L.P.,
a Texas limited partnership
SRE Texas - 3, L.P.,
a Texas limited partnership
SRE Texas - 4, L.P.,
a Texas limited partnership
SRE Texas - 5, L.P.,
a Texas limited partnership
SRE Texas - 6, L.P.,
a Texas limited partnership
SRE Texas - 7, L.P.,
a Texas limited partnership
SRE Texas - 8, L.P.,
a Texas limited partnership

By: Sonic of Texas, Inc.,
a Texas corporation, the General Partner of each of the
above Partnerships

By: /s/ THEODORE M. WRIGHT

Name: **Theodore M. Wright**
Title: **Vice President and Treasurer**

Attest: /s/ STEPHEN K. COSS

Stephen K. Coss, Secretary

PROMISSORY NOTE
(Revolving Line of Credit Permanent Loan)

\$100,000,000.00

December 31, 2002

Borrower: The Entities executing this Note in the signatures below

Borrower's Address for Notice: 5401 East Independence Boulevard
Charlotte, North Carolina 28212

Lender: Toyota Motor Credit Corporation

Lender's Address for Payment: 19001 South Western Avenue
Torrance, California 90509-2958

Promise to Pay:

For value received, the undersigned Borrower promises to pay to the order of Lender the sum of One Hundred Million and No/100 Dollars (\$100,000,000.00), to the extent advanced by Lender, together with interest on the unpaid balance of such amount, in lawful money of the United States of America, in accordance with all the terms conditions and covenants set forth below. For purposes of this Note, "Borrower" shall include all the entities executing this Note as set forth below.

Definitions: Capitalized terms used in this Note and not defined herein shall have the meanings assigned to such terms in the Loan Agreement (defined below). In addition, the following terms shall have the meanings set forth below:

Advance – Each disbursement of loan proceeds under this Note pursuant to the Loan Agreement (defined as a "Permanent Advance" in Section 5.2(b) of the Loan Agreement).

Advance Termination Date – December 31, 2007.

Applicable Rate – A varying or fluctuating rate per annum that is equal to LIBOR plus two percent (2.00%). LIBOR is initially determined on the date of the applicable Advance. LIBOR shall be adjusted, as necessary, on the first calendar day of each month, based on the LIBOR rate in effect as of the last Business Day of the preceding month.

Construction Note – The Promissory Note dated of even date herewith executed by Borrower and payable to Lender in the principal amount of \$50,000,000.00.

Default Interest Rate – The Maximum Lawful Rate, or if no such Maximum Lawful Rate is established by applicable law, then the Applicable Rate plus three percent (3%) per annum.

LIBOR - The London Interbank Offered Rate for one (1) month deposits, as published by *The Wall Street Journal* in its "Money Rates" section. Should the method of establishing LIBOR, or the publication of the London Interbank Offered Rates for one (1) month deposits in *The Wall Street Journal* cease or be abolished, then LIBOR shall be based on a comparable index selected by Lender.

Loan Agreement - Master Loan Agreement dated as of even date herewith among Borrower, Lender and Sonic Automotive, Inc. This Note is issued pursuant to the terms of the Loan Agreement.

Loan Documents - This Note, the Loan Agreement, the Security Documents, and any other instruments evidencing this Note or otherwise governing, guaranteeing or pertaining to the loan evidenced by this Note.

Loan Maturity Date - December 31, 2012.

Maximum Lawful Amount - The maximum, nonusurious and lawful contractual amount of interest, that may be collected or received by Lender under applicable state or federal law.

Maximum Lawful Rate - The maximum, nonusurious and lawful contractual rate of interest that may be charged by Lender under applicable state or federal law.

Principal Balance - The aggregate unpaid principal balance of all Advances, outstanding from time to time.

Security Documents - All deeds of trust, mortgages, security agreements, guaranties, pledges, assignments, or any other instruments securing this Note.

TERMS OF NOTE

Interest and Principal Provisions:

(a) **Interest Accrual:** The Principal Balance of this Note advanced but from time to time remaining unpaid prior to maturity shall bear interest at the Applicable Rate, but never greater than the Maximum Lawful Rate. The Applicable Rate will automatically fluctuate upward or downward with changes to LIBOR in accordance with the provisions herein, without notice to Borrower or any other person. The (i) past due installments of principal and interest on this Note, (ii) Principal Balance of an Advance after the Loan Maturity Date, and (iii) entire Principal Balance after acceleration of the Principal Balance, shall bear interest at a per annum rate equal to the Default Interest Rate.

(b) **Payment Terms:** From the date hereof to and including the Loan Maturity Date, each Advance under this Note shall be due and payable as follows:

(i) **Principal** - Principal is due and payable in equal monthly installments in

an amount, determined on the date such Advance is made, sufficient to amortize such Advance over a 300-month period. On the Loan Maturity Date, a final installment of the entire unpaid Principal Balance shall be due and payable.

(ii) Interest - Accrued interest on the unpaid Principal Balance outstanding shall be due and payable monthly on the same date as, and in addition to, the monthly principal payments. On the Loan Maturity Date, all accrued but unpaid interest shall be due and payable.

(iii) Due Dates and Application of Payments – The monthly payments of principal and interest shall commence on the first day of the first month following funding of the first Advance hereunder, and shall continue regularly and monthly thereafter on the first day of each succeeding month. The amount of each of such payments in respect of the outstanding Advances shall be aggregated each month and shall be due as one monthly installment. Each installment shall be applied first to accrued but unpaid interest and the balance to reduction of the Principal Balance.

Advances and Prepayments:

(a) Revolving Line of Credit: This Note shall evidence Borrower's indebtedness for Advances from time to time made under a revolving credit line pursuant to the Loan Agreement, which indebtedness may from time to time be decreased, increased, paid in full and then reborrowed. Interest will accrue only from the date that Advances are made pursuant to the Loan Agreement, and the liability of the undersigned is limited to the Principal Balance from time to time actually disbursed pursuant to such Loan Agreement, plus unpaid interest actually accrued on such principal, plus any expenses or other charges as more fully provided in this Note, the Loan Agreement and any other Loan Documents. This Note shall evidence all such indebtedness and this Note and all Security Documents and the liens and security interests thereunder shall remain in effect until this Note is formally terminated in writing, and this Note and such Security Documents shall not otherwise be terminated by payment of all or any part of the indebtedness hereby represented. Lender shall, and is hereby authorized by Borrower to, endorse on Schedule A attached hereto and made a part hereof (or on a continuation of such schedule) an appropriate notation evidencing the date and amount of each Advance, the Property being funded with the Advance, and any payments made thereon; provided, however, that the failure of Lender to make such a notation on this Note shall not affect any obligation of Borrower under this Note. Any such notation shall be prima facie evidence as to the date, amount, and monthly payment of such Advance or payment.

(b) Prepayment: Borrower may prepay the Principal Balance in whole or from time to time in part, at any time, upon payment of interest accrued on the Principal Balance outstanding through the day of prepayment and all other charges due hereunder and under the Security Documents, without premium. All payments and prepayments received by Lender prior to an Event of Default, including, without limitation, any condemnation awards or insurance proceeds received under the Security Documents which Lender is permitted to apply on the indebtedness evidenced hereby will be applied first to accrued unpaid interest on the Principal Balance at the Applicable Rate, and then:

(i) in the case where such prepayment is not made in connection with the release of a Property pursuant to Section 5.11 of the Loan Agreement, but such prepayment is is attributable to a condemnation awards or to insurance proceeds relating to a specific Property, to the outstanding balance of Advances attributable to that Property, in the order in which such Advances were made,

(ii) in the case where such prepayment is not made in connection with the release of a Property pursuant to Section 5.11 of the Loan Agreement, but such prepayment is not attributable to a condemnation awards or to insurance proceeds relating to a specific Property, to the outstanding principal balance of all Advances then remaining unpaid in the order in which the Advances were made, and

(iii) in the case where such prepayment is made in connection with the release of a Property pursuant to Section 5.11 of the Agreement, to the outstanding principal balance of the Advance attributable to the Property being released.

Any prepayments made in connection with the release of any Property shall be noted on Schedule B attached hereto and made a part hereof. Lender shall, and is hereby authorized by Borrowers to, endorse on Schedule B an appropriate notation evidencing the date and amount of each such prepayment.

(c) Limitations on Advances: The Loan Agreement contains limitations on the amount of Advances which may be made hereunder, which includes a limitation on the combined amount of unpaid principal under this Note and the Construction Note.

(d) Advance Termination Date: No Advances shall be made after the Advance Termination Date.

Default and Waiver Provisions:

(a) Events of Default and Acceleration of Maturity: Lender may, subject to any notice requirements in the Loan Agreement, declare the entire unpaid Principal Balance and all accrued and earned but unpaid interest at once due and payable upon the occurrence of an Event of Default.

(b) Waiver by Borrower: Except as expressly set forth in the Loan Agreement, Borrower and all other parties liable for this Note waive demand, notice of presentment, presentment for payment, notice of nonpayment, protest, notice of protest, grace, notice of dishonor, notice of intent to accelerate, notice of acceleration, and diligence in collection.

(c) Non-Waiver by Lender: Any previous extension of time, forbearance, failure to pursue some remedy, or acceptance of partial payment by Lender, before or after maturity, does not constitute a waiver by Lender of the existence of any event of default nor of its right to strictly enforce the collection of this Note according to its terms. Lender shall not be deemed, by any act of omission or commission, to have waived any of its rights or remedies hereunder unless

such waiver is in writing and signed by Lender and, then, only to the extent specifically set forth in the writing. A waiver with reference to one event shall not be construed as continuing or as a bar to or waiver of any right or remedy as to a subsequent event.

(d) Other Remedies Not Required: Lender shall not be required to first file suit, exhaust all remedies, or enforce its rights against any security in order to enforce payment of this Note.

(e) Joint and Several Liability: Each Borrower who signs this Note, and all of the other parties liable for the payment of this Note, such as guarantors, endorsers, and sureties, are jointly and severally liable for the payment of this Note.

(f) Attorney's Fees: If Lender requires the services of an attorney to enforce the payment of this Note or the performance of the other Loan Documents, or if this Note is collected through any lawsuit, probate, bankruptcy, or other judicial proceeding, Borrower agrees to pay Lender an amount equal to its reasonable attorney's fees and other collection costs. This provision shall be limited by any applicable statutory restrictions relating to the collection of attorney's fees.

Miscellaneous Provisions:

(a) Usury Disclaimer: All agreements between Lender and Borrower, whether now existing or hereafter arising and whether written or oral, are hereby limited so that in no contingency, whether by reason of demand for payment or acceleration of the maturity hereof or any other circumstance whatsoever, shall the interest contracted for, charged or received by Lender exceed the Maximum Lawful Amount. If, from any circumstance whatsoever, interest would otherwise be payable to Lender in excess of the Maximum Lawful Amount, the interest payable to Lender shall be reduced to the Maximum Lawful Amount; and if from any circumstance Lender shall ever receive any interest in excess of the Maximum Lawful Amount, an amount equal to any excessive interest shall be applied to the reduction of the Principal Amount and not to the payment of interest, or if such excessive interest exceeds the unpaid Principal Amount such excess shall be refunded to Borrower. All interest paid or agreed to be paid to Lender shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full period until payment in full of the Principal Amount (including the period of any renewal or extension hereof) so that the interest hereon for such full period shall not exceed the Maximum Lawful Amount. For purposes of this paragraph, the term interest shall include all considerations and amounts that constitute interest under applicable usury law. This paragraph shall control all agreements between Borrower and Lender.

(b) Application of Payments: Except as otherwise expressly set forth herein or in the Loan Agreement, all payments on the indebtedness evidenced by this Note and by Security Documents, other than regularly scheduled payments, shall be applied to such indebtedness in such order and manner as Lender may from time to time determine in its absolute discretion.

(c) Subsequent Holder: All references to Lender in this Note shall also refer to any subsequent owner or holder of this Note by transfer, assignment, endorsement or otherwise.

(d) Successors and Assigns: The provisions of this Note shall be binding upon and for the benefit of the successors, assigns, heirs, executors and administrators of Lender and Borrower.

(e) Other Parties Liable: All promises, waivers, agreements and conditions applicable to Borrower shall likewise be applicable to and binding upon any other parties primarily or secondarily liable for the payment of this Note, including all guarantors, endorsers and sureties.

(f) Modifications: Any modifications agreed to by Lender relating to the release of liability of any of the parties primarily or secondarily liable for the payment of this Note, or relating to the release, substitution, or subordination of all or part of the security for this Note, shall in no way constitute a release of liability with respect to the other parties or security not covered by such modification.

(g) Borrower's Address for Notice: All notices required to be sent by Lender to Borrower shall be sent by United States Mail, postage prepaid, to Borrower's Address for Notice stated on the first page of this Note, until Lender shall receive written notification from Borrower of a new address for notice.

(h) Lender's Address for Payment: All sums payable by Borrower to Lender shall be paid at Lender's Address for Payment stated on the first page of this Note, until Lender shall notify Borrower of a new address for payment.

(i) Applicable Law: This Note has been executed and delivered, and shall be construed, in accordance with the applicable laws of the State of California and the United States of America.

(j) Time of Essence: Time is of the essence in Borrower's performance of all duties and obligations imposed by this Note.

(k) Partial Invalidity: In the event any one or more of the provisions hereof shall be invalid, illegal or unenforceable in any respect, the validity of the remaining provisions hereof shall be in no way affected, prejudiced or disturbed thereby.

(l) Gender: Whenever used, the singular shall include the plural, the plural shall include the singular, and the words "Lender", "Borrowers" and "Borrower" shall be deemed to include their respective heirs, administrators, executors, successors and assigns.

Borrower's Signature:

SRE Holding, LLC,
a North Carolina limited liability company
SRE Alabama - 2, LLC,
an Alabama limited liability company
SRE Alabama - 3, LLC,
an Alabama limited liability company
SRE Alabama - 4, LLC,
an Alabama limited liability company
SRealEstate Arizona -1, LLC,
an Arizona limited liability company
SRealEstate Arizona - 2, LLC,
an Arizona limited liability company
SRealEstate Arizona - 3, LLC,
an Arizona limited liability company
SRealEstate Arizona - 4, LLC,
an Arizona limited liability company
SRealEstate Arizona - 5, LLC,
an Arizona limited liability company
SRealEstate Arizona - 6, LLC,
an Arizona limited liability company
SRealEstate Arizona - 7, LLC,
an Arizona limited liability company
SRE California - 1, LLC,
a California limited liability company
SRE California - 2, LLC,
a California limited liability company
SRE California - 3, LLC,
a California limited liability company
SRE California - 4, LLC,
a California limited liability company
SRE California - 5, LLC,
a California limited liability company
SRE California - 6, LLC,
a California limited liability company
SRE Colorado - 1, LLC,
a Colorado limited liability company
SRE Colorado - 2, LLC,
a Colorado limited liability company
SRE Colorado - 3, LLC,
a Colorado limited liability company
SRE Florida - 1, LLC,
a Florida limited liability company
SRE Florida - 2, LLC,
a Florida limited liability company
SRE Florida - 3, LLC,
a Florida limited liability company
SRE Michigan - 1, LLC,
a Michigan limited liability company

SRE Michigan - 2, LLC,
a Michigan limited liability company
SRE Michigan - 3, LLC,
a Michigan limited liability company
SRE Nevada - 1, LLC,
a Nevada limited liability company
SRE Nevada - 2, LLC,
a Nevada limited liability company
SRE Nevada - 3, LLC,
a Nevada limited liability company
SRE Nevada - 4, LLC,
a Nevada limited liability company
SRE Nevada - 5, LLC,
a Nevada limited liability company
SRE Oklahoma – 1, LLC,
an Oklahoma limited liability company
SRE Oklahoma – 2, LLC,
an Oklahoma limited liability company
SRE Oklahoma – 3, LLC,
an Oklahoma limited liability company
SRE Oklahoma – 4, LLC,
an Oklahoma limited liability company
SRE Oklahoma – 5, LLC,
an Oklahoma limited liability company
SRE South Carolina - 2, LLC,
a South Carolina limited liability company
SRE South Carolina - 3, LLC,
a South Carolina limited liability company
SRE South Carolina - 4, LLC,
a South Carolina limited liability company
SRE Tennessee - 1, LLC,
a Tennessee limited liability company
SRE Tennessee - 2, LLC,
a Tennessee limited liability company
SRE Tennessee - 3, LLC,
a Tennessee limited liability company
SRE Virginia - 1, LLC,
a Virginia limited liability company

By: /s/ THEODORE M. WRIGHT

Name: Theodore M. Wright
**Title: Vice President and Treasurer of each of
the above Companies**

Attest: /s/ STEPHEN K. COSS

**Stephen K. Coss, Secretary
of each of the Companies**

SRE Georgia - 1, L.P.,
a Georgia limited partnership
SRE Georgia - 2, L.P.,
a Georgia limited partnership
SRE Georgia - 3, L.P.,
a Georgia limited partnership

By: Sonic Automotive of Georgia, Inc.,
a Georgia corporation, the General Partner of each of
the above Partnerships

By: /s/ THEODORE M. WRIGHT

Name: **Theodore M. Wright**
Title: **Vice President and Treasurer**

Attest: /s/ STEPHEN K. COSS

Stephen K. Coss, Secretary

SRE Texas -1, L.P.,
a Texas limited partnership
SRE Texas - 2, L.P.,
a Texas limited partnership
SRE Texas - 3, L.P.,
a Texas limited partnership
SRE Texas - 4, L.P.,
a Texas limited partnership
SRE Texas - 5, L.P.,
a Texas limited partnership
SRE Texas - 6, L.P.,
a Texas limited partnership
SRE Texas - 7, L.P.,
a Texas limited partnership
SRE Texas - 8, L.P.,
a Texas limited partnership

By: Sonic of Texas, Inc.,
a Texas corporation, the
General Partner of each of the
above Partnerships

By: /s/ THEODORE M. WRIGHT

Name: Theodore M. Wright
Title: Vice President and Treasurer

Attest: /s/ STEPHEN K. COSS

Stephen K. Coss, Secretary

CONTINUING AND IRREVOCABLE GUARANTY

This CONTINUING AND IRREVOCABLE GUARANTY (this "Guaranty") is made and entered into as of December 31, 2002 by SONIC AUTOMOTIVE, INC., a Delaware corporation ("Guarantor"), and delivered to Toyota Motor Credit Corporation, a California corporation ("TMCC"), with respect to the following facts:

A. TMCC has agreed to make a loan in the original principal amount of One Hundred Million Dollars (\$100,000,000.00) (the "Loan") to certain subsidiaries of Guarantor (collectively "Borrower"). The Loan is evidenced by, among other agreements, that certain master loan agreement of even date herewith among TMCC, Borrower and Guarantor (as at any time amended, supplemented or restated, the "Loan Agreement") and that certain Construction Loan Promissory Note and Permanent Loan Promissory Note of even date herewith in the original principal amount of the Loan (together with any and all renewals, substitutions, modifications, and replacements thereof, the "Notes"). The Notes are or will be secured by one or more Deeds of Trust or mortgages encumbering real property located in various states (collectively, the "Deed of Trust"). The Master Loan Agreement, Notes and Deed of Trust, together with each and every other document or instrument relating to, evidencing or securing the Loan, are collectively referred to as the "Loan Documents." Capitalized terms used herein without definition have the meanings given to them in the Loan Agreement.

B. Guarantor is directly and materially interested in the financial success of Borrower, is the direct or indirect owner of all of the outstanding interests in Borrower, and maintains directly or indirectly significant business relationships with Borrower. TMCC is not willing to make the Loan unless Guarantor guarantees Borrower's obligations under the Loan Documents.

Intending to be legally bound and to be primarily liable therefor, and to induce TMCC to make the Loan to or for the benefit of Borrower, or in respect of which Borrower may be or become liable to TMCC in any capacity, Guarantor hereby agrees as follows:

1. **Guaranty.** Guarantor unconditionally and irrevocably guaranties to TMCC the timely (whether as scheduled or upon acceleration) payment and performance by Borrower of the following (the "Guaranteed Obligations"):

- a. The principal, interest and other charges or amounts due under the Notes and the other Loan Documents;
- b. The other obligations set forth in or arising out of the Notes and the other Loan Documents;
- c. Any liabilities, costs or expenses, including reasonable attorneys' fees, incurred by TMCC in connection with enforcing its rights under the Notes and the other Loan Documents;
- d. Any of the forgoing arising out of, in connection with or following any renewals, extensions, modifications, alterations and rearrangements of the Notes or any of the other Loan Documents.

e. Any of the foregoing arising after Borrower has commenced or become subject to any case under the Bankruptcy Code, including any advances made to Borrower, any interest that accrues after the filing of the bankruptcy petition (even if the interest cannot be collected in the proceeding under the Bankruptcy Code), and attorneys' fees.

If Borrower fails to pay or perform any of the Guaranteed Obligations, Guarantor will immediately pay or perform such obligation, without deduction in respect of any purported right of setoff or recoupment, counterclaim, claim or defense (whether legal or equitable) of any nature whatsoever, each of which Guarantor waives to the maximum extent permitted by law.

2. **TMCC's Direct Rights.**

a. **Guaranty of Payment.** This is a guaranty of payment and performance and is not a guaranty of collection.

b. **Direct Rights Against Guarantor.** In the event that Borrower fails timely to pay or perform any of the Guaranteed Obligations, TMCC may enforce its rights under this Guaranty without first seeking to obtain payment or performance from Borrower, any other guarantor, any collateral TMCC may hold for the Notes or any of the other Loan Documents, any guaranty of the Notes or any of the other Loan Documents, including this one, or exercise of any other remedy or right that TMCC may have.

c. **Borrower's Bankruptcy.** In the event Borrower becomes subject to a voluntary or involuntary case under the Bankruptcy Code, TMCC may immediately pursue its rights under this Guaranty, even though TMCC may be stayed from accelerating or collecting the Guaranteed Obligations from Borrower.

d. **Waiver of Priority of Collection.** Guarantor waives any rights it may have under California Civil Code §§ 2845 or 2849 to require TMCC first to take any of the actions referred to above in this Section. If TMCC decides to proceed first to exercise any other remedy or right, or to proceed against another person or any collateral, TMCC retains all of its rights under this Guaranty.

3. **Continuing Guaranty.**

a. **Future Obligations.** This Guaranty guaranties Borrower's existing obligations under the Loan Documents, including future advances, if any, required by or otherwise made pursuant to the Loan Documents. This Guaranty also guaranties Borrower's future liability under successive transactions which either continue Borrower's liability or from time to time renew it after it has been satisfied and to that extent is a continuing guaranty of the Guaranteed Obligations.

b. **Waiver of Termination.** Guarantor may not terminate or revoke this Guaranty. Guarantor waives any right it has, including any rights under California Civil Code § 2815, to terminate or revoke the continuing nature of this Guaranty and its application to any Guaranteed Obligations arising after any attempt to terminate this Guaranty.

4. **No Notice Required.** TMCC does not have to notify Guarantor of any of the following events. Guarantor will not be released or exonerated from its obligations under this Guaranty if it is not notified of these events:

- a. Borrower's failure to pay timely any of the Guaranteed Obligations;
 - b. Any adverse change in Borrower's financial condition or business (and Guarantor represents and warrants to TMCC that Guarantor has arranged adequate means of keeping itself informed of Borrower's financial condition and business);
 - c. Any sale or other disposition of any collateral for the Notes, for the other Guaranteed Obligations, or for any guaranty of the Notes or any of the Guaranteed Obligations;
 - d. TMCC's acceptance of this Guaranty;
 - e. Any renewal, extension, alteration, rearrangement or other modification of the Notes, any other Loan Document, or any of the other Guaranteed Obligations;
- or
- g. Notice of any other event to which it might be entitled.

5. **No Release of Guarantor.** TMCC may do or suffer any of the following, by action or inaction, without releasing or exonerating Guarantor from any of its obligations under this Guaranty (including any release or exoneration that might occur under California Civil Code §§ 2819, 2845, 2848, 2849, or 2850):

- a. Renew, extend, rearrange, alter or otherwise modify the Notes, the Loan Agreement, the Deed of Trust, any other Loan Document or any of the other Guaranteed Obligations;
- b. Release Borrower from any of the Guaranteed Obligations;
- c. Sell, release, subordinate, impair, waive or otherwise fail to obtain or perfect (or continue the perfection of) a security interest in any collateral for the Notes (including the collateral provided under the Deed of Trust), any of the other Guaranteed Obligations, or any other guaranty of the Notes;
- d. Fail to realize upon any collateral for the Notes (including the collateral provided under the Deeds of Trust), any of the other Guaranteed Obligations, or any other guaranty of the Notes;
- e. Advance additional funds to or for the benefit of Borrower;
- f. Pay any amounts required to be paid to cure any default caused by failure to pay those costs described in Section 1(c) of this Guaranty;
- g. Foreclose on any collateral for the Notes (including the collateral provided under any Deed of Trust) or a guaranty of the Notes in a manner that diminishes, impairs or precludes the

right of Guarantor to enjoy any rights of subrogation against Borrower or any other guarantor, or to obtain reimbursement, performance, or indemnification for payment or performance under this Guaranty (including any of the foregoing that results from the direct or indirect application of California Code of Civil Procedure §§ 580a, 580b, 580c, 580d, and 726, and Commercial Code §§ 1103 and 9501 et seq.); and Guarantor waives all rights and defenses arising out of an election of remedies by TMCC, even though that election of remedies, such as a non-judicial foreclosure with respect to security for the Guaranteed Obligations, has destroyed Guarantor's rights of subrogation and reimbursement against Borrower, by the operation of California Code of Civil Procedure § 580d or otherwise.

- h. Permit or suffer the impairment of any of the Guaranteed Obligations in a case under the Bankruptcy Code by or against Borrower;
- i. Make an election under Bankruptcy Code § 1111(b)(2) in a case by or against Borrower or Guarantor;
- j. Permit or suffer the creation of secured or unsecured credit or debt under Bankruptcy Code § 364 in a case by or against Borrower;
- k. Permit or suffer the disallowance, avoidance or subordination of any of the Guaranteed Obligations or collateral for any of the Guaranteed Obligations;
- l. Fail to exercise any right or remedy it may have with respect to the payment or performance of the Notes, any of the other Loan Documents or any of the other Guaranteed Obligations; or
- m. Fail to obtain a guaranty, other assurance of payment, or credit enhancement from any other person.

6. Guarantor's Additional Waivers.

- a. Guarantor waives any right it may have to require any of the following acts: (i) demand; (ii) presentment; (iii) diligence; (iv) protest; (v) notice of dishonor; and (vi) any other notice to which it may be entitled except as specifically provided in this Guaranty or under any of the Loan Documents.
- b. Guarantor waives all rights and defenses that Guarantor may have because the Borrower's debt is secured by real property. This means, among other things, that: (1) TMCC may collect from Guarantor without first foreclosing on any real or personal property collateral pledged by the Borrower; (2) if TMCC forecloses on any real property collateral pledged by the Borrower: (A) the amount of the debt may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price; (B) TMCC may collect from Guarantor even if TMCC, by foreclosing on the real property collateral, has destroyed any right Guarantor may have to collect from the Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because the Borrower's debt is secured by

real property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d, or 726 of the Code of Civil Procedure.

c. **Statutory Waivers.** Without limiting the generality of any other waiver or other provision set forth in this Guaranty, Guarantor hereby waives, to the maximum any and all benefits rights, or defenses arising directly or indirectly under any one or more of California Civil Code sections 2799, 2808, 2809, 2810, 2815, 2819, 2820, 2821, 2822, 2838, 2839, 2845, 2848, 2849, and 2850, and California Code of Civil Procedure sections 580a, 580b, 580c, 580d and 726, and Chapter 2 of Title 14 of the California Civil Code.

7. **Waiver of Subrogation, Reimbursement and Indemnification.** Until such time as the Guaranteed Obligations have been indefeasibly paid and performed in full, Guarantor waives and shall not seek to exercise any of the following rights that it may have against Borrower, any other guarantor, or any collateral provided by Borrower or any other guarantor, for any amounts paid by it, or acts performed by it, under this Guaranty:

- a. Subrogation (including any rights arising under Bankruptcy Code § 509 or California Civil Code §§ 2848 and 2849);
- b. Reimbursement (including any rights arising under California Civil Code § 2847);
- c. Performance (including any rights arising under California Civil Code § 2846);
- d. Indemnification; or
- e. Contribution.

8. **Subordination of Guarantor.**

a. **Subordination of Claims.** All principal and interest on all existing and future indebtedness, liabilities, and obligations of Borrower to Guarantor, whether fixed or contingent, matured or unmatured, and liquidated or unliquidated (the "Subordinated Debt") shall at all times be subordinated in right of payment to the payment and performance of the Guaranteed Obligations.

b. **Payments.**

Upon the occurrence and during the continuance of any default, event of default or Event of Default under any of the Loan Documents, Guarantor will not accept any payments on any of the Subordinated Debt.

c. **Attorney-in-Fact.** Guarantor appoints TMCC Guarantor's attorney-in-fact to file claims, and receive payments, on behalf of Guarantor with respect to any of the Subordinated Debt in any case by or against Borrower under the Bankruptcy Code (including Chapters 7 or 11), any assignment for the benefit of creditors made by Borrower, or in any other reorganization or insolvency proceeding.

9. **Revival of Debt.** Guarantor's obligations under this Guaranty shall again include amounts returned by TMCC in the event that TMCC must return any amount paid by Borrower or any other guarantor of the Notes or of any of the other Guaranteed Obligations because of the application of: (a) the Bankruptcy Code; (b) any fraudulent transfer law; or (c) any law respecting preferences.

10. **Representations, Warranties and Covenants.** Guarantor represents and warrants:

- a. that the actions contemplated by this Guaranty constitute valid and legally binding obligations of Guarantor;
- b. Guarantor shall maintain and preserve Guarantor's existence and assets and all rights and other authority necessary for the conduct of Guarantor's business;
- c. Guarantor shall not change its name without thirty (30) days' prior written notice to TMCC;
- d. Guarantor shall provide TMCC, within ninety (90) days after the close of each fiscal year, its financial statements prepared in accordance with generally accepted accounting principles; and
- e. Guarantor shall give prompt written notice to TMCC of all events of material default under the terms or provisions of this or any other material agreement, material changes in ownership, material litigation (not covered by insurance) and any other matter which has a Materially Adverse Effect on Guarantor's financial condition;

11. **Miscellaneous.**

- a. **Review of Documents.** Guarantor acknowledges that Guarantor has copies of and is fully familiar with each and every Loan Document.
- b. **Informed.** Guarantor represents and warrants to TMCC that Guarantor is fully informed, and shall continue to keep informed, of the business and financial condition of Borrower and of all other circumstances which a diligent inquiry would reveal and which bear upon the risk of nonpayment of the Guaranteed Obligations.
- c. **No Marshaling.** TMCC has no obligation to marshal any assets in favor of Guarantor, or against or in payment of (i) the Notes, (ii) any of the other Guaranteed Obligations, or (iii) any other obligation owed to TMCC by Guarantor, Borrower, or any other person.
- d. **Fees and Costs.** Guarantor will pay all of TMCC's fees and costs, including TMCC's reasonable attorneys' fees, incurred in enforcing this Guaranty and in any bankruptcy or insolvency proceedings related hereto.
- e. **Assignment.** Guarantor may not assign Guarantor's obligations or liabilities under this Guaranty. Subject to the preceding sentence, this Guaranty shall be binding upon the

parties hereto and their respective heirs, executors, successors, representatives and assigns and shall inure to the benefit of the parties hereto and their respective successors and assigns. TMCC may assign its rights under this Guaranty.

f. **Applicable Law.** The law of the State of California will apply to the interpretation and enforcement of this Guaranty.

g. **Integration; Modifications.** This Guaranty is the entire agreement of TMCC and Guarantor with respect to the subject matter of this Guaranty. Neither this Guaranty nor any term hereof may be changed, waived, discharged, or terminated without the prior written consent of TMCC.

h. **Rights Cumulative; No Waivers.** All of TMCC's rights under this Guaranty are cumulative. The exercise of any one right does not exclude the exercise of any other right given in this Guaranty or any other right of TMCC not set forth in this Guaranty. No delay or omission by TMCC to exercise any right under this Guaranty shall impair any such right or be construed to be a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right.

i. **Effect of Compliance.** Guarantor's compliance with any of the provisions of this Guaranty will not reduce or affect in any manner the liability of Guarantor under any of the other provisions of this Guaranty.

j. **Severability.** If any provision of this Guaranty is unenforceable, or otherwise invalid, the remaining provisions of this Guaranty shall be enforced to the fullest possible extent.

k. **Notices.** All notices to be provided under this Guaranty shall be given in the manner and addressed to Guarantor or TMCC as provided in the Loan Agreement.

l. **Headings; Number; Construction.** Section headings used in this Guaranty are for convenience only. They are not a part of this Guaranty and shall not be used in construing it. Wherever appropriate in this Guaranty, the singular shall be deemed to also refer to the plural, and the plural to the singular, and pronouns of certain genders shall be deemed to include either or both of the other genders. In interpreting the meaning of this Guaranty: (i) "includes" and "including" are not limiting; (ii) "or" is not exclusive; and (iii) "all" includes "any" and "any" includes "all."

12. **Acknowledgment of Waivers and Loss of Defenses.**

a. Guarantor acknowledges that certain provisions of this Guaranty operate as waivers of rights that Guarantor would otherwise have under applicable law. Other provisions permit TMCC (i) to take actions that TMCC would otherwise not have a right to take, (ii) to fail to take actions that it would otherwise have an obligation to take, or (iii) to take actions that may prejudice Guarantor's rights and obligations under this Guaranty and against the Borrower. In the absence of these provisions Guarantor might have defenses against its obligations under this Guaranty. These defenses might permit Guarantor to avoid some or all of its obligations under this Guaranty.

b. **Guarantor intends by the waivers and other provisions of this Guaranty, including the acknowledgment set forth in this section, to be liable to the greatest extent permitted by law for all of the Guaranteed Obligations. Guarantor intends to have this liability even if the terms of the Loan Documents change or if Guarantor does not have any rights against Borrower.**

c. **Guarantor acknowledges that (i) it understands the seriousness of the provisions of this Guaranty; (ii) it has had a full opportunity to consult with counsel of its choice; and (iii) it has consulted with counsel of its choice or has decided not to avail itself of that opportunity.**

14. **WAIVER OF JURY TRIAL.** GUARANTOR AND TMCC MUTUALLY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS OR ANY OTHER LOAN DOCUMENTS CONTEMPLATED TO BE EXECUTED IN CONNECTION HEREWITH, OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR TMCC TO MAKE THE LOAN.

15. **PREJUDGMENT REMEDIES.** GUARANTOR ACKNOWLEDGES THAT THE LOAN IS A COMMERCIAL TRANSACTION AND HEREBY VOLUNTARILY AND KNOWINGLY WAIVES ANY RIGHTS TO NOTICE AND HEARING UNDER STATUTES AFFECTING PREJUDGMENT REMEDIES AND AUTHORIZES TMCC'S ATTORNEY TO ISSUE A WRIT FOR A PREJUDGMENT REMEDY WITHOUT COURT ORDER, PROVIDED THE COMPLAINT SHALL SET FORTH A COPY OF THIS WAIVER.

IN WITNESS WHEREOF, Guarantor has caused this Guaranty to be executed as of the date first set forth above.

“GUARANTOR”:

SONIC AUTOMOTIVE, INC.,
a Delaware corporation

By: /s/ THEODORE M. WRIGHT

Name: **Theodore M. Wright**
Title: **President**

SONIC AUTOMOTIVE, INC.
1997 STOCK OPTION PLAN

Amended and Restated as of May 8, 2002

1. **Purposes of Plan.** The purposes of the Plan, which shall be known as the Sonic Automotive, Inc. 1997 Stock Option Plan and is hereinafter referred to as the "Plan", are (i) to provide incentives for key employees, directors, consultants and other individuals providing services to Sonic Automotive, Inc. (the "Company") and its subsidiaries and other related entities (each of which is referred to herein as a "Subsidiary") by encouraging their ownership of the Class A Common Stock, \$.01 par value per share, of the Company (the "Stock") and (ii) to aid the Company in retaining such key employees, directors, consultants and other individuals upon whose efforts the Company's success and future growth depends, and attracting other such employees, directors, consultants and other individuals.

2. **Administration.** The Plan shall be administered by a committee of the Board of Directors of the Company or subcommittee thereof (the "Committee"). The Committee shall be appointed from time to time by the Board of Directors of the Company (the "Board of Directors") and shall consist of not fewer than two of its members. In the event that no such Committee exists or is appointed, then the powers to be exercised by the Committee hereunder shall be exercised by the Board of Directors.

For purposes of administration, the Committee, subject to the terms of the Plan, shall have plenary authority to establish such rules and regulations, to make such determinations and interpretations, and to take such other administrative actions, as it deems necessary or advisable. All determinations and interpretations made by the Committee shall be final, conclusive and binding on all persons, including those granted options hereunder ("Optionees") and their legal representatives and beneficiaries.

Notwithstanding any other provisions of the Plan, the Committee may impose such conditions on any options as may be required to satisfy the requirements of Rule 16b-3 of the Securities Exchange Act of 1934, as amended (the "Act") or Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code").

The Committee shall hold its meetings at such times and places as it may determine. A majority of its members shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members. Any decision or determination reduced to writing and signed by all members shall be as effective as if it had been made by a majority vote at a meeting duly called and held. The Committee may appoint a secretary (who need not be a member of the Committee). No member of the Committee shall be liable for any act or omission with respect to his service on the Committee, if he acts in good faith and in a manner he reasonably believes to be in or not opposed to the best interests of the Company.

3. **Stock Available for Options.** There shall be available for options under the Plan a total of Eight Million (8,000,000) shares of Stock, subject to any adjustments which may be made pursuant to Section 5(f) hereof. Shares of Stock used for purposes of the Plan may be either authorized and unissued shares, or previously issued shares held in the treasury of the Company, or both. Shares of Stock covered by options which have terminated or expired prior to exercise, or which have been tendered as payment

upon exercise of other options pursuant to Section 5(c), shall be available for further option grants hereunder.

4. **Eligibility.** Options under the Plan may be granted to key employees of the Company or any Subsidiary, including officers or directors of the Company or any Subsidiary, and to consultants and other individuals providing services to the Company or any Subsidiary. On and after June 5, 2000, options may no longer be granted under this Plan to “non-employee directors” within the meaning of Rule 16b-3 of the Act. Options may be granted to eligible persons whether or not they hold or have held options previously granted under the Plan or otherwise granted or assumed by the Company; provided, however, that the maximum number of shares of Stock with respect to which options may be granted under the Plan to any person during any calendar year shall be 500,000 shares of Stock (subject to adjustment in the same manner as provided in Section 5(f) with respect to shares of Stock subject to options then outstanding). In selecting recipients for options, the Committee may take into consideration any factors it may deem relevant, including its estimate of the individual’s present and potential contributions to the success of the Company and its Subsidiaries. Service as a director, officer or consultant of or to the Company or any Subsidiary shall be considered employment for purposes of the Plan (and the period of such service shall be considered the period of employment for purposes of Section 5(d) of the Plan); provided, however, that incentive stock options may be granted under the Plan only to an individual who is an “employee” (as such term is used in Section 422 of the Code) of the Company or a Subsidiary which constitutes a “subsidiary corporation” within the meaning of Section 424(f) of the Code.

5. **Terms and Conditions of Options.** The Committee shall, in its discretion, prescribe the terms and conditions of the options to be granted hereunder, which terms and conditions need not be the same in each case, subject to the following:

(a) **Option Price.** The price at which each share of Stock may be purchased upon exercise of an option granted under the Plan shall be determined by the Committee in its discretion, but shall not be less than the fair market value per share of Stock on the date of grant of the option. In the case of any option intended to be an incentive stock option granted to an individual owning (directly or by attribution as provided in Section 424(d) of the Code), on the date of grant, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary (which individual shall hereinafter be referred to as a “10% Stockholder”), the price at which each share of Stock may be purchased upon exercise of the option shall not be less than 110% of the fair market value per share of Stock on the date of grant of the option. The date of the grant of an option shall be the date specified by the Committee in its grant of the option. Except as otherwise provided in Section 5(f) of this Plan, the option price of an outstanding option under this Plan may not be repriced. Notwithstanding the foregoing, an option may be granted with an exercise price lower than that set forth above if such option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

For purposes of this Section 5(a), “fair market value” shall mean the last sale price regular way on the last trading day prior to the date of option grant, or, in case no sales take place on such date, the average of the closing high bid and low asked prices regular way, in either case on the principal national securities exchange on which the Stock is listed or admitted to trading, or if the Stock is not listed or admitted to trading on any national securities exchange, the last sale price reported on the National Market System of the National Association of Securities Dealers Automated Quotation system (“NASDAQ”) on such date, or the average of the closing high bid and low asked prices of the Stock in the over-the-counter market reported on NASDAQ on such date, as furnished to the Committee by any New York

Stock Exchange member selected from time to time by the Committee for such purpose. If there is no bid or asked price reported on any such date, the fair market value shall be determined by the Committee in accordance with the regulations promulgated under Section 2031 of the Code, or by any other appropriate method selected by the Committee.

(b) *Option Period.* The period for exercise of an option shall be determined by the Committee in its discretion but in no event shall the exercise period be more than ten years from the date of grant, or in the case of an option intended to be an incentive stock option granted to a 10% Stockholder, more than five years from the date of grant. Options may, in the discretion of the Committee, be made exercisable in installments during the option period. Any shares not purchased on any applicable installment date may be purchased thereafter at any time before the expiration of the option period, subject to Section 5(d) below.

(c) *Exercise of Options.* In order to exercise an option, the Optionee shall deliver to the Company written notice specifying the number of shares of Stock to be purchased, together with full payment of the purchase price therefor; provided that, for the purpose of assisting an Optionee to exercise an option, the Company may make loans to the Optionee or guarantee loans made by third parties to the Optionee, on such terms and conditions as the Board of Directors may authorize. The purchase price may be paid in (i) cash (or a certified or bank cashier's check payable to the order of the Company); (ii) shares of Stock owned by the Optionee, (iii) nonstatutory options granted under the Plan and held by the Optionee (provided, however, that the purchase price of Stock acquired under an incentive stock option may not be paid in options); or (iv) any combination of the foregoing methods. Shares of Stock tendered in payment on the exercise of an option shall be valued at their fair market value determined as described in Section 5(a) above, provided that the date of determination shall be the date of exercise. The fair market value of options tendered in payment upon exercise of other options shall be the fair market value of the underlying Stock, determined as aforesaid, less the total exercise price of the options. In addition, at the request of the Optionee, and subject to applicable laws and regulations, the Company may (but shall not be required to) cooperate in a "cashless exercise" of an option (i.e., the assignment to the Company of the proceeds from a sale of Stock acquired upon exercise of the option or from the proceeds of a loan from a brokerage firm). If the Optionee so requests, shares of Stock purchased upon exercise of an option may be issued in the name of the Optionee or another person. An Optionee shall have none of the rights of a stockholder until the shares of Stock are issued to him.

(d) *Effect of Termination of Employment.*

(i) An option may not be exercised after the Optionee has ceased to be in the employ of the Company or any Subsidiary for any reason other than the Optionee's death, Disability or Involuntary Termination Without Cause. A cessation of employment, for purposes of incentive stock options only, shall be deemed to occur on the ninety-first day of a leave of absence unless the Optionee's reemployment rights are guaranteed by law or by contract. "Cause" shall mean any act, action or series of acts or actions or any omission, omissions, or series of omissions which result in, or which have the effect of resulting in, (i) the commission of a crime by the Optionee involving moral turpitude, which crime has a material adverse impact on the Company or any Subsidiary or which is intended to result in the personal enrichment of the Optionee at the expense of the Company or one of its Subsidiaries, (ii) a material violation of the Optionee's responsibilities, or the Optionee's gross negligence or willful misconduct, or (iii) the continuous, willful failure of the person in question to follow the reasonable directives of the Board of Directors. "Disability" shall mean the inability or failure of a person to

perform those duties for the Company or any Subsidiary traditionally assigned to and performed by such person because of the person's then-existing physical or mental condition, impairment or incapacity. The fact of disability shall be determined by the Committee, which may consider such evidence as it considers desirable under the circumstances, the determination of which shall be final and binding upon all parties. "Involuntary Termination Without Cause" shall mean either (i) the dismissal of, or the request for the resignation of, a person, by court order, order of any court-appointed liquidator or trustee of the Company, or the order or request of any creditors' committee of the Company constituted under the federal bankruptcy laws, provided that such order or request contains no specific reference to Cause; or (ii) the dismissal of, or the request for the resignation of, a person, by a duly constituted corporate officer of the Company or any Subsidiary, or by the Board, for any reason other than for Cause.

(ii) During the three months after the date of the Optionee's Involuntary Termination Without Cause, the Optionee shall have the right to exercise the options granted under the Plan, but only to the extent the options were exercisable on the date of the cessation of the Optionee's employment.

(iii) During the twelve months after the Optionee's employment with the Company or any Subsidiary ceases as a result of the Optionee's Disability, the Optionee shall have the right to exercise the options granted under the Plan, but only to the extent the options were exercisable on the date of the cessation of the Optionee's employment.

(iv) In the event of the death of the Optionee while employed or, in the event of the death of the Optionee after cessation of employment described in subparagraph (ii) or (iii), above, but within the three-month or twelve-month period described in subparagraph (ii) or (iii), above, the options granted under the Plan shall be exercisable until the expiration of twelve months following the Optionee's death, but only to the extent the option was exercisable on the date of the cessation of the Optionee's employment. During such extended period, the option may be exercised by the person or persons to whom the deceased Optionee's rights under the Option Agreement shall pass by will or by the laws of descent and distribution. The provisions of this subparagraph (iv) shall apply to any outstanding options which are incentive stock options to the extent permitted by Sections 421 and 422(d) of the Code and such outstanding options in excess thereof shall, immediately upon the death of the Optionee, be treated for all purposes of the Plan as nonstatutory stock options and shall be exercisable as such as provided in this subparagraph (iv).

In no event shall any option be exercisable beyond the applicable exercise period determined pursuant to Section 5(b) of the Plan. Nothing in the Plan or in any option granted pursuant to the Plan (in the absence of an express provision to the contrary) shall confer on any individual any right to continue in the employ of the Company or any Subsidiary or interfere in any way with the right of the Company or Subsidiary to terminate his employment at any time.

(e) *Nontransferability of Options.* Except as otherwise set forth herein, during the lifetime of an Optionee, options held by such Optionee shall be exercisable only by him, and no option shall be transferable other than by will or the laws of descent and distribution. Notwithstanding the foregoing, the Committee, in its absolute discretion, may grant nonstatutory stock options that may be transferred without consideration, in whole or in part, by the Optionee to (i) the Optionee's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law,

brother-in-law or sister-in-law, including adoptive relationships, or any person sharing the Optionee's household (other than a tenant or employee) ("Family Members"); (ii) a trust in which Family Members have more than 50% of the beneficial interest; (iii) a foundation in which Family Members (or the Optionee) control the management of assets; or (iv) any other entity in which Family Members (or the Optionee) own more than 50% of the voting interests. In all cases, the Committee must be notified in advance in writing of the terms of any proposed transfer to a permitted transferee and such transfers may occur only with the consent of and subject to the rules and conditions imposed by the Committee. The transferee and the transferred options shall continue to be subject to the same terms and conditions as were applicable immediately prior to the transfer. The provisions of the Plan, including, but not limited to, those set forth in Section 5(b) and (d), shall continue to apply with respect to the Optionee and the option shall be exercisable by the transferee only to the extent and for the periods specified herein and in any applicable option agreement. To the extent required by applicable law, the Optionee shall remain subject to withholding taxes upon exercise of any transferred option by the transferee.

(f) *Adjustments for Change in Stock Subject to Plan.* In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering or any other change in the corporate structure or shares of the Company, unless the Committee should determine otherwise, corresponding adjustments automatically shall be made to the number and kind of shares available for issuance under this Plan, the number and kind of shares covered by outstanding options under this Plan, and the exercise price per share for outstanding options. In addition, the Committee may make such other adjustments as it determines to be equitable.

(g) *Acceleration of Exercisability of Options Upon Occurrence of Certain Events.* In connection with any merger or consolidation in which the Company is not the surviving corporation and which results in the holders of the outstanding voting securities of the Company (determined immediately prior to such merger or consolidation) owning less than a majority of the outstanding voting securities of the surviving corporation (determined immediately following such merger or consolidation), or any sale or transfer by the Company of all or substantially all of its assets or any tender offer or exchange offer for or the acquisition, directly or indirectly, by any person or group of all or a majority of the then-outstanding voting securities of the Company, all outstanding options under the Plan shall become exercisable in full, notwithstanding any other provision of the Plan or of any outstanding options granted thereunder, on and after (i) the fifteenth day prior to the effective date of such merger, consolidation, sale, transfer or acquisition or (ii) the date of commencement of such tender offer or exchange offer, as the case may be. The provisions of the foregoing sentence shall apply to any outstanding options which are incentive stock options to the extent permitted by Section 422(d) of the Code and such outstanding options in excess thereof shall, immediately upon the occurrence of the event described in clause (i) or (ii) of the foregoing sentence, be treated for all purposes of the Plan as nonstatutory stock options and shall be immediately exercisable as such as provided in the foregoing sentence. Notwithstanding the foregoing, in no event shall any option be exercisable after the date of termination of the exercise period of such option determined pursuant to Sections 5(b) and 5(d).

(h) *Registration, Listing and Qualification of Shares of Stock.* Each option shall be subject to the requirement that if at any time the Board of Directors shall determine that the registration, listing or qualification of shares of Stock covered thereby upon any securities exchange or under any federal or state law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such option or the purchase of shares of Stock thereunder, no such option may be exercised unless and until such registration, listing, qualification, consent or approval shall have been

effected or obtained free of any conditions not acceptable to the Board of Directors. The Company may require that any person exercising an option shall make such representations and agreements and furnish such information as it deems appropriate to assure compliance with the foregoing or any other applicable legal requirement.

(i) *Other Terms and Conditions.* The Committee may impose such other terms and conditions, not inconsistent with the terms hereof, on the grant or exercise of options, as it deems advisable.

(j) *Reload Options.* If upon the exercise of an option granted under the Plan (the "Original Option") the Optionee pays the purchase price for the Original Option pursuant to Section 5(c) in whole or in part in shares of Stock owned by the Optionee for at least six months, the Company shall grant to the Optionee on the date of such exercise an additional option under the Plan (the "Reload Option") to purchase that number of shares of Stock equal to the number of shares of Stock so held for at least six months transferred to the Company in payment of the purchase price in the exercise of the Original Option. The price at which each share of Stock covered by the Reload Option may be purchased shall be the market value per share of Stock (as specified in Section 5(c)) on the date of exercise of the Original Option. The Reload Option shall not be exercisable until one year after the date the Reload Option is granted or after the expiration date of the Original Option. Upon the payment of the purchase price for a Reload Option granted hereunder in whole or in part in shares of Stock held for more than six months pursuant to Section 5(c), the Optionee is entitled to receive a further Reload Option in accordance with this Section 5(j). Shares of Stock covered by a Reload Option shall not reduce the number of shares of Stock available under the Plan pursuant to Section 3.

6. *Additional Provisions Applicable to Incentive Stock Options.* The Committee may, in its discretion, grant options under the Plan which constitute "incentive stock options" within the meaning of Section 422 of the Code to eligible employees of the Company and its "subsidiary corporations" within the meaning of Section 424(f) of the Code, provided, however, that the aggregate market value of the Stock (determined as of the date the incentive stock option is granted) with respect to which incentive stock options are exercisable for the first time by the Optionee during any calendar year shall not exceed \$100,000 or such other limitation set forth in Section 422(d) of the Code.

7. *Effectiveness of Plan.* The Plan became effective when it was adopted and approved by the Board of Directors and the stockholders of the Company on October 9, 1997. The Plan was amended and restated effective as of December 3, 1998, again amended and restated effective as of June 8, 1999 and again amended and restated as of June 5, 2000; provided, however, that the amendments to Section 5(e) contained in the June 8, 1999 restatement also shall apply to all outstanding nonstatutory stock options under the Plan as of June 8, 1999. This amendment and restatement of the Plan shall be effective as of May 8, 2002, subject to approval by the stockholders of the Company at the 2002 Annual Meeting of Stockholders.

8. *Amendment and Termination.* The Board of Directors may at any time amend the Plan or the terms of any option outstanding under the Plan; provided, however, that, except as contemplated in Section 5(f), the Board of Directors shall not, without approval by a majority of the votes cast by the stockholders of the Company at a meeting of stockholders at which a proposal to amend the Plan is voted upon, (i) increase the maximum number of shares of Stock for which options may be granted under the Plan, or (ii) except as otherwise provided in the Plan, amend the requirements as to the class of employees eligible to receive options. The Board of Directors may terminate the Plan at any time. Unless the Plan shall theretofore have been terminated, the Plan shall terminate, and no option shall be granted hereunder after, October 9, 2007. No amendment or termination of the Plan or any option outstanding under the

Plan may, without the consent of an Optionee, adversely affect the rights of such Optionee under any option held by such Optionee.

9. **Withholding.** It shall be a condition to the obligation of the Company to issue shares of Stock upon exercise of an option that the Optionee (or any beneficiary or person entitled to act under Section 5(d) hereof) remit to the Company, or make arrangements satisfactory to the Company to pay through payroll withholding or otherwise, such amount as may be requested by the Company to meet any federal, state or local tax withholding obligations with respect to such exercise. If the amount requested is not paid, the Company may refuse to issue such shares of Stock.

10. **Other Actions.** Nothing contained in the Plan shall be construed to limit the authority of the Company to exercise its corporate rights and powers, including, but not by way of limitation, the right of the Company to grant or assume options for proper corporate purposes other than under the Plan with respect to any employee or other person, firm, corporation or association.

SONIC AUTOMOTIVE, INC.
EMPLOYEE STOCK PURCHASE PLAN
AMENDED AND RESTATED
AS OF
MAY 8, 2002

SONIC AUTOMOTIVE, INC.
EMPLOYEE STOCK PURCHASE PLAN

AMENDED AND RESTATED
AS OF
MAY 8, 2002

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**SONIC AUTOMOTIVE, INC.
EMPLOYEE STOCK PURCHASE PLAN**

**AMENDED AND RESTATED
AS OF
MAY 8, 2002**

ARTICLE I. PURPOSE; EFFECTIVE DATE; DEFINITIONS; CONSTRUCTION

1.1 Purpose of Plan; Effective Date. The purpose of the Plan, which shall be known as the Sonic Automotive, Inc. Employee Stock Purchase Plan (the "Plan"), is to provide employees of Sonic Automotive, Inc. (the "Company") and its participating subsidiaries, within the meaning of Section 424(f) of the Internal Revenue Code of 1986, as amended (the "Code") (which hereinafter shall be referred to collectively with the Company as the "Employer"), an opportunity to acquire a proprietary interest in the Company through the purchase of the Class A Common Stock, \$.01 par value per share, of the Company. This Plan is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Code.

The Plan became effective when it was adopted and approved by the Board of Directors and the shareholders of the Company on October 9, 1997. The Plan was subsequently amended and restated as of December 3, 1998, again amended and restated as of June 8, 1999, and again amended and restated as of June 5, 2000. The Company hereby amends and restates the Plan as of May 8, 2002 as set forth herein.

1.2 Definitions. Throughout this Plan, the following terms shall have the meanings indicated:

- (a) "Account" shall mean a memorandum account maintained to record each Participant's Contributions pending purchase of Company Stock.
- (b) "Base Pay" shall mean the Participant's regular cash compensation (excluding overtime pay, bonuses, shift premiums, commissions, fringe benefits, other special payments and imputed income) determined without reduction for Contributions made under this Plan or contributions to any Code Section 401(k) or Section 125 Plan.
- (c) "Board of Directors" shall mean the Board of Directors of the Company.
- (d) "Business Day" shall mean any day other than a Saturday, Sunday or holiday.
- (e) "Cause" shall mean any act, action or series of acts or actions or any omission, omissions or series of omissions which, in the opinion of the Committee, result in, or which have the effect of resulting in, (i) the commission of a crime by the Participant involving moral turpitude, which crime has a material adverse impact on the Employer, (ii) gross negligence or willful misconduct which is continuous and results in

material damage to the Employer, or (iii) the continuous, willful failure of the person in question to follow the reasonable directives of the Employer.

- (f) "Code" shall mean the Internal Revenue Code of 1986, as amended, any successor revenue laws of the United States, and the rules and regulations promulgated thereunder.
- (g) "Committee" shall mean the committee of directors of the Company appointed by the Board of Directors in accordance with Section 2.1 to administer this Plan, or in the event that no such committee exists or is appointed, "Committee" shall mean the Board of Directors.
- (h) "Company" shall mean Sonic Automotive, Inc., a corporation organized and existing under the laws of the State of Delaware.
- (i) "Company Stock" shall mean the Class A Common Stock, \$.01 par value per share, of the Company.
- (j) "Contributions" shall mean the after-tax payroll deductions or other permissible contributions made by Participants to the Plan pursuant to Article IV.
- (k) "Employee" shall mean any person who (i) is employed on a full-time or part-time basis by a participating Employer, (ii) is regularly scheduled to work more than twenty hours per week for a participating Employer, and (iii) is customarily employed more than five months in any calendar year by a participating Employer. Independent contractors and outside directors shall not be included in the definition of Employee for purposes of this Plan.
- (l) "Employer" shall mean the Company and any of its present or future subsidiaries (within the meaning of Section 424(f) of the Code) which the Committee may designate from time to time as participating Employers under this Plan.
- (m) "Exercise Date" shall mean the last Business Day of March, June, September and December on which the principal trading market for Company Stock is open for trading, plus any other interim dates during the year which the Committee designates as Exercise Dates.
- (n) "Grant Date" shall mean (i) initially, January 1, 1998, and (ii) each January 1 thereafter during the term of the Plan.
- (o) "Option" shall mean an option to purchase shares of Company Stock granted by the Committee to a Participant pursuant to this Plan.
- (p) "Participant" shall mean an Employee participating in this Plan in accordance with Article III.
- (q) "Plan" shall mean this Sonic Automotive, Inc. Employee Stock Purchase Plan, as amended from time to time.

1.3 Construction. The masculine gender, where appearing in the Plan, shall be deemed to include the feminine gender, unless the context clearly indicates to the contrary. The words "hereof," "herein," "hereunder" and other similar compounds of the word "here" shall mean and refer to the entire Plan and not to any particular provision or Section.

ARTICLE II. ADMINISTRATION

2.1 Appointment and Procedures of Committee. The Plan shall be administered by the Board of Directors or a Committee appointed from time to time by the Board of Directors. The Committee shall consist of not fewer than two members of the Board of Directors. No member of the Board of Directors who serves on the Committee shall be eligible to participate in the Plan. The Committee shall hold its meetings at such times and places as it may determine. A majority of its members shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members. Any decision or determination reduced to writing and signed by all members shall be as effective as if it had been made by a majority vote at a meeting duly called and held. The Committee may appoint a secretary (who need not be a member of the Committee).

2.2 Authority of Committee. The Committee, subject to the terms of the Plan, shall have plenary authority in its discretion to interpret and construe the Plan (including, without limitation, any of its terms which are uncertain, doubtful or disputed); to decide all questions of Employee eligibility hereunder; to determine the amount, manner and timing of all Options and purchases of Company Stock hereunder (unless otherwise determined by the Board of Directors); to establish, amend and rescind rules and regulations pertaining to the administration of the Plan; and to make determinations and interpretations and take such other administrative actions as it deems necessary or advisable for the administration of this Plan. The express grant in the Plan of any specific power to the Committee shall not be construed as limiting any power or authority of the Committee. No member of the Committee shall be liable for any act, determination or omission with respect to his service on the Committee, if he acts in good faith and in a manner he reasonably believes to be in or not opposed to the best interests of the Employer. All expenses of administering this Plan shall be borne by the Employer.

ARTICLE III. PARTICIPATION

3.1 Eligibility to Participate. Subject to the restrictions of Section 3.2 below, any Employee employed on the date of the closing of the Company's initial public offering shall be eligible to participate in this Plan as of the initial Grant Date under the Plan (provided that the Employee is still employed on such Grant Date). Each other Employee shall be eligible to participate in the Plan with respect to a Grant Date if, as of such Grant Date, the Employee has completed a year of service with the Employer (provided that the Employee is still employed on such Grant Date).

Effective for Grant Dates on or after January 1, 2003 (or such later date as may be specified by the Committee), if an Employee has previously elected to become a

Participant with respect to a Grant Date and annual offering under Section 5.2 of the Plan, but fails to return an enrollment/election form on or before the specified due date for any subsequent Grant Date and annual offering for which the Employee is eligible, then that Employee shall be deemed to have made the same participation election (including his payroll deduction and/or direct payment contribution elections under Sections 4.1 and 4.2) as was in effect for him as of the last Exercise Date of the immediately preceding annual offering (or, if applicable, as of the Exercise Date during that immediately preceding annual offering as of which the Employee had purchased all shares of Company Stock subject to his Option). Such participation election (including his payroll deduction and/or direct payment contribution elections under Sections 4.1 and/or 4.2) shall remain in effect unless and until the Employee changes or revokes such participation election (and/or his payroll deduction and/or direct payment contribution elections under Sections 4.1 and 4.2) in writing by filing the proper forms in accordance with the terms of the Plan.

For purposes of eligibility to participate in this Plan, the following service shall be recognized: (a) service with an entity prior to the acquisition by the Company, or one of its subsidiaries, of a controlling interest in or substantially all of the assets of such entity, and (b) service with an affiliate of the Company which directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Company.

3.2 Restrictions on Participation. Notwithstanding the foregoing Section 3.1, no Employee shall be eligible to participate in the Plan if such Employee owns or holds options to purchase (or upon participation in this Plan would own or hold options to purchase) stock possessing an aggregate of 5% or more of the total combined voting power or value of all classes of stock of the Company or any other Employer (as determined in accordance with the rules of Section 424(d) of the Code relating to attribution of stock ownership).

3.3 Leave of Absence. For purposes of participation in the Plan, an Employee on a leave of absence shall be deemed to continue to be an Employee for the first ninety days of such leave of absence and such Employee's employment shall be deemed to have terminated at the close of business on the ninetieth day of such leave of absence unless such Employee shall have returned to regular full-time or part-time employment prior to the close of business on such ninetieth day (or unless the Employee's reemployment is guaranteed by statute or contract). Termination by the Company of any Employee's leave of absence, other than termination of such leave of absence on return to regular full-time or part-time employment, shall terminate an Employee's employment for all purposes of the Plan.

ARTICLE IV. CONTRIBUTIONS

4.1 Payroll Deductions. By written election, made and filed with the Committee pursuant to the Committee's rules and procedures, a Participant may elect to designate a whole percentage between one percent and ten percent (or such higher or lower percentage as may be allowed by the Committee's rules and procedures) of his

Base Pay to be deferred by payroll deduction as a Contribution to the Plan. Payroll deductions shall commence as soon as administratively practicable following the filing of such written election with the Committee. The Committee in its discretion may develop additional rules and procedures regarding payroll deduction elections.

A Participant may change or revoke his payroll deduction amount by filing, on such forms and in accordance with such rules and procedures as the Committee in its discretion may prescribe, a revised written election with the Committee. Such modification or revocation shall take effect as soon as administratively practicable after the Committee's receipt of such revised election. Notwithstanding the foregoing, a Participant may change his payroll deduction election only once each calendar quarter, or as otherwise specifically allowed by the Committee's rules and procedures. If payroll deductions are discontinued, payroll deductions may not be resumed by the Participant until the payroll period which begins on or after the next Exercise Date, or as otherwise specifically allowed by the Committee's rules and procedures. Under no circumstances may a Participant's payroll deduction election be made, modified or revoked retroactively.

4.2 Direct Payment. In accordance with such rules and procedures as the Committee may prescribe in its discretion and in lieu of payroll deductions pursuant to Section 4.1, a Participant may elect to make Contributions by direct cash payment (including by check, subject to the Committee's rules and procedures) to the Plan rather than by payroll deduction. Such direct payments must be received by the Plan at least ten Business Days prior to an Exercise Date in order for such payments to be applied in the exercise of an Option for the purchase of Company Stock on such Exercise Date.

4.3 Leave of Absence. If a Participant is on a leave of absence, such Participant shall have the right to elect to (a) withdraw from the Plan and receive a distribution of the balance in his Account pursuant to Section 4.5, (b) discontinue Contributions to the Plan but remain a Participant in the Plan, or (c) subject to Section 3.3(c), remain a Participant in the Plan during such leave of absence, authorizing deductions to be made from payments by the Company to the Participant during such leave of absence, or making direct cash payments to the Plan pursuant to Section 4.2.

4.4 Contributions to Accounts. A memorandum Account shall be established by the Committee for each Participant for the purpose of accounting for Contributions. Contributions shall be credited to Accounts as soon as administratively practicable following payroll withholding or receipt of other permissible direct cash payment. Amounts credited to Accounts will not accrue interest.

4.5 Withdrawal of Contributions from Plan. Prior to the end of a calendar quarter, a Participant may elect to withdraw the Contributions credited to his Account for that quarter by filing written notice thereof with the Committee on such forms and in accordance with such procedures as the Committee may prescribe. The Participant's Contributions shall be distributed to him as soon as administratively practicable after the Committee's receipt of his notice of withdrawal and, if applicable, no further payroll deductions shall be made from his Base Pay.

4.6 Termination of Employment. Upon termination of a Participant's employment for any reason, such Participant may no longer make Contributions to the Plan or be granted Options under the Plan. A Participant's right, if any, to exercise any unexpired Option he holds as of his termination of employment shall be determined in accordance with Section 5.5(c).

ARTICLE V. OPTIONS

5.1 Company Stock Available for Options. There shall be available for Options under the Plan an aggregate maximum of Three Million (3,000,000) shares of Company Stock, subject to any adjustments which may be made pursuant to Section 6.1 of the Plan in connection with changes in capitalization of the Company. Shares of Company Stock used for purposes of the Plan may be either authorized and unissued shares, or previously issued shares held in the treasury of the Company, or both. Shares of Company Stock covered by Options which have expired prior to exercise shall be available for further Options granted hereunder.

5.2 Granting of Options. The Plan shall be implemented by annual offerings of approximately twelve months duration (except as otherwise provided in Section 5.4). As of each Grant Date, all eligible Participants shall be granted an Option to purchase shares of Company Stock. The Board of Directors or the Committee shall determine the number of shares of Company Stock available for purchase under each Option to be granted as of such Grant Date; provided that, the same number of shares must be available under each Option granted as of such Grant Date. No Participant may be granted an Option which permits his rights to purchase stock under this Plan and all other employee stock purchase plans of the Company or Employer to accrue at a rate which exceeds \$25,000 of the fair market value of such stock (determined at the time such Option is granted) for each calendar year in which such Option is outstanding at any time.

5.3 Option Price. The purchase price per share of Company Stock which may be acquired pursuant to the exercise of all or any portion of an Option granted under this Plan shall be eighty-five percent of the lesser of (i) the fair market value per share of Company Stock on the applicable Grant Date, and (ii) the fair market value per share of Company Stock on the applicable Exercise Date. For purposes of this Section 5.3, the fair market value per share of Company Stock shall be the closing price on the last Business Day prior to the date of reference, or in the event that no sales take place on such date, the average of the closing high bid and low asked prices, in either case on the principal national securities exchange on which the Company Stock is listed or admitted to trading, or if the Company Stock is not listed or admitted to trading on any national securities exchange, the last sale price reported on the National Market System of the National Association of Securities Dealers Automated Quotation system ("NASDAQ") on such date, or the average of the closing high bid and low asked prices of the Company Stock in the over-the-counter market reported on NASDAQ on such date, as furnished to the Committee by any New York Stock Exchange member selected from time to time by the Committee for such purposes. If there is no bid or asked price reported on any such date, the fair market value shall be determined by the Committee in accordance with the

regulations promulgated under Section 2031 of the Code, or by any other appropriate method selected by the Committee.

5.4 Option Period. Each Option granted to a Participant under the Plan shall expire on the earliest of (a) the last Exercise Date of the calendar year in which the Option was granted, (b) the Participant's voluntary withdrawal from the Plan following termination of employment, and (c) the date of the Participant's termination of employment related to Cause, or the Exercise Date immediately following the Participant's termination of employment for any reason unrelated to Cause. In no event will the duration of an Option period exceed twenty-seven months (or such other applicable period permitted under Section 423(b)(7) of the Code) from the date on which such Option is granted.

5.5 Exercise of Options.

(a) Automatic Exercise. Any Option granted to a Participant shall be exercised automatically on each Exercise Date during the calendar year of the Option's Grant Date in whole or in part such that the Participant's accumulated Contributions as of such Exercise Date shall be applied to the purchase of the maximum number of whole shares of Company Stock that his Contributions will allow at the applicable Option price (determined in accordance with Section 5.3), limited to the number of shares subject to such Option. In the event that the number of shares of Company Stock that may be purchased by all Participants in the Plan exceeds the number of shares then available for issuance under the Plan, the Committee shall make a pro rata allocation of the available shares in as uniform a manner as it determines to be practicable and equitable. Any remaining Contributions in the Participant's Account amounting to less than the Option price of a whole share of Company Stock shall be carried forward and applied on the next Exercise Date; provided that, Contributions remaining after the last Exercise Date of the calendar year may be distributed to the Participant at his election.

(b) Nontransferability of Options. During a Participant's lifetime, Options held by such Participant shall be exercisable only by that Participant. No Option shall be transferable other than by will or the laws of descent and distribution.

(c) Effect of Termination of Employment.

(i) Termination of Employment Related to Cause. Upon termination of a Participant's employment related to Cause, the Participant's participation in the Plan also shall terminate. Any unexpired Option he holds will expire as of the date of his termination of employment. Remaining contributions credited to his Account shall be distributed to the Participant as soon as administratively practicable following termination of employment.

(ii) Termination of Employment Due to Death. In the event of the death of the Participant while employed, or during the period following his termination of employment for any reason unrelated to Cause but prior to the next Exercise Date, the Participant's estate shall have the right to elect by written notice to the

Committee prior to the earlier of the expiration of sixty days commencing with the date of the Participant's death and the Exercise Date next following the date of the Participant's death:

(A) To withdraw all of the Contributions then credited to the Participant's Account under the Plan, or

(B) To allow any unexercised Option held by the Participant as of the date of his death to be exercised for the purchase of Company Stock on the Exercise Date next following the date of the Participant's death in accordance with Section 5.5(a), but only to the extent such Option was exercisable on the date of the Participant's death, with any remaining Contributions credited to the Participant's Account being distributed to the Participant's estate as soon as administratively practicable after such Exercise Date.

In the event that no such written election is timely and properly received by the Committee, all Contributions credited to the Participant's Account shall be distributed to the Participant's estate. In no event shall any Option be exercisable beyond the applicable exercise period specified in Section 5.4 of the Plan.

(iii) Other Termination of Employment. Upon termination of a Participant's employment for any reason unrelated to Cause or death, the Participant may at his election:

(A) Withdraw from the Plan pursuant to Section 4.5 and request the return of the remaining Contributions then credited to his Account, or

(B) Continue participation in the Plan, subject to the provisions of Section 4.6, until the Exercise Date next following his date of termination of employment for the limited purpose of allowing any unexpired Option he holds as of his termination of employment to be exercised automatically in accordance with Section 5.5(a) on the Exercise Date next following his termination of employment, but only to the extent such Option was exercisable on the date of the Participant's termination of employment, with any remaining Contributions credited to the Participant's Account being distributed to the Participant as soon as administratively practicable after such Exercise Date.

(d) Leave of Absence. A Participant on a leave of absence shall, subject to the election made by such Participant pursuant to Section 4.3 and subject to this Section 5.5(d), continue to be a Participant in the Plan so long as such Participant is on continuous leave of absence. A Participant who has been on leave of absence for more than ninety days and who therefore is not an Employee for purposes of the Plan (unless the right to reemployment is guaranteed by statute or contract) shall not be entitled to participate in any offering commencing on any Grant Date following the ninetieth day of such leave of absence. Notwithstanding any other provisions of the Plan, unless a Participant on a leave of absence returns to eligible regular full-time or part-time employment with the Employer at the earlier of (i) the termination of such leave of

absence, or (ii) the day after the ninetieth day of such leave of absence, such Participant's employment shall be deemed to have terminated for purposes of the Plan on whichever of such dates first occurs (unless the Participant's right to reemployment is guaranteed by statute or contract).

(e) Delivery of Stock. As soon as administratively practicable after each Exercise Date, the Company or the Committee will deliver to each Participant, as applicable, certificates evidencing shares of Company Stock purchased under this Plan.

(f) Acceleration of Exercisability of Options Upon Occurrence of Certain Events. In connection with any merger or consolidation in which the Company is not the surviving corporation and which results in the holders of the outstanding voting securities of the Company (determined immediately prior to such merger or consolidation) owning less than a majority of the outstanding voting securities of the surviving corporation (determined immediately following such merger or consolidation), or any sale or transfer by the Company of all or substantially all of its assets or any tender offer or exchange offer for or the acquisition, directly or indirectly, by any person or group of all or a majority of the then-outstanding voting securities of the Company, all outstanding Options under the Plan shall become exercisable in full, notwithstanding any other provision of the Plan or of any outstanding Options granted thereunder, on and after (i) the fifteenth day prior to the effective date of such merger, consolidation, sale, transfer or acquisition or (ii) the date of commencement of such tender offer or exchange offer, as the case may be. Notwithstanding the foregoing, in no event shall any Option be exercisable after the date of termination of the exercise period of such Option specified in Section 5.4.

(g) Registration, Listing and Qualification of Shares of Stock. Each Option shall be subject to the requirement that if at any time the Board of Directors shall determine that the registration, listing or qualification of shares of Company Stock covered thereby upon any securities exchange or under any federal or state law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such option or the purchase of shares of Company Stock thereunder, no such Option may be exercised unless and until such registration, listing, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board of Directors. The Employer may require that any person exercising an Option shall make such representations and agreements and furnish such information as it deems appropriate to assure compliance with the foregoing or any other applicable legal requirement.

ARTICLE VI. MISCELLANEOUS

6.1 Adjustments Upon Changes in Capitalization. In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering or any other change in the corporate structure or shares of the Company, unless the Committee should determine otherwise, corresponding adjustments automatically shall be made to the number and kind of shares of Company Stock available for issuance under this Plan, the number and kind of shares of Company

Stock covered by outstanding Options under this Plan, and the exercise price per share for outstanding Options. In addition, the Committee may make such other adjustments as it determines to be equitable. Any adjustments made pursuant to this Section 6.1 remain subject to the limitations of Section 423 of the Code (including its \$25,000 annual limitations).

6.2 Approval of Shareholders. The original adoption of the Plan was subject to the approval, within twelve months before or after the adoption of the Plan by the Board of Directors, by a majority of the votes cast thereon by the stockholders of the Company at a meeting of stockholders duly called and held for such purpose or by unanimous written consent of such stockholders, and no Option granted hereunder was exercisable prior to such approval. Such approval was obtained on October 9, 1997.

6.3 Amendment, Suspension and Termination. The Board of Directors may at any time amend, suspend or terminate this Plan; provided, however, that the Board of Directors shall not increase the maximum number of shares of Company Stock for which Options may be granted under the Plan except as provided in Section 6.1, without obtaining approval of the stockholders in the manner described in Section 6.2. The Plan will continue until terminated by the Board of Directors or until all of the shares of Company Stock reserved for issuance under the Plan have been issued, whichever first occurs. No amendment, suspension or termination of the Plan may, without the consent of the Participants then holding Options to purchase Company Stock, adversely affect the rights of such Participants under such Options.

6.4 Intent to Comply With Code Section 423. It is intended that this Plan qualify as an "employee stock purchase plan" under Section 423 of the Code. The provisions of this Plan shall be construed so as to extend and limit participation in a manner consistent with the requirements of that Section of the Code. In the event of an inconsistency between the Plan and Section 423 of the Code, the Plan shall be interpreted in a manner which complies with the requirements of Section 423 of the Code and the regulations thereunder, without further act or amendment by the Company or the Board of Directors unless otherwise required pursuant to Section 6.3 of this Plan.

6.5 Equal Rights and Privileges. All Participants granted Options under this Plan shall have equal rights and privileges within the meaning of Section 423(b)(5) of the Code and the regulations thereunder. The provisions applying to one Option granted on a Grant Date must apply in the same manner to all other Options granted on such Grant Date.

6.6 Use of Funds. All Contributions received and held by the Employer under this Plan may be used by the Employer for any corporate purpose and the Employer shall not be obligated to segregate such Contributions.

6.7 Withholding. An Employee granted Options under this Plan shall be conclusively deemed to have authorized the Company and his Employer to withhold from the salary, commissions or other compensation of such Employee funds in amounts or property (including Company Stock) in value equal to any federal, state and local

income, employment or other withholding taxes applicable to the income recognized by such Employee and attributable to the Options as, when and to the extent, if any, required by law; provided, however, that, in lieu of the withholding of federal, state and local taxes as herein provided, the Company may require the Participant (or his estate pursuant to Section 5.5(c)(ii)) to pay to the Company, upon its demand, such amount as may be requested by the Company for the purpose of satisfying taxes, including taxes that may be owed by the Participant due to the disposition of Company Stock by the Participant prior to the expiration of the holding periods described in Section 423(a) of the Code. If the amount requested is not paid, the Company may refuse to issue the shares of Company Stock attributable to the Option's exercise.

6.8 Effect of Plan. This Plan shall be binding upon each Participant and his successors, including, without limitation, such Participant's estate and the executors, administrators or trustees thereof, heirs and legatees, and any receiver, trustee in bankruptcy or representative of creditors of such Participant.

6.9 No Employment Rights. Nothing in this Plan or in any Option granted pursuant to the Plan shall be construed as a contract of employment between the Employer and any employee, or as a right of any employee to continue in the employ of the Employer, or as a limitation of the right of the Employer to discharge any of its employees, with or without cause.

6.10 Governing Law. This Plan and all rights and obligations hereunder shall be construed in accordance with and governed by the laws of the State of North Carolina, except to the extent such laws are preempted by the laws of the United States.

6.11 Other Actions. Nothing contained in the Plan shall be construed to limit the authority of the Company to exercise its corporate rights and powers, including, but not by way of limitation, the right of the Company to grant or assume options for proper corporate purposes other than under the Plan with respect to any employee or other person, firm, corporation or association.

SONIC AUTOMOTIVE, INC.
NONQUALIFIED EMPLOYEE STOCK PURCHASE PLAN
AMENDED AND RESTATED
AS OF
OCTOBER 23, 2002

SONIC AUTOMOTIVE, INC.

NONQUALIFIED EMPLOYEE STOCK PURCHASE PLAN

AMENDED AND RESTATED
AS OF
OCTOBER 23, 2002

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SONIC AUTOMOTIVE, INC.

NONQUALIFIED EMPLOYEE STOCK PURCHASE PLAN

AMENDED AND RESTATED
AS OF
OCTOBER 23, 2002

ARTICLE I

PURPOSE; EFFECTIVE DATE; DEFINITIONS; CONSTRUCTION

1.1 Purpose of Plan; Effective Date. The purpose of the Plan, which shall be known as the Sonic Automotive, Inc. Nonqualified Employee Stock Purchase Plan (the "Plan"), is to provide employees of certain subsidiaries of Sonic Automotive, Inc. (the "Company") an opportunity to acquire a proprietary interest in the Company through the purchase of the Class A Common Stock, \$.01 par value, of the Company. The Plan became effective as of January 1, 1999. The Company hereby amends and restates the Plan as of October 23, 2002 as set forth herein.

1.2 Definitions. Throughout this Plan, the following terms shall have the meanings indicated:

(a) "Account" shall mean a memorandum account maintained to record each Participant's Contributions pending purchase of Company Stock.

(b) "Base Pay" shall mean the Participant's regular cash compensation determined without reduction for Contributions made under this Plan or contributions to any Code Section 401(k) or Section 125 Plan, but excluding fringe benefits, other special payments and imputed income, and also excluding overtime pay, bonuses, commissions, shift premiums and similar items of compensation only if and to the extent that such items are not considered part of the Participant's regular cash compensation.

(c) "Board of Directors" shall mean the Board of Directors of the Company.

(d) "Business Day" shall mean any day other than a Saturday, Sunday or holiday.

(e) "Cause" shall mean any act, action or series of acts or actions or any omission, omissions or series of omissions which, in the opinion of the Committee, result in, or which have the effect of resulting in, (i) the commission of a crime by the Participant involving moral turpitude, which crime has a material adverse impact on the Employer, (ii) gross negligence or willful misconduct which is continuous and results in material damage to the Employer, or (iii) the continuous, willful failure of the person in question to follow the reasonable directives of the Employer.

(f) “Code” shall mean the Internal Revenue Code of 1986, as amended, any successor revenue laws of the United States, and the rules and regulations promulgated thereunder.

(g) “Committee” shall mean the committee of directors of the Company appointed by the Board of Directors in accordance with Section 2.1 to administer this Plan, or in the event that no such committee exists or is appointed, “Committee” shall mean the Board of Directors.

(h) “Company” shall mean Sonic Automotive, Inc., a corporation organized and existing under the laws of the State of Delaware.

(i) “Company Stock” shall mean the Class A Common Stock, \$.01 par value, of the Company.

(j) “Contributions” shall mean the after-tax payroll deductions or other permissible contributions made by Participants to the Plan pursuant to Article IV.

(k) “Employee” shall mean any person who (i) is employed on a full-time or part-time basis by a participating Employer, (ii) is regularly scheduled to work more than twenty hours per week for a participating Employer, and (iii) is customarily employed more than five months in any calendar year by a participating Employer. Independent contractors and outside directors shall not be included in the definition of Employee for purposes of this Plan.

(l) “Employer” shall mean any of the Company’s present or future subsidiaries or related entities not eligible to participate in the Sonic Automotive, Inc. Employee Stock Purchase Plan which the Committee (or its delegate) may designate from time to time as participating Employers under this Plan.

(m) “Exercise Date” shall mean the last Business Day of March, June, September and December on which the principal trading market for Company Stock is open for trading, plus any other interim dates during the year which the Committee designates as Exercise Dates.

(n) “Grant Date” shall mean January 1 of each year during the term of the Plan, plus any other interim dates during the year which the Committee designates as Grant Dates.

(o) “Option” shall mean an option to purchase shares of Company Stock granted by the Committee to a Participant pursuant to this Plan.

(p) “Participant” shall mean an Employee participating in this Plan in accordance with Article III.

(q) “Plan” shall mean this Sonic Automotive, Inc. Nonqualified Employee Stock Purchase Plan, as amended from time to time.

1.3 Construction. The masculine gender, where appearing in the Plan, shall be deemed to include the feminine gender, unless the context clearly indicates to the contrary. The words "hereof," "herein," "hereunder" and other similar compounds of the word "here" shall mean and refer to the entire Plan and not to any particular provision or Section.

ARTICLE II

ADMINISTRATION

2.1 Appointment and Procedures of Committee. The Plan shall be administered by the Committee as appointed from time to time by the Board of Directors. The Committee shall consist of not fewer than two members of the Board of Directors. No member of the Board of Directors who serves on the Committee shall be eligible to participate in the Plan. The Committee shall hold its meetings at such times and places as it may determine. A majority of its members shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members. Any decision or determination reduced to writing and signed by all members shall be as effective as if it had been made by a majority vote at a meeting duly called and held. The Committee may appoint a secretary (who need not be a member of the Committee).

2.2 Authority of Committee. The Committee, subject to the terms of the Plan, shall have plenary authority in its discretion to interpret and construe the Plan (including, without limitation, any of its terms which are uncertain, doubtful or disputed); to decide all questions of Employee eligibility hereunder; to determine the amount, manner and timing of all Options and purchases of Company Stock hereunder; to establish, amend and rescind rules and regulations pertaining to the administration of the Plan; and to make determinations and interpretations and take such other administrative actions as it deems necessary or advisable for the administration of this Plan. The express grant in the Plan of any specific power to the Committee shall not be construed as limiting any power or authority of the Committee. No member of the Committee shall be liable for any act, determination or omission with respect to his service on the Committee, if he acts in good faith and in a manner he reasonably believes to be in or not opposed to the best interest of the Employer. All expenses of administering this Plan shall be borne by the Employer.

ARTICLE III

PARTICIPATION

3.1 Eligibility to Participate. Subject to the restrictions of Section 3.2 below, an Employee shall be eligible to participate in the Plan with respect to a Grant Date if, as of such Grant Date, the Employee has completed a year of service with the Employer (provided that the Employee is still employed on such Grant Date).

Effective for Grant Dates on or after January 1, 2003 (or such later date as may be specified by the Committee), if an Employee has previously elected to become a Participant with

respect to a Grant Date and annual offering under Section 5.2 of the Plan, but fails to return an enrollment/election form on or before the specified due date for any subsequent Grant Date and annual offering for which the Employee is eligible, then that Employee shall be deemed to have made the same participation election (including his payroll deduction and/or direct payment contribution elections under Sections 4.1 and 4.2) as was in effect for him as of the last Exercise Date of the immediately preceding annual offering (or, if applicable, as of the Exercise Date during that immediately preceding annual offering as of which the Employee had purchased all shares of Company Stock subject to his Option). Such participation election (including his payroll deduction and/or direct payment contribution elections under Sections 4.1 and/or 4.2) shall remain in effect unless and until the Employee changes or revokes such participation election (and/or his payroll deduction and/or direct payment contribution elections under Sections 4.1 and 4.2) by filing the proper forms in accordance with the terms of the Plan.

For purposes of eligibility to participate in this Plan, the following service shall be recognized: (a) service with an entity prior to the acquisition by the Company, or one of its subsidiaries, of a controlling interest in or substantially all of the assets of such entity, and (b) service with an affiliate of the Company which directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Company.

3.2 Restrictions on Participation. Notwithstanding the foregoing Section 3.1, (a) no Employee shall be eligible to participate in the Plan if such Employee owns or holds options to purchase (or upon participation in this Plan would own or hold options to purchase) stock possessing an aggregate of 5% or more of the total combined voting power or value of all classes of stock of the Company or any other Employer (as determined in accordance with the rules of Section 424(d) of the Code relating to attribution of stock ownership); (b) no Employee who also is an officer or director of the Company or who is an officer of an Employer who performs "policy-making functions" of the Company shall be eligible to participate in the Plan; and (c) no Employee who is eligible to participate in the Sonic Automotive, Inc. Employee Stock Purchase Plan shall be eligible to participate in this Plan.

3.3 Leave of Absence. For purposes of participation in the Plan, a person on an approved leave of absence shall be deemed to continue to be an Employee for the first ninety days of such leave of absence and such Employee's employment shall be deemed to have terminated at the close of business on the ninetieth day of such leave of absence unless such Employee shall have returned to regular full-time or part-time employment prior to the close of business on such ninetieth day (or unless the Employee's reemployment is guaranteed by statute or contract). Termination of the Employee's leave of absence, other than termination of such leave of absence on return to regular full-time or part-time employment, shall terminate an Employee's employment for all purposes of the Plan.

ARTICLE IV

CONTRIBUTIONS

4.1 Payroll Deductions. By written election, made and filed with the Committee pursuant to the Committee's rules and procedures, a Participant may elect to designate a whole

percentage between one percent and ten percent (or such higher or lower percentage as may be allowed by the Committee's rules and procedures) of his Base Pay to be deferred by payroll deduction as a Contribution to the Plan. Payroll deductions shall commence as soon as administratively practicable following the filing of such written election with the Committee. The Committee in its discretion may develop additional rules and procedures regarding payroll deduction elections.

A Participant may change or revoke his payroll deduction amount by filing, on such forms and in accordance with such rules and procedures as the Committee in its discretion may prescribe, a revised written election with the Committee. Such modification or revocation shall take effect as soon as administratively practicable after the Committee's receipt of such revised election. Notwithstanding the foregoing, a Participant may change his payroll deduction election only once each calendar quarter, or as otherwise specifically allowed by the Committee's rules and procedures. If payroll deductions are discontinued, payroll deductions may not be resumed by the Participant until the payroll period which begins on or after the next Exercise Date, or as otherwise specifically allowed by the Committee's rules and procedures. Under no circumstances may a Participant's payroll deduction election be made, modified or revoked retroactively.

4.2 Direct Payment. In accordance with such rules and procedures as the Committee may prescribe in its discretion and in lieu of payroll deductions pursuant to Section 4.1, a Participant may elect to make Contributions by direct cash payment (including by check, subject to the Committee's rules and procedures) to the Plan rather than by payroll deduction. Such direct payments must be received by the Plan at least ten Business Days prior to an Exercise Date in order for such payments to be applied in the exercise of an Option for the purchase of Company Stock on such Exercise Date.

4.3 Leave of Absence. If a Participant is on a leave of absence, such Participant shall have the right to elect to (a) withdraw from the Plan and receive a distribution of the balance in his Account pursuant to Section 4.5, (b) discontinue Contributions to the Plan but remain a Participant in the Plan, or (c) subject to Section 3.3(c), remain a Participant in the Plan during such leave of absence, authorizing deductions to be made from payments by the Company or Employer to the Participant during such leave of absence, or making direct cash payments to the Plan pursuant to Section 4.2.

4.4 Contributions to Accounts. A memorandum Account shall be established by the Committee for each Participant for the purpose of accounting for Contributions. Contributions shall be credited to Accounts as soon as administratively practicable following payroll withholding or receipt of other permissible direct cash payment. Amounts credited to Accounts will not accrue interest.

4.5 Withdrawal of Contributions from Plan. Prior to the end of a calendar quarter, a Participant may elect to withdraw the Contributions credited to his Account for that quarter by filing written notice thereof with the Committee on such forms and in accordance with such procedures as the Committee may prescribe. The Participant's Contributions shall be distributed

to him as soon as administratively practicable after the Committee's receipt of his notice of withdrawal and, if applicable, no further payroll deductions shall be made from his Base Pay.

4.6 Termination of Employment. Upon termination of a Participant's employment for any reason, such Participant may no longer make Contributions to the Plan or be granted Options under the Plan. A Participant's right, if any, to exercise any unexpired Option he holds as of his termination of employment shall be determined in accordance with Section 5.5(c).

ARTICLE V

OPTIONS

5.1 Company Stock Available for Options. Subject to any adjustments which may be made pursuant to Section 6.1 of the Plan in connection with changes in capitalization of the Company, there shall be available for Options under the Plan an aggregate maximum of 300,000 shares of Company Stock (which 300,000 shares already reflects the adjustment that resulted from the Company's 2-for-1 stock split effected January 25, 1999). Shares of Company Stock used for purposes of the Plan may be either authorized and unissued shares, or previously issued shares held in the treasury of the Company, or both. Shares of Company Stock covered by Options which have expired prior to exercise shall be available for further Options granted hereunder.

5.2 Granting of Options. The Plan shall be implemented by annual offerings of approximately twelve months duration (except as otherwise provided in Section 5.4 or in the event of interim Grant Dates designated by the Committee). As of each Grant Date, all eligible Participants shall be granted an Option to purchase shares of Company Stock. The Committee shall determine the number of shares of Company Stock available for purchase under each Option to be granted as of such Grant Date; provided, that the same number of shares shall be available under each Option granted as of such Grant Date; and provided further, that the same number of shares shall be available under each Option as are available under an option granted pursuant to the Sonic Automotive, Inc. Employee Stock Purchase Plan as of the same date. No Participant may be granted an Option which permits his rights to purchase stock under this Plan and all other employee stock purchase plans of the Company or Employer to accrue at a rate which exceeds \$25,000 of the fair market value of such stock (determined at the time such Option is granted) for each calendar year in which such Option is outstanding at any time.

5.3 Option Price. The purchase price per share of Company Stock which may be acquired pursuant to the exercise of all or any portion of an Option granted under this Plan shall be eighty-five percent of the lesser of (a) the fair market value per share of Company Stock on the applicable Grant Date, and (b) the fair market value per share of Company Stock on the applicable Exercise Date. For purposes of this Section 5.3, the fair market value per share of Company Stock shall be the closing price on the last Business Day prior to the date of reference, or in the event that no sales take place on such date, the average of the closing high bid and low asked prices, in either case on the principal national securities exchange on which the Company Stock is listed or admitted to trading, or if the Company Stock is not listed or admitted to trading on any national securities exchange, the last sale price reported on the National Market System

of the National Association of Securities Dealers Automated Quotation system ("NASDAQ") on such date, or the average of the closing high bid and low asked prices of the Company Stock in the over-the-counter market reported on NASDAQ on such date, as furnished to the Committee by any New York Stock Exchange member selected from time to time by the Committee for such purposes. If there is no bid or asked price reported on any such date, the market value shall be determined by the Committee in accordance with the regulations promulgated under Section 2031 of the Code, or by any other appropriate method selected by the Committee.

5.4 Option Period. Each Option granted to a Participant under the Plan shall expire on the earliest of (a) the last Exercise Date of the calendar year in which the Option was granted, (b) the Participant's voluntary withdrawal from the Plan following termination of employment, and (c) the date of the Participant's termination of employment related to Cause, or the Exercise Date immediately following the Participant's termination of employment for any reason unrelated to Cause.

5.5 Exercise of Options.

(a) Automatic Exercise. Any Option granted to a Participant shall be exercised automatically on each Exercise Date during the calendar year of the Option's Grant Date in whole or in part such that the Participant's accumulated Contributions as of such Exercise Date shall be applied to the purchase of the maximum number of whole shares of Company Stock that his Contributions will allow at the applicable Option price (determined in accordance with Section 5.3), limited to the number of shares subject to such Option. In the event that the number of shares of Company Stock that may be purchased by all Participants in the Plan exceeds the number of shares then available for issuance under the Plan, the Committee shall make a pro rata allocation of the available shares in as uniform a manner as it determines to be practicable and equitable. Any remaining Contributions in the Participant's Account amounting to less than the Option price of a whole share of Company Stock shall be carried forward and applied on the next Exercise Date; provided that, Contributions remaining after the last Exercise Date of the calendar year may be distributed to the Participant.

(b) Nontransferability of Options. During a Participant's lifetime, Options held by such Participant shall be exercisable only by that Participant. No Option shall be transferable other than by will or the laws of descent and distribution.

(c) Effect of Termination of Employment.

(i) Termination of Employment Related to Cause. Upon termination of a Participant's employment related to Cause, the Participant's participation in the Plan also shall terminate. Any unexpired Option he holds will expire as of the date of his termination of employment. Remaining contributions credited to his Account shall be distributed to the Participant as soon as administratively practicable following termination of employment.

(ii) Termination of Employment Due to Death. In the event of the death of the Participant while employed, or during the period following his termination of employment for any reason unrelated to Cause but prior to the next Exercise Date, the

Participant's estate shall have the right to elect by written notice to the Committee prior to the earlier of the expiration of sixty days commencing with the date of the Participant's death and the Exercise Date next following the date of the Participant's death:

(A) To withdraw all of the Contributions credited to the Participant's Account under the Plan, or

(B) To allow any unexercised Option held by the Participant as of the date of his death to be exercised for the purchase of Company Stock on the Exercise Date next following the date of the Participant's death in accordance with Section 5.5(a), but only to the extent such Option was exercisable on the date of the Participant's death, with any remaining Contributions credited to the Participant's Account being distributed to the Participant's estate as soon as administratively practicable after such Exercise Date.

In the event that no such written election is timely and properly received by the Committee, all Contributions credited to the Participant's Account shall be distributed to the Participant's estate. In no event shall any Option be exercisable beyond the applicable exercise period specified in Section 5.4 of the Plan.

(iii) Other Termination of Employment. Upon termination of a Participant's employment for any reason unrelated to Cause or death, the Participant may at his election:

(A) Withdraw from the Plan pursuant to Section 4.5 and request the return of the remaining Contributions then credited to his Account, or

(B) Continue participation in the Plan, subject to the provisions of Section 4.6, until the Exercise Date next following his date of termination of employment for the limited purpose of allowing any unexpired Option he holds as of his termination of employment to be exercised automatically in accordance with Section 5.5(a) on the Exercise Date next following his termination of employment, but only to the extent such Option was exercisable on the date of the Participant's termination of employment, with any remaining Contributions credited to the Participant's Account being distributed to the Participant as soon as administratively practicable after such Exercise Date.

(d) Leave of Absence. A Participant on an authorized leave of absence shall, subject to the election made by such Participant pursuant to Section 4.3 and subject to this Section 5.5(d), continue to be a Participant in the Plan so long as such Participant is on continuous leave of absence. A Participant who has been on leave of absence for more than ninety days and who therefore is not an Employee for the purposes of the Plan (unless the right to reemployment is guaranteed by statute or contract) shall not be entitled to participate in any offering commencing on any Grant Date following the ninetieth day of such leave of absence. Notwithstanding any other provisions of the Plan, unless a Participant on a leave of absence returns to eligible regular full-time or part-time employment with the Employer at the earlier of (i) the termination of such leave of absence, or (ii) the day after the ninetieth day of such leave of absence, such Participant's employment shall be deemed to have terminated for purposes of the

Plan on whichever of such dates first occurs (unless the Participant's right to reemployment is guaranteed by statute or contract).

(e) Delivery of Stock. As soon as administratively practicable after each Exercise Date, the Company or the Committee will deliver to each Participant, if and as applicable, certificates evidencing shares of Company Stock purchased under this Plan.

(f) Acceleration of Exercisability of Options Upon Occurrence of Certain Events. In connection with any merger or consolidation in which the Company is not the surviving corporation and which results in the holders of the outstanding voting securities of the Company (determined immediately prior to such merger or consolidation) owning less than a majority of the outstanding voting securities of the surviving corporation (determined immediately following such merger or consolidation), or any sale or transfer by the Company of all or substantially all of its assets or any tender offer or exchange offer for or the acquisition, directly or indirectly, by any person or group of all or a majority of the then-outstanding voting securities of the Company, all outstanding Options under the Plan shall become exercisable in full, notwithstanding any other provision of the Plan or of any outstanding Options granted thereunder, on and after (i) the fifteenth day prior to the effective date of such merger, consolidation, sale, transfer or acquisition or (ii) the date of commencement of such tender offer or exchange offer, as the case may be. Notwithstanding the foregoing, in no event shall any Option be exercisable after the date of termination of the exercise period of such Option specified in Section 5.4.

(g) Registration, Listing and Qualification of Shares of Stock. Each Option shall be subject to the requirement that if at any time the Board of Directors shall determine that the registration, listing or qualification of shares of Company Stock covered thereby upon any securities exchange or under any federal or state law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such Option or the purchase of shares of Company Stock thereunder, no such Option may be exercised unless and until such registration, listing, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board of Directors. The Employer may require that any person exercising an Option shall make such representations and agreements and furnish such information as it deems appropriate to assure compliance with the foregoing or any other applicable legal requirement.

ARTICLE VI

MISCELLANEOUS

6.1 Adjustments Upon Changes in Capitalization. In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering or any other change in the corporate structure or shares of the Company, unless the Committee should determine otherwise, corresponding adjustments automatically shall be made to the number and kind of shares of Company Stock available for issuance under this Plan, the number and kind of shares of Company Stock covered by outstanding Options under this Plan and the option price per share. In addition, the Committee may make such other adjustments as

it determines to be equitable. Any adjustments made pursuant to this Section 6.1 remain subject to the limitations of Section 5.2.

6.2 Amendment, Suspension and Termination. The Board of Directors may at any time amend, suspend or terminate this Plan, provided that any such amendment, suspension or termination shall be subject to stockholder approval to the extent the Board deems stockholder approval necessary or advisable to comply with applicable law or any tax or regulatory requirement. The Plan will continue until terminated by the Board of Directors or until all of the shares of Company Stock reserved for issuance under the Plan have been issued, whichever first occurs. No amendment, suspension or termination of the Plan may, without the consent of the Participants then holding Options to purchase Company Stock, adversely affect the rights of such Participants under such Options.

6.3 Not Intended to Comply With Code Section 423. It is not intended that this Plan qualify as an "employee stock purchase plan" under Section 423 of the Code.

6.4 Use of Funds. All Contributions received and held by the Employer under this Plan may be used by the Company and Employer for any corporate purpose and the Company and Employer shall not be obligated to segregate such Contributions.

6.5 Withholding. An Employee granted Options under this Plan shall be conclusively deemed to have authorized the Company and his Employer to withhold from the salary, commissions or other compensation of such Employee funds in amounts or property (including Company Stock) in value equal to any federal, state and local income, employment or other withholding taxes applicable to the income recognized by such Employee and attributable to the Options as, when and to the extent, if any, required by law; provided, however, that, in lieu of the withholding of federal, state and local taxes as herein provided, the Company may require the Participant (or other person or his estate exercising the Option) to pay to the Company, upon its demand, such amount as may be requested by the Company for the purpose of satisfying taxes. If the amount requested is not paid, the Company may refuse to issue the shares of Company Stock attributable to the Option's exercise.

6.6 Effect of Plan. This Plan shall be binding upon each Participant and his successors, including, without limitation, such Participant's estate and the executors, administrators or trustees thereof, heirs and legatees, and any receiver, trustee in bankruptcy or representative of creditors of such Participant.

6.7 No Employment Rights. Nothing in this Plan or in any Option granted pursuant to the Plan shall be construed as a contract of employment between the Employer and any employee, or as a right of any employee to continue in the employ of the Employer, or as a limitation of the right of the Employer to discharge any of its employees, with or without cause.

6.8 Governing Law. This Plan and all rights and obligations hereunder shall be construed in accordance with and governed by the laws of the State of North Carolina, except to the extent such laws are preempted by the laws of the United States.

6.9 Other Actions. Nothing contained in the Plan shall be construed to limit the authority of the Company to exercise its corporate rights and powers, including, but not by way of limitation, the right of the Company to grant or assume options for proper corporate purposes other than under the Plan with respect to any employee or other person, firm, corporation or association.

Exhibit 21.1

<u>Name of Entity</u>	<u>State of Incorporation or Organization</u>	<u>Assumed Name(s)</u>
ADI of the Southeast LLC	South Carolina	
Arngar, Inc.	North Carolina	Arnold Palmer Cadillac
AnTrev, LLC	North Carolina	
Autobahn, Inc.	California	Autobahn Motors
Avalon Ford, Inc.	Delaware	Don Kott Chrysler Jeep Don Kott Mazda Don Kott Kia Don Kott Hino Don Kott Isuzu Truck
Capitol Chevrolet and Imports, Inc.	Alabama	Capitol Kia Capitol Chevrolet Capitol Hyundai
Casa Ford of Houston, Inc.	Texas	
Cobb Pontiac Cadillac, Inc.	Alabama	Classic Cadillac Pontiac
FA Service Corporation	California	
FAA Auto Factory, Inc.	California	
FAA Beverly Hills, Inc.	California	Beverly Hills BMW
FAA Capitol F, Inc.	California	Capitol Ford Friendly Ford
FAA Capitol N, Inc.	California	Capitol Nissan
FAA Concord H, Inc.	California	Concord Honda
FAA Concord N, Inc.	California	Concord Nissan
FAA Concord T, Inc.	California	Concord Toyota
FAA Dublin N, Inc.	California	Dublin Nissan
FAA Dublin VWD, Inc.	California	Dublin Volkswagen Dublin Dodge Hyundai of Dublin
FAA Holding Corp.	California	
FAA Las Vegas H, Inc.	Nevada	Honda West
FAA Marin D, Inc.	California	
FAA Marin F, Inc.	California	
FAA Marin LR, Inc.	California	
FAA Monterey F, Inc.	California	
FAA Poway D, Inc.	California	
FAA Poway G, Inc.	California	Poway Chevrolet
FAA Poway H, Inc.	California	Poway Honda
FAA Poway T, Inc.	California	Poway Toyota
FAA San Bruno, Inc.	California	Melody Toyota

Exhibit 21.1

Name of Entity	State of Incorporation or Organization	Assumed Name(s)
FAA Santa Monica V, Inc.	California	Volvo of Santa Monica
FAA Serramonte H, Inc.	California	Honda of Serramonte
FAA Serramonte L, Inc.	California	Lexus of Serramonte
FAA Serramonte, Inc.	California	Serramonte Auto Plaza Dodge of Serramonte Serramonte Isuzu Serramonte Mitsubishi Serramonte Nissan
FAA Stevens Creek, Inc.	California	Stevens Creek Nissan
FAA Torrance CPJ, Inc.	California	South Bay Chrysler Jeep
FirstAmerica Automotive, Inc.	Delaware	
Fort Mill Ford, Inc.	South Carolina	
Franciscan Motors, Inc.	California	Acura of Serramonte
Frank Parra Autoplex, Inc.	Texas	
Freedom Ford, Inc.	Florida	
Frontier Oldsmobile-Cadillac, Inc.	North Carolina	Freedom Chevrolet-Oldsmobile-Cadillac
HMC Finance Alabama, Inc.	Alabama	HMC Finance
Kramer Motors Incorporated	California	Honda of Santa Monica
L Dealership Group, Inc.	Texas	
Marcus David Corporation	North Carolina	Town and Country Toyota
Massey Cadillac, Inc.	Tennessee	Massey Cadillac
Massey Cadillac, Inc.	Texas	Massey Cadillac
Mountain States Motors Co., Inc.	Colorado	Mountain States Motors
Philpott Motors, Ltd.	Texas	Philpott Ford Philpott Toyota Philpott Motors Hyundai
Riverside Nissan, Inc.	Oklahoma	
Royal Motor Company, Inc.	Alabama	City Chrysler Jeep
Santa Clara Imported Cars, Inc.	California	Honda of Stevens Creek Stevens Creek Used Cars
Smart Nissan, Inc.	California	
Sonic Agency, Inc.	Michigan	
Sonic Automotive—Bondesen, Inc.	Florida	Fred Bondesen Chevrolet, Oldsmobile, Cadillac
Sonic Automotive of Chattanooga, LLC	Tennessee	BMW of Chattanooga MINI of Chattanooga
Sonic Automotive—Clearwater, Inc.	Florida	Clearwater Toyota

Exhibit 21.1

Name of Entity	State of Incorporation or Organization	Assumed Name(s)
Sonic Automotive Collision Center of Clearwater, Inc.	Florida	
Sonic Automotive F&I, LLC	Nevada	
Sonic Automotive of Georgia, Inc.	Georgia	
Sonic Automotive of Nashville, LLC	Tennessee	BMW of Nashville MINI of Nashville
Sonic Automotive of Nevada, Inc.	Nevada	
Sonic Automotive Servicing Company, LLC	Nevada	
Sonic Automotive of Tennessee, Inc.	Tennessee	
Sonic Automotive of Texas, L.P.	Texas	Lone Star Ford
Sonic Automotive West, LLC	Nevada	
Sonic Automotive—1307 N. Dixie Hwy., NSB, Inc.	Florida	
Sonic Automotive—1400 Automall Drive, Columbus, Inc.	Ohio	Hatfield Hyundai Hatfield Isuzu Hatfield Subaru
Sonic Automotive—1455 Automall Drive, Columbus, Inc.	Ohio	Hatfield Kia Hatfield Volkswagen
Sonic Automotive—1495 Automall Drive, Columbus, Inc.	Ohio	
Sonic Automotive—1500 Automall Drive, Columbus, Inc.	Ohio	Toyota West
Sonic Automotive—1720 Mason Ave., DB, Inc.	Florida	
Sonic Automotive—1720 Mason Ave., DB, LLC	Florida	Mercedes-Benz of Daytona Beach
Sonic Automotive—1919 N. Dixie Hwy., NSB, Inc.	Florida	
Sonic Automotive—21699 U.S. Hwy 19 N., Inc.	Florida	Clearwater Mitsubishi
Sonic Automotive—241 Ridgewood Ave., HH, Inc.	Florida	Sunrise Auto World Sunrise Fleet Sales
Sonic Automotive 2424 Laurens Rd., Greenville, Inc.	South Carolina	
Sonic Automotive—2490 South Lee Highway, LLC	Tennessee	
Sonic Automotive 2752 Laurens Rd., Greenville, Inc.	South Carolina	Century BMW Century MINI
Sonic Automotive—3401 N. Main, TX, L.P.	Texas	Ron Craft Chevrolet Cadillac Baytown Auto Collision Center

Exhibit 21.1

Name of Entity	State of Incorporation or Organization	Assumed Name(s)
Sonic Automotive—3700 West Broad Street, Columbus, Inc.	Ohio	Trader Bud's Westside Chrysler Jeep
Sonic Automotive—3741 S. Nova Rd., PO, Inc.	Florida	HMC Finance
Sonic Automotive—4000 West Broad Street, Columbus, Inc.	Ohio	Trader Bud's Westside Dodge
Sonic Automotive—4701 I-10 East, TX, L.P.	Texas	Baytown Ford
Sonic Automotive—5221 I-10 East, TX, L.P.	Texas	
Sonic Automotive—5260 Peachtree Industrial Blvd., LLC	Georgia	Dyer and Dyer Volvo Volvo at Gwinnett Place
Sonic Automotive—5585 Peachtree Industrial Blvd., LLC	Georgia	
Sonic Automotive—6008 N. Dale Mabry, FL, Inc.	Florida	Volvo of Tampa
Sonic Automotive—6025 International Drive, LLC	Tennessee	Volkswagen of Chattanooga
Sonic Automotive—9103 E. Independence, NC, LLC	North Carolina	Infiniti of Charlotte
Sonic—2185 Chapman Rd., Chattanooga, LLC	Tennessee	Economy Honda Superstore Sonic Automotive Collision Center
Sonic—Bethany H, Inc.	Oklahoma	Steve Bailey Honda
Sonic—Buena Park H, Inc.	California	Buena Park Honda
Sonic—Cadillac D, L.P.	Texas	Massey Cadillac
Sonic—Calabasas A, Inc.	California	Acura 101 West
Sonic—Camp Ford, L.P.	Texas	LaPorte Ford
Sonic—Capital Chevrolet, Inc.	Ohio	Capital Chevrolet
Sonic—Capitol Cadillac, Inc.	Michigan	Capitol Cadillac Capitol Hummer
Sonic—Capitol Imports, Inc.	South Carolina	Capitol Imports Capitol Hyundai Capitol Subaru Capitol Audi
Sonic—Carrollton V, L.P.	Texas	Volvo of Dallas
Sonic—Carson F, Inc.	California	Don Kott Ford
Sonic—Carson LM, Inc.	California	Don Kott Lincoln-Mercury
Sonic—Chattanooga D East, LLC	Tennessee	
Sonic—Classic Dodge, Inc.	Alabama	
Sonic—Coast Cadillac, Inc.	California	Coast Cadillac

Exhibit 21.1

Name of Entity	State of Incorporation or Organization	Assumed Name(s)
Sonic—Crest Cadillac, LLC	Tennessee	Crest Cadillac Crest Hummer
Sonic—Crest H, LLC	Tennessee	Crest Honda
Sonic—Denver T, Inc.	Colorado	
Sonic—Denver Volkswagen, Inc.	Colorado	
Sonic Development, LLC	North Carolina	
Sonic—Downey Cadillac, Inc.	California	Massey Cadillac
Sonic—Englewood M, Inc.	Colorado	Don Massey Used Car Center
Sonic eStore, Inc.	North Carolina	
Sonic—FM Automotive, LLC	Florida	Mercedes-Benz of Fort Myers
Sonic—FM, Inc.	Florida	BMW of Fort Myers
Sonic—FM VW, Inc.	Florida	Volkswagen of Fort Myers
Sonic—Fort Mill Chrysler Jeep, Inc.	South Carolina	Fort Mill Chrysler Jeep
Sonic—Fort Mill Dodge, Inc.	South Carolina	Fort Mill Dodge
Sonic—Fort Worth T, L.P.	Texas	Toyota of Fort Worth
Sonic—Frank Parra Autoplex, L.P.	Texas	Frank Parra Chevrolet Frank Parra Mitsubishi Frank Parra Chrysler Jeep
Sonic—Freeland, Inc.	Florida	Honda of Fort Myers
Sonic—Global Imports, L.P.	Georgia	Global Imports BMW Global Imports MINI
Sonic—Glover, Inc.	Oklahoma	Expressway Dodge
Sonic—Harbor City H, Inc.	California	Harbor City Honda
Sonic—Houston V, L.P.	Texas	Volvo of Houston
Sonic—Integrity Dodge LV, LLC	Nevada	Nevada Dodge
Sonic—LS, LLC	Delaware	
Sonic—LS Chevrolet, L.P.	Texas	Lone Star Chevrolet
Sonic—Lake Norman Chrysler Jeep, LLC	North Carolina	Lake Norman Chrysler Jeep Lake Norman Used Car Center Lake Norman Pre-Owned Lake Norman Collision Center
Sonic—Lake Norman Dodge, LLC	North Carolina	Lake Norman Dodge
Sonic—Las Vegas C East, LLC	Nevada	Cadillac of Las Vegas
Sonic—Las Vegas C West, LLC	Nevada	Cadillac of Las Vegas—West
Sonic—Lloyd Nissan, Inc.	Florida	Lloyd Nissan
Sonic—Lloyd Pontiac-Cadillac, Inc.	Florida	Lloyd Pontiac-Cadillac-GMC
Sonic—Lone Tree Cadillac, Inc.	Colorado	Don Massey Cadillac

Exhibit 21.1

Name of Entity	State of Incorporation or Organization	Assumed Name(s)
Sonic—Lute Riley, L. P.	Texas	Lute Riley Honda
Sonic—Manhattan Fairfax, Inc.	Virginia	BMW of Fairfax
Sonic—Manhattan Waldorf, Inc.	Maryland	
Sonic—Massey Cadillac, L.P.	Texas	
Sonic—Massey Pontiac Buick GMC, Inc.	Colorado	Don Massey Pontiac-Buick-GMC
Sonic—Massey Chevrolet, Inc.	California	Massey Chevrolet
Sonic—Montgomery FLM, Inc.	Alabama	Friendly Ford Lincoln Mercury
Sonic—Newsome Chevrolet World, Inc.	South Carolina	Newsome Chevrolet World
Sonic—Newsome of Florence, Inc.	South Carolina	Newsome Automotive Imports of Florence Newsome Chevrolet Isuzu of Florence
Sonic—North Cadillac, Inc.	Florida	Massey Cadillac Massey Saab of Orlando
Sonic—North Charleston, Inc.	South Carolina	Altman Lincoln-Mercury Altman Hyundai
Sonic—North Charleston Dodge, Inc.	South Carolina	Altman Dodge
Sonic—Oklahoma T, Inc.	Oklahoma	Riverside Toyota
Sonic Peachtree Industrial Blvd., L.P.	Georgia	
Sonic—Plymouth Cadillac, Inc.	Michigan	Don Massey Cadillac
Sonic—Port Arthur Chevrolet, L.P.	Texas	
Sonic—Reading, L.P.	Texas	Toyota of Baytown
Sonic Resources, Inc.	Nevada	
Sonic—Richardson F, L.P.	Texas	North Central Ford
Sonic—Riverside, Inc.	Oklahoma	Riverside Chevrolet
Sonic—Riverside Auto Factory, Inc.	Oklahoma	
Sonic—Rockville Imports, Inc.	Maryland	Rockville Porsche-Audi
Sonic—Rockville Motors, Inc.	Maryland	Lexus of Rockville
Sonic—Sam White Nissan, L.P.	Texas	
Sonic—Sam White Oldsmobile, L.P.	Texas	
Sonic—Sanford Cadillac, Inc.	Florida	Massey Cadillac-Oldsmobile of Sanford
Sonic—Serramonte I, Inc.	California	Infiniti of Serramonte
Sonic—Shottenkirk, Inc.	Florida	Pensacola Honda
Sonic—South Cadillac, Inc.	Florida	
Sonic—Stevens Creek B, Inc.	California	Stevens Creek BMW
Sonic—Stone Mountain Chevrolet, L.P.	Georgia	Stone Mountain Chevrolet
Sonic—Superior Oldsmobile, LLC	Tennessee	

Exhibit 21.1

Name of Entity	State of Incorporation or Organization	Assumed Name(s)
Sonic of Texas, Inc.	Texas	
Sonic—University Park A, L.P.	Texas	University Park Audi
Sonic—Volvo LV, LLC	Nevada	Volvo of Las Vegas
Sonic—West Covina T, Inc.	California	West Covina Toyota
Sonic—West Reno Chevrolet, Inc.	Oklahoma	City Chevrolet
Sonic—Williams Buick, Inc.	Alabama	Montgomery Auto Factory
Sonic—Williams Cadillac, Inc.	Alabama	Tom Williams Cadillac
Sonic—Williams Imports, Inc.	Alabama	Tom Williams Imports Tom Williams Audi Tom Williams BMW Tom Williams Porsche Tom Williams Land Rover
Sonic—Williams Motors, LLC	Alabama	Tom Williams Lexus
Speedway Chevrolet, Inc.	Oklahoma	
Stevens Creek Cadillac, Inc.	California	St. Claire Cadillac
Town and Country Ford, Incorporated	North Carolina	
Town and Country Ford of Cleveland, LLC	Tennessee	
Town and Country Jaguar, LLC	Tennessee	
Transcar Leasing, Inc.	California	
Village Imported Cars, Inc.	Maryland	Village Volvo
Windward, Inc.	Hawaii	Honda of Hayward
Wrangler Investments, Inc.	Colorado	Dub Richardson Toyota
Z Management, Inc.	Colorado	
SRE Alabama—2, LLC	Alabama	
SRE Alabama—3, LLC	Alabama	
SRE Alabama—4, LLC	Alabama	
SRealEstate Arizona—1, LLC	Arizona	
SRealEstate Arizona—2, LLC	Arizona	
SRealEstate Arizona—3, LLC	Arizona	
SRealEstate Arizona—4, LLC	Arizona	
SRealEstate Arizona—5, LLC	Arizona	
SRealEstate Arizona—6, LLC	Arizona	
SRealEstate Arizona—7, LLC	Arizona	
SRE California—1, LLC	California	
SRE California—2, LLC	California	
SRE California—3, LLC	California	

Exhibit 21.1

Name of Entity	State of Incorporation or Organization	Assumed Name(s)
SRE California—4, LLC	California	
SRE California—5, LLC	California	
SRE California—6, LLC	California	
SRE Colorado—1, LLC	Colorado	
SRE Colorado—2, LLC	Colorado	
SRE Colorado—3, LLC	Colorado	
SRE Florida—1, LLC	Florida	
SRE Florida—2, LLC	Florida	
SRE Florida—3, LLC	Florida	
SRE Georgia—1, L.P.	Georgia	
SRE Georgia—2, L.P.	Georgia	
SRE Georgia—3, L.P.	Georgia	
SRE Holding, LLC	North Carolina	
SRE Michigan—1, LLC	Michigan	
SRE Michigan—2, LLC	Michigan	
SRE Michigan—3, LLC	Michigan	
SRE Nevada—1, LLC	Nevada	
SRE Nevada—2, LLC	Nevada	
SRE Nevada—3, LLC	Nevada	
SRE Nevada—4, LLC	Nevada	
SRE Nevada—5, LLC	Nevada	
SRE Oklahoma—1, LLC	Oklahoma	
SRE Oklahoma—2, LLC	Oklahoma	
SRE Oklahoma—3, LLC	Oklahoma	
SRE Oklahoma—4, LLC	Oklahoma	
SRE Oklahoma—5, LLC	Oklahoma	
SRE South Carolina—2, LLC	South Carolina	
SRE South Carolina—3, LLC	South Carolina	
SRE South Carolina—4, LLC	South Carolina	
SRE Tennessee—1, LLC	Tennessee	
SRE Tennessee—2, LLC	Tennessee	
SRE Tennessee—3, LLC	Tennessee	
SRE Texas—1, L.P.	Texas	
SRE Texas—2, L.P.	Texas	
SRE Texas—3, L.P.	Texas	

Exhibit 21.1

Name of Entity	State of Incorporation or Organization	Assumed Name(s)
SRE Texas—4, L.P.	Texas	
SRE Texas—5, L.P.	Texas	
SRE Texas—6, L.P.	Texas	
SRE Texas—7, L.P.	Texas	
SRE Texas—8, L.P.	Texas	
SRE Virginia—1, LLC	Virginia	

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the following Registration Statements of Sonic Automotive, Inc.:

- Registration Statement No. 333-82615 on Form S-3;
- Registration Statement No. 333-81059 on Form S-8;
- Registration Statement No. 333-81053 on Form S-8;
- Registration Statement No. 333-71803 on Form S-3;
- Registration Statement No. 333-69907 on Form S-8;
- Registration Statement No. 333-69899 on Form S-8;
- Registration Statement No. 333-68183 on Form S-3;
- Registration Statement No. 333-65447 on Form S-8;
- Registration Statement No. 333-49113 on Form S-8;
- Registration Statement No. 333-96023 on Form S-3;
- Registration Statement No. 333-51978 on Form S-4;
- Registration Statement No. 333-50430 on Form S-3;
- Post-Effective Amendment No. 2 to the Registration Statement No. 333-69901 on Form S-8;
- Post-Effective Amendment No. 1 to the Registration Statement No. 333-95791 on Form S-8;
- Post-Effective Amendment No. 1 to the Registration Statement No. 333-46272 on Form S-8;
- Post-Effective Amendment No. 1 to the Registration Statement No. 333-46274 on Form S-8;
- Amendment No. 1 to the Registration Statement No. 333-75220 and Nos. 333-75220-01 through 333-75220-12 on Form S-4;
- Amendment No. 3 to the Registration Statement No. 333-86672 and Nos. 333-86672-01 through 333-86672-216 on Form S-3;
- Registration Statement No. 333-102052 on Form S-8; and
- Registration Statement No. 333-102053 on Form S-8,

of our report dated February 24, 2003 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's adoption of Statement of Financial Accounting Standards No. 142, "*Goodwill and Other Intangible Assets*", and No. 144 "*Accounting for the Impairment or Disposal of Long-Lived Assets*," effective January 1, 2002), appearing in this Annual Report on Form 10-K of Sonic Automotive, Inc. for the year ended December 31, 2002.

/S/ DELOITTE & TOUCHE

Charlotte, North Carolina
March 18, 2003

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
EXHIBIT 99.1

RISK FACTORS

Risks Related to Our Indebtedness

Our significant indebtedness could materially adversely affect our financial health, limit our ability to finance future acquisitions and capital expenditures and prevent us from fulfilling our financial obligations.

As of December 31, 2002, our total outstanding indebtedness was approximately \$1,490.5 million, including the following:

- \$330.7 million under a revolving credit facility;
- \$850.2 million under standardized secured inventory floor plan facilities;
- \$126.5 million in 5 1/4% convertible senior subordinated notes due 2009 representing \$130.1 million in aggregate principal amount outstanding less unamortized discount of approximately \$3.6 million;
- \$179.0 million in 11% senior subordinated notes due 2008 representing \$182.4 million in aggregate principal amount outstanding less unamortized discount of approximately \$3.4 million; and
- \$4.1 million of other secured debt.

As of December 31, 2002, we had approximately \$159.8 million available for additional borrowings under the revolving credit facility. On February 5, 2003, we amended certain terms of the revolving credit facility. In addition to extending the maturity of the facility to 2006, the borrowing limit was reduced to \$500 million. This amendment is not expected to significantly affect our availability of borrowing under this facility as the borrowing base calculation remains the same under the revolving credit facility as amended. We also had approximately \$100.0 million available under a construction/mortgage credit facility for real estate acquisitions and new dealership construction. We also have significant additional capacity under the floor plan facilities. In addition, the indentures relating to our senior subordinated notes, convertible senior subordinated notes and other debt instruments allow us to incur additional indebtedness, including secured indebtedness.

The degree to which we are leveraged could have important consequences to the holders of our securities, including the following:

- our ability to obtain additional financing for acquisitions, capital expenditures, working capital or general corporate purposes may be impaired in the future;
- a substantial portion of our current cash flow from operations must be dedicated to the payment of principal and interest on our indebtedness, thereby reducing the funds available to us for our operations and other purposes;
- some of our borrowings are and will continue to be at variable rates of interest, which exposes us to the risk of increasing interest rates;
- the indebtedness outstanding under our revolving credit facility and floor plan facilities are secured by a pledge of substantially all the assets of our dealerships; and
- we may be substantially more leveraged than some of our competitors, which may place us at a relative competitive disadvantage and make us more vulnerable to changing market conditions and regulations.

In addition, our debt agreements contain numerous covenants that limit our discretion with respect to business matters, including mergers or acquisitions, paying dividends, incurring additional debt, making capital expenditures or disposing of assets.

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
EXHIBIT 99.1—(Continued)

An acceleration of our obligation to repay all or a substantial portion of our outstanding indebtedness would have a material adverse effect on our business, financial condition or results of operations.

Our revolving credit facility, floor plan facilities and the indenture governing our senior subordinated notes contain numerous financial and operating covenants. A breach of any of these covenants could result in a default under the applicable agreement or indenture. If a default were to occur, we may be unable to adequately finance our operations and the value of our common stock would be materially adversely affected. In addition, a default under one agreement or indenture could result in a default and acceleration of our repayment obligations under the other agreements or indentures, including the indenture governing our outstanding convertible senior subordinated notes, under the cross default provisions in those agreements or indentures. If a cross default were to occur, we may not be able to pay our debts or borrow sufficient funds to refinance them. Even if new financing were available, it may not be on terms acceptable to us. As a result of this risk, we could be forced to take actions that we otherwise would not take, or not take actions that we otherwise might take, in order to comply with the covenants in these agreements and indentures.

Our ability to make interest and principal payments when due to holders of our debt securities depends upon the receipt of sufficient funds from our subsidiaries.

Substantially all of our consolidated assets are held by our subsidiaries and substantially all of our consolidated cash flow and net income are generated by our subsidiaries. Accordingly, our cash flow and ability to service debt depends to a substantial degree on the results of operations of subsidiaries and upon the ability of our subsidiaries to provide us with cash. We may receive cash from our subsidiaries in the form of dividends, loans or otherwise. We may use this cash to service our debt obligations or for working capital. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to distribute cash to us or to make funds available to service debt. In addition, the ability of our subsidiaries to pay dividends or make loans to us are subject to contractual limitations under the floor plan facilities, minimum net capital requirements under dealership agreements and laws of the state in which a subsidiary is organized and depend to a significant degree on the results of operations of our subsidiaries and other business considerations.

Risks Related to Our Relationships with Vehicle Manufacturers

Our operations may be adversely affected if one or more of our manufacturer franchise agreements is terminated or not renewed.

Each of our dealerships operates under a franchise agreement with the applicable automobile manufacturer or distributor. Without a franchise agreement, we cannot obtain new vehicles from a manufacturer. As a result, we are significantly dependent on our relationships with these manufacturers.

Manufacturers exercise a great degree of control over the operations of our dealerships through the franchise agreements. The franchise agreements govern, among other things, our ability to purchase vehicles from the manufacturer and to sell vehicles to customers. Each of our franchise agreements provides for termination or non-renewal for a variety of causes, including any unapproved change of ownership or management. Manufacturers may also have a right of first refusal if we seek to sell dealerships.

Actions taken by manufacturers to exploit their superior bargaining position in negotiating the terms of franchise agreements or renewals of these agreements or otherwise could also have a material adverse effect on our results of operations. We cannot assure you that any of our existing franchise agreements will be renewed or that the terms and conditions of such renewals will be favorable to us.

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
EXHIBIT 99.1—(Continued)

Our sales volume and profit margin on each sale may be materially and adversely affected if manufacturers discontinue or change their incentive programs.

Our dealerships depend on the manufacturers for certain sales incentives, warranties and other programs that are intended to promote and support dealership new vehicle sales.

Manufacturers routinely modify their incentive programs in response to changing market conditions. Some of the key incentive programs include:

- customer rebates or below market financing on new vehicles;
- dealer incentives on new vehicles;
- warranties on new and used vehicles; and
- sponsorship of used vehicle sales by authorized new vehicle dealers.

A reduction or discontinuation of a manufacturer's incentive programs may materially adversely affect our profitability.

We depend on manufacturers to supply us with sufficient numbers of popular and profitable new models.

Manufacturers typically allocate their vehicles among dealerships based on the sales history of each dealership. Supplies of popular new vehicles may be limited by the applicable manufacturer's production capabilities. Popular new vehicles that are in limited supply typically produce the highest profit margins. We depend on manufacturers to provide us with a desirable mix of popular new vehicles. Our operating results may be materially adversely affected if we do not obtain a sufficient supply of these vehicles.

Adverse conditions affecting one or more key manufacturers may negatively impact our profitability.

Approximately 79.2% of our new vehicle revenue is derived from the sale of new vehicles manufactured by Ford, Honda, Chrysler, General Motors, BMW and Toyota. Our success depends to a great extent on these manufacturers':

- financial condition;
- marketing;
- vehicle design;
- publicity concerning a particular manufacturer or vehicle model;
- production capabilities;
- management; and
- labor relations.

Adverse conditions affecting these and other important aspects of manufacturers' operations and public relations may adversely affect our ability to sell their automobiles and, as a result, significantly and detrimentally affect our profitability.

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
EXHIBIT 99.1—(Continued)

Manufacturer stock ownership restrictions may impair our ability to maintain or renew franchise agreements or issue additional equity.

Some of our franchise agreements prohibit transfers of any ownership interests of a dealership and, in some cases, its parent. A number of manufacturers impose restrictions on the transferability of our Class A common stock and our ability to maintain franchises if a person acquires a significant percentage of the voting power of our common stock. Our existing franchise agreements could be terminated if a person or entity acquires a substantial ownership interest in us or acquires voting power above certain levels without the applicable manufacturer's approval. Violations of these levels by an investor are generally outside of our control and may result in the termination or non-renewal of existing franchise agreements or impair our ability to negotiate new franchise agreements for dealerships we acquire. In addition, if we cannot obtain any requisite approvals on a timely basis, we may not be able to issue additional equity or otherwise raise capital on terms acceptable to us. These restrictions may also prevent or deter a prospective acquiror from acquiring control of us. This could adversely affect the market price of our Class A common stock.

The current holders of our Class B common stock maintain voting control over us. However, we are unable to prevent our stockholders from transferring shares of our common stock, including transfers by holders of the Class B common stock. If such transfer results in a change in control, it could result in the termination or non-renewal of one or more of our existing franchise agreements, the triggering of provisions in our agreements with certain manufacturers requiring us to sell our dealerships franchised with such manufacturers and/or a default under our credit arrangements.

Manufacturers' restrictions on acquisitions could limit our future growth.

We are required to obtain the approval of the applicable manufacturer before we can acquire an additional dealership franchise of that manufacturer. In determining whether to approve an acquisition, manufacturers may consider many factors such as our financial condition and manufacturer-determined consumer satisfaction index, or "CSI" scores. Obtaining manufacturer approval of acquisitions also takes a significant amount of time, typically three to five months. We cannot assure you that manufacturers will approve future acquisitions or do so on a timely basis, which could impair the execution of our growth strategy.

Certain manufacturers also limit the number of its dealerships that we may own, our national market share of that manufacturer's products or the number of dealerships we may own in a particular geographic area. In addition, under an applicable franchise agreement or under state law, a manufacturer may have a right of first refusal to acquire a dealership that we seek to acquire.

A manufacturer may condition approval of an acquisition on the implementation of material changes in our operations or extraordinary corporate transactions, facilities improvements or other capital expenditures. If we are unable or unwilling to comply with these conditions, we may be required to sell the assets of that manufacturer's dealerships or terminate our franchise agreement.

Our failure to meet a manufacturer's consumer satisfaction, financial and sales performance requirements may adversely affect our ability to acquire new dealerships and our profitability.

Many manufacturers attempt to measure customers' satisfaction with their sales and warranty service experiences through systems generally known as "CSI" scores. The components of CSI vary from manufacturer to manufacturer and are modified periodically. Franchise agreements also may impose financial and sales performance standards. Under our agreements with certain manufacturers, a dealership's CSI scores, sales and financial performance may be considered a factor in evaluating applications for additional dealership acquisitions. From time to time, some of our dealerships have had difficulty meeting various manufacturers' CSI requirements or performance standards. We cannot assure you that our dealerships will be able to comply with these requirements in the future. A manufacturer may refuse to consent to an acquisition of one of its franchises if it determines our dealerships do not comply with its CSI requirements or performance standards, which could impair the execution of our growth strategy. In

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
EXHIBIT 99.1—(Continued)

addition, we receive incentive payments from the manufacturers based, in part, on CSI scores, which could be materially adversely affected if our CSI scores decline.

Risks Related to Our Acquisition Strategy

Failure to effectively integrate acquired dealerships with our existing operations could adversely affect our future operating results.

Our future operating results depend on our ability to integrate the operations of recently acquired dealerships, as well as dealerships we acquire in the future, with our existing operations. In particular, we need to integrate our management information systems, procedures and organizational structures, which can be difficult. Our growth strategy has focused on the pursuit of strategic acquisitions that either expand or complement our business. We acquired 72 dealerships in 1999, 11 in 2000, 12 in 2001 and 31 in 2002.

We cannot assure you that we will effectively and profitably integrate the operations of these dealerships without substantial costs, delays or operational or financial problems, due to:

- the difficulties of managing operations located in geographic areas where we have not previously operated;
- the management time and attention required to integrate and manage newly acquired dealerships;
- the difficulties of assimilating and retaining employees; and
- the challenges of keeping customers.

These factors could have a material adverse effect on our financial condition and results of operations.

We may not adequately anticipate all of the demands that growth through acquisitions will impose.

The automobile retailing industry is considered a mature industry in which minimal growth is expected in total unit sales. Accordingly, our ability to generate higher revenue and earnings in future periods depends in large part on our ability to acquire additional dealerships, manage geographic expansion, control costs in our operations and consolidate both past and future dealership acquisitions into our existing operations. In pursuing a strategy of acquiring other dealerships, we face risks commonly encountered with growth through acquisitions. These risks include, but are not limited to:

- incurring significantly higher capital expenditures and operating expenses;
- failing to assimilate the operations and personnel of acquired dealerships;
- entering new markets with which we are unfamiliar;
- potential undiscovered liabilities and operational difficulties at acquired dealerships;
- disrupting our ongoing business;
- diverting our limited management resources;
- failing to maintain uniform standards, controls and policies;
- impairing relationships with employees, manufacturers and customers as a result of changes in management;

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
EXHIBIT 99.1—(Continued)

- increased expenses for accounting and computer systems, as well as integration difficulties;
- failure to obtain a manufacturer's consent to the acquisition of one or more of its dealership franchises or renew the franchise agreement on terms acceptable to us; and
- incorrectly valuing entities to be acquired.

We may not adequately anticipate all of the demands that growth will impose on our systems, procedures and structures.

We may not be able to capitalize on acquisition opportunities because our financial resources available for acquisitions are limited.

We intend to finance our acquisitions with cash generated from operations, through issuances of our stock or debt securities and through borrowings under credit arrangements. We may not be able to obtain additional financing by issuing stock or debt securities due to the market price of our Class A common stock, overall market conditions or the need for manufacturer consent to the issuance of equity securities. Using cash to complete acquisitions could substantially limit our operating or financial flexibility. If we are unable to obtain financing on acceptable terms, we may be required to reduce the scope of our presently anticipated expansion, which could materially adversely affect our overall growth strategy.

In addition, we are dependent to a significant extent on our ability to finance our new vehicle inventory with "floor plan financing." Floor plan financing arrangements allow us to borrow money to buy a particular vehicle from the manufacturer and pay off the loan when we sell that particular vehicle. We must obtain new floor plan financing or obtain consents to assume existing floor plan financing in connection with our acquisition of dealerships.

Substantially all the assets of our dealerships are pledged to secure our floor plan indebtedness and the indebtedness under the revolving credit facility. In addition, substantially all the real property and assets of our subsidiaries that are constructing new dealerships are pledged under our construction/mortgage facility with Toyota Credit. These pledges may impede our ability to borrow from other sources. Moreover, because Toyota Credit is associated with Toyota Motor Sales, U.S.A., Inc., any deterioration of our relationship with one could adversely affect our relationship with the other. The same is true of our relationships with Chrysler, GM and Ford and the floor plan financing divisions of each of these manufacturers.

We may not be able to continue executing our acquisition strategy without the costs of future acquisitions escalating.

We have grown our business primarily through acquisitions. We may not be able to consummate any future acquisitions at acceptable prices and terms or identify suitable candidates. In addition, increased competition for acquisition candidates could result in fewer acquisition opportunities for us and higher acquisition prices. The magnitude, timing, pricing and nature of future acquisitions will depend upon various factors, including:

- the availability of suitable acquisition candidates;
- competition with other dealer groups for suitable acquisitions;
- the negotiation of acceptable terms;
- our financial capabilities;
- our stock price; and

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
EXHIBIT 99.1—(Continued)

the availability of skilled employees to manage the acquired companies.

We may not be able to determine the actual financial condition of dealerships we acquire until after we complete the acquisition and take control of the dealerships.

The operating and financial condition of acquired businesses cannot be determined accurately until we assume control. Although we conduct what we believe to be a prudent level of investigation regarding the operating and financial condition of the businesses we purchase, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual operating condition of these businesses. Similarly, many of the dealerships we acquire, including our largest acquisitions, do not have financial statements audited or prepared in accordance with generally accepted accounting principles. We may not have an accurate understanding of the historical financial condition and performance of our acquired entities. Until we actually assume control of business assets and their operations, we may not be able to ascertain the actual value or understand the potential liabilities of the acquired entities and their operations.

Although O. Bruton Smith, our chairman and chief executive officer, has previously assisted us with obtaining acquisition financing, we cannot assure you that he will be willing or able to do so in the future.

Our obligations under the revolving credit facility are secured with a pledge of shares of common stock of Speedway Motorsports, Inc., a publicly traded owner and operator of automobile racing facilities. These shares of Speedway Motorsports common stock are beneficially owned by Sonic Financial Corporation, an entity controlled by Mr. Smith. Presently, the \$500 million borrowing limit of the revolving credit facility is subject to a borrowing base calculation that is based, in part, on the value of the Speedway Motorsports shares pledged by Sonic Financial. Consequently, a withdrawal of this pledge by Sonic Financial or a significant decrease in the value of Speedway Motorsports common stock could reduce the amount we can currently borrow under the revolving credit facility.

Mr. Smith has also guaranteed additional indebtedness incurred to complete certain dealership acquisitions. Mr. Smith may not be willing or able to provide similar guarantees or credit support in the future. This could impair our ability to obtain acquisition financing on favorable terms.

Risks Related to the Automotive Retail Industry

Increasing competition among automotive retailers reduces our profit margins on vehicle sales and related businesses. Further, the use of the Internet in the car purchasing process could materially adversely affect us.

Automobile retailing is a highly competitive business. Our competitors include publicly and privately owned dealerships, some of which are larger and have greater financial and marketing resources than we do. Many of our competitors sell the same or similar makes of new and used vehicles that we offer in our markets at competitive prices. We do not have any cost advantage in purchasing new vehicles from manufacturers due to economies of scale or otherwise. In addition, the popularity of short-term vehicle leasing in the past few years also has resulted, as these leases expire, in a large increase in the number of late model used vehicles available in the market, which puts added pressure on new and used vehicle margins. We typically rely on advertising, merchandising, sales expertise, service reputation and dealership location to sell new vehicles. Our revenues and profitability could be materially adversely affected if manufacturers decide to enter the retail market directly.

Our financing and insurance (“F&I”) business and other related businesses, which have higher margins than sales of new and used vehicles, are subject to strong competition from various financial institutions and other third parties. This competition is increasing as these products are now being marketed and sold over the Internet.

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
EXHIBIT 99.1—(Continued)

The Internet has become a significant part of the sales process in our industry. Customers are using the Internet to compare pricing for cars and related F&I services, which may further reduce margins for new and used cars and profits for related F&I services. If Internet new vehicle sales are allowed to be conducted without the involvement of franchised dealers, our business could be materially adversely affected. In addition, other franchise groups have aligned themselves with Internet car sellers or are investing heavily in the development of their own Internet capabilities, which could materially adversely affect our business.

Our franchise agreements do not grant us the exclusive right to sell a manufacturer's product within a given geographic area. Our revenues or profitability could be materially adversely affected if any of our manufacturers award franchises to others in the same markets where we operate or if existing franchised dealers increase their market share in our markets.

As we seek to acquire dealerships in new markets, we may face increasingly significant competition as we strive to gain market share through acquisitions or otherwise. Our gross margins may decline over time as we expand into markets where we do not have a leading position.

Our business will be harmed if overall consumer demand suffers from a severe or sustained downturn.

Our business is heavily dependent on consumer demand and preferences. Our revenues will be materially and adversely affected if there is a severe or sustained downturn in overall levels of consumer spending. Retail vehicle sales are cyclical and historically have experienced periodic downturns characterized by oversupply and weak demand. These cycles are often dependent on general economic conditions and consumer confidence, as well as the level of discretionary personal income and credit availability. The economic outlook appears uncertain in the aftermath of the terrorist attacks in the U.S. on September 11, 2001, the subsequent war on terrorism and the pending potential U.S. military action in Iraq. Future recessions may have a material adverse effect on our retail business, particularly sales of new and used automobiles. In addition, severe or sustained increases in gasoline prices may lead to a reduction in automobile purchases or a shift in buying patterns from luxury and sport utility vehicle models (which typically provide high margins to retailers) to smaller, more economical vehicles (which typically have lower margins).

A decline of available financing in the sub-prime lending market has, and may continue to, adversely affect our sales of used vehicles.

A significant portion of vehicle buyers, particularly in the used car market, finance their purchases of automobiles. Sub-prime lenders have historically provided financing for consumers who, for a variety of reasons including poor credit histories and lack of down payment, do not have access to more traditional finance sources. Our recent experience suggests that sub-prime lenders have tightened their credit standards and may continue to apply these higher standards in the future. This has adversely affected our used vehicle sales. If sub-prime lenders continue to apply these higher standards or if there is any further tightening of credit standards used by sub-prime lenders or if there is any additional decline in the overall availability of credit in the sub-prime lending market, the ability of these consumers to purchase vehicles could be limited and could have a material adverse effect on our used car business, revenues and profitability.

The seasonality of our business magnifies the importance of second and third quarter operating results.

Our business is subject to seasonal variations in revenues. In our experience, demand for automobiles is generally lower during the first quarter of each year. We therefore receive a disproportionate amount of revenues generally in the second, third and fourth quarters and expect our revenues and operating results to be generally lower in the first quarter. Consequently, if conditions surface during the second, third and fourth quarters that impair vehicle sales, such as higher fuel costs, depressed economic

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
EXHIBIT 99.1—(Continued)

conditions or similar adverse conditions, our revenues for the year could be disproportionately adversely affected.

General Risks Related to Investing in Our Securities

Concentration of voting power and anti-takeover provisions of our charter, Delaware law and our dealer agreements may reduce the likelihood of any potential change of control.

Our common stock is divided into two classes with different voting rights. This dual class stock ownership allows the present holders of the Class B common stock to control us. Holders of Class A common stock have one vote per share on all matters. Holders of Class B common stock have 10 votes per share on all matters, except that they have only one vote per share on any transaction proposed by the Board of Directors or a Class B common stockholder or otherwise benefiting the Class B common stockholders constituting a:

- “going private” transaction;
- disposition of substantially all of our assets;
- transfer resulting in a change in the nature of our business; or
- merger or consolidation in which current holders of common stock would own less than 50% of the common stock following such transaction.

The holders of Class B common stock currently hold less than a majority of our outstanding common stock, but a majority of our voting power. This may prevent or discourage a change of control of us even if the action was favored by holders of Class A common stock.

Our charter and bylaws make it more difficult for our stockholders to take corporate actions at stockholders’ meetings. In addition, options under our 1997 Stock Option Plan become immediately exercisable on a change in control. Delaware law also makes it difficult for stockholders who have recently acquired a large interest in a company to consummate a business combination transaction with the company against its directors’ wishes. Finally, restrictions imposed by our dealer agreements may impede or prevent any potential takeover bid. Generally, our franchise agreements allow the manufacturers the right to terminate the agreements upon a change of control of our company and impose restrictions upon the transferability of any significant percentage of our stock to any one person or entity who may be unqualified, as defined by the manufacturer, to own one of its dealerships. The inability of a person or entity to qualify with one or more of our manufacturers may prevent or seriously impede a potential takeover bid. In addition, provisions of our lending arrangements create an event of default on a change in control. These agreements, corporate governance documents and laws may have the effect of delaying or preventing a change in control or preventing stockholders from realizing a premium on the sale of their shares if we were acquired.

The outcome of legal and administrative proceedings we are or may become involved in could have an adverse effect on our business, results of operations and profitability.

In 2001, the Florida Attorney General’s Office issued subpoenas to two of our wholly-owned dealership subsidiaries located in Florida. The subpoenas requested, among other things, documentation from the dealerships regarding transactions with customers in the months of January 1999 and June 2000. In subsequent discussions, the Attorney General’s office informed each of these dealership subsidiaries that it was investigating allegations of fraud against customers by those dealerships in the sale of finance and insurance products. In April 2002, the Florida Department of Insurance informed the same two dealership subsidiaries that it had also initiated an investigation into allegations similar to those underlying the Attorney General’s investigation. Our two dealership subsidiaries are cooperating with this investigation. To date, there have been no formal charges or administrative proceedings filed against either dealership subsidiary by the Attorney General or the Department of Insurance. Additionally, several private civil

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
EXHIBIT 99.1—(Continued)

actions have been filed against the dealership subsidiaries stating allegations similar to those underlying the Attorney General's investigation. One private civil action filed against one of the dealership subsidiaries purports to represent a class of customers as potential plaintiffs, although no motion for class certification has been filed. Another private civil action has been filed against Sonic Automotive, Inc., which also purports to represent a class of customers as potential plaintiffs, although no motion for class certification has been filed.

In addition, in September of 2002, the Los Angeles County District Attorney's office served a search warrant on one of our wholly-owned dealership subsidiaries located in Los Angeles County relating to alleged deceptive practices of the dealership's finance and insurance department. Our dealership is cooperating with the District Attorney in its investigation. No charges have been filed and no proceedings have been instituted to date by the District Attorney. A private civil action has also been filed against the dealership stating allegations similar to those underlying the District Attorney's investigation. The plaintiffs in this private civil action purport to represent a class of customers as potential plaintiffs, although no motion for class certification has been filed.

We intend to vigorously defend ourselves and assert available defenses with respect to each of the foregoing matters, and do not believe that the ultimate resolution of these matters will have a material adverse affect on our business, results of operations, financial condition, cash flows or prospects. However, because the investigations by the respective state regulatory authorities are continuing and have not resulted in formal charges to date, and because the private civil actions are also in the early stages of litigation, we cannot assure you as to the outcomes of these proceedings.

We are also involved, and expect to continue to be involved, in numerous other legal proceedings arising out of the conduct of our business, including litigation with customers, employment related lawsuits and actions brought by governmental authorities. The results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters, including the matters specifically discussed above, could have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

Our business may be adversely affected by unfavorable conditions in our local markets, even if those conditions are not prominent nationally.

Our performance is subject to local economic, competitive and other conditions prevailing in geographic areas where we operate. For example, our current results of operations depend substantially on general economic conditions and consumer spending habits in the Southeast and Northern California and, to a lesser extent, the Houston and Columbus markets. Sales in our Northern California market represented approximately 16.6% of our sales for the year ended December 31, 2002. We may not be able to expand geographically and any geographic expansion may not adequately insulate us from the adverse effects of local or regional economic conditions.

The loss of key personnel and limited management and personnel resources could adversely affect our operations and growth.

Our success depends to a significant degree upon the continued contributions of our management team, particularly our senior management, and service and sales personnel. Additionally, manufacturer franchise agreements may require the prior approval of the applicable manufacturer before any change is made in franchise general managers. We do not have employment agreements with most of our senior management team, our dealership managers and other key dealership personnel. Consequently, the loss of the services of one or more of these key employees could have a material adverse effect on our results of operations.

In addition, as we expand we may need to hire additional managers. The market for qualified employees in the industry and in the regions in which we operate, particularly for general managers and sales and service personnel, is highly competitive and may subject us to increased labor costs during periods of low unemployment. The loss of the services of key employees or the inability to attract

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EXHIBIT 99.1—(Continued)

additional qualified managers could have a material adverse effect on our results of operations. In addition, the lack of qualified management or employees employed by potential acquisition candidates may limit our ability to consummate future acquisitions.

Governmental regulation and environmental regulation compliance costs may adversely affect our profitability.

We are subject to a wide range of federal, state and local laws and regulations, such as local licensing requirements, retail financing and consumer protection laws and regulations, and wage-hour, anti-discrimination, and other employment practices laws and regulations. Our facilities and operations are also subject to federal, state and local laws and regulations relating to environmental protection and human health and safety, including those governing wastewater discharges, air emissions, the operation and removal of underground and aboveground storage tanks, the use, storage, treatment, transportation, release, recycling and disposal of solid and hazardous materials and wastes and the cleanup of contaminated property or water. The violation of these laws and regulations can result in administrative, civil or criminal penalties against us or in a cease and desist order against our operations that are not in compliance. Our future acquisitions may also be subject to regulation, including antitrust reviews. We believe that we comply in all material respects with all laws and regulations applicable to our business, but future regulations may be more stringent and require us to incur significant additional compliance costs.

Our past and present business operations are subject to environmental laws and regulations. We may be required by these laws to pay the full amount of the costs of investigation and/or remediation of contaminated properties, even if we are not at fault for disposal of the materials or if such disposal was legal at the time. Like many of our competitors, we have incurred, and will continue to incur, capital and operating expenditures and other costs in complying with these laws and regulations. In addition, soil and groundwater contamination exists at certain of our properties. We cannot assure you that our other properties have not been or will not become similarly contaminated. In addition, we could become subject to potentially material new or unforeseen environmental costs or liabilities because of our acquisitions.

Potential conflicts of interest between us and our officers or directors could adversely affect our future performance.

O. Bruton Smith serves as the chairman and chief executive officer of Speedway Motorsports. Accordingly, we compete with Speedway Motorsports for the management time of Mr. Smith.

We have in the past and will likely in the future enter into transactions with Mr. Smith, entities controlled by Mr. Smith or our other affiliates. We believe that all of our existing arrangements with affiliates are as favorable to us as if the arrangements were negotiated between unaffiliated parties, although the majority of these transactions have neither been independently verified in that regard nor are likely to be so verified in the future. Potential conflicts of interest could arise in the future between us and our officers or directors in the enforcement, amendment or termination of arrangements existing between them.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This report contains numerous “forward-looking statements” within the meaning of the Private Litigation Securities 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, and can generally be identified by words such as “may,” “will,” “should,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “foresee,” and other similar words or phrases. Specific events addressed by these forward looking statements include, but are not limited to:

- future acquisitions;
- industry trends;

SONIC AUTOMOTIVE, INC AND SUBSIDIARIES
EXHIBIT 99.1—(Continued)

- general economic trends, including employment rates and consumer confidence levels;
- vehicle sales rates and same store sales growth;
- our financing plans; and
- our business and growth strategies.

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 this report, as well as:

- our ability to generate sufficient cash flows or obtain additional financing to support acquisitions, capital expenditures and general operating activities;
- the reputation and financial condition of vehicle manufacturers whose brands we represent, and their ability to design, manufacture, deliver and market their vehicles successfully;
- our relationships with manufacturers which may affect our ability to complete additional acquisitions;
- 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, and the level of consumer spending;
- significant changes in the assumptions used to estimate various self-funded insurance reserves;
- high competition in the automotive retailing industry which not only creates pricing pressures on the products and services we offer, but on businesses we seek to acquire; and
- our ability to successfully integrate recent and potential future acquisitions.

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

In connection with the Annual Report of Sonic Automotive, Inc. (the "Company") on Form 10-K for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Theodore M. Wright, 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:

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

/s/ Theodore M. Wright
Theodore M. Wright
Chief Financial Officer
March 18, 2003

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

In connection with the Annual Report of Sonic Automotive, Inc. (the "Company") on Form 10-K for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, O. Bruton Smith, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ O. Bruton Smith
O. Bruton Smith
Chief Executive Officer
March 18, 2003