

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

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2019

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
or  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 1-13395

**SONIC AUTOMOTIVE, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
  
**4401 Colwick Road**  
**Charlotte, North Carolina**  
(Address of principal executive offices)

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

**28211**  
(Zip Code)

Registrant's telephone number, including area code: (704) 566-2400  
Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act:  
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

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

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

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

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant was approximately \$ 682.4 million based upon the closing sales price of the registrant's Class A Common Stock on June 28, 2019 of \$23.35 per share. The registrant has no non-voting common equity.

As of February 12, 2020, there were 30,532,640 shares of Class A Common Stock, par value \$0.01 per share, and 12,029,375 shares of Class B Common Stock, par value \$0.01 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with the registrant's 2020 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report Form 10-K to the extent described herein.

## UNCERTAINTY OF FORWARD-LOOKING STATEMENTS AND INFORMATION

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

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

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

These forward-looking statements speak only as of the date of this Annual Report on Form 10-K or when made, and we undertake no obligation to revise or update these statements to reflect subsequent events or circumstances, except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission.

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ANNUAL REPORT ON FORM 10-K  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

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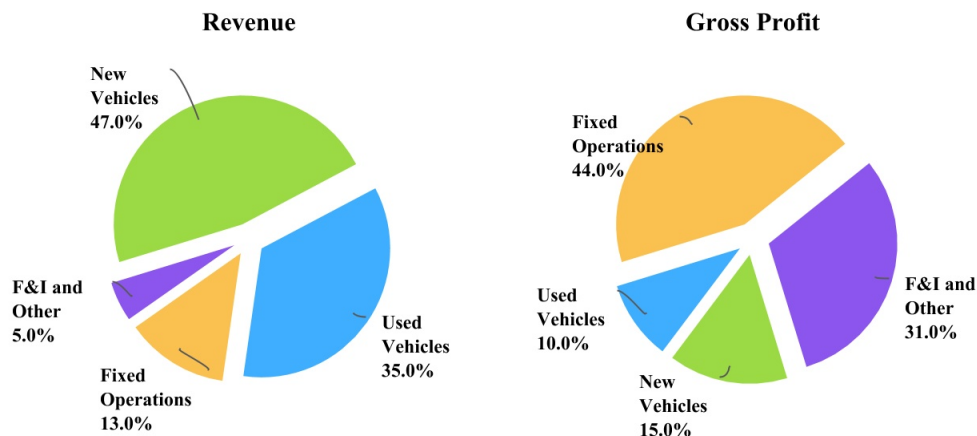
PART I

Item 1. Business.

Sonic Automotive, Inc. was incorporated in Delaware in 1997. References to “Sonic,” the “Company,” “we,” “us” or “our” used throughout this Annual Report on Form 10-K refer to Sonic Automotive, Inc. and its subsidiaries. We are one of the largest automotive retailers in the United States (as measured by total revenue). As a result of the way we manage our business, we had two reportable segments as of December 31, 2019: (1) the Franchised Dealerships Segment and (2) the EchoPark Segment. For management and operational reporting purposes, we group certain businesses together that share management and inventory (principally used vehicles) into “stores.” As of December 31, 2019, we operated 86 stores in the Franchised Dealerships Segment and nine stores in the EchoPark Segment. The Franchised Dealerships Segment consists of 99 new vehicle franchises (representing 21 different brands of cars and light trucks) and 15 collision repair centers in 12 states.

The Franchised Dealerships Segment provides comprehensive services, including (1) sales of both new and used cars and light trucks; (2) sales of replacement parts and performance of vehicle maintenance, manufacturer warranty repairs, and paint and collision repair services (collectively, “Fixed Operations”); and (3) arrangement of extended warranties, service contracts, financing, insurance and other aftermarket products (collectively, “finance and insurance” or “F&I”) for our customers. The EchoPark Segment sells used cars and light trucks and arranges F&I product sales for our customers in pre-owned vehicle specialty retail locations. Our EchoPark business operates independently from our franchised dealerships business. Sales operations in our first EchoPark market in Denver, Colorado began in the fourth quarter of 2014. As of December 31, 2019, we had three EchoPark stores in operation in Colorado, four in Texas, one in North Carolina and one in California. By the end of 2020, we expect to open three additional EchoPark stores. We believe that the continued expansion of our EchoPark business will provide long-term benefits to the Company, our stockholders and our guests.

The following charts depict the multiple sources of continuing operations revenue and gross profit for the year ended December 31, 2019 (“2019”):



**SONIC AUTOMOTIVE, INC.**

As of December 31, 2019, we operated in the following states:

Market	Number of Franchised Stores	Number of EchoPark Stores	Percent of 2019 Total Revenue
California	22	1	28.2 %
Texas	16	4	27.2 %
Colorado	4	3	9.1 %
Tennessee	11	—	7.2 %
Florida	9	—	5.7 %
Alabama	10	—	5.3 %
North Carolina	4	1	4.1 %
Georgia	4	—	3.2 %
Virginia	1	—	1.9 %
Maryland	1	—	1.8 %
Nevada	2	—	1.7 %
South Carolina	2	—	1.6 %
Disposed stores and holding companies	—	—	3.0 %
Total	86	9	100.0 %

In the future, we may acquire dealerships or open new stores that we believe will enrich our portfolio and divest dealerships or close stores that we believe will not yield acceptable returns over the long term. The retail automotive industry remains highly fragmented, and we believe that further consolidation may occur. We believe that attractive acquisition opportunities continue to exist for dealership groups with the capital and experience to identify, acquire and professionally manage dealerships. Our ability to complete acquisitions and open new stores in the future will depend on many factors, including the availability of financing and the existence of any contractual provisions that may restrict our acquisition activity.

See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources” for a discussion of our plans for the use of capital generated from operations.

**Reportable Segments**

As of December 31, 2019, we had two reportable segments: (1) the Franchised Dealerships Segment and (2) the EchoPark Segment. The Franchised Dealerships Segment is comprised of retail automotive franchises that sell new vehicles and buy and sell used vehicles, sell replacement parts, perform vehicle maintenance, warranty and repair services, and arrange finance and insurance products. The EchoPark Segment is comprised of pre-owned vehicle specialty retail locations that provide customers an opportunity to search our nationwide inventory, purchase a pre-owned vehicle, select finance and insurance products and sell their current vehicle to us.

For 2019, EchoPark Segment revenue represented approximately 11.1% of total revenue. See Note 14, “Segment Information,” to the accompanying consolidated financial statements for additional financial information regarding our two reportable segments.

Unless otherwise noted, the following discussion of our business is presented on a consolidated basis.

**Business Strategy**

**Execute our EchoPark Expansion Plan.** We have augmented our manufacturer-franchised dealership operations with our EchoPark pre-owned vehicle specialty retail locations. Our EchoPark business operates independently from our franchised dealerships business. Sales operations for EchoPark began in Denver, Colorado in the fourth quarter of 2014. As of December 31, 2019, we had three EchoPark stores in operation in Colorado, four in Texas, one in North Carolina and one in California. We expect to open three additional EchoPark stores during 2020.

**Improve Capital Structure.** As we generate cash through operations, we may opportunistically repurchase our Class A Common Stock or our outstanding subordinated notes in open-market or structured transactions and may sell our Class A Common Stock to reduce debt.

**Maintain Diverse Revenue Streams.** We have multiple revenue streams. In addition to new vehicle sales, our revenue sources include used vehicle sales, which we believe are less sensitive to economic cycles and seasonal influences that affect

new vehicle sales. Our Fixed Operations sales carry a higher gross margin than new and used vehicle sales and, in the past, have not been as sensitive to economic conditions as new vehicle sales. We also offer customers assistance in obtaining financing and a range of automobile-related warranty, aftermarket and insurance products.

***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 and service in a positive, “consumer friendly” buying environment. Several 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 dealership. In addition, all manufacturers consider CSI scores in approving acquisitions or awarding new dealership open points. To keep dealership and executive management focused on customer satisfaction, we include CSI results as a component of our incentive-based compensation programs for certain groups of associates and executive management.

***Invest in Dealership Properties.*** Historically, we have operated our dealerships primarily on property financed through long-term operating leases. As these leases mature, or as we have an opportunity to purchase the underlying real estate prior to renewal, we take actions to own more of our dealership properties when the effect is financially or operationally favorable to us. We remain opportunistic in purchasing existing properties or relocating dealership operations to owned real estate where the returns are favorable. We believe owning our properties where feasible and financially and strategically advantageous will, over the long term, strengthen our balance sheet and reduce our overall cost of operating and financing our facilities.

***Maximize Asset Returns Through Process Execution.*** We have developed standardized operating processes that are documented in operating playbooks for our stores. Through the continued implementation of our operating playbooks, we believe organic growth opportunities exist by offering a more favorable buying experience to our customers and creating efficiencies in our business processes. We believe the development, refinement and implementation of these operating processes will enhance the customer experience, make us more competitive in the markets we serve and drive profit growth across each of our revenue streams.

***Manage Portfolio.*** Our long-term growth and acquisition strategy is focused on large metropolitan markets, predominantly in the Southeast, Texas and California. We seek to add like-branded dealerships to our portfolio that exist in regions in which we already operate; however, we may look outside of our existing geographic footprint when considering the location of new EchoPark stores. A majority of our franchised dealerships are either luxury or mid-line import brands. For 2019, approximately 90.4% of our total new vehicle revenue was generated by luxury and mid-line import dealerships, which usually have higher operating margins, more stable Fixed Operations departments, lower associate turnover and lower inventory levels.

SONIC AUTOMOTIVE, INC.

The following table depicts the breakdown of our new vehicle revenues from continuing operations by brand:

Brand	Percentage of New Vehicle Revenues		
	Year Ended December 31,		
	2019	2018	2017
<b>Luxury:</b>			
BMW	24.0 %	19.8 %	19.6 %
Mercedes	12.1 %	10.7 %	10.7 %
Audi	6.9 %	6.5 %	6.0 %
Lexus	4.9 %	6.1 %	5.8 %
Land Rover	4.3 %	4.4 %	3.2 %
Porsche	2.8 %	2.7 %	2.4 %
Cadillac	2.3 %	2.3 %	2.7 %
MINI	1.3 %	1.3 %	1.3 %
Other luxury (1)	2.7 %	2.8 %	2.9 %
<b>Total Luxury</b>	<b>61.3 %</b>	<b>56.6 %</b>	<b>54.6 %</b>
<b>Mid-line Import:</b>			
Honda	15.3 %	17.2 %	17.3 %
Toyota	9.7 %	10.2 %	11.9 %
Hyundai	1.5 %	1.6 %	1.5 %
Volkswagen	1.4 %	2.0 %	1.8 %
Other imports (2)	1.2 %	1.8 %	1.7 %
<b>Total Mid-line Import</b>	<b>29.1 %</b>	<b>32.8 %</b>	<b>34.2 %</b>
<b>Domestic:</b>			
Ford	4.9 %	5.7 %	6.8 %
General Motors (“GM”) (3)	4.7 %	4.9 %	4.4 %
<b>Total Domestic</b>	<b>9.6 %</b>	<b>10.6 %</b>	<b>11.2 %</b>
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

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

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

(3) Includes Buick, Chevrolet and GMC.

**Expand our Omni-Channel Capabilities.** Automotive customers have become increasingly more comfortable using technology to research their vehicle buying alternatives, communicate with store personnel and, to a lesser extent, complete a vehicle purchase online. The internet presents a marketing, advertising and automotive sales channel that we will continue to utilize to drive value for our stores and enhance the customer experience. Our technology platforms give us the ability to leverage technology to efficiently integrate systems, customize our dealership websites and use our data to improve the effectiveness of our advertising and interaction with our customers. These platforms also allow us to market all of our products and services to a national audience and, at the same time, support the local market penetration of our individual stores.

**Train, Develop and Retain Associates.** We believe our associates are the cornerstone of our business and crucial to our financial success. Our goal is to develop our associates and foster an environment where our associates can contribute and grow with the Company. Associate satisfaction is very important to us, and we believe a high level of associate satisfaction reduces associate turnover and enhances our customers’ experience at our stores by pairing our customers with well-trained associates. We believe that our comprehensive training of all employees provides us with a competitive advantage over other dealership groups.

**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, Insurance and Other Aftermarket Products.** Each sale of a new or used vehicle gives us an opportunity to provide our customers with financing and insurance options and earn financing fees and insurance and other aftermarket product commissions. We also offer our customers the opportunity to purchase extended warranties, service contracts and other aftermarket products from third-party providers whereby we earn a commission for arranging the contract sale. We currently offer a wide range of non-recourse financing, leasing, other aftermarket products, extended warranties, service contracts and

insurance products to our customers. We emphasize menu-selling techniques and other best practices to increase our sales of F&I products at our franchised dealerships and EchoPark stores.

*Parts, Service and Collision Repair.* Each of our franchised dealerships offers a fully integrated service and parts department. Manufacturers permit warranty work to be performed only at franchised dealerships such as ours. As a result, our franchised dealerships are uniquely qualified and positioned to perform work covered by manufacturer warranties on increasingly complex vehicles. We believe we can continue to grow our profitable parts and service business over the long term by increasing service capacity, investing in sophisticated equipment and well-trained technicians, using variable rate pricing structures, focusing on customer service and efficiently managing our parts inventory. In addition, we believe our emphasis on selling extended service contracts and maintenance contracts associated with retail new and used vehicle sales will drive further service and parts business in our franchised dealerships as we increase the potential to retain current customers beyond the term of the standard manufacturer warranty period.

*Certified Pre-Owned Vehicles.* Various manufacturers provide franchised dealers the opportunity to sell certified pre-owned (“CPO”) vehicles. This certification process extends the standard manufacturer warranty on the CPO vehicle, which we believe increases our potential to retain the pre-owned purchaser as a future parts and service customer. As CPO vehicles can only be sold by franchised dealerships and CPO warranty work can only be performed at franchised dealerships, we believe CPO vehicles add additional sales volume and will increase our Fixed Operations business over the long-term.

#### **Relationships with Manufacturers**

Each of our dealerships operates under a separate franchise or dealer agreement that governs the relationship between the dealership and the manufacturer. Each franchise or 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 unit sales volume. A franchise or dealer agreement incentivizes the dealer to meet specified standards regarding showrooms, facilities and equipment for servicing vehicles, inventories, minimum net working capital, personnel training and other aspects of the business. Each franchise or dealer agreement also gives the related manufacturer the right to approve the dealer operator and any material change in management or ownership of the dealership. Each manufacturer may terminate a franchise or 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 dealer operator, the conviction of the dealership or the dealership’s owner or dealer operator of certain crimes, the failure to adequately operate the dealership or maintain new vehicle inventory or financing arrangements, insolvency or bankruptcy of the dealership or a material breach of other provisions of the applicable franchise or dealer agreement.

Many automobile manufacturers have developed and implemented policies regarding public ownership of dealerships, which include the ability to force the sale of their respective franchises:

- upon a change in control of the Company or a material change in the composition of our Board of Directors;
- if an automobile manufacturer or distributor acquires more than 5% of the voting power of our securities; or
- if an individual or entity (other than an automobile manufacturer or distributor) acquires more than 20% of the voting power of our securities, and the manufacturer disapproves of such individual’s or entity’s ownership interest.

To the extent that new or amended manufacturer policies restrict the number of dealerships that may be owned by a dealership group or the transferability of our common stock, such policies could have a material adverse effect on us. We believe that we will be able to renew at expiration all of our existing franchise and dealer agreements.

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, including Florida, Georgia, North Carolina, South Carolina and Virginia, limit the amount of time that a manufacturer or distributor may temporarily operate a dealership. These statutes have been increasingly challenged by new entrants into the retail automotive industry and, to the extent that these statutes are repealed or weakened, such changes could have a material adverse effect on our business.



In addition, all of the states in which our dealerships currently do business require manufacturers or distributors to show “good cause” for terminating or failing to renew a dealer’s franchise or dealer agreement. Further, each of these states provides some method for dealers to challenge manufacturer attempts to establish dealerships of the same brand in their relevant market area.

While in any individual period conditions may vary, over the past 10 fiscal years, we have acquired a significant percentage of our retail used vehicle inventory directly from consumers through our appraisal process, in addition to vehicle auctions. We also acquire used vehicle inventory from wholesalers, franchised and independent dealers and fleet owners, such as leasing companies and rental companies. The used vehicle inventory we acquire directly from consumers through our appraisal process helps provide an inventory of makes and models that reflects consumer preferences in each market. The supply of late-model used vehicles is influenced by a variety of factors, including the total number of vehicles in operation; the volume of new vehicle sales, which in turn generate used car trade-ins; and the number of used vehicles sold or remarketed through retail channels, wholesale transactions and automotive auctions. According to industry sources, there were approximately 275 million light vehicles in operation in the United States as of December 31, 2018. During calendar year 2019, it is estimated that approximately 17 million new cars and 40 million used cars were sold at retail, many of which were accompanied by trade-ins. Based on the large number of vehicles remarketed each year, consumer acceptance of our appraisal process, our experience and success in acquiring vehicles from auctions and other sources, and the large size of the U.S. auction market relative to our needs, we believe that sources of used vehicles will continue to be sufficient to meet our current and future needs.

### **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, leasing companies and services offered on the internet that provide customer referrals to other dealerships, broker vehicle sales between customers and other dealerships or sell vehicles directly to customers via online purchase transactions and delivery. We compete with small, local dealerships and with large multi-franchise and pre-owned automotive dealership groups.

We believe that the principal competitive factors in vehicle sales are the location of dealerships, the ability of dealerships to offer an attractive selection of the most popular vehicles at competitive market pricing (including manufacturer rebates and other special offers), the marketing campaigns conducted by manufacturers and the quality of services and customer experience at our dealerships. In particular, pricing has become more important as a result of well-informed customers using a variety of sources available on the internet to determine current market retail prices. Other competitive factors include customer preference for makes of automobiles and coverage under manufacturer warranties.

In addition to competition for vehicle sales, we also compete with other auto dealers, service and repair centers, auto parts retailers and independent mechanics in providing vehicle parts and service work. We believe that the principal competitive factors in parts and service sales are price, the use of factory-approved replacement parts, factory-trained technicians, the familiarity with a manufacturer’s makes and models and the quality of customer service. A number of regional and national chains offer selected parts and services 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, certain financial institutions are now offering financing and other F&I products directly to consumers through the internet. 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, even though the retail automotive industry as a whole might not be affected.

### **Governmental Regulations and Environmental Matters**

Numerous federal, state and local regulations govern our business of marketing, selling, financing and servicing automobiles. We are also subject to laws and regulations relating to business corporations.

## SONIC AUTOMOTIVE, INC.

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 franchised dealership or EchoPark store or to operate an automotive service and repair center. These laws also regulate our conduct of business, including our sales, operating, advertising, financing and employment practices, including federal and state wage-hour, anti-discrimination and other employment practices laws.

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 franchised dealership and EchoPark properties.

As with automobile dealerships generally, and service, parts and collision repair 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, wastes or materials. 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 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 and other environmentally sensitive materials for treatment, recycling or disposal.

We do not have any known material environmental liabilities, and we believe that compliance with environmental laws and regulations will not, individually or in the aggregate, have a material adverse effect on our results of operations, financial condition and cash flows. However, soil and groundwater contamination is known to exist at certain properties owned and used by us. Further, environmental laws and regulations are complex and subject to frequent change. In addition, in connection with our past or future 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.

### Information About Our Executive Officers

Our executive officers as of the date of this Annual Report on Form 10-K are as follows:

Name	Age	Position(s) with Sonic
O. Bruton Smith	92	Executive Chairman and Director
David Bruton Smith	45	Chief Executive Officer and Director
Jeff Dyke	52	President and Director
Heath R. Byrd	53	Executive Vice President and Chief Financial Officer

O. Bruton Smith is the Founder of Sonic and has served as its Executive Chairman since July 2015. Prior to his election as Executive Chairman, Mr. Smith had served as Chairman and Chief Executive Officer of the Company since its organization in January 1997. Mr. Smith has also served as a director of Sonic since its organization in January 1997. Mr. Smith is also a director of many of Sonic's subsidiaries. Mr. Smith has worked in the retail automotive industry since 1966. Mr. Smith is also the Executive Chairman and a director of Speedway Motorsports, LLC f/k/a Speedway Motorsports, Inc. ("Speedway Motorsports"), which is controlled by Mr. Smith and his family. Speedway Motorsports was a public company until September 2019, whose shares were traded on the New York Stock Exchange (the "NYSE"). Among other things, Speedway Motorsports owns and operates the following speedways: Atlanta Motor Speedway, Bristol Motor Speedway, Charlotte Motor Speedway, Kentucky Speedway, Las Vegas Motor Speedway, New Hampshire Motor Speedway, Sonoma Raceway and Texas Motor Speedway. Mr. Smith is also a director of most of Speedway Motorsports' operating subsidiaries and a director and an officer of Sonic Financial Corporation ("SFC"), the largest stockholder of Sonic. He is the father of Mr. David Bruton Smith and Mr. Marcus G. Smith.

David Bruton Smith was elected as Chief Executive Officer of Sonic in September 2018. Prior to his election as Chief Executive Officer, Mr. Smith served as Sonic's Executive Vice Chairman and Chief Strategic Officer from March 2018 to September 2018, as Sonic's Vice Chairman from March 2013 to March 2018 and as an Executive Vice President of Sonic from October 2008 to March 2013. He has been a director of Sonic since October 2008 and has served in Sonic's organization since 1998. Prior to being named an Executive Vice President and a director in October 2008, Mr. Smith had served as Sonic's Senior Vice President of Corporate Development since March 2007. Mr. Smith served as Sonic's Vice President of Corporate Strategy

from October 2005 to March 2007, and also served prior to that time as Dealer Operator and General Manager of several Sonic dealerships. Mr. Smith is also a director and an officer of SFC, the largest stockholder of Sonic. He is the son of Mr. O. Bruton Smith and the brother of Mr. Marcus G. Smith.

Jeff Dyke was elected to the office of President of Sonic in September 2018 and is responsible for direct oversight for all of Sonic's retail automotive operations. In addition, Mr. Dyke has served as a director of Sonic since July 2019. Mr. Dyke served as Sonic's Executive Vice President of Operations from October 2008 to September 2018. From March 2007 to October 2008, Mr. Dyke served as Sonic's Division Chief Operating Officer - Southeast Division, where he oversaw retail automotive operations for the states of Alabama, Florida, Georgia, North Carolina, South Carolina, Tennessee and Texas. Mr. Dyke first joined Sonic in October 2005 as Sonic's Vice President of Retail Strategy, a position that he held until April 2006, when he was promoted to Division Vice President - Eastern Division, a position he held from April 2006 to March 2007. Prior to joining Sonic, Mr. Dyke worked in the retail automotive industry at AutoNation, Inc. from 1996 to 2005, where he held several positions in divisional, regional and dealership management with that company.

Heath R. Byrd has served as Sonic's Executive Vice President and Chief Financial Officer since April 2013. Mr. Byrd was previously a Vice President and Sonic's Chief Information Officer from December 2007 to March 2013, and has served our organization since 2007. Prior to joining Sonic, Mr. Byrd served in a variety of management positions at HR America, Inc., a workforce management firm that provided customized human resource and workforce development through co-sourcing arrangements, including as a director, as President and Chief Operating Officer and as Chief Financial Officer and Chief Information Officer. Prior to HR America, Mr. Byrd served as a Manager in the Management Consulting Division of Ernst & Young LLP.

### **Employees**

As of December 31, 2019, we employed approximately 9,300 associates. We believe that our relationships with our associates are good. Approximately 270 of our associates, primarily service technicians in northern California, are represented by a labor union. Although only a small percentage of our associates is represented by a labor union, we may be affected by labor strikes, work slowdowns and walkouts at automobile manufacturers' manufacturing facilities.

### **Company Information**

Our website can be accessed at [www.sonicautomotive.com](http://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 filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as well as proxy statements and other information we file with, or furnish to, the Securities and Exchange Commission (the "SEC") are available free of charge on our website as well as the website of the SEC, [www.sec.gov](http://www.sec.gov). We make these documents available as soon as reasonably practicable after we electronically transmit 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 transmit to the SEC.

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**Item 1A. Risk Factors.**

Our business, financial condition, results of operations, cash flows and prospects and the prevailing market price and performance of our Class A Common Stock may be adversely affected by a number of factors, including the material risks noted below. Our stockholders and prospective investors should consider these risks, uncertainties and other factors prior to making an investment decision.

**Risks Related to Our Sources of Financing and Liquidity**

*Our significant indebtedness could materially adversely affect our financial health, limit our ability to finance future acquisitions, expansion plans and capital expenditures and prevent us from fulfilling our financial obligations.*

As of December 31, 2019, our total outstanding indebtedness was approximately \$2.2 billion, which includes floor plan notes payable, long-term debt and short-term debt.

We have up to \$250.0 million of maximum borrowing availability under a syndicated revolving credit facility (the “2016 Revolving Credit Facility”) and up to \$1.0 billion of maximum borrowing availability for combined syndicated new and used vehicle inventory floor plan financing (the “2016 Floor Plan Facilities”). We refer to the 2016 Revolving Credit Facility and the 2016 Floor Plan Facilities collectively as the “2016 Credit Facilities.” As of December 31, 2019, we had approximately \$230.7 million available for additional borrowings under the 2016 Revolving Credit Facility based on the borrowing base calculation, which is affected by numerous factors, including eligible asset balances. We are able to borrow under the 2016 Revolving Credit Facility only if, at the time of the borrowing, we have met all representations and warranties and are in compliance with all financial and other covenants contained therein. We have capacity to finance new and used vehicle inventory purchases under floor plan agreements with various manufacturer-affiliated finance companies and other lending institutions (the “Silo Floor Plan Facilities”) as well as the 2016 Floor Plan Facilities. We have up to \$112.2 million of maximum borrowing availability under our delayed draw-term loan credit agreement entered into in November 2019 (the “2019 Mortgage Facility”), which varies in borrowing limit based on the appraised value of the collateral underlying the 2019 Mortgage Facility. As of December 31, 2019, we had approximately \$3.1 million available for additional borrowings under the 2019 Mortgage Facility based on the borrowing base calculation. In addition, our 6.125% Senior Subordinated Notes due 2027 (the “6.125% Notes”) and our other debt instruments allow us to incur additional indebtedness, including secured indebtedness, as long as we comply with the terms thereunder.

The majority of our dealership properties are subject to long-term operating lease arrangements that commonly have initial terms of 10 to 20 years with renewal options generally ranging from five to 10 years. These operating leases require compliance with financial and operating covenants similar to those under the 2016 Credit Facilities, and monthly payments of rent that may fluctuate based on interest rates and local consumer price indices. The total future minimum lease payments related to these operating leases and certain equipment leases are significant and are disclosed in Note 12, “Commitments and Contingencies,” to the accompanying consolidated financial statements.

Our failure to comply with certain covenants in these agreements could materially adversely affect our ability to access our borrowing capacity, subject us to acceleration of our outstanding debt, result in a cross default on other indebtedness and could have a material adverse effect on our ability to continue our business.

*An acceleration of our obligation to repay all or a substantial portion of our outstanding indebtedness or lease obligations would have a material adverse effect on our business, financial condition or results of operations.*

The 2016 Credit Facilities, the 2019 Mortgage Facility, the indenture governing the 6.125% Notes and many of our operating leases contain numerous financial and operating covenants. A breach of any of these covenants could result in a default under the applicable agreement. In addition, a default under one agreement could result in a cross default and acceleration of our repayment obligations under the other agreements. If a default or cross default were to occur, we may not be able to pay our debts or to borrow sufficient funds to refinance them. Even if new financing were available, it may not be on terms acceptable to us. If a default were to occur, we may be unable to adequately finance our operations because of acceleration and cross-default provisions and the value of our common stock would be materially adversely affected. 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.

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***Our ability to make interest and principal payments when due to holders of our debt securities depends upon our future performance and our receipt of sufficient funds from our subsidiaries.***

Our ability to meet our debt obligations and other expenses will depend on our future performance, which will be affected by financial, business, domestic and foreign economic conditions, the regulatory environment and other factors, many of which we are unable to control. 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 depend to a substantial degree on the results of operations of our 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 distributions. 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.

If our cash flow is not sufficient to service our debt as it becomes due, we may be required to refinance the debt, sell assets or sell shares of our common stock on terms that we do not find attractive. Further, our failure to comply with the financial and other restrictive covenants relating to the 2016 Credit Facilities, the 2019 Mortgage Facility and the indentures governing the 6.125% Notes could result in a default under these agreements that would prevent us from borrowing under the 2016 Credit Facilities or the 2019 Mortgage Facility, which could materially adversely affect our business, financial condition and results of operations. If a default and acceleration of repayment were to occur, we may be unable to adequately finance our operations and the value of our Class A Common Stock could be materially adversely affected.

***We have financed the purchase and improvement of certain dealership properties with mortgage notes that require balloon payments at the end of the notes' terms.***

Many of our mortgage notes' principal and interest payments are based on an amortization period longer than the actual terms (maturity dates) of the notes. We will be required to repay or refinance the remaining principal balances for certain of our mortgages with balloon payments at the notes' maturity dates, which range from 2020 to 2033. The amounts to be repaid or refinanced at the maturity dates could be significant. We may not have sufficient liquidity to make such payments at the notes' maturity dates. In the event we do not have sufficient liquidity to completely repay the remaining principal balances at maturity, we may not be able to refinance the notes at interest rates that are acceptable to us or, depending on market conditions, refinance the notes at all. Our inability to repay or refinance these notes could have a material adverse effect on our business, financial condition and results of operations.

***We depend on the performance of subleases to offset costs related to certain of our lease agreements.***

In many cases, when we sell a dealership, the buyer of the dealership will sublease the dealership property from us, but we are not released from the underlying lease obligation to the primary landlord. We rely on the sublease income from the buyer to offset the expense incurred related to our obligation to pay the primary landlord. We also rely on the buyer to maintain the property in accordance with the terms of the sublease (which in most cases mirror the terms of the lease we have with the primary landlord). Although we assess the financial condition of a buyer at the time we sell the dealership, and seek to obtain guarantees of the buyer's sublease obligation from the stockholders or affiliates of the buyer, the financial condition of the buyer and/or the sublease guarantors may deteriorate over time. In the event the buyer does not perform under the terms of the sublease agreement (due to the buyer's financial condition or other factors), we may not be able to recover amounts owed to us under the terms of the sublease agreement or the related guarantees. Our operating results, financial condition and cash flows may be materially adversely affected if sublessees do not perform their obligations under the terms of the sublease agreements.

***Our use of hedging transactions could limit our financial gains or result in financial losses.***

To reduce our exposure to fluctuations in cash flow due to interest rate fluctuations, we have entered into, and in the future expect to enter into, certain derivative instruments (or hedging agreements). No hedging activity can completely insulate us from the risks associated with changes in interest rates. As of December 31, 2019, we had interest rate cap agreements related to a portion of our London InterBank Offered Rate ("LIBOR")-based variable rate debt to limit our exposure to rising interest rates. See the heading "Derivative Instruments and Hedging Activities" under Note 6, "Long-Term Debt," to the accompanying consolidated financial statements. We intend to hedge as much of our interest rate risk as management determines is in our best interests given the cost of such hedging transactions.

Our hedging transactions expose us to certain risks and financial losses, including, among other things:

- counterparty credit risk;
- available interest rate hedging may not correspond directly with the interest rate risk for which we seek protection;

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- the duration or the amount of the hedge may not match the duration or the amount of the related liability;
- the value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value, downward adjustments or “mark-to-market losses,” which would affect our recorded stockholders’ equity amounts; and
- all of our hedging instruments contain terms and conditions with which we are required to meet. In the event those terms and conditions are not met, we may be required to settle the instruments prior to the instruments’ maturity with cash payments, which could significantly affect our liquidity.

A failure on our part to effectively hedge against interest rate changes may adversely affect our financial condition and results of operations.

***Reforms to and uncertainty regarding the LIBOR may adversely affect our business, financial condition and results of operations.***

The United Kingdom Financial Conduct Authority (the “FCA”) announced in July 2017 that it will no longer persuade or require banks to submit rates for the calculation of LIBOR after 2021 (the “FCA Announcement”). This announcement, in conjunction with financial benchmark reforms more generally and changes in the interbank lending markets, have resulted in uncertainty about the future of LIBOR and certain other rates or indices which have historically been used as interest rate “benchmarks” in our financial contracts, including, but not limited to, floor plan notes payable, variable-rate mortgage notes payable, interest rate swap agreements, interest rate cap agreements and certain dealership operating lease agreements. As of December 31, 2019, approximately \$189.7 million of our outstanding variable-rate mortgage notes payable and \$250.0 million notional amount of our interest rate cap agreements extend beyond 2021. In addition, certain of our dealership operating lease agreements contain LIBOR-based rent adjustments if LIBOR rises above a specified minimum LIBOR floor. The FCA Announcement and uncertainties surrounding LIBOR and other financial benchmarks may have the effect of triggering future changes in the rules or methodologies used to calculate benchmarks or lead to the discontinuation or unavailability of benchmarks. Additionally, there can be no assurance that we and other market participants will be adequately prepared for an actual discontinuation of LIBOR or other benchmarks, that existing assets and liabilities based on or linked to discontinued benchmarks will transition successfully to alternative reference rates or benchmarks or of the timing of adoption and degree of integration of such alternative reference rates or benchmarks in the markets. The discontinuation of LIBOR or other benchmarks, may have an unpredictable impact on the contractual mechanics of financial contracts (including, but not limited to, interest rates to be paid to or by us), require renegotiation of outstanding financial assets and liabilities, cause significant disruption to financial markets that are relevant to our business, increase the risk of litigation and/or increase expenses related to the transition to alternative reference rates or benchmarks, among other adverse consequences. Additionally, any transition from current benchmarks may alter the Company’s risk profiles and models, valuation tools, cost of financing and effectiveness of hedging strategies. Reforms to and uncertainty regarding transitions from current benchmarks may adversely affect our business, financial condition and results of operations.

***We may not be able to satisfy our debt obligations upon the occurrence of a change of control.***

Upon the occurrence of a change of control (as defined in the indenture governing the 6.125% Notes), holders of the 6.125% Notes will have the right to require us to purchase all or any part of such holders’ notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any. The events that constitute a change of control under the indenture governing the 6.125% Notes may also constitute a default under the 2016 Credit Facilities and the 2019 Mortgage Facility. The agreements or instruments governing any future debt that we may incur may contain similar provisions regarding repurchases in the event of a change of control triggering event. There can be no assurance that we would have sufficient resources available to satisfy all of our obligations under these debt instruments in the event of a change of control. In the event we were unable to satisfy these obligations, it could have a material adverse impact on our business and our stockholders.

**Risks Related to Our Relationships with Vehicle Manufacturers**

***Our operations may be adversely affected if one or more of our manufacturer franchise or dealer agreements is terminated or not renewed.***

Each of our dealerships operates under a separate franchise or dealer agreement with the applicable automobile manufacturer. Without a franchise or dealer agreement, we cannot obtain new vehicles from a manufacturer or advertise as an authorized factory service center. As a result, we are significantly dependent on our relationships with the manufacturers.

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Moreover, manufacturers exercise a great degree of control over the operations of our dealerships through the franchise and dealer agreements. The franchise and dealer agreements govern, among other things, our ability to purchase vehicles from the manufacturer and to sell vehicles to customers. Each of our franchise or dealer agreements provides for termination or non-renewal for a variety of causes, including certain changes in the financial condition of the dealerships and any unapproved change of ownership or management. Manufacturers may also have a right of first refusal if we seek to sell dealerships.

We cannot guarantee that any of our existing franchise and dealer agreements will be renewed or that the terms and conditions of such renewals will be favorable to us. Actions taken by manufacturers to exploit their superior bargaining position in negotiating the terms of franchise and dealer agreements or renewals of these agreements or otherwise could also have a material adverse effect on our business, results of operations, financial condition and cash flows.

***Our failure to meet a manufacturer's customer satisfaction, financial and sales performance or facility requirements may adversely affect our profitability and our ability to acquire new dealerships.***

A manufacturer may condition its allotment of vehicles, our participation in bonus programs or our acquisition of additional franchises upon our compliance with its brand and facility standards. These standards may require investments in technology and facilities that we otherwise would not make. This may put us in a competitive disadvantage with other competing dealerships and may ultimately result in our decision to sell a franchise when we believe it may be difficult to recover the cost of the required investment to reach the manufacturer's brand and facility standards.

In addition, many manufacturers attempt to measure customers' satisfaction with their sales and warranty service experiences through manufacturer-determined CSI scores. The components of CSI vary by manufacturer and are modified periodically. Franchise and dealer agreements may also impose financial and sales performance standards. Under our agreements with certain manufacturers, a dealership's CSI scores, and financial and sales performance standards may be considered as factors 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 or performance standards in the future. A manufacturer may refuse to consent to our 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 acquisition strategy. In 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.

***If state dealer laws are repealed or weakened, our dealerships will be more susceptible to termination, non-renewal or renegotiation of their franchise and dealer agreements.***

State dealer laws generally provide that a manufacturer may not terminate or refuse to renew a franchise or dealer agreement unless it has first provided the dealer with written notice setting forth good cause and stating the grounds for termination or non-renewal. Some state dealer laws allow dealers to file protests or petitions or to attempt to comply with the manufacturer's criteria within the notice period to avoid the termination or non-renewal. Manufacturers' lobbying efforts may lead to the repeal or revision of state dealer laws. If dealer laws are repealed or weakened in the states in which we operate, manufacturers may be able to terminate our franchises without providing advance notice, an opportunity to cure or a showing of good cause. Without the protection of state dealer laws, it may also be more difficult for our dealerships to renew their franchise or dealer agreements upon expiration.

The ability of a manufacturer to grant additional franchises is based on several factors which are not within our control. If manufacturers grant new franchises in areas near or within our existing markets, this could significantly impact our revenues and/or profitability. In addition, current state dealer laws generally restrict the ability of automobile manufacturers to enter the retail market and sell directly to consumers. However, if manufacturers obtain the ability to directly retail vehicles and do so in our markets, such competition could have a material adverse effect on us.

***Our sales volume and profit margin on each sale may be materially 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 and used vehicles;
- employee pricing;

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- dealer incentives on new vehicles;
- manufacturer floor plan interest and advertising assistance;
- warranties on new and used vehicles; and
- sponsorship of CPO vehicle sales by authorized new vehicle dealers.

Manufacturers frequently offer incentives to potential customers. A reduction or discontinuation of a manufacturer's incentive programs may materially adversely impact vehicle demand and affect our results of operations.

***Our sales volume may be materially adversely affected if manufacturer captives change their customer financing programs or are unable to provide floor plan financing.***

One of the primary finance sources used by consumers in connection with the purchase of a new or used vehicle is the manufacturer captive finance companies. These captive finance companies rely, to a certain extent, on the public debt markets to provide the capital necessary to support their financing programs. In addition, the captive finance companies will occasionally change their loan underwriting criteria to alter the risk profile of their loan portfolio. A limitation or reduction of available consumer financing for these or other reasons could affect consumers' ability to purchase a vehicle and, thus, could have a material adverse effect on our sales volume.

***Our parts and service sales volume and margins are dependent on manufacturer warranty programs.***

Franchised automotive retailers perform factory authorized service work and sell original replacement parts on vehicles covered by warranties issued by the automotive manufacturer. Dealerships which perform work covered by a manufacturer warranty are reimbursed at rates established by the manufacturer. For 2019, approximately 18.5% of our parts, service and collision repair revenues was for work covered by manufacturer warranties and complimentary maintenance programs. To the extent a manufacturer reduces the labor rates or markup of replacement parts for such warranty work, our parts and service sales volume and margins could be adversely affected.

***Adverse conditions affecting one or more key manufacturers or lenders may negatively impact our results of operations.***

Our results of operations depend on the products, services, and financing and incentive programs offered by major automobile manufacturers, and could be negatively impacted by any significant changes to these manufacturers' financial condition, marketing strategy, vehicle design, production capabilities, management, reputation or labor relations or negative publicity concerning a particular manufacturer or vehicle model.

Events such as labor strikes or other disruptions in production, including those caused by natural disasters, that may adversely affect a manufacturer may also adversely affect us. In particular, labor strikes at a manufacturer that continue for a substantial period of time could have a material adverse effect on our business. Similarly, the delivery of vehicles from manufacturers at a time later than scheduled, which may occur during critical periods of new product introductions, could limit sales of those vehicles during those periods. This has been experienced at some of our dealerships from time to time. 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 business and results of operations.

Moreover, our business could be materially adversely impacted by the bankruptcy of a major vehicle manufacturer or related lender. For example:

- a manufacturer in bankruptcy could attempt to terminate all or certain of our franchises, in which case we may not receive adequate compensation for our franchises;
- consumer demand for such manufacturer's products could be substantially reduced;
- a lender in bankruptcy could attempt to terminate our floor plan financing and demand repayment of any amounts outstanding;
- we may be unable to arrange financing for our customers for their vehicle purchases and leases through such lender, in which case we would be required to seek financing with alternate financing sources, which may be difficult to obtain on similar terms, if at all;



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- we may be unable to collect some or all of our significant receivables that are due from such manufacturer or lender, and we may be subject to preference claims relating to payments made by such manufacturer or lender prior to bankruptcy; and
- such manufacturer may be relieved of its indemnification obligations with respect to product liability claims.

Additionally, any such bankruptcy may result in us being required to incur impairment charges with respect to the inventory, fixed assets and intangible assets related to certain dealerships, which could adversely impact our results of operations and financial condition and our ability to remain in compliance with the financial ratios contained in our debt agreements.

***Manufacturer stock ownership restrictions may impair our ability to maintain or renew franchise or dealer agreements or to issue additional equity.***

Some of our franchise and dealer agreements prohibit transfers of any ownership interests of a dealership and, in some cases, its parent, without prior approval of the applicable manufacturer. Our existing franchise and dealer 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. While the holders of our Class B Common Stock currently maintain voting control of Sonic, their future investment decisions as well as those of holders of our Class A Common Stock are generally outside of our control and could result in the termination or non-renewal of existing franchise or dealer agreements or impair our ability to negotiate new franchise or dealer agreements for dealerships we acquire in the future. 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 acquirer from acquiring control of us.

***We depend on manufacturers to supply us with sufficient numbers of popular 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 on a timely basis.

***A decline in the quality of vehicles we sell, or consumers' perception of the quality of those vehicles, may adversely affect our business.***

Our business is highly dependent on consumer demand and preferences. Events such as manufacturer recalls and negative publicity or legal proceedings related to these events may have a negative impact on the products we sell. If such events are significant, the profitability of our dealerships related to those manufacturers could be adversely affected and we could experience a material adverse effect on our overall results of operations, financial position and cash flows.

**Risks Related to Our Growth Strategy**

***Our investment in new business strategies, services and technologies is inherently risky, and could disrupt our ongoing business or have a material adverse effect on our overall business and results of operations.***

We have invested and expect to continue to invest in new business strategies, services and technologies, including our EchoPark stores. Such endeavors may involve significant risks and uncertainties, including allocating management resources away from current operations, insufficient revenues to offset expenses associated with these new investments, inadequate return of capital on our investments and unidentified issues not discovered in our due diligence of such strategies and offerings. Because these ventures are inherently risky, no assurance can be given that such strategies and offerings will be successful and will not have a material adverse effect on our reputation, financial condition and operating results.

***Our ability to make acquisitions, execute our growth strategy for our EchoPark business and grow organically may be restricted by the terms and limits of the 2016 Credit Facilities, the 2019 Mortgage Facility and the indenture which governs the 6.125% Notes.***

The amount of capital available to us is limited to the liquidity available under the 2016 Credit Facilities and the 2019 Mortgage Facility and cash flows generated through operating activities. Pursuant to the 2016 Credit Facilities, we are restricted from making dealership acquisitions in any fiscal year if the aggregate cost of all such acquisitions is in excess of certain amounts, without the written consent of the Required Lenders (as that term is defined in the 2016 Credit Facilities). Our pace

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and scale of growing our EchoPark business may be limited in the event other sources of capital are unavailable. These restrictions may limit our growth strategy.

***We may not be able to capitalize on future real estate and dealership acquisition opportunities because our ability to obtain capital to fund these acquisitions is limited.***

We intend to finance future real estate and dealership 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 covenants under the 2016 Credit Facilities and the 2019 Mortgage Facility that restrict our ability to issue additional indebtedness, or the need for manufacturer consent to the issuance of equity securities. Using cash to complete acquisitions could substantially limit our operating and financial flexibility.

In addition, we are dependent to a significant extent on our ability to finance our new and certain of our used vehicle inventory under the 2016 Floor Plan Facilities or the Silo Floor Plan Facilities (collectively, "Floor Plan Financing"). Floor Plan Financing arrangements allow us to borrow money to buy a particular new vehicle from the manufacturer or a used vehicle on trade-in or at auction and pay off the loan when we sell that particular vehicle. We must obtain Floor Plan Financing or obtain consents to assume existing floor plan notes payable in connection with our acquisition of dealerships. In the event that we are unable to obtain such financing, our ability to complete dealership acquisitions could be limited.

Substantially all of the assets of our dealerships are pledged to secure the indebtedness under the 2016 Credit Facilities and the Silo Floor Plan Facilities. These pledges may impede our ability to borrow from other sources. Moreover, because certain lending institutions are either owned by or affiliated with an automobile manufacturer, any deterioration of our relationship with the particular manufacturer-affiliated finance subsidiary could adversely affect our relationship with the affiliated manufacturer, and vice versa.

***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 franchise of that manufacturer. In determining whether to approve an acquisition, manufacturers may consider many factors, such as our financial condition and CSI scores.

Certain manufacturers also limit the number of its dealerships that we may own in total, the number of dealerships we may own in a particular geographic area, or our national market share of that manufacturer's sales of new vehicles. In addition, under an applicable franchise or dealer 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 or dealer agreement. We cannot assure you that manufacturers will approve future acquisitions or do so on a timely basis, which could impair the execution of 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 acquired dealerships 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 or brand development that either expand or complement our business.

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;
- the challenges of keeping customers; and

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- the challenge of retaining or attracting appropriate dealership management personnel.

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 or brand development will impose.***

We face risks growing through acquisitions or expansion. 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;
- incurring potential undiscovered liabilities and operational difficulties at acquired dealerships;
- disrupting our ongoing business;
- diverting our management resources;
- failing to maintain uniform standards, controls and policies;
- impairing relationships with employees, manufacturers and customers as a result of changes in management;
- incurring increased expenses for accounting and computer systems, as well as integration difficulties;
- failing to obtain a manufacturer's consent to the acquisition of one or more of its franchises or to renew the franchise or dealer agreement on terms acceptable to us; and
- incorrectly valuing entities to be acquired or assessing markets entered.

We may not adequately anticipate all of the demands that growth will impose on our business.

***We may not be able to execute our growth strategy without the costs escalating.***

We have grown our franchised dealerships business primarily through acquisitions in the past. 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 or growth opportunities will depend upon various factors, including:

- the availability of suitable acquisition candidates;
- competition with other dealer groups or institutional investors for suitable acquisitions;
- the negotiation of acceptable terms with the seller and with the manufacturer;
- our financial capabilities and ability to obtain financing on acceptable terms;
- our stock price; and
- 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 due diligence 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 some of our largest acquisitions, do not have financial statements audited or prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). 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.

**SONIC AUTOMOTIVE, INC.**  
**RISK FACTORS**

**Risks Related to the Retail Automotive Industry**

*Our facilities and operations are subject to extensive governmental laws and regulations. If we are found to be in violation of, or subject to liabilities under, any of these laws or regulations or if new laws or regulations are enacted that adversely affect our operations, then our business, operating results, financial condition, cash flows and prospects could suffer.*

The retail automotive industry, including our facilities and operations, is subject to a wide range of federal, state and local laws and regulations, such as those relating to motor vehicle sales, retail installment sales, leasing, sales of finance, insurance and vehicle protection products, licensing, consumer protection, consumer privacy, employment practices, escheatment, anti-money laundering, environmental, vehicle emissions and fuel economy, and health and safety. With respect to motor vehicle sales, retail installment sales, leasing, and sales of finance, insurance and vehicle protection products at our dealerships and stores, we are subject to various laws and regulations, the violation of which could subject us to consumer class action or other lawsuits or governmental investigations and adverse publicity, in addition to administrative, civil or criminal sanctions. With respect to employment practices, we are subject to various laws and regulations, including complex federal, state, and local wage and hour and anti-discrimination laws. We are also subject to lawsuits and governmental investigations alleging violations of these laws and regulations, including purported class action lawsuits, which could result in significant liability, fines and penalties. The violation of other laws and regulations to which we are subject also can result in administrative, civil or criminal sanctions against us, which may include a cease and desist order against the subject operations or even revocation or suspension of our license to operate the subject business, as well as significant liability, fines and penalties. We currently devote significant resources to comply with applicable federal, state and local regulation of health, safety, environmental, zoning and land use regulations, and we may need to spend additional time, effort and money to keep our operations and existing or acquired facilities in compliance. In addition, we may be subject to broad liabilities arising out of contamination at our currently and formerly owned or operated facilities, at locations to which hazardous substances were transported from such facilities, and at such locations related to entities formerly affiliated with us. Although for some such liabilities we believe we are entitled to indemnification from other entities, we cannot assure you that such entities will view their obligations as we do or will be able to satisfy them. Failure to comply with applicable laws and regulations may have an adverse effect on our business, operating results, financial condition, cash flows and prospects.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which was signed into law on July 21, 2010, established the Consumer Financial Protection Bureau (the “CFPB”), a new independent federal agency funded by the U.S. Federal Reserve with broad regulatory powers and limited oversight from the U.S. Congress. Although automotive dealers are generally excluded, the Dodd-Frank Act has led to additional, indirect regulation of automotive dealers, in particular, their sale and marketing of finance and insurance products, through its regulation of automotive finance companies and other financial institutions. In March 2013, the CFPB issued supervisory guidance highlighting its concern that the practice of automotive dealers being compensated for arranging customer financing through discretionary markup of wholesale rates offered by financial institutions (“dealer markup”) results in a significant risk of pricing disparity in violation of the Equal Credit Opportunity Act (the “ECOA”). The CFPB recommended that financial institutions under its jurisdiction take steps to ensure compliance with the ECOA, which may include imposing controls on dealer markup, monitoring and addressing the effects of dealer markup policies and eliminating dealer discretion to markup buy rates and fairly compensating dealers using a different mechanism that does not result in disparate impact to certain groups of consumers.

Furthermore, we expect that new laws and regulations, particularly at the federal level, may be enacted, which could also materially adversely impact our business. For example, the labor policy of the prior administration led to increased unionization efforts for U.S. companies, which could lead to higher labor costs for the Company, disrupt our store operations and adversely affect our results of operations.

*Climate change legislation or regulations restricting emission of greenhouse gases could result in increased operating costs and reduced demand for the vehicles we sell.*

The U.S. Environmental Protection Agency has adopted rules under existing provisions of the federal Clean Air Act that require (1) a reduction in emissions of greenhouse gases from motor vehicles; (2) certain construction and operating permit reviews for greenhouse gas emissions from certain large stationary sources and (3) monitoring and reporting of greenhouse gas emissions from specified sources on an annual basis. The adoption of any laws or regulations requiring significant increases in fuel economy requirements or new federal or state restrictions on emissions of greenhouse gases from our operations or on vehicles and automotive fuels in the United States could adversely affect demand for those vehicles and require us to incur costs to reduce emissions of greenhouse gases associated with our operations.

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**RISK FACTORS**

***Increasing competition among automotive retailers and the use of the internet reduces our profit margins on vehicle sales and related businesses.***

Automotive 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 and models 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. We typically rely on advertising, merchandising, sales expertise, customer service reputation and dealership location to sell new vehicles. Our revenues and profitability could be materially adversely affected if certain state dealer franchise laws are relaxed to permit manufacturers to enter the retail market directly.

Our F&I business and other related businesses, which have higher margins than sales of new and used vehicles, are subject to competition from various financial institutions and other third parties.

Moreover, customers are using the internet to compare pricing for vehicles and related F&I services, which may further reduce margins for new and used vehicles and profits for related F&I services. If internet-based new vehicle sales are allowed to be conducted without the involvement of franchised dealers, our business could be materially adversely affected. In addition, other dealership groups have aligned themselves with services offered on the internet or are investing heavily in the development of their own internet sales capabilities, which could materially adversely affect our business, financial condition and the results of operations.

Our franchise and dealer 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.

We may face increasingly significant competition as we strive to gain market share through acquisitions or otherwise. Our operating margins may decline over time as we expand into markets where we do not have a leading position.

***The effect of companies entering into the automotive space may affect our ability to grow or maintain the business over the long term.***

Large and well-capitalized technology-focused companies have continued to enter into the automotive space in recent years. Companies including, but not limited to, Amazon, Apple, Google, Lyft, Tesla and Uber may challenge the existing automotive manufacturing, retail sales, maintenance and repair, and transportation models. For example, Tesla has been challenging state dealer franchise laws in many states with mixed results, but its business model and vehicles have been accepted by many consumers, even in states where dealer franchise laws appear to preclude Tesla vehicle sales. Although Tesla's participation in the competitive landscape has had minimal impact on the overall retail automotive space thus far, these other large technology-based companies may continue to change consumers' view on how automobiles should be manufactured, equipped, retailed, maintained and utilized in the future. Because these companies have the ability to connect with each individual consumer easily through their existing or future technology platforms, we may ultimately be at a competitive disadvantage in marketing, selling, financing and servicing vehicles. In addition, certain automobile manufacturers have expressed interest in or begun selling directly to customers. The franchised dealer's participation in that potential future transaction type is unclear and our operations and financial results may be negatively impacted if the role of franchised dealers diminishes.

***Our dealers depend upon new vehicle sales and, therefore, their success depends in large part upon customer demand for the particular vehicles they carry.***

The success of our dealerships depends in large part on the overall success of the vehicle lines they carry. New vehicle sales generate the majority of our total revenue and lead to sales of higher-margin products and services such as finance, insurance, vehicle protection products and other aftermarket products, and parts and service operations. Our new vehicle sales operations are comprised primarily of luxury and mid-line import brands, which exposes us to manufacturer concentration risks. Although our parts and service operations and used vehicle business may serve to offset some of this risk, changes in automobile manufacturers' vehicle models and customer demand for particular vehicles may have a material adverse effect on our business.

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***Our business is dependent upon access to quality sources of used vehicle inventory. Our business sales and results of operations could be materially adversely affected by obstacles that prevent the efficient acquisition and liquidation of used vehicle inventory.***

A reduction in the availability of, or access to, sources of desirable used vehicle inventory could have a material adverse effect on our business, sales and results of operations at both our franchised dealerships and EchoPark locations. Although the supply of desirable, high-quality used vehicle inventory has not historically been a material issue, there can be no assurance that this trend will continue in the markets which we operate, particularly those of our EchoPark locations which rely heavily upon access and availability to high-quality used vehicle inventory.

We obtain a significant percentage of our used vehicle inventory through our proprietary appraisal system as this sourcing outlet is generally more profitable and more convenient for our customers and potential customers. Accordingly, if we fail to make appraisal offers in line with broader market trade-in offer trends, or fail to recognize those trends, it could adversely affect our ability to acquire used vehicle inventory and increase the risk of loss of customer to our competitors. Our ability to source used vehicle inventory through our proprietary appraisal system could also be affected by competition and through third parties driving appraisal traffic to those competing dealers. Loss of sale, involving trades and insufficient levels of inventory could also force us to purchase a greater percentage of used vehicle inventory from third-party auctions, which is generally less profitable due to high bidding costs and additional costs associated with transporting the acquired used vehicles to our store locations. Our inability to source high-quality used vehicle inventory from third-party auctions could reduce the demand for our used vehicle inventory offerings. See “Item 1A. Risk Factors - *Increasing competition among automotive retailers and the use of the internet reduces our profit margins on vehicle sales and related businesses*” for further discussion.

Used vehicle inventory is subject to depreciation risk. Accordingly, if we develop excess inventory, the inability to liquidate such inventory at prices that allow us to meet desirable profit margins or to recover our costs could have a material adverse effect on our results of operations.

***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. Retail new vehicle sales are cyclical and historically have experienced periodic downturns characterized by oversupply and weak demand. These cycles are often correlated with changes in overall economic conditions, consumer confidence, the level of discretionary personal income and credit availability. Deterioration in any of these conditions may have a material adverse effect on our retail business, particularly sales of new and used automobiles.

In addition, severe or sustained changes in gasoline prices may lead to a shift in consumer buying patterns. Availability of preferred models may not exist in sufficient quantities to satisfy consumer demand and allow our stores to meet sales expectations.

***A decline of available financing in the lending market may adversely affect our vehicle unit sales volume.***

A significant portion of vehicle buyers 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. In the event lenders tighten their credit standards or there is a decline in the availability of credit in the lending market, the ability of these consumers to purchase vehicles could be limited, which could have a material adverse effect on our business, revenues and profitability.

***Our business may be adversely affected by import product restrictions and foreign trade risks that may impair our ability to sell foreign vehicles profitably.***

A significant portion of our new vehicle business involves the sale of vehicles, parts or vehicles composed of parts that are manufactured outside the United States. As a result, our operations are subject to risks of importing merchandise, including fluctuations in the relative values of currencies, import duties or tariffs, exchange controls, trade restrictions, work stoppages, and general political and socioeconomic conditions in other countries. The United States or the countries from which our products are imported may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariffs, which may affect our operations and our ability to purchase imported vehicles and/or parts at reasonable prices, which may negatively affect affordability to consumers of certain new vehicles and reduce demand for certain vehicle makes and models.

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***Natural disasters, adverse weather and other events can disrupt our business.***

Our dealerships are concentrated in certain states, including California, Colorado, Florida and Texas, in which actual or threatened natural disasters and severe weather events (such as earthquakes, wildfires, landslides, hail storms, floods and hurricanes) may disrupt our store operations, which may adversely impact our business, financial condition, results of operations and cash flows. In addition to business interruption, the automotive retailing business is subject to substantial risk of property loss due to the significant concentration of property values at store locations. Although we have substantial insurance, subject to certain deductibles, limitations and exclusions, we may be exposed to uninsured or under insured losses that could have a material adverse effect on our business, financial condition, results of operations or cash flows.

In addition, the automotive manufacturing supply chain spans the globe. As such, supply chain disruptions resulting from natural disasters, adverse weather and other events may affect the flow of inventory or parts to us or our manufacturing partners. For example, in early 2020, the outbreak of a novel coronavirus in Wuhan, China led to quarantines of a significant number of Chinese cities and widespread disruptions to travel and economic activity in the region. At this time, it is unclear what effect, if any, the outbreak and resulting disruptions may have on the automotive manufacturing supply chain. Such disruptions could have a material adverse effect on our business, financial condition, results of operations or cash flows.

***Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.***

We have invested in internal and external business applications to execute our strategy of employing technology to benefit our business. In the ordinary course of business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our customers and employees. Although we have attempted to mitigate the cyber-security risk of both our internal and outsourced functions by implementing various cyber-security controls, we remain subject to cyber-security risks.

These cyber-security risks include:

- vulnerability to cyber-attack of our internal or externally hosted business applications;
- interruption of service or access to systems may affect our ability to deliver vehicles or complete transactions with customers;
- unauthorized access or theft of customer or employee personal confidential information, including financial information, or strategically sensitive data;
- disruption of communications (both internally and externally) that may affect the quality of information used to make informed business decisions; and
- damage to our reputation as a result of a breach in security that could affect the financial security of our customers.

Moreover, significant technology-related business functions of ours are outsourced, including:

- payroll and human resources management systems, including expense reimbursement management;
- customer relationship management, e-commerce hosting and marketing campaign management;
- dealer management, inventory management and financial reporting systems;
- consumer credit application management, fund transfers/ACH/online banking; and
- IP telephony and WAN/LAN administration (switch & router configuration).

Despite our considerable investment in security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breaches due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties or damage to our reputation, and cause a loss of confidence in our services, which could materially adversely affect our competitive position, results of operations and financial condition.

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**General Risks Related to Investing in Our Securities**

***Concentration of voting power and anti-takeover provisions of our charter, our bylaws, Delaware law and our franchise and dealer agreements may reduce the likelihood of a potential change of control from a third party. At the same time, such voting power concentration also could increase the likelihood of a change of control notwithstanding other factors.***

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 or approved by our Board of Directors or a Class B common stockholder or otherwise benefiting the Class B common stockholders constituting a:

- “going private” transaction;
- disposition of all or 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 our common stock would own less than 50% of the common stock following such transaction.

The holders of Class B Common Stock (which include Mr. O. Bruton Smith, Sonic’s Executive Chairman and a director, and an entity Mr. Smith and his family members control) currently hold less than a majority of our outstanding common stock, but a majority of our voting power. As a result, the holders of Class B Common Stock may be able to control fundamental corporate matters and transactions, subject to the above limitations. The concentration of voting power may also discourage, delay or prevent a change of control of us from a third party even if the action was favored by holders of Class A Common Stock. In addition, a sale or transfer of shares by one or more of the holders of Class B Common Stock could result in a change of control or put downward pressure on the market price of our Class A Common Stock. The perception among the public that these sales or transfers will occur could also contribute to a decline in the market price of our Class A Common Stock.

Our charter and bylaws make it more difficult for our stockholders to take corporate actions at stockholders’ meetings. In addition, stock options, restricted stock and restricted stock units granted under the Sonic Automotive, Inc. 2012 Stock Incentive Plan or the Sonic Automotive, Inc. 2012 Formula Restricted Stock and Deferral Plan for Non-Employee Directors and other obligations become immediately exercisable or automatically vest upon 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 franchise and dealer agreements may impede or prevent any potential takeover bid. Our franchise and dealer agreements allow the manufacturers the right to terminate the agreements upon a change of control of the Company and impose restrictions upon the transferability of any significant percentage of our stock to any one person or entity that 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, there may be provisions of our lending arrangements that create an event of default upon a change in control. These agreements, corporate governance documents and laws may have the effect of discouraging, 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 a material adverse effect on our business, financial condition, results of operations, cash flows or prospects.***

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



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***Our business may be adversely affected by claims alleging violations of laws and regulations in our advertising, sales and finance and insurance activities.***

Our business is highly regulated. In the past several years, private plaintiffs and state attorneys general have increased their scrutiny of advertising, sales and finance and insurance activities in the sale and leasing of motor vehicles. The conduct of our business is subject to numerous federal, state and local laws and regulations regarding unfair, deceptive and/or fraudulent trade practices (including advertising, marketing, sales, insurance, repair and promotion practices), truth-in-lending, consumer leasing, fair credit practices, equal credit opportunity, privacy, insurance, motor vehicle finance, installment finance, closed-end credit, usury and other installment sales. Claims arising out of actual or alleged violations of law may be asserted against us or any of our dealers by individuals, either individually or through class actions, or by governmental entities in civil or criminal investigations and proceedings. Such actions may expose us to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil fines and penalties, including suspension or revocation of our licenses and franchise or dealer agreements to conduct dealership operations.

***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, weather and other conditions prevailing in geographic areas where we operate. 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. In addition, due to the provisions and terms contained in our franchise or dealer agreements or operating lease agreements, we may not be able to relocate a dealership operation to a more favorable location without incurring significant costs or penalties, if permitted at all.

***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, franchise or dealer agreements may require the prior approval of the applicable manufacturer before any change is made in dealership general managers. We do not have employment agreements with most members of our senior management team, our dealership general 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 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.

***Potential conflicts of interest between us and our officers or directors could adversely affect our future performance.***

Mr. O. Bruton Smith serves as the Executive Chairman of Speedway Motorsports and is also a director of most of Speedway Motorsports' operating subsidiaries. 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 and his family 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 verified by third parties 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.

***We may be subject to substantial withdrawal liability assessments in the future related to a multiemployer pension plan to which certain of our dealerships make contributions pursuant to collective bargaining agreements.***

Five of our dealership subsidiaries in northern California currently make fixed-dollar contributions to the Automotive Industries Pension Plan (the "AI Pension Plan") pursuant to collective bargaining agreements between our subsidiaries and the International Association of Machinists (the "IAM") and the International Brotherhood of Teamsters (the "IBT"). The AI Pension Plan is a "multiemployer plan" as defined under the Employee Retirement Income Security Act of 1974, as amended,

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and our five dealership subsidiaries are among approximately 188 employers that are obligated to make contributions to the AI Pension Plan pursuant to collective bargaining agreements with the IAM, the IBT and other unions. In March 2008, the Board of Trustees of the AI Pension Plan notified participants, participating employers and local unions that the AI Pension Plan's actuary, in accordance with the requirements of the federal Pension Protection Act of 2006, issued a certification that the AI Pension Plan was in critical status effective with the plan year commencing January 1, 2008. In conjunction with the AI Pension Plan's critical status, the Board of Trustees of the AI Pension Plan implemented a requirement on all participating employers to increase employer contributions to the AI Pension Plan for a seven-year period which commenced in 2013. As of April 2015, the AI Pension Plan's actuary certified that the AI Pension Plan remained in critical status for the plan year commencing January 1, 2015. According to publicly available information, in September 2016, the AI Pension Plan made a formal application for approval of suspension of benefits with the U.S. Treasury Department, which, if approved by the U.S. Treasury Department, would have implemented a benefit reduction effective July 1, 2017 for participants in the AI Pension Plan. The filing included an Actuarial Certification of Plan Status as of January 1, 2016 that the AI Pension Plan previously filed with the U.S. Internal Revenue Service on March 30, 2016, which reported that the AI Pension Plan was in critical and declining status as of January 1, 2016 and further notified that the AI Pension Plan is making the scheduled progress in meeting the requirements of the plan's previously adopted rehabilitation plan. The September 2016 filing with the U.S. Treasury Department also included an Actuarial Certification of Plan Solvency as of July 1, 2016 with the actuarial firm's projection that the proposed suspensions of benefits are reasonably estimated to enable the AI Pension Plan to avoid insolvency assuming the proposed suspensions of benefits continue indefinitely. In May 2017, the U.S. Treasury Department denied the application to suspend benefits but noted that it remains willing to discuss the issues presented in the September 2016 formal application for suspension of benefits. As of April 2019, the AI Pension Plan's actuary certified that the AI Pension Plan remained in critical status for the plan year commencing January 1, 2019 and is projected to become insolvent in 2031. Under applicable federal law, any employer contributing to a multiemployer pension plan that completely ceases participating in the plan while the plan is underfunded is subject to payment of such employer's assessed share of the aggregate unfunded vested benefits of the plan. In certain circumstances, an employer can be assessed withdrawal liability for a partial withdrawal from a multiemployer pension plan. If any of these adverse events were to occur in the future, it could result in a substantial withdrawal liability assessment that could have a material adverse effect on our business, financial condition, results of operations or cash flows.

***Tax positions may exist related to our tax filings that could be challenged by governmental agencies and result in higher income tax expenses and affect our overall liquidity if we are unable to successfully defend these tax positions.***

We are subject to audits by federal and state governmental income tax agencies on a continual basis. During the course of those audits, the agencies may disagree with or challenge tax positions taken on tax returns filed for Sonic and its subsidiaries. As a result of these audits, the agencies may issue assessments and penalties based on their understanding of the underlying facts and circumstances. In the event we are not able to arrive at an agreeable resolution, we may be forced to litigate these matters. If we are unsuccessful in litigation, our results of operations and financial position may be negatively impacted.

***A change in historical experiences and/or assumptions used to estimate reserves could have a material impact on our earnings.***

As described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Use of Estimates and Critical Accounting Policies," management relies on estimates in various areas of accounting and financial reporting. For example, our estimates for F&I chargeback reserves and insurance reserves are based on historical experience and assumptions. Differences between actual results and our historical experiences and/or our assumptions could have a material impact on our earnings in the period of the change and in periods subsequent to the change.

***Our internal control over financial reporting may not be effective.***

If we fail to maintain the adequacy of our internal controls, including any failure to implement or difficulty in implementing required new or improved controls, our business and results of operations could be harmed, the results of operations we report could be subject to adjustments, we could incur remediation costs, we could fail to be able to provide reasonable assurance as to our financial results or the effectiveness of our internal controls, or we could fail to meet our reporting obligations under SEC regulations and the terms of our debt agreements on a timely basis and there could be a material adverse effect on the price of our Class A Common Stock.

***Impairment of our goodwill could have a material adverse impact on our earnings.***

Pursuant to applicable accounting pronouncements, we evaluate goodwill for impairment annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its

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carrying amount. We describe the process for testing goodwill more thoroughly in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Use of Estimates and Critical Accounting Policies.” If we determine that the amount of our goodwill is impaired at any point in time, we are required to reduce goodwill on our balance sheet. If goodwill is impaired based on a future impairment test, we will be required to record a significant non-cash impairment charge that may also have a material adverse effect on our results of operations for the period in which the impairment of goodwill occurs. As of December 31, 2019, our balance sheet reflected a carrying amount of approximately \$475.8 million in goodwill.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

Our principal executive offices are located at a property owned by us at 4401 Colwick Road, Charlotte, North Carolina 28211, and our telephone number at that location is (704) 566-2400.

Our dealerships are generally located along major U.S. or interstate highways. One of the principal factors we consider in evaluating a potential acquisition is its location. We prefer to acquire dealerships or build dealership facilities located along major thoroughfares, which can be easily visited by prospective customers.

We lease a significant number of the properties utilized by our dealership operations from affiliates of Capital Automotive Real Estate Services, Inc. and other individuals and entities. Under the terms of our franchise and dealer agreements, each of our dealerships must maintain an appropriate appearance and design of its dealership facility and is restricted in its ability to relocate. The properties utilized by our dealership operations that are owned by us or one of our subsidiaries are pledged as security for the 2016 Credit Facilities and the 2019 Mortgage Facility or other mortgage financing arrangements. We believe that our facilities are adequate for our current needs.

**Item 3. Legal Proceedings.**

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

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

**Item 4. Mine Safety Disclosures.**

Not applicable.

PART II

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our Class A Common Stock is currently traded on the NYSE under the symbol "SAH." Our Class B Common Stock is not traded on a public market.

As of February 12, 2020, there were 30,532,640 shares of our Class A Common Stock and 12,029,375 shares of our Class B Common Stock outstanding. As of February 12, 2020, there were 1,090 record holders of the Class A Common Stock and four record holders of the Class B Common Stock. The closing stock price for the Class A Common Stock on February 12, 2020 was \$32.09.

Our Board of Directors approved four quarterly cash dividends on all outstanding shares of common stock totaling \$0.40 per share, \$0.24 per share and \$0.20 per share during the years ended December 31, 2019, 2018 and 2017, respectively. Subsequent to December 31, 2019, our Board of Directors approved a cash dividend on all outstanding shares of common stock of \$0.10 per share for stockholders of record on March 13, 2020 to be paid on April 15, 2020. The declaration and payment of any future dividend is subject to the business judgment of our Board of Directors, taking into consideration our historic and projected results of operations, financial condition, cash flows, capital requirements, covenant compliance, share repurchases, current economic environment and other factors considered by our Board of Directors to be relevant. These factors are considered each quarter and will be scrutinized as our Board of Directors determines our future dividend policy. There is no guarantee that additional dividends will be declared and paid at any time in the future. See Note 6, "Long-Term Debt," to the accompanying consolidated financial statements and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for additional discussion of dividends and for a description of restrictions on the payment of dividends.

**Item 6. Selected Financial Data.**

This selected consolidated financial data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the related notes thereto included elsewhere in this Annual Report on 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 consolidated financial statements the results of operations of these dealerships prior to the date we acquired them. Our selected consolidated financial data reflects the results of operations and financial position of each of our dealerships acquired prior to December 31, 2019. As a result of the effects of any acquisitions and other potential factors in the future, the historical consolidated financial information described in the selected consolidated financial data is not necessarily indicative of the results of our operations and financial position in the future or the results of our 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,				
	2019	2018	2017	2016	2015
(In millions, except per share data)					
<b>Income Statement Data (1):</b>					
Total revenues	\$ 10,454.3	\$ 9,951.6	\$ 9,867.2	\$ 9,731.8	\$ 9,624.3
Impairment charges	\$ 20.8	\$ 29.5	\$ 9.4	\$ 8.1	\$ 18.0
Income (loss) from continuing operations before taxes	\$ 199.6	\$ 75.3	\$ 108.1	\$ 155.2	\$ 145.2
Income (loss) from continuing operations	\$ 144.5	\$ 52.4	\$ 94.2	\$ 94.5	\$ 88.1
Basic earnings (loss) per share from continuing operations	\$ 3.36	\$ 1.23	\$ 2.14	\$ 2.07	\$ 1.74
Diluted earnings (loss) per share from continuing operations	\$ 3.31	\$ 1.22	\$ 2.12	\$ 2.06	\$ 1.73
<b>Balance Sheet Data (1)(2):</b>					
Total assets	\$ 4,071.0	\$ 3,796.8	\$ 3,818.5	\$ 3,639.3	\$ 3,562.4
Current maturities of long-term debt	\$ 69.9	\$ 26.3	\$ 61.3	\$ 43.0	\$ 33.4
Total long-term debt (including current maturities of long-term debt)	\$ 706.9	\$ 945.1	\$ 1,024.7	\$ 882.7	\$ 814.6
Total long-term liabilities (including current maturities of long-term debt)	\$ 1,130.0	\$ 1,054.1	\$ 1,138.2	\$ 1,020.3	\$ 952.1
Cash dividends declared per common share	\$ 0.40	\$ 0.24	\$ 0.20	\$ 0.20	\$ 0.11

(1) As discussed in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources” and Note 2, “Business Acquisitions and Dispositions,” Note 4, “Property and Equipment,” Note 5, “Intangible Assets and Goodwill,” and Note 6, “Long-Term Debt,” to the accompanying consolidated financial statements, impairment charges, gains and losses from business combinations and dispositions, debt refinancing charges and certain other charges have had a material impact on our reported historical consolidated financial information.

(2) As discussed in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Recent Accounting Pronouncements” and Note 16, “Leases” to the accompanying consolidated financial statements, the adoption of Accounting Standard Codification, Topic 842, “Leases” as of January 1, 2019 had a material effect on our consolidated balance sheet.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements and related notes thereto and "Item 1A. Risk Factors" included in this Annual Report on Form 10-K. The financial and statistical data contained in the following discussion for all periods presented reflects our December 31, 2019 classification of dealerships between continuing and discontinued operations in accordance with "Presentation of Financial Statements" in the Accounting Standards Codification (the "ASC"). For comparison and discussion of our results of operations for the year ended December 31, 2018 ("2018") compared to our results of operations for the year ended December 31, 2017 ("2017"), please refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for 2018.

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

Unless otherwise noted, all discussion of increases or decreases are for the year ended December 31, 2019 ("2019") compared to 2018. The following discussion of new vehicles, used vehicles, wholesale vehicles, parts, service and collision repair, finance, insurance and other, net are on a same store basis, except where otherwise noted. All currently operating stores (both our franchised dealerships and EchoPark stores) are included within the same store group as of the first full month following the first anniversary of the store's opening or acquisition. During 2019, we opened one new EchoPark store, which is included in reported amounts for 2019, but is excluded from same store reporting for all periods. During 2018, we opened one new manufacturer-awarded open point franchised dealership, which is included in reported amounts for 2019 and 2018, but is excluded from same store reporting for all periods. In addition, during 2018, we opened three new EchoPark stores, which are included in reported amounts for all periods and two of which are included in same store reporting for 2019 compared to 2018.

We disposed of one luxury franchised dealership and nine mid-line import franchised dealerships in 2019, and had no franchises held for sale as of December 31, 2019. We disposed of two luxury franchised dealerships and five mid-line import franchised dealerships, terminated one luxury franchised dealership and closed three EchoPark stores and one previously acquired pre-owned vehicle store in 2018. The results of operations of these disposed dealership franchises and closed stores are included in reported amounts below and in continuing operations on the accompanying consolidated statements of income for all periods presented. Dispositions that occurred subsequent to March 31, 2014 have not been reclassified to discontinued operations since they did not meet the criteria for reclassification under U.S. GAAP. See Note 2, "Business Acquisitions and Dispositions," to the accompanying consolidated financial statements for tabular disclosure of the effects of disposed dealership franchises that remain in continuing operations.

#### Overview

We are one of the largest automotive retailers in the United States (as measured by total revenue). As a result of the way we manage our business, we had two reportable segments as of December 31, 2019: (1) the Franchised Dealerships Segment and (2) the EchoPark Segment. For management and operational reporting purposes, we group certain businesses together that share management and inventory (principally used vehicles) into "stores." As of December 31, 2019, we operated 86 stores in the Franchised Dealerships Segment and nine stores in the EchoPark Segment. The Franchised Dealerships Segment consists of 99 new vehicle franchises (representing 21 different brands of cars and light trucks) and 15 collision repair centers in 12 states.

The Franchised Dealerships Segment provides comprehensive services, including (1) sales of both new and used cars and light trucks; (2) sales of replacement parts and performance of vehicle maintenance, manufacturer warranty repairs, and paint and collision repair services (collectively, "Fixed Operations"); and (3) arrangement of extended warranties, service contracts, financing, insurance and other aftermarket products (collectively, "finance and insurance" or "F&I") for our customers. The EchoPark Segment sells used cars and light trucks and arranges F&I product sales for our customers in pre-owned vehicle specialty retail locations. Our EchoPark business operates independently from our franchised dealerships business. Sales operations in our first EchoPark market in Denver, Colorado began in the fourth quarter of 2014. As of December 31, 2019, we had three EchoPark stores in operation in Colorado, four in Texas, one in North Carolina and one in California. By the end of 2020, we expect to open three additional EchoPark stores. We believe that the continued expansion of our EchoPark business will provide long-term benefits to the Company, our stockholders and our guests.

#### Executive Summary

The U.S. retail automotive industry's total new vehicle unit sales volume was approximately 17.0 million vehicles and 17.2 million vehicles in 2019 and 2018, respectively, according to the Power Information Network ("PIN") from J.D. Power.



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For 2020, analysts' industry expectation for the new vehicle seasonally adjusted annual rate of sales ("SAAR") range from 16.0 million to 17.0 million vehicles, a decrease of 4.8% or flat, respectively, compared to the industry volume level in 2019. We estimate the 2020 new vehicle SAAR will be between 16.5 million and 17.0 million vehicles. Changes in consumer confidence, replacement demand as a result of natural disasters, availability of consumer financing, manufacturer inventory production levels or incentive levels from automotive manufacturers could cause actual the 2020 new vehicle SAAR to vary from expectations. Many factors, including brand and geographic concentrations as well as the industry sales mix between retail and fleet new vehicle unit sales volume, have caused our past results to differ from the industry's overall trend. Our current operational goal focuses on growing our retail new vehicle sales, as opposed to fleet new vehicle sales, and, as a result, we believe it is appropriate to compare our retail new vehicle unit sales volume to the retail new vehicle SAAR (which excludes fleet new vehicle sales). According to PIN from J.D. Power, industry retail new vehicle unit sales volume decreased 3.6%, to 13.5 million vehicles, in 2019, from 14.0 million vehicles in 2018.

On September 16, 2019, the United Auto Workers union began a strike at General Motors' manufacturing facilities. The strike ended on October 25, 2019 and had minimal impact on our operations. The strike did not limit the rate of new vehicle sales and Fixed Operations revenues at our General Motors franchises. As of December 31, 2019, we operated nine General Motors franchises.

As a result of the disposition, termination or closure of several franchised dealership stores since December 31, 2018, the change in consolidated reported amounts from period to period may not be indicative of the future operational or financial performance of our current group of operating stores. Unless otherwise noted, all discussion of increases or decreases are for 2019 compared to 2018. The following discussion of new vehicles, used vehicles, wholesale vehicles, parts, service and collision repair, and finance, insurance and other, net is on a same store basis, except where otherwise noted. All currently operating stores (both our franchised dealerships and EchoPark stores) are included within the same store group as of the first full month following the first anniversary of the store's opening or acquisition.

***Franchised Dealerships Segment***

New vehicle revenue increased 4.2% in 2019, due to higher average selling prices and a 0.6% increase in new vehicle unit sales volume. New vehicle gross profit increased 1.0% in 2019 due to the 0.6% increase in new vehicle unit sales volume and an increase in new vehicle gross profit per unit, which increased \$8 per unit, or 0.4%, to \$2,083 per unit. While the availability of vehicle pricing information to consumers, increased competition for sales between similar branded dealerships and higher overall inventory levels have resulted in downward pressure on new vehicle pricing, we believe that new vehicle gross profit per unit has stabilized.

Retail used vehicle revenue increased 8.8% in 2019, driven by a 7.7% increase in retail used vehicle unit sales volume. Retail used vehicle gross profit increased 5.8% in 2019, despite a decrease in retail used vehicle gross profit per unit of \$23 per unit, or 1.8%, to \$1,272 per unit. Our wholesale vehicle gross loss decreased approximately \$6.8 million, or 66.0%, during 2019, primarily driven by reaffirming our policy of wholesaling aged or undesirable units at auction in a timelier manner, thereby reducing the risk of wholesale vehicle gross loss and improving inventory levels and quality. We generally focus on maintaining used vehicle inventory days' supply in the 30- to 35-day range, which may fluctuate seasonally, in order to limit our exposure to market pricing volatility. Our reported franchised dealerships used vehicle inventory days' supply was approximately 28 and 30 days as of December 31, 2019 and 2018, respectively.

Fixed Operations revenue increased 5.0% and Fixed Operations gross profit increased 6.0%. Fixed Operations gross margin increased 50 basis points, to 48.9%, in 2019, driven primarily by higher levels of customer pay revenue and an increase in customer pay gross margin.

F&I revenue increased 10.3% in 2019, driven by an increase in F&I gross profit per retail unit. F&I gross profit per retail unit increased \$96 per unit, or 6.5%, to \$1,583 per unit, in 2019. We believe that our proprietary software applications, playbook processes and customer-centric selling approach enable us to optimize F&I gross profit and penetration rates (the number of F&I products sold per vehicle) across our F&I product lines. We believe that we will continue to increase revenue in this area as we refine our processes, train our associates and continue to sell a high volume of retail new and used vehicles at our stores.

***EchoPark Segment***

Retail used vehicle revenue increased 43.0% and F&I revenue increased 61.9% in 2019, driven primarily by a 45.7% increase in retail used vehicle unit sales volume in 2019. Combined retail used vehicle and F&I gross profit per unit increased

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\$279 per unit, or 14.6%, to \$2,187 per unit in 2019. The growth in combined retail used vehicle and F&I gross profit per unit was primarily due to increased F&I product penetration rates.

Wholesale vehicle gross loss increased approximately \$0.8 million, or 156.8%, in 2019, primarily due to a shift in our strategy around wholesaling vehicles that we obtain via trade-in from customers. We generally focus on maintaining used vehicle inventory days' supply in the 30- to 35-day range, which may fluctuate seasonally, in order to limit our exposure to market pricing volatility. Our used vehicle inventory days' supply at our EchoPark stores was approximately 33 and 34 days as of December 31, 2019 and 2018, respectively.

Fixed Operations revenue increased approximately \$8.4 million, or 58.2%, in 2019, primarily due to higher vehicle unit sales volume (and resulting inventory reconditioning requirements). Fixed Operations gross profit decreased approximately \$2.6 million, or 141.6%, in 2019, due to a shift in inventory strategy during the second quarter of 2018 resulting in less internal reconditioning work per vehicle and the decision to no longer provide customer pay parts and service work at our EchoPark stores.

**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		
	Year Ended December 31,		
	2019	2018	2017
Revenues:			
New vehicles	46.8 %	50.0 %	53.7 %
Used vehicles	33.4 %	29.9 %	26.6 %
Wholesale vehicles	1.9 %	2.2 %	1.7 %
Parts, service and collision repair	13.3 %	13.9 %	14.4 %
Finance, insurance and other, net	4.6 %	4.1 %	3.6 %
<b>Total revenues</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Cost of sales	85.5 %	85.5 %	85.2 %
Gross profit	14.5 %	14.5 %	14.8 %
Selling, general and administrative expenses	10.5 %	11.5 %	11.6 %
Impairment charges	0.2 %	0.3 %	0.1 %
Depreciation and amortization	0.9 %	0.9 %	1.0 %
Operating income (loss)	2.9 %	1.8 %	2.1 %
Interest expense, floor plan	0.5 %	0.5 %	0.4 %
Interest expense, other, net	0.5 %	0.5 %	0.5 %
Other (income) expense, net	0.1 %	0.0 %	0.1 %
Income (loss) from continuing operations before taxes	1.9 %	0.8 %	1.1 %
Provision for income taxes for continuing operations - (benefit) expense	0.5 %	0.2 %	0.1 %
Income (loss) from continuing operations	1.4 %	0.5 %	1.0 %

**Results of Operations - Consolidated**

**New Vehicles - Consolidated**

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

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diversity allows us to offer a broad range of products at a wide range of prices from lower-priced/economy vehicles to luxury vehicles.

The U.S. retail automotive industry's new vehicle unit sales volume below reflects all brands marketed or sold in the United States. This industry sales volume includes brands we do not sell and markets in which we do not operate, therefore our new vehicle unit sales volume may not trend directly in line with the industry unit sales volume. We believe that the retail new vehicle SAAR is a more meaningful metric for comparing our new vehicle unit sales volume to the industry due to our minimal fleet vehicle business.

(In millions of vehicles)	Year Ended December 31,		% Change
	2019	2018	
U.S. industry volume - Retail (1)	13.5	14.0	(3.6)%
U.S. industry volume - Fleet	3.5	3.2	9.4%
U.S. industry volume - Total (1)	17.0	17.2	(1.2)%

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

For 2020, analysts' industry expectations for the new vehicle SAAR range from 16.0 million to 17.0 million vehicles, a decrease of 4.8% or flat, respectively, compared to the industry volume level in 2019.

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit data)				
<b>Total new vehicle revenue:</b>				
Same store	\$ 4,691,795	\$ 4,504,210	\$ 187,585	4.2 %
Acquisitions, open points and dispositions	197,376	469,887	(272,511)	NM
Total as reported	<u>\$ 4,889,171</u>	<u>\$ 4,974,097</u>	<u>\$ (84,926)</u>	<u>(1.7)%</u>
<b>Total new vehicle gross profit:</b>				
Same store	\$ 224,526	\$ 222,335	\$ 2,191	1.0 %
Acquisitions, open points and dispositions	8,561	19,167	(10,606)	NM
Total as reported	<u>\$ 233,087</u>	<u>\$ 241,502</u>	<u>\$ (8,415)</u>	<u>(3.5)%</u>
<b>Total new vehicle unit sales:</b>				
Same store	107,803	107,149	654	0.6 %
Acquisitions, open points and dispositions	6,328	15,568	(9,240)	NM
Total as reported	<u>114,131</u>	<u>122,717</u>	<u>(8,586)</u>	<u>(7.0)%</u>

NM = Not Meaningful

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Reported new vehicle:</b>				
Revenue	\$ 4,889,171	\$ 4,974,097	\$ (84,926)	(1.7)%
Gross profit	\$ 233,087	\$ 241,502	\$ (8,415)	(3.5)%
Unit sales	114,131	122,717	(8,586)	(7.0)%
Revenue per unit	\$ 42,838	\$ 40,533	\$ 2,305	5.7 %
Gross profit per unit	\$ 2,042	\$ 1,968	\$ 74	3.8 %
Gross profit as a % of revenue	4.8 %	4.9 %	(10)	bps

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Same store new vehicle:</b>				
Revenue	\$ 4,691,795	\$ 4,504,210	\$ 187,585	4.2 %
Gross profit	\$ 224,526	\$ 222,335	\$ 2,191	1.0 %
Unit sales	107,803	107,149	654	0.6 %
Revenue per unit	\$ 43,522	\$ 42,037	\$ 1,485	3.5 %
Gross profit per unit	\$ 2,083	\$ 2,075	\$ 8	0.4 %
Gross profit as a % of revenue	4.8 %	4.9 %	(10)	bps

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

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**Used Vehicles - Consolidated**

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

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit data)				
<b>Total used vehicle revenue:</b>				
Same store	\$ 3,191,404	\$ 2,759,003	\$ 432,401	15.7 %
Acquisitions, open points and dispositions	298,568	214,495	84,073	NM
Total as reported	<u>\$ 3,489,972</u>	<u>\$ 2,973,498</u>	<u>\$ 516,474</u>	<u>17.4 %</u>
<b>Total used vehicle gross profit:</b>				
Same store	\$ 131,695	\$ 124,304	\$ 7,391	5.9 %
Acquisitions, open points and dispositions	15,701	18,684	(2,983)	NM
Total as reported	<u>\$ 147,396</u>	<u>\$ 142,988</u>	<u>\$ 4,408</u>	<u>3.1 %</u>
<b>Total used vehicle unit sales:</b>				
Same store	146,456	126,415	20,041	15.9 %
Acquisitions, open points and dispositions	15,693	13,190	2,503	NM
Total as reported	<u>162,149</u>	<u>139,605</u>	<u>22,544</u>	<u>16.1 %</u>

NM = Not Meaningful

Our consolidated reported retail used vehicle results are as follows:

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Reported used vehicle:</b>				
Revenue	\$ 3,489,972	\$ 2,973,498	\$ 516,474	17.4 %
Gross profit	\$ 147,396	\$ 142,988	\$ 4,408	3.1 %
Unit sales	162,149	139,605	22,544	16.1 %
Revenue per unit	\$ 21,523	\$ 21,299	\$ 224	1.1 %
Gross profit per unit	\$ 909	\$ 1,024	\$ (115)	(11.2)%
Gross profit as a % of revenue	4.2 %	4.8 %	(60) bps	

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Same store used vehicle:</b>				
Revenue	\$ 3,191,404	\$ 2,759,003	\$ 432,401	15.7 %
Gross profit	\$ 131,695	\$ 124,304	\$ 7,391	5.9 %
Unit sales	146,456	126,415	20,041	15.9 %
Revenue per unit	\$ 21,791	\$ 21,825	\$ (34)	(0.2)%
Gross profit per unit	\$ 899	\$ 983	\$ (84)	(8.5)%
Gross profit as a % of revenue	4.1 %	4.5 %	(40) bps	

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

**Wholesale Vehicles - Consolidated**

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

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit data)				
<b>Total wholesale vehicle revenue:</b>				
Same store	\$ 191,431	\$ 195,743	\$ (4,312)	(2.2)%
Acquisitions, open points and dispositions	11,515	21,882	(10,367)	NM
Total as reported	\$ 202,946	\$ 217,625	\$ (14,679)	(6.7)%
<b>Total wholesale vehicle gross profit (loss):</b>				
Same store	\$ (3,808)	\$ (9,792)	\$ 5,984	61.1 %
Acquisitions, open points and dispositions	(624)	(1,457)	833	NM
Total as reported	\$ (4,432)	\$ (11,249)	\$ 6,817	60.6 %
<b>Total wholesale vehicle unit sales:</b>				
Same store	31,016	29,245	1,771	6.1 %
Acquisitions, open points and dispositions	3,137	4,922	(1,785)	NM
Total as reported	34,153	34,167	(14)	— %

NM = Not Meaningful

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Our consolidated reported wholesale vehicle results are as follows:

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Reported wholesale vehicle:</b>				
Revenue	\$ 202,946	\$ 217,625	\$ (14,679)	(6.7)%
Gross profit (loss)	\$ (4,432)	\$ (11,249)	\$ 6,817	60.6 %
Unit sales	34,153	34,167	(14)	— %
Revenue per unit	\$ 5,942	\$ 6,369	\$ (427)	(6.7)%
Gross profit (loss) per unit	\$ (130)	\$ (329)	\$ 199	60.5 %
Gross profit (loss) as a % of revenue	(2.2)%	(5.2)%	300 bps	

Our consolidated same store wholesale vehicle results are as follows:

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Same store wholesale vehicle:</b>				
Revenue	\$ 191,431	\$ 195,743	\$ (4,312)	(2.2)%
Gross profit (loss)	\$ (3,808)	\$ (9,792)	\$ 5,984	61.1 %
Unit sales	31,016	29,245	1,771	6.1 %
Revenue per unit	\$ 6,172	\$ 6,693	\$ (521)	(7.8)%
Gross profit (loss) per unit	\$ (123)	\$ (335)	\$ 212	63.3 %
Gross profit (loss) as a % of revenue	(2.0)%	(5.0)%	300 bps	

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

**Fixed Operations - Consolidated**

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

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

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands)				
<b>Total Fixed Operations revenue:</b>				
Same store	\$ 1,350,858	\$ 1,279,373	\$ 71,485	5.6 %
Acquisitions, open points and dispositions	44,445	101,514	(57,069)	NM
Total as reported	<u>\$ 1,395,303</u>	<u>\$ 1,380,887</u>	<u>\$ 14,416</u>	<u>1.0 %</u>
<b>Total Fixed Operations gross profit:</b>				
Same store	\$ 648,544	\$ 614,547	\$ 33,997	5.5 %
Acquisitions, open points and dispositions	19,471	52,814	(33,343)	NM
Total as reported	<u>\$ 668,015</u>	<u>\$ 667,361</u>	<u>\$ 654</u>	<u>0.1 %</u>

NM = Not Meaningful

Our consolidated reported Fixed Operations results are as follows:

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands)				
<b>Reported Fixed Operations:</b>				
<b>Revenue</b>				
Customer pay	\$ 561,422	\$ 560,037	\$ 1,385	0.2 %
Warranty	272,389	266,644	5,745	2.2 %
Wholesale parts	157,603	161,066	(3,463)	(2.2)%
Internal, sublet and other	403,889	393,140	10,749	2.7 %
Total revenue	<u>\$ 1,395,303</u>	<u>\$ 1,380,887</u>	<u>\$ 14,416</u>	<u>1.0 %</u>
<b>Gross profit</b>				
Customer pay	\$ 304,950	\$ 299,617	\$ 5,333	1.8 %
Warranty	150,984	150,746	238	0.2 %
Wholesale parts	27,187	27,746	(559)	(2.0)%
Internal, sublet and other	184,894	189,252	(4,358)	(2.3)%
Total gross profit	<u>\$ 668,015</u>	<u>\$ 667,361</u>	<u>\$ 654</u>	<u>0.1 %</u>
<b>Gross profit as a % of revenue</b>				
Customer pay	54.3 %	53.5 %	80	bps
Warranty	55.4 %	56.5 %	(110)	bps
Wholesale parts	17.3 %	17.2 %	10	bps
Internal, sublet and other	45.8 %	48.1 %	(230)	bps
Total gross profit as a % of revenue	47.9 %	48.3 %	(40)	bps



**SONIC AUTOMOTIVE, INC.**  
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Our consolidated same store Fixed Operations results are as follows:

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands)				
<b>Same store Fixed Operations:</b>				
<b>Revenue</b>				
Customer pay	\$ 547,826	\$ 517,152	\$ 30,674	5.9 %
Warranty	264,282	250,750	13,532	5.4 %
Wholesale parts	154,166	152,030	2,136	1.4 %
Internal, sublet and other	384,584	359,441	25,143	7.0 %
<b>Total revenue</b>	<b>\$ 1,350,858</b>	<b>\$ 1,279,373</b>	<b>\$ 71,485</b>	<b>5.6 %</b>
<b>Gross profit</b>				
Customer pay	\$ 297,916	\$ 275,484	\$ 22,432	8.1 %
Warranty	146,644	140,305	6,339	4.5 %
Wholesale parts	26,542	25,972	570	2.2 %
Internal, sublet and other	177,442	172,786	4,656	2.7 %
<b>Total gross profit</b>	<b>\$ 648,544</b>	<b>\$ 614,547</b>	<b>\$ 33,997</b>	<b>5.5 %</b>
<b>Gross profit as a % of revenue</b>				
Customer pay	54.4 %	53.3 %	110	bps
Warranty	55.5 %	56.0 %	(50)	bps
Wholesale parts	17.2 %	17.1 %	10	bps
Internal, sublet and other	46.1 %	48.1 %	(200)	bps
<b>Total gross profit as a % of revenue</b>	<b>48.0 %</b>	<b>48.0 %</b>	<b>—</b>	<b>bps</b>

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

***F&I - Consolidated***

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

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Total F&amp;I revenue:</b>				
Same store	\$ 426,441	\$ 360,317	\$ 66,124	18.4 %
Acquisitions, open points and dispositions	50,510	45,206	5,304	NM
Total as reported	<u>\$ 476,951</u>	<u>\$ 405,523</u>	<u>\$ 71,428</u>	<u>17.6 %</u>
<b>Total F&amp;I gross profit per retail unit (excludes fleet):</b>				
Same store	\$ 1,695	\$ 1,555	\$ 140	9.0 %
Reported	\$ 1,743	\$ 1,557	\$ 186	11.9 %
<b>Total combined new and used retail unit sales:</b>				
Same store	251,585	231,711	19,874	8.6 %
Acquisitions, open points and dispositions	22,021	28,713	(6,692)	NM
Total as reported	<u>273,606</u>	<u>260,424</u>	<u>13,182</u>	<u>5.1 %</u>

NM = Not Meaningful

Our consolidated reported F&I results are as follows:

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Reported F&amp;I:</b>				
Revenue	\$ 476,951	\$ 405,523	\$ 71,428	17.6 %
Unit sales	273,606	260,424	13,182	5.1 %
Gross profit per retail unit (excludes fleet)	\$ 1,743	\$ 1,557	\$ 186	11.9 %

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Same store F&amp;I:</b>				
Revenue	\$ 426,441	\$ 360,317	\$ 66,124	18.4 %
Unit sales	251,585	231,711	19,874	8.6 %
Gross profit per retail unit (excludes fleet)	\$ 1,695	\$ 1,555	\$ 140	9.0 %

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

***New Vehicles - Franchised Dealerships Segment***

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

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diversity allows us to offer a broad range of products at a wide range of prices from lower-priced/economy vehicles to luxury vehicles.

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit data)				
<b>Total new vehicle revenue:</b>				
Same store	\$ 4,691,795	\$ 4,504,210	\$ 187,585	4.2 %
Acquisitions, open points and dispositions	197,376	469,887	(667,263)	NM
Total as reported	<u>\$ 4,889,171</u>	<u>\$ 4,974,097</u>	<u>\$ (84,926)</u>	<u>(1.7)%</u>
<b>Total new vehicle gross profit:</b>				
Same store	\$ 224,526	\$ 222,335	\$ 2,191	1.0 %
Acquisitions, open points and dispositions	8,561	19,167	(10,606)	NM
Total as reported	<u>\$ 233,087</u>	<u>\$ 241,502</u>	<u>\$ (8,415)</u>	<u>(3.5)%</u>
<b>Total new vehicle unit sales:</b>				
Same store	107,803	107,149	654	0.6 %
Acquisitions, open points and dispositions	6,328	15,568	(9,240)	NM
Total as reported	<u>114,131</u>	<u>122,717</u>	<u>(8,586)</u>	<u>(7.0)%</u>

NM = Not Meaningful

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Reported new vehicle:</b>				
Revenue	\$ 4,889,171	\$ 4,974,097	\$ (84,926)	(1.7)%
Gross profit	\$ 233,087	\$ 241,502	\$ (8,415)	(3.5)%
Unit sales	114,131	122,717	(8,586)	(7.0)%
Revenue per unit	\$ 42,838	\$ 40,533	\$ 2,305	5.7 %
Gross profit per unit	\$ 2,042	\$ 1,968	\$ 74	3.8 %
Gross profit as a % of revenue	4.8 %	4.9 %	(10)	bps

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Same store new vehicle:</b>				
Revenue	\$ 4,691,795	\$ 4,504,210	\$ 187,585	4.2 %
Gross profit	\$ 224,526	\$ 222,335	\$ 2,191	1.0 %
Unit sales	107,803	107,149	654	0.6 %
Revenue per unit	\$ 43,522	\$ 42,037	\$ 1,485	3.5 %
Gross profit per unit	\$ 2,083	\$ 2,075	\$ 8	0.4 %
Gross profit as a % of revenue	4.8 %	4.9 %	(10)	bps

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New vehicle revenue increased 4.2% and new vehicle unit sales volume increased 0.6%, driven primarily by increases in new vehicle unit sales volume at our BMW, Mercedes and Lexus dealerships, offset partially by decreases in new vehicle unit sales volume at our Ford, GM and Honda dealerships. New vehicle gross profit increased approximately \$2.2 million, or 1.0%, primarily driven by increases in new vehicle gross profit at our Mercedes, BMW and Honda dealerships, offset partially by decreases in new vehicle gross profit at our Land Rover, Ford and Porsche dealerships. New vehicle gross profit per unit increased \$8 per unit, or 0.4%, to \$2,083 per unit, primarily driven by increases in new vehicle gross profit per unit at our Mercedes, BMW and Honda dealerships, offset partially by decreases in new vehicle gross profit per unit at our Land Rover, Ford and Porsche dealerships.

Our reported franchised dealerships new vehicle inventory days' supply was approximately 53 and 59 days as of December 31, 2019 and 2018, respectively, in line with our seasonally-adjusted targets.

**Used Vehicles - Franchised Dealerships Segment**

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

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit data)				
<b>Total used vehicle revenue:</b>				
Same store	\$ 2,394,077	\$ 2,201,382	\$ 192,695	8.8 %
Acquisitions, open points and dispositions	99,390	169,417	(70,027)	NM
Total as reported	<u>\$ 2,493,467</u>	<u>\$ 2,370,799</u>	<u>\$ 122,668</u>	<u>5.2 %</u>
<b>Total used vehicle gross profit:</b>				
Same store	\$ 136,077	\$ 128,648	\$ 7,429	5.8 %
Acquisitions, open points and dispositions	11,464	19,702	(8,238)	NM
Total as reported	<u>\$ 147,541</u>	<u>\$ 148,350</u>	<u>\$ (809)</u>	<u>(0.5)%</u>
<b>Total used vehicle unit sales:</b>				
Same store	106,998	99,335	7,663	7.7 %
Acquisitions, open points and dispositions	5,631	10,833	(5,202)	NM
Total as reported	<u>112,629</u>	<u>110,168</u>	<u>2,461</u>	<u>2.2 %</u>

NM = Not Meaningful

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Reported used vehicle:</b>				
Revenue	\$ 2,493,467	\$ 2,370,799	\$ 122,668	5.2 %
Gross profit	\$ 147,541	\$ 148,350	\$ (809)	(0.5)%
Unit sales	112,629	110,168	2,461	2.2 %
Revenue per unit	\$ 22,139	\$ 21,520	\$ 619	2.9 %
Gross profit per unit	\$ 1,310	\$ 1,347	\$ (37)	(2.7)%
Gross profit as a % of revenue	5.9 %	6.3 %	(40) bps	

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Same store used vehicle:</b>				
Revenue	\$ 2,394,077	\$ 2,201,382	\$ 192,695	8.8 %
Gross profit	\$ 136,077	\$ 128,648	\$ 7,429	5.8 %
Unit sales	106,998	99,335	7,663	7.7 %
Revenue per unit	\$ 22,375	\$ 22,161	\$ 214	1.0 %
Gross profit per unit	\$ 1,272	\$ 1,295	\$ (23)	(1.8) %
Gross profit as a % of revenue	5.7 %	5.8 %	(10) bps	

Retail used vehicle revenue increased 8.8%, driven primarily by a 7.7% increase in retail used vehicle unit sales volume. This increase in retail used vehicle unit sales volume was primarily driven by increases in retail used vehicle unit sales volume at our Honda, BMW and Ford dealerships. Retail used vehicle gross profit increased approximately \$7.4 million, or 5.8%, driven primarily by increases in retail used vehicle gross profit at our BMW, Toyota and Audi dealerships. Retail used vehicle gross profit per unit decreased \$23 per unit, or 1.8%, to \$1,272 per unit, in line with our target range.

**Wholesale Vehicles - Franchised Dealerships Segment**

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

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit data)				
<b>Total wholesale vehicle revenue:</b>				
Same store	\$ 172,985	\$ 179,895	\$ (6,910)	(3.8) %
Acquisitions, open points and dispositions	7,035	17,288	(10,253)	NM
Total as reported	\$ 180,020	\$ 197,183	\$ (17,163)	(8.7) %
<b>Total wholesale vehicle gross profit (loss):</b>				
Same store	\$ (3,508)	\$ (10,320)	\$ 6,812	66.0 %
Acquisitions, open points and dispositions	(592)	(1,459)	867	NM
Total as reported	\$ (4,100)	\$ (11,779)	\$ 7,679	65.2 %
<b>Total wholesale vehicle unit sales:</b>				
Same store	26,341	26,583	(242)	(0.9) %
Acquisitions, open points and dispositions	2,038	4,032	(1,994)	NM
Total as reported	28,379	30,615	(2,236)	(7.3) %

NM = Not Meaningful

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Reported wholesale vehicle:</b>				
Revenue	\$ 180,020	\$ 197,183	\$ (17,163)	(8.7)%
Gross profit (loss)	\$ (4,100)	\$ (11,779)	\$ 7,679	65.2 %
Unit sales	28,379	30,615	(2,236)	(7.3)%
Revenue per unit	\$ 6,343	\$ 6,441	\$ (98)	(1.5)%
Gross profit (loss) per unit	\$ (144)	\$ (385)	\$ 241	62.6 %
Gross profit (loss) as a % of revenue	(2.3)%	(6.0)%	370	bps

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Same store wholesale vehicle:</b>				
Revenue	\$ 172,985	\$ 179,895	\$ (6,910)	(3.8)%
Gross profit (loss)	\$ (3,508)	\$ (10,320)	\$ 6,812	66.0 %
Unit sales	26,341	26,583	(242)	(0.9)%
Revenue per unit	\$ 6,567	\$ 6,767	\$ (200)	(3.0)%
Gross profit (loss) per unit	\$ (133)	\$ (388)	\$ 255	65.7 %
Gross profit (loss) as a % of revenue	(2.0)%	(5.7)%	370	bps

Wholesale vehicle gross loss and wholesale vehicle gross loss per unit decreased by 66.0% and 65.7%, respectively, primarily driven by our policy of wholesaling aged or undesirable units at auction in a more timely manner, thereby reducing the risk of wholesale vehicle gross loss and improving inventory levels and quality. We generally focus on maintaining used vehicle inventory days' supply in the 30- to 35-day range, which may fluctuate seasonally, in order to limit our exposure to market pricing volatility. Our reported franchised dealerships used vehicle inventory days' supply was approximately 28 and 30 days as of December 31, 2019 and 2018, respectively.

**Fixed Operations - Franchised Dealerships Segment**

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

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

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands)				
<b>Total Fixed Operations revenue:</b>				
Same store	\$ 1,327,906	\$ 1,264,865	\$ 63,041	5.0 %
Acquisitions, open points and dispositions	38,644	99,694	(61,050)	NM
Total as reported	<u>\$ 1,366,550</u>	<u>\$ 1,364,559</u>	<u>\$ 1,991</u>	<u>0.1 %</u>
<b>Total Fixed Operations gross profit:</b>				
Same store	\$ 649,312	\$ 612,702	\$ 36,610	6.0 %
Acquisitions, open points and dispositions	19,646	52,515	(32,869)	NM
Total as reported	<u>\$ 668,958</u>	<u>\$ 665,217</u>	<u>\$ 3,741</u>	<u>0.6 %</u>

NM = Not Meaningful

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands)				
<b>Reported Fixed Operations:</b>				
<b>Revenue</b>				
Customer pay	\$ 560,734	\$ 559,027	\$ 1,707	0.3 %
Warranty	272,389	266,644	5,745	2.2 %
Wholesale parts	157,603	161,066	(3,463)	(2.2)%
Internal, sublet and other	375,824	377,822	(1,998)	(0.5)%
Total revenue	<u>\$ 1,366,550</u>	<u>\$ 1,364,559</u>	<u>\$ 1,991</u>	<u>0.1 %</u>
<b>Gross profit</b>				
Customer pay	\$ 304,927	\$ 299,360	\$ 5,567	1.9 %
Warranty	150,984	150,746	238	0.2 %
Wholesale parts	27,187	27,746	(559)	(2.0)%
Internal, sublet and other	185,860	187,365	(1,505)	(0.8)%
Total gross profit	<u>\$ 668,958</u>	<u>\$ 665,217</u>	<u>\$ 3,741</u>	<u>0.6 %</u>
<b>Gross profit as a % of revenue</b>				
Customer pay	54.4 %	53.6 %	80	bps
Warranty	55.4 %	56.5 %	(110)	bps
Wholesale parts	17.3 %	17.2 %	10	bps
Internal, sublet and other	49.5 %	49.6 %	(10)	bps
Total gross profit as a % of revenue	49.0 %	48.7 %	30	bps

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands)				
<b>Same store Fixed Operations:</b>				
<b>Revenue</b>				
Customer pay	\$ 547,344	\$ 516,572	\$ 30,772	6.0 %
Warranty	264,282	250,750	13,532	5.4 %
Wholesale parts	154,166	152,030	2,136	1.4 %
Internal, sublet and other	362,114	345,513	16,601	4.8 %
<b>Total revenue</b>	<b>\$ 1,327,906</b>	<b>\$ 1,264,865</b>	<b>\$ 63,041</b>	<b>5.0 %</b>
<b>Gross profit</b>				
Customer pay	\$ 297,894	\$ 275,387	\$ 22,507	8.2 %
Warranty	146,644	140,305	6,339	4.5 %
Wholesale parts	26,542	25,972	570	2.2 %
Internal, sublet and other	178,232	171,038	7,194	4.2 %
<b>Total gross profit</b>	<b>\$ 649,312</b>	<b>\$ 612,702</b>	<b>\$ 36,610</b>	<b>6.0 %</b>
<b>Gross profit as a % of revenue</b>				
Customer pay	54.4 %	53.3 %	110	bps
Warranty	55.5 %	56.0 %	(50)	bps
Wholesale parts	17.2 %	17.1 %	10	bps
Internal, sublet and other	49.2 %	49.5 %	(30)	bps
<b>Total gross profit as a % of revenue</b>	<b>48.9 %</b>	<b>48.4 %</b>	<b>50</b>	<b>bps</b>

Fixed Operations revenue increased approximately \$63.0 million, or 5.0%, and Fixed Operations gross profit increased approximately \$36.6 million, or 6.0%, driven primarily by an increase in customer pay gross profit of approximately \$22.5 million, or 8.2%, as a result of a strategic emphasis on maximizing growth opportunities in the customer pay business. In addition, warranty gross profit increased approximately \$6.3 million, or 4.5%, driven primarily by our Honda, Audi and Mercedes dealerships. Warranty revenue typically represents approximately 20% of our Fixed Operations revenue. As such, significant changes to the level of manufacturer recall and warranty repair activity could create volatility in our Fixed Operations results in future periods.

***F&I - Franchised Dealerships Segment***

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

Yield spread premium is another term for the commission earned by our dealerships for arranging vehicle financing for consumers. The amount of the commission could be zero, a flat fee or an actual spread between the interest rate charged to the consumer and the interest rate provided by the direct financing source (e.g., a commercial bank, credit union or manufacturer captive finance company). We have established caps on the potential yield spread premium our dealerships can earn with all



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finance sources. We believe the yield spread premium we earn for arranging vehicle financing represents value to the consumer in numerous ways, including the following:

- lower cost, below-market financing is often available only from the manufacturers' captives and franchised dealers;
- generally easy access to multiple high-quality lending sources;
- lease-financing alternatives are largely available only from manufacturers' captives or other indirect lenders;
- customers with substandard credit frequently do not have direct access to potential sources of sub-prime financing; and
- customers with significant "negative equity" in their current vehicle (i.e., the customer's current vehicle is worth less than the balance of their vehicle loan or lease obligation) frequently are unable to pay off the loan on their current vehicle and finance the purchase or lease of a replacement new or used vehicle without the assistance of a franchised dealer.

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Total F&amp;I revenue:</b>				
Same store	\$ 335,756	\$ 304,293	\$ 31,463	10.3 %
Acquisitions, open points and dispositions	27,361	40,521	(13,160)	NM
Total as reported	<u>\$ 363,117</u>	<u>\$ 344,814</u>	<u>\$ 18,303</u>	<u>5.3 %</u>
<b>Total F&amp;I gross profit per retail unit (excludes fleet):</b>				
Same store	\$ 1,583	\$ 1,487	\$ 96	6.5 %
Total as reported	\$ 1,620	\$ 1,493	\$ 127	8.5 %
<b>Total combined new and used retail unit sales:</b>				
Same store	212,127	204,631	7,496	3.7 %
Acquisitions, open points and dispositions	11,959	26,356	(14,397)	NM
Total as reported	<u>224,086</u>	<u>230,987</u>	<u>(6,901)</u>	<u>(3.0) %</u>

NM = Not Meaningful

Our Franchised Dealerships Segment reported F&I results are as follows:

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Reported F&amp;I:</b>				
Revenue	\$ 363,117	\$ 344,814	\$ 18,303	5.3 %
Total combined new and used retail unit sales	224,086	230,987	(6,901)	(3.0)%
Gross profit per retail unit (excludes fleet)	\$ 1,620	\$ 1,493	\$ 127	8.5 %

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Our Franchised Dealerships Segment same store F&I results are as follows:

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Same store F&amp;I:</b>				
Revenue	\$ 335,756	\$ 304,293	\$ 31,463	10.3 %
Total combined new and used retail unit sales	212,127	204,631	7,496	3.7 %
Gross profit per retail unit (excludes fleet)	\$ 1,583	\$ 1,487	\$ 96	6.5 %

F&I revenues increased approximately \$31.5 million, or 10.3%, and F&I gross profit per retail unit increased \$96 per unit, or 6.5%, to \$1,583 per unit. The growth in F&I revenues and F&I gross profit per retail unit was due to increases in gross profit per contract and higher penetration rates across all F&I products. Finance contract gross profit increased 12.5% primarily due to a 7.0% increase in gross profit per finance contract, as well as a 120-basis point increase in the combined new and used vehicle finance contract penetration rate. Service contract gross profit increased 11.5% due primarily to a 5.2% increase in gross profit per service contract, as well as a 70-basis point increase in the service contract penetration rate. Other aftermarket contract gross profit increased 13.9%, driven primarily by a 6.5% increase in gross profit per other aftermarket contract and a 430-basis point increase in the other aftermarket contract penetration rate.

**Results of Operations - EchoPark Segment**

EchoPark Segment same store results consist of the results of seven EchoPark stores, three in Colorado, three in Texas and one in North Carolina for 2019 compared to 2018. Due to the ongoing expansion of our EchoPark Segment, same store results may vary significantly from reported results due to stores that began operations in the last 13 months.

**Used Vehicles and F&I - EchoPark Segment**

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

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

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit data)				
<b>Total used vehicle revenue:</b>				
Same store	\$ 797,327	\$ 557,620	\$ 239,707	43.0 %
Store openings and closures	199,178	45,079	154,099	NM
Total as reported	\$ 996,505	\$ 602,699	\$ 393,806	65.3 %
<b>Total used vehicle gross profit (loss):</b>				
Same store	\$ (4,382)	\$ (4,344)	\$ (38)	(0.9)%
Store openings and closures	4,236	(1,018)	5,254	NM
Total as reported	\$ (146)	\$ (5,362)	\$ 5,216	(97.3)%
<b>Total used vehicle unit sales:</b>				
Same store	39,458	27,080	12,378	45.7 %
Store openings and closures	10,062	2,357	7,705	NM
Total as reported	49,520	29,437	20,083	68.2 %

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NM = Not Meaningful

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands)				
<b>Total F&amp;I revenue:</b>				
Same store	\$ 90,684	\$ 56,023	\$ 34,661	61.9 %
Store openings and closures	23,150	4,686	18,464	NM
Total as reported	\$ 113,834	\$ 60,709	\$ 53,125	87.5 %

NM = Not Meaningful

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Reported used vehicle and F&amp;I:</b>				
Used vehicle revenue	\$ 996,505	\$ 602,699	\$ 393,806	65.3 %
Used vehicle gross profit (loss)	\$ (146)	\$ (5,362)	\$ 5,216	97.3 %
Used vehicle unit sales	49,520	29,437	20,083	68.2 %
Used vehicle revenue per unit	\$ 20,123	\$ 20,474	\$ (351)	(1.7)%
F&I revenue	\$ 113,834	\$ 60,709	\$ 53,125	87.5 %
Combined used vehicle gross profit and F&I revenue	\$ 113,688	\$ 55,347	\$ 58,341	105.4 %
Total used vehicle and F&I gross profit per unit	\$ 2,296	\$ 1,880	\$ 416	22.1 %

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Same store used vehicle and F&amp;I:</b>				
Used vehicle revenue	\$ 797,327	\$ 557,620	\$ 239,707	43.0 %
Used vehicle gross profit (loss)	\$ (4,382)	\$ (4,344)	\$ (38)	(0.9)%
Used vehicle unit sales	39,458	27,080	12,378	45.7 %
Used vehicle revenue per unit	\$ 20,207	\$ 20,592	\$ (385)	(1.9)%
F&I revenue	\$ 90,684	\$ 56,023	\$ 34,661	61.9 %
Combined used vehicle gross profit and F&I revenue	\$ 86,302	\$ 51,679	\$ 34,623	67.0 %
Total used vehicle and F&I gross profit per unit	\$ 2,187	\$ 1,908	\$ 279	14.6 %

Retail used vehicle revenue increased approximately \$239.7 million, or 43.0%, and F&I revenue increased approximately \$34.7 million, or 61.9%. Combined used vehicle gross profit and F&I revenue increased approximately \$34.6 million, or 67.0%, due primarily to a 45.7% increase in retail used vehicle unit sales volume. Combined retail used vehicle and F&I gross profit per unit increased approximately \$279 per unit, or 14.6%, to \$2,187 per unit, driven primarily by higher penetration rates across all F&I products. Finance contract gross profit increased 49.0%, primarily due to a 420-basis point increase in the finance contract penetration rate. Service contract gross profit increased 65.0% due primarily to a 5.9% increase in gross profit per service contract and a 350-basis point increase in the service contract penetration rate. Other aftermarket contract gross profit increased 55.4%, driven primarily by a 1,050-basis point increase in the other aftermarket contract penetration rate. F&I penetration rates are generally higher in our EchoPark Segment than for used vehicle sales in our Franchised Dealerships Segment.

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**Wholesale Vehicles - EchoPark Segment**

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

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit data)				
<b>Total wholesale vehicle revenue:</b>				
Same store	\$ 18,446	\$ 15,848	\$ 2,598	16.4 %
Store openings and closures	4,480	4,594	(114)	NM
Total as reported	<u>\$ 22,926</u>	<u>\$ 20,442</u>	<u>\$ 2,484</u>	<u>12.2 %</u>
<b>Total wholesale vehicle gross profit (loss):</b>				
Same store	\$ (300)	\$ 528	\$ (828)	(156.8)%
Store openings and closures	(32)	2	(34)	NM
Total as reported	<u>\$ (332)</u>	<u>\$ 530</u>	<u>\$ (862)</u>	<u>(162.6)%</u>
<b>Total wholesale vehicle unit sales:</b>				
Same store	4,675	2,662	2,013	75.6 %
Store openings and closures	1,099	890	209	NM
Total as reported	<u>5,774</u>	<u>3,552</u>	<u>2,222</u>	<u>62.6 %</u>

NM = Not Meaningful

Our EchoPark Segment reported wholesale vehicle results are as follows:

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Reported wholesale vehicle:</b>				
Revenue	\$ 22,926	\$ 20,442	\$ 2,484	12.2 %
Gross profit (loss)	\$ (332)	\$ 530	\$ (862)	(162.6)%
Unit sales	5,774	3,552	2,222	62.6 %
Revenue per unit	\$ 3,971	\$ 5,755	\$ (1,784)	(31.0)%
Gross profit (loss) per unit	\$ (57)	\$ 149	\$ (206)	(138.3)%
Gross profit (loss) as a % of revenue	(1.4)%	2.6 %	(400) bps	

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit and per unit data)				
<b>Same store wholesale vehicle:</b>				
Revenue	\$ 18,446	\$ 15,848	\$ 2,598	16.4 %
Gross profit (loss)	\$ (300)	\$ 528	\$ (828)	(156.8)%
Unit sales	4,675	2,662	2,013	75.6 %
Revenue per unit	\$ 3,946	\$ 5,953	\$ (2,007)	(33.7)%
Gross profit (loss) per unit	\$ (64)	\$ 198	\$ (262)	(132.3)%
Gross profit (loss) as a % of revenue	(1.6)%	3.3 %	(490) bps	

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Wholesale vehicle revenue and wholesale vehicle unit sales volume increased by 16.4% and 75.6%, respectively, while wholesale gross loss and wholesale vehicle gross loss per unit increased by 156.8% and 132.3%, respectively. Wholesale vehicle gross loss increased as a result of the evolution of our customer trade-in vehicle appraisal strategy, which has enabled us to trade for more customer vehicles. Given EchoPark's retail inventory mix, the majority of vehicles acquired from customers on trade-ins cannot ultimately be sold as retail at our EchoPark stores and are subsequently sold at auction, affecting our wholesale gross profit (loss). However, a successful acquisition of a customer's trade-in vehicle often facilitates a retail used vehicle sale transaction that otherwise may not have occurred, driving higher overall gross profit. Our overall EchoPark inventory acquisition and pricing strategy reduces the risk of aged inventory that must be sold at auction (which would typically have a higher gross loss per unit) and increases the volume of trade-ins that we obtain from customers. We generally focus on maintaining used vehicle inventory days' supply in the 30- to 35-day range, which may fluctuate seasonally, in order to limit our exposure to market pricing volatility. Our used vehicle inventory days' supply at our EchoPark stores was approximately 33 and 34 days as of December 31, 2019 and 2018, respectively.

**Fixed Operations - EchoPark Segment**

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

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands)				
<b>Total Fixed Operations revenue:</b>				
Same store	\$ 22,952	\$ 14,508	\$ 8,444	58.2 %
Store openings and closures	5,801	1,820	3,981	NM
Total as reported	<u>\$ 28,753</u>	<u>\$ 16,328</u>	<u>\$ 12,425</u>	<u>76.1 %</u>
<b>Total Fixed Operations gross profit:</b>				
Same store	\$ (768)	\$ 1,845	\$ (2,613)	(141.6)%
Store openings and closures	(175)	299	(474)	NM
Total as reported	<u>\$ (943)</u>	<u>\$ 2,144</u>	<u>\$ (3,087)</u>	<u>(144.0)%</u>

NM = Not Meaningful

Our EchoPark Segment reported Fixed Operations results are as follows:

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands)				
<b>Total reported Fixed Operations:</b>				
Revenue	\$ 28,753	\$ 16,328	\$ 12,425	76.1 %
Gross profit (loss)	\$ (943)	\$ 2,144	\$ (3,087)	(144.0)%
Gross profit (loss) as a % of revenue	(3.3)%	13.1 %	(1,640) bps	

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands)				
<b>Total same store Fixed Operations:</b>				
Revenue	\$ 22,952	\$ 14,508	\$ 8,444	58.2 %
Gross profit (loss)	\$ (768)	\$ 1,845	\$ (2,613)	(141.6)%
Gross profit (loss) as a % of revenue	(3.3)%	12.7 %	(1,600) bps	

Fixed Operations revenue increased approximately \$8.4 million, or 58.2%, in 2019, primarily due to higher vehicle unit sales volume (and resulting inventory reconditioning requirements). Fixed Operations gross profit decreased approximately \$2.6 million, or 141.6%, in 2019, due to a shift in inventory strategy during the second quarter of 2018 resulting in less internal reconditioning work per vehicle and the decision to no longer provide customer pay parts and service work at our EchoPark stores.

**Segment Results Summary**

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands, except unit data)				
<b>Franchised Dealerships Segment revenues</b>				
New vehicles	\$ 4,889,171	\$ 4,974,097	\$ (84,926)	(1.7)%
Used vehicles	2,493,467	2,370,799	122,668	5.2 %
Wholesale vehicles	180,020	197,184	(17,164)	(8.7)%
Parts, service and collision repair	1,366,550	1,364,559	1,991	0.1 %
Finance, insurance and other, net	363,117	344,814	18,303	5.3 %
<b>Franchised Dealerships Segment revenues</b>	<b>\$ 9,292,325</b>	<b>\$ 9,251,453</b>	<b>\$ 40,872</b>	<b>0.4 %</b>
<b>EchoPark Segment revenues</b>				
Used vehicles	\$ 996,504	\$ 602,698	\$ 393,806	65.3 %
Wholesale vehicles	22,927	20,443	2,484	12.2 %
Parts, service and collision repair	28,753	16,327	12,426	76.1 %
Finance, insurance and other, net	113,834	60,709	53,125	87.5 %
<b>EchoPark Segment revenues</b>	<b>\$ 1,162,018</b>	<b>\$ 700,177</b>	<b>\$ 461,841</b>	<b>66.0 %</b>
<b>Total revenues</b>	<b>\$ 10,454,343</b>	<b>\$ 9,951,630</b>	<b>\$ 502,713</b>	<b>5.1 %</b>
<b>Segment income (loss) (1)</b>				
Franchised Dealerships Segment (2)	\$ 211,267	\$ 157,413	\$ 53,854	34.2 %
EchoPark Segment (3)	9,146	(52,587)	61,733	117.4 %
<b>Total segment income (loss)</b>	<b>\$ 220,413</b>	<b>\$ 104,826</b>	<b>\$ 115,587</b>	<b>110.3 %</b>
Impairment charges (4)	(20,768)	(29,514)	8,746	29.6 %
<b>Income (loss) from continuing operations before taxes</b>	<b>\$ 199,645</b>	<b>\$ 75,312</b>	<b>\$ 124,333</b>	<b>165.1 %</b>
<b>Retail new and used vehicle unit sales volume:</b>				
Franchised Dealerships Segment	226,760	232,885	(6,125)	(2.6)%
EchoPark Segment	49,520	29,437	20,083	68.2 %
<b>Total retail new and used vehicle unit sales volume</b>	<b>276,280</b>	<b>262,322</b>	<b>13,958</b>	<b>5.3 %</b>

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(1) Segment income (loss) for each segment is defined as income (loss) from continuing operations before taxes and impairment charges.

(2) For 2019, the above amount includes approximately \$76.0 million of pre-tax net gain on the disposal of franchised dealerships, offset partially by approximately \$7.2 million of pre-tax loss on the extinguishment of debt, approximately \$6.3 million of pre-tax executive transition costs and approximately \$1.1 million of pre-tax impairment charges. For 2018, the above amount includes approximately \$38.9 million of pre-tax net gain on the disposal of franchised dealerships, offset partially by approximately \$27.9 million of pre-tax impairment charges, approximately \$4.0 million of pre-tax storm-related physical damage costs, approximately \$1.7 million of pre-tax legal costs, approximately \$1.6 million of pre-tax executive transition costs and approximately \$1.4 million of pre-tax lease exit charges.

(3) For 2019, the above amount includes approximately \$19.7 million of pre-tax impairment charges related to building and land held for sale at former EchoPark locations. For 2018, the above amount includes approximately \$32.5 million of pre-tax long-term compensation-related charges and approximately \$1.6 million of pre-tax impairment charges.

(4) For 2019, the above amount includes approximately \$1.1 million of pre-tax impairment charges for the Franchised Dealerships Segment and approximately \$19.7 million of pre-tax impairment charges for the EchoPark Segment. For 2018, the above amount includes approximately \$27.9 million of pre-tax impairment charges for the Franchised Dealerships Segment and approximately \$1.6 million of pre-tax impairment charges for the EchoPark Segment.

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

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

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
	(In thousands)			
<b>SG&amp;A expenses:</b>				
Compensation	\$ 733,925	\$ 725,022	\$ (8,903)	(1.2)%
Advertising	60,831	63,134	2,303	3.6 %
Rent	54,611	64,204	9,593	14.9 %
Other	250,007	292,965	42,958	14.7 %
Total SG&A expenses	<u>\$ 1,099,374</u>	<u>\$ 1,145,325</u>	<u>\$ 45,951</u>	<u>4.0 %</u>
<b>SG&amp;A expenses as a % of gross profit:</b>				
Compensation	48.3 %	50.1 %	180	bps
Advertising	4.0 %	4.4 %	40	bps
Rent	3.6 %	4.4 %	80	bps
Other	16.4 %	20.3 %	390	bps
Total SG&A expenses as a % of gross profit	<u>72.3 %</u>	<u>79.2 %</u>	<u>690</u>	<u>bps</u>

Overall SG&A expenses decreased both in dollar amount and as a percentage of gross profit, primarily due to a reduction in other variable expense, fixed compensation expense, rent expense, and other fixed SG&A expense, offset partially by higher variable compensation expense. Compensation costs increased in dollar amount but decreased as a percentage of

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gross profit primarily due to increases in variable compensation expense related to higher levels of sales activity and related gross profit. Advertising expense decreased both in dollar amount and as a percentage of gross profit due primarily to the disposition of several franchised dealerships and higher levels of gross profit. Rent expense decreased both in dollar amount and as a percentage of gross profit due primarily to the disposition of several franchised dealerships and higher levels of gross profit. Other SG&A expenses decreased both in dollar amount and as a percentage of gross profit, primarily due to a higher net gain on the disposal of franchised dealerships in 2019 and physical damage and legal charges in 2018.

SG&A expenses for 2019 include approximately \$76.0 million of net gain on the disposal of franchised dealerships, offset partially by approximately \$6.3 million of executive transition costs. SG&A expenses for 2018 include approximately \$32.5 million of long-term compensation-related charges, approximately \$4.0 million of storm-related physical damage costs, approximately \$1.7 million of legal costs, approximately \$1.6 million of executive transition costs and approximately \$1.4 million of lease exit charges, offset partially by approximately \$38.9 million of net gain on the disposal of franchised dealerships.

***Impairment Charges - Consolidated***

Impairment charges were approximately \$20.8 million and \$29.5 million in 2019 and 2018, respectively. Impairment charges for 2019 include approximately \$19.7 million related to building and land held for sale at former EchoPark locations and approximately \$1.1 million related to software impairment. Impairment charges for 2018 include approximately \$27.4 million of property and equipment charges due to the abandonment of certain construction projects and internally developed software applications, as well as our estimate that certain dealerships would not be able to recover recorded balances through operating activities, in addition to approximately \$2.1 million of franchise asset impairment charges.

***Depreciation and Amortization - Consolidated***

Depreciation expense decreased approximately \$0.5 million, or 0.5%, in 2019 primarily related to lower depreciation expense as a result of the disposition of several franchised dealerships, offset partially by higher depreciation expense related to additional EchoPark locations.

***Interest Expense, Floor Plan - Consolidated***

Interest expense, floor plan for new vehicles decreased approximately \$0.8 million, or 1.9%. The average new vehicle floor plan notes payable balance increased approximately \$5.6 million, resulting in an increase in new vehicle floor plan interest expense of approximately \$0.2 million. The average new vehicle floor plan effective interest rate was 3.03%, down from 3.10% in the prior year, which resulted in a decrease in interest expense of approximately \$1.0 million.

Interest expense, floor plan for used vehicles increased approximately \$0.9 million, or 16.8%. The average used vehicle floor plan notes payable balance increased approximately \$22.3 million, resulting in an increase in used vehicle floor plan interest expense of approximately \$0.7 million. The average used vehicle floor plan effective interest rate was 3.10%, up from 2.98% in the prior year, which resulted in an increase in interest expense of approximately \$0.2 million.

***Interest Expense, Other, Net - Consolidated***

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

	Year Ended December 31,		Better / (Worse)	
	2019	2018	Change	% Change
(In thousands)				
Stated/coupon interest	\$ 49,291	\$ 51,018	\$ 1,727	3.4 %
Deferred loan cost amortization	2,478	2,418	(60)	(2.5)%
Interest rate hedge expense (benefit)	(2,876)	(462)	2,414	522.5 %
Capitalized interest	(1,583)	(1,515)	68	4.5 %
Interest on finance lease liabilities	5,097	—	(5,097)	(100.0)%
Other interest	546	2,600	2,054	79.0 %
Total interest expense, other, net	\$ 52,953	\$ 54,059	\$ 1,106	2.0 %

Interest expense, other, net decreased approximately \$1.1 million, primarily due to an increase in net interest rate hedge receipts and lower stated/coupon interest related to a decrease in mortgage notes payable balances, offset partially by an



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increase in interest expense related to finance leases (known as capital leases prior to the adoption of ASC 842, "Leases," on January 1, 2019).

**Provision for Income Taxes - Consolidated**

The overall effective tax rate from continuing operations was 27.6% and 30.4% for 2019 and 2018, respectively. Income tax expense for 2019 includes the effect of a \$1.5 million discrete charge for non-deductible executive officer compensation related to executive transition costs, a \$0.4 million discrete charge related to tax return to provision adjustments and a state income tax rate reduction, a \$0.2 million discrete charge related to changes in uncertain tax positions and a \$0.2 million discrete charge related to vested or exercised stock compensation awards, offset partially by a \$1.3 million discrete benefit related to the favorable resolution of certain tax matters. Our effective tax rate varies from year to year based on the distribution of taxable income between states in which we operate and other tax adjustments. We expect the effective tax rate in future periods to fall within a range of 26.0% to 29.0% before the impact, if any, of changes in valuation allowances related to deferred income tax assets, non-deductible compensation or unusual discrete tax adjustments.

**Discontinued Operations**

Income (loss) from discontinued operations before taxes is as follows:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Income (loss) from discontinued operations	\$ (554)	\$ (610)	\$ (735)
Lease exit accrual adjustments and charges	—	(407)	(1,207)
Income (loss) from discontinued operations before taxes	\$ (554)	\$ (1,017)	\$ (1,942)

We do not expect significant activity in discontinued operations in the future due to the change in the definition of a discontinued operation as a result of Accounting Standards Update ("ASU") 2014-08. The results of operations for those dealership and franchises that were classified as discontinued operations as of March 31, 2014 will continue to be reported within discontinued operations in the future. See the discussion of our adoption of ASU 2014-08 in Note 1, "Description of Business and Summary of Significant Accounting Policies," to the accompanying consolidated financial statements.

**Use of Estimates and Critical Accounting Policies**

The preparation of financial statements in conformity with U.S. GAAP 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Critical accounting policies are those that are most important to the portrayal of our financial position and results of operations and require the most subjective and complex judgments. See Note 1, "Description of Business and Summary of Significant Accounting Policies," to the accompanying consolidated financial statements for additional discussion regarding our critical accounting policies and estimates.

**Goodwill and Franchise Assets**

In accordance with ASC Topic 350, "Intangibles - Goodwill and Other," we test goodwill for impairment at least annually (as of October 1 of each year), or more frequently if indications of impairment exist. The ASC also states that if an entity determines, based on an assessment of certain qualitative factors, that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then a quantitative goodwill impairment test is unnecessary.

For purposes of goodwill impairment testing, we have two reporting units, which consist of (1) our traditional franchised dealerships and (2) our EchoPark stores (these reporting units also represent our reportable segments). The carrying value of our goodwill totaled approximately \$475.8 million at December 31, 2019, \$415.8 million of which was related to our franchised dealerships reporting unit and \$60.0 million of which was related to our EchoPark reporting unit. In evaluating goodwill for impairment, if the fair value of a reporting unit is less than its carrying value, the difference would represent the amount of the required goodwill impairment. For each reporting unit, we utilized the Discounted Cash Flows ("DCF") method to estimate its enterprise value as of October 1, 2019. The significant assumptions in our DCF model include projected earnings, a discount rate (and estimates in the discount rate inputs) and residual growth rates. To the extent the reporting unit's earnings decline

significantly or there are changes in one or more of these assumptions that would result in lower valuation results, it could cause the carrying value of the reporting unit to exceed its fair value and thus require us to record goodwill impairment.

Based on the results of our goodwill impairment test as of October 1, 2019, each reporting unit's fair value exceeded its carrying value, and as such, no impairment was required. Our DCF model is dependent on the assumptions used and is sensitive to changes in those assumptions. In order to determine the effects of changes in our assumptions on our DCF model, and, consequently our goodwill valuation, we ran multiple scenarios adjusting our assumed earnings before interest and taxes ("EBIT") growth factors and discount rate assumptions. Although we assumed a 1.0% residual EBIT growth factor in our model, in the event the residual EBIT growth rate decreased by 100 basis points, assuming all other factors remain the same, the calculated fair value estimate as of October 1, 2019 would change by approximately \$260.2 million and \$28.4 million for our franchised dealerships and EchoPark reporting units, respectively. In the event the discount rate increased by 100 basis points, assuming all other factors remain the same, the calculated fair value estimate as of October 1, 2019 would change by approximately \$318.9 million and \$38.0 million for our franchised dealerships and EchoPark reporting units, respectively. In the event the residual EBIT growth rate decreased by 100 basis points and the discount rate increased by 100 basis points, assuming all other factors remain the same, the calculated fair value estimate as of October 1, 2019 would change by approximately \$508.0 million and \$61.6 million for our franchised dealerships and EchoPark reporting units, respectively. Based on our DCF model, if any of the realistic scenarios described above were realized, the reporting unit's fair value remains substantially in excess of the carrying value.

In accordance with ASC Topic 350, "Intangibles - Goodwill and Other," we evaluate franchise assets for impairment annually (as of October 1 of each year) or more frequently if indicators of impairment exist. We estimate the fair value of our franchise assets using a DCF model. The DCF model used contains inherent uncertainties, including significant estimates and assumptions related to projected revenue, projected operating margin, a discount rate (and estimates in the discount rate inputs) and residual growth rates. We are subject to financial risk to the extent that our franchise assets become impaired due to deterioration of the underlying businesses. The risk of a franchise asset impairment charge may increase to the extent the underlying businesses' actual earnings or projected earnings experience a significant decline. As a result of our impairment testing as of October 1, 2019, each of our franchise assets' fair values exceeded its carrying value and no franchise asset impairment charges were recorded in the accompanying consolidated statements of income. The carrying value of our franchise assets totaled approximately \$64.3 million at December 31, 2019, and is included in other intangible assets, net in the accompanying consolidated balance sheets.

#### ***Finance, Insurance and Service Contracts***

We arrange financing for customers through various financial institutions and receive a commission from the financial institution either in a flat fee amount or in an amount equal to the difference between the interest rates charged to customers and the predetermined interest rates set by the financial 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 extended service contract prior to the scheduled maturity date, we may be required to return a portion of the commission revenue originally recorded as income by Sonic to the third-party provider (known as a "chargeback"). 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, termination provisions of the applicable contracts and industry data. While chargeback rates vary depending on the type of contract sold, a 100-basis point change in the estimated chargeback rates used in determining our estimates of future chargebacks would have changed our estimated reserve for chargebacks at December 31, 2019 by approximately \$3.2 million. Our estimate of chargebacks (approximately \$32.0 million as of December 31, 2019) is influenced by the number of early contract termination events, such as vehicle repossessions, loan refinancing and early pay-offs. If these events become more or less common, the resulting impact would affect our future estimate for chargebacks and could have a material adverse impact on our operations, financial position and cash flows. Our actual chargeback experience has not been materially different from our recorded estimates.

#### ***Insurance Reserves***

We have various self-insured and high deductible casualty and other insurance programs which require us to make estimates in determining the ultimate liability we may incur for claims arising under these programs. We accrue for insurance reserves throughout the year based on current information available. As of December 31, 2019, we estimated the ultimate liability under these programs to be between \$21.8 million and \$24.1 million, and had approximately \$23.1 million reserved for

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such programs. Changes in significant assumptions used in the development of the ultimate liability for these programs could have a material impact on the level of reserves and our operating results, financial position and cash flows. These significant assumptions could include the volume of claims, medical cost trends, claims handling and reporting patterns, historical claims experience, the effect of related court rulings, current or projected changes in state laws or an assumed discount rate. From a sensitivity analysis perspective, it is difficult to quantify the effect of changes in any of these significant assumptions with the exception of the volume of claims. We believe a 10% change in the volume of claims would have a proportional effect on our reserves. Our actual loss experience has not been materially different from our recorded estimates.

***Legal Proceedings***

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

As of December 31, 2019, we had accrued approximately \$1.5 million in legal reserves. Although we vigorously defend ourselves in all legal proceedings, the outcomes of pending and future proceedings arising out of the conduct of our business cannot be predicted with certainty.

***Income Taxes***

As a matter of course, we are regularly audited by various taxing authorities and, from time to time, these audits result in proposed assessments where the ultimate resolution may result in us owing additional taxes. We believe that our tax positions comply, in all material respects, with applicable tax law and that we have adequately provided for any reasonably foreseeable outcome related to these matters. From time to time, we engage in transactions in which the tax consequences may be subject to uncertainty. Examples of such transactions include business acquisitions and disposals, including consideration paid or received in connection with such transactions. Significant judgment is required in assessing and estimating the tax consequences of these transactions. We determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, we presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. A tax position that does not meet the more-likely-than-not recognition threshold is measured to determine the amount of benefit to be recognized in the financial statements. The tax position is measured at the largest amount of benefit that is likely to be realized upon ultimate settlement. We adjust our estimates periodically because of ongoing examinations by and settlements with the various taxing authorities, as well as changes in tax laws, regulations and precedent.

At December 31, 2019, there were approximately \$4.4 million in reserves that we had provided for these matters (including estimates related to possible interest and penalties) with approximately \$0.5 million included in other accrued liabilities and approximately \$3.9 million recorded in other long-term liabilities in the accompanying consolidated balance sheets. The effects on our consolidated financial statements of income tax uncertainties are discussed in Note 7, "Income Taxes," to the accompanying consolidated financial statements.

We periodically review all deferred tax asset positions (including state net operating loss carryforwards) to determine whether it is more likely than not that the deferred tax assets will be realized. Certain factors considered in evaluating the potential for realization of deferred tax assets include the time remaining until expiration (related to state net operating loss carryforwards) and various sources of taxable income that may be available under the tax law to realize a tax benefit related to a deferred tax asset. This evaluation requires management to make certain assumptions about future profitability, the execution of tax strategies that may be available to us and the likelihood that these assumptions or execution of tax strategies would occur. This evaluation is highly judgmental. The results of future operations, regulatory framework of these taxing authorities and other related matters cannot be predicted with certainty. Therefore, actual realization of these deferred tax assets may be materially different from management's estimate.

As of December 31, 2019 and 2018, we had recorded a valuation allowance amount of approximately \$7.8 million and \$8.1 million, respectively, related to certain state net operating loss carryforward deferred tax assets as we determined that we

would not be able to generate sufficient state taxable income in the related entities to realize the accumulated net operating loss carryforward balances.

We make certain estimates, judgments and assumptions in the calculation of our provision for income taxes, in the resulting tax liabilities and in the recoverability of deferred tax assets. These estimates, judgments and assumptions are updated quarterly by our management based on available information and take into consideration estimated income taxes based on prior year income tax returns, changes in income tax law, our income tax strategies and other factors. If our management receives information which causes us to change our estimate of the year-end liability, the amount of expense or expense reduction required to be recorded in any particular quarter could be material to our operating results, financial position and cash flows.

#### Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the "FASB") established ASC Topic 842, "Leases," by issuing ASU 2016-02 (and subsequent amendments via ASU 2018-01, ASU 2018-10 and ASU 2018-11) in order to increase transparency and comparability among organizations by recognizing operating lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new lease standard was effective for us on January 1, 2019. Prior to adoption of the new lease standard, only leases classified as capital leases under ASC 840, "Leases," were recorded in the consolidated balance sheets. Under ASC 842, "Leases," we classify leases as either finance leases (formerly capital leases) or operating leases, and a right-of-use asset and lease liability are required to be recognized in the consolidated balance sheets for both finance and operating leases with a term longer than 12 months. The new lease standard required a modified retrospective transition approach and provides an optional transition method to either (1) record current existing leases as of the effective date; or (2) record leases existing as of the earliest comparative period presented in the financial statements by recasting comparative period financial statements. We adopted the new lease standard as of January 1, 2019 using the effective date as our date of application. As such, financial statement information and disclosures required under the new lease standard are not provided for dates and periods prior to January 1, 2019. The new lease standard provides for a number of optional practical expedients in transition, which include: (1) not requiring an entity to reassess prior conclusions about lease identification, lease classification or initial direct costs; (2) allowing an entity to use a portfolio approach for similar lease assets; (3) allowing an entity to elect an accounting policy to choose not to separate non-lease components of an agreement from lease components (by asset class); (4) allowing the use of hindsight in estimating lease term or assessing impairment of right-of-use assets; and (5) not requiring an entity to reassess prior conclusions about land easements. We elected all of the practical expedients permitted under the transition guidance within the new lease standard. The new lease standard also provides practical expedients for ongoing accounting. We elected the short-term lease recognition exemption for our real estate and equipment leases, which means that for those leases that qualify, we do not recognize right-of-use assets or lease liabilities. We have also elected the practical expedient that allows us not to separate non-lease components of an agreement from lease components (for certain asset classes). See Note 16, "Lease Accounting," to the accompanying consolidated financial statements for further discussion on leases.

In August 2017, the FASB issued ASU 2017-12, which amends the hedge accounting recognition and presentation requirements in ASC Topic 815, "Derivatives and Hedging." This ASU expands and refines hedge accounting for both non-financial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. It also includes certain targeted improvements to simplify the application of current guidance related to hedge accounting. For public companies, this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this ASU did not materially impact our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, which allows the reclassification of stranded tax effects, as a result of the Tax Cuts and Jobs Acts of 2017, from accumulated other comprehensive income to retained earnings. For public companies, this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this ASU did not materially impact our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07 to expand the scope of ASC Topic 718, "Compensation - Stock Compensation," to include share-based payment transactions for acquiring goods and services from non-employees. For public companies, this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this ASU did not materially impact our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendment in this update replaced the previous incurred loss impairment methodology of recognizing credit losses when a loss is probable, with a methodology that reflects expected credit losses and

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requires consideration of a broader range of reasonable and supportable information to assess credit loss estimates. This ASU is effective for fiscal years beginning after December 15, 2019. We adopted this ASU as of January 1, 2020 and the effects of the adoption of this ASU are not expected to materially impact our consolidated financial statements.

**Liquidity and Capital Resources**

We require cash to fund debt service, lease obligations, working capital requirements, facility improvements and other capital improvements, and dividends on our common stock and to finance acquisitions and otherwise invest in our business. We rely on cash flows from operations, borrowings under our revolving credit and floor plan borrowing arrangements, real estate mortgage financing, asset sales and offerings of debt and equity securities to meet these requirements. We closely monitor our available liquidity and projected future operating results in order to remain in compliance with restrictive covenants under the 2016 Credit Facilities, the 2019 Mortgage Facility, the indenture governing the 6.125% Notes and other debt obligations and lease arrangements. However, our liquidity could be negatively affected if we fail to comply with the financial covenants in our existing debt or lease arrangements. After giving effect to the applicable restrictions on the payment of dividends under our debt agreements, as of December 31, 2019, we had at least \$259.9 million of net income and retained earnings free of such restrictions. Cash flows provided by our dealerships are derived from various sources. The primary sources include individual consumers, automobile manufacturers, automobile manufacturers' captive finance subsidiaries and other financial institutions. Disruptions in these cash flows could have a material adverse impact on our operations and overall liquidity.

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

We had the following liquidity resources available as of December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
	(In thousands)	
Cash and cash equivalents	\$ 29,103	\$ 5,854
Availability under the 2016 Revolving Credit Facility	230,689	223,922
Availability under the 2019 Mortgage Facility	3,090	—
Availability under our used vehicle floor plan facilities	17,090	1,979
Total available liquidity resources	<u>\$ 279,972</u>	<u>\$ 231,755</u>

**Long-Term Debt and Credit Facilities**

*2016 Credit Facilities*

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

Availability under the 2016 Revolving Credit Facility is calculated as the lesser of \$250.0 million or a borrowing base calculated based on certain eligible assets, less the aggregate face amount of any outstanding letters of credit under the 2016 Revolving Credit Facility (the "2016 Revolving Borrowing Base"). The 2016 Revolving Credit Facility may be increased at our option up to \$300.0 million upon satisfaction of certain conditions. Based on balances as of December 31, 2019, the 2016 Revolving Borrowing Base was approximately \$245.3 million. As of December 31, 2019, we had no outstanding borrowings and approximately \$14.6 million in outstanding letters of credit under the 2016 Revolving Credit Facility, resulting in total borrowing availability of approximately \$230.7 million under the 2016 Revolving Credit Facility.

The 2016 Floor Plan Facilities are comprised of a new vehicle revolving floor plan facility (the "2016 New Vehicle Floor Plan Facility") and a used vehicle revolving floor plan facility (the "2016 Used Vehicle Floor Plan Facility"), subject to a borrowing base, in a combined amount of up to \$1.015 billion. We may, under certain conditions, request an increase in the 2016 Floor Plan Facilities to a maximum borrowing limit of up to \$1.265 billion, which shall be allocated between the 2016

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New Vehicle Floor Plan Facility and the 2016 Used Vehicle Floor Plan Facility as we request, with no more than 30% of the aggregate commitments allocated to the commitments under the 2016 Used Vehicle Floor Plan Facility. Outstanding obligations under the 2016 Floor Plan Facilities are guaranteed by us and certain of our subsidiaries and are secured by a pledge of substantially all of our assets and our subsidiaries' assets. The amounts outstanding under the 2016 Credit Facilities bear interest at variable rates based on specified percentages above LIBOR.

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

*5.0% Notes*

On May 9, 2013, we issued \$300.0 million in aggregate principal amount of unsecured 5.0% Senior Subordinated Notes due May 15, 2023 (the "5.0% Notes"). During the year ended December 31, 2016, we repurchased approximately \$10.7 million of the 5.0% Notes for approximately \$10.6 million in cash, plus accrued and unpaid interest related thereto. On December 30, 2019, we repurchased all of the remaining 5.0% Notes outstanding, totaling approximately \$289.3 million aggregate principal amount, using cash on hand, net proceeds from the disposition of several franchised dealerships and proceeds from borrowings under the 2019 Mortgage Facility. We paid approximately \$295.9 million in cash, including an early redemption premium of 1.667% and accrued and unpaid interest, to extinguish the 5.0% Notes. In conjunction with the redemption of the 5.0% Notes, we recognized a loss on debt extinguishment of approximately \$6.7 million, recorded in other income (expense), net in the accompanying consolidated statements of income. In addition, we recognized approximately \$0.5 million of double-carry interest in interest expense, other, net in the accompanying consolidated statements of income for the period during which both the 5.0% Notes and the 2019 Mortgage Facility had outstanding balances. On December 30, 2019, after the repurchase of all of the outstanding 5.0% Notes, there were no notes outstanding under the indenture which governed the 5.0% Notes, and the indenture was discharged at that time.

*6.125% Notes*

On March 10, 2017, we issued \$250.0 million in aggregate principal amount of unsecured senior subordinated 6.125% Notes which mature on March 15, 2027. The 6.125% Notes were issued at a price of 100.0% of the principal amount thereof. We used the net proceeds from the issuance of the 6.125% Notes to repurchase all of the outstanding 7.0% Senior Subordinated Notes due 2022 (the "7.0% Notes") on March 27, 2017. Remaining proceeds from the issuance of the 6.125% Notes were used for general corporate purposes. Balances outstanding under the 6.125% Notes are guaranteed by all of our domestic operating subsidiaries. These guarantees are full and unconditional and joint and several. The parent company has no independent assets or operations. The non-domestic operating subsidiary that is not a guarantor is considered to be minor. Interest on the 6.125% Notes is payable semi-annually in arrears on March 15 and September 15 of each year. We may redeem the 6.125% Notes, in whole or in part, at any time on or after March 15, 2022 at the following redemption prices, which are expressed as percentages of the principal amount:

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

Before March 15, 2022, we may redeem all or a part of the 6.125% Notes at a redemption price equal to 100.0% of the principal amount of the 6.125% Notes redeemed, plus the Applicable Premium (as defined in the indenture governing the 6.125% Notes) and any accrued and unpaid interest, if any, to the redemption date. In addition, on or before March 15, 2020, we may redeem up to 35% of the aggregate principal amount of the 6.125% Notes at a redemption price equal to 106.125% of the par value of the 6.125% Notes redeemed, plus accrued and unpaid interest, if any, to the redemption date with proceeds from certain equity offerings. The indenture governing the 6.125% Notes also provides that holders of the 6.125% Notes may require us to repurchase the 6.125% Notes at a purchase price equal to 101.0% of the par value of the 6.125% Notes, plus

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accrued and unpaid interest, if any, to the date of purchase if we undergo a Change of Control (as defined in the indenture governing the 6.125% Notes).

The indenture governing the 6.125% Notes contains certain specified restrictive covenants. We have agreed not to pledge any assets to any third-party lender of senior subordinated debt except under certain limited circumstances. We also have agreed to certain other limitations or prohibitions concerning the incurrence of other indebtedness, guarantees, liens, certain types of investments, certain transactions with affiliates, mergers, consolidations, issuance of preferred stock, cash dividends to stockholders, distributions, redemptions and the sale, assignment, lease, conveyance or disposal of certain assets. Specifically, the indenture governing the 6.125% Notes limits our ability to pay quarterly cash dividends on our Class A and Class B Common Stock in excess of \$0.12 per share. We may only pay quarterly cash dividends on our Class A and Class B Common Stock if we comply with the terms of the indenture governing the 6.125% Notes. We were in compliance with all restrictive covenants in the indenture governing the 6.125% Notes as of December 31, 2019.

Our obligations under the 6.125% Notes may be accelerated by the holders of 25% of the outstanding principal amount of the 6.125% Notes then outstanding if certain events of default occur, including: (1) defaults in the payment of principal or interest when due; (2) defaults in the performance, or breach, of our covenants under the 6.125% Notes; and (3) certain defaults under other agreements under which we or our subsidiaries have outstanding indebtedness in excess of \$50.0 million. See Note 6, "Long-Term Debt", to the accompanying consolidated financial statements for further discussion of the 6.125% Notes.

#### *2019 Mortgage Facility*

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

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

Amounts outstanding under the 2019 Mortgage Facility bear interest at (i) a specified rate above LIBOR (as defined in the 2019 Mortgage Facility), ranging from 1.50% to 2.75% per annum according to a performance-based pricing grid determined by the Company's Consolidated Total Lease Adjusted Leverage Ratio (as defined in the 2019 Mortgage Facility) as of the last day of the immediately preceding fiscal quarter (the "Performance Grid"); or (ii) a specified rate above the Base Rate (as defined in the 2019 Mortgage Facility), ranging from 0.50% to 1.75% per annum according to the Performance Grid. Interest on the 2019 Mortgage Facility is paid monthly in arrears calculated using the Base Rate plus the Applicable Rate (as defined in the 2019 Mortgage Facility) according to the Performance Grid. Repayment of principal is paid quarterly commencing on March 31, 2020 through September 30, 2024 at a rate of 2.5% of the aggregate initial principal amount. A balloon payment of the remaining balance will be due at the November 22, 2024 maturity date. Prior to the November 22, 2024 maturity date, the Company reserves the right to prepay the principal amount outstanding at any time without premium or penalty provided the prepayment amount exceeds \$0.5 million.

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

#### *Mortgage Notes to Finance Companies*

As of December 31, 2019, the weighted average interest rate of other mortgage notes, excluding the 2019 Mortgage Facility, was 4.36% and the total outstanding mortgage principal balance of these notes was approximately \$355.9 million. These mortgage notes require monthly payments of principal and interest through their respective maturities, are secured by the underlying properties and contain certain cross-default provisions. Maturity dates for these mortgage notes range between 2020 and 2033.

*Operating Leases*

The majority of our dealership properties are subject to long-term operating lease arrangements. These facility lease arrangements normally have 10- to 20-year initial terms with one or more five- to 10-year renewal options and do not contain provisions for contingent rent related to the dealership's operations. Many of the leases are subject to the provisions of a guaranty and subordination agreement that contains financial and affirmative covenants. Certain of these facility leases have payments that vary based on interest rates. See the table under the heading "Future Liquidity Outlook" below for our future minimum lease payment obligations, net of sublease proceeds. In 2019, the majority of these operating leases are recorded on the consolidated balance sheet in accordance with ASC 842.

*Floor Plan Facilities*

We finance our new and certain of our used vehicle inventory through standardized floor plan facilities with manufacturer captive finance companies and a syndicate of manufacturer-affiliated finance companies and commercial banks. These floor plan facilities are due on demand and bear interest at variable rates based on LIBOR or prime. The weighted average interest rate for our new and used floor plan facilities was 3.04% and 3.09% for 2019 and 2018, respectively. We receive floor plan assistance from certain manufacturers. Floor plan assistance received is capitalized in inventory and charged against cost of sales when the associated inventory is sold. We received approximately \$41.1 million and \$41.7 million in manufacturer assistance in 2019 and 2018, respectively, and recognized in cost of sales approximately \$41.5 million and \$42.2 million in manufacturer assistance in 2019 and 2018, respectively. 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.

*Covenants and Default Provisions*

Non-compliance with covenants, including a failure to make any payment when due, under the 2016 Credit Facilities, the 2019 Mortgage Facility, our floor plan agreements with various manufacturer-affiliated finance companies and other lending institutions (the "Silo Floor Plan Facilities"), operating lease agreements, mortgage notes to finance companies and the 6.125% Notes (collectively, our "Significant Debt Agreements") could result in a default and an acceleration of our repayment obligation under the 2016 Credit Facilities. A default under the 2016 Credit Facilities or the 2019 Mortgage Facility would constitute a default under the Silo Floor Plan Facilities and could entitle these lenders to accelerate our repayment obligations under one or more of the floor plan facilities. Certain defaults under the 2016 Credit Facilities, the 2019 Mortgage Facility and one or more of the Silo Floor Plan Facilities or certain other debt obligations would not result in a default under the 6.125% Notes unless our repayment obligations under the 2016 Credit Facilities, the 2019 Mortgage Facility and/or one or more of the Silo Floor Plan Facilities or such other debt obligations were accelerated. An acceleration of our repayment obligation under any of the Significant Debt Agreements could result in an acceleration of our repayment obligations under our other Significant Debt Agreements. The failure to repay principal amounts of the Significant Debt Agreements when due would create cross-default situations related to other indebtedness. The 2016 Credit Facilities and the 2019 Mortgage Facility include the following financial covenants:

	<b>Covenant</b>		
	<b>Minimum Consolidated Liquidity Ratio</b>	<b>Minimum Consolidated Fixed Charge Coverage Ratio</b>	<b>Maximum Consolidated Total Lease Adjusted Leverage Ratio</b>
Required ratio	1.05	1.20	5.75
December 31, 2019 actual	1.11	1.60	3.21

In addition, many of our facility leases are governed by a guarantee agreement between the landlord and us that contains financial and operating covenants. The financial covenants under the guarantee agreement are identical to those under the 2016 Credit Facilities and the 2019 Mortgage Facility with the exception of one additional financial covenant related to the ratio of EBTDAR to rent (as defined in the guarantee agreement) with a required ratio of no less than 1.50 to 1.00. As of December 31, 2019, the ratio was 5.57 to 1.00.

We were in compliance with all of the restrictive and financial covenants in all of our floor plan, long-term debt facilities and lease agreements as of December 31, 2019. After giving effect to the applicable restrictions on the payment of dividends and certain other transactions under our debt agreements, as of December 31, 2019, we had at least \$259.9 million of net income and retained earnings free of such restrictions. See Note 6, "Long-Term Debt," to the accompanying consolidated financial statements for further discussion of the 2016 Credit Facilities.



### ***Acquisitions and Dispositions***

During 2019, we did not acquire any businesses. We disposed of one luxury franchised dealership and nine mid-line import franchised dealerships in 2019, which generated net cash from dispositions of approximately \$250.7 million. See Note 2, "Business Acquisitions and Dispositions," to the accompanying consolidated financial statements for further discussion.

Under the 2016 Credit Facilities, we are restricted from making dealership acquisitions in any fiscal year if the aggregate cost of all such acquisitions occurring in any fiscal year is above specific amounts without the written consent of the Required Lenders (as defined in the 2016 Credit Facilities).

### ***Capital Expenditures***

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

Capital expenditures for 2019 were approximately \$125.6 million, including approximately \$89.3 million related to our Franchised Dealerships Segment and approximately \$36.3 million related to our EchoPark Segment, all of which was funded through cash flows from operations. Of this amount, approximately \$79.5 million was related to facility construction projects, approximately \$27.1 million was related to real estate acquisitions and approximately \$19.0 million was for other fixed assets utilized in our dealership operations. As of December 31, 2019, commitments for facility construction projects totaled approximately \$18.0 million. We expect investments related to capital expenditures to be partly dependent upon the availability of mortgage financing to fund significant capital projects.

### ***Share Repurchase Program***

Our Board of Directors has authorized us to repurchase shares of our Class A Common Stock. Historically, we have used our share repurchase authorization to offset dilution caused by the exercise of stock options or the vesting of equity compensation awards and to maintain our desired capital structure. During 2019, we repurchased approximately 0.2 million shares of our Class A Common Stock for approximately \$2.4 million in open-market transactions at prevailing market prices and in connection with tax withholdings on the vesting of equity compensation awards. As of December 31, 2019, our total remaining repurchase authorization was approximately \$81.2 million. Under the 2016 Credit Facilities, share repurchases are permitted to the extent that no event of default exists and we do not exceed the restrictions set forth in our debt agreements. After giving effect to the applicable restrictions on share repurchases and certain other transactions under our debt agreements, as of December 31, 2019, we had at least \$259.9 million of net income and retained earnings free of such restrictions.

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

### ***Dividends***

Our Board of Directors approved four quarterly cash dividends on all outstanding shares of Class A and Class B Common Stock totaling \$0.40 per share during 2019. Subsequent to December 31, 2019, our Board of Directors approved a cash dividend on all outstanding shares of Class A and Class B Common Stock of \$0.10 per share for stockholders of record on March 13, 2020 to be paid on April 15, 2020. Under the 2016 Credit Facilities, dividends are permitted to the extent that no event of default exists and we are in compliance with the financial covenants contained therein. The indenture governing the 6.125% Notes also contains restrictions on our ability to pay dividends. After giving effect to the applicable restrictions on share repurchases and certain other transactions under our debt agreements, as of December 31, 2019, we had at least \$259.9 million of net income and retained earnings free of such restrictions. The payment of any future dividend is subject to the business judgment of our Board of Directors, taking into consideration our historical and projected results of operations, financial condition, cash flows, capital requirements, covenant compliance, share repurchases, current economic environment and other factors considered relevant. These factors are considered each quarter and will be scrutinized as our Board of Directors determines our future dividend policy. There is no guarantee that additional dividends will be declared and paid at any time in the future. See Note 6, "Long-Term Debt," to the accompanying consolidated financial statements for a description of restrictions on the payment of dividends.

### **Cash Flows**

**Cash Flows from Operating Activities** - Net cash provided by operating activities was approximately \$170.9 million, \$143.7 million and \$162.9 million for 2019, 2018 and 2017, respectively. The provision of cash by operations for 2019 consisted primarily of net income (less non-cash items), an increase in notes payable - floor plan - trade and a decrease in receivables, offset partially by an increase in inventories. The provision of cash by operations for 2018 consisted primarily of net income (less non-cash items), an increase in notes payable - floor plan - trade and a decrease in receivables, offset partially by an increase in inventories. The provision of cash by operations for 2017 consisted primarily of net income (less non-cash items) and a decrease in inventories, offset partially by an increase in receivables and a decrease in notes payable - floor plan - trade.

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

Due to the presentation differences for changes in trade floor plan financing and non-trade floor plan financing in the consolidated statements of cash flows, decisions made by us to move dealership floor plan financing arrangements from one finance source to another may cause significant variations in operating and financing cash flows without affecting our overall liquidity, working capital or cash flows.

Net cash used in combined trade and non-trade floor plan financing was approximately \$5.1 million and \$12.6 million for 2019 and 2017, respectively. Net cash provided by combined trade and non-trade floor plan financing was approximately \$20.7 million for 2018. Accordingly, if all changes in floor plan notes payable were classified as an operating activity, the result would have been net cash provided by operating activities of approximately \$136.2 million, \$147.5 million and \$196.6 million for 2019, 2018 and 2017, respectively.

**Cash Flows from Investing Activities** - Net cash provided by investing activities during 2019 was approximately \$136.8 million. Net cash used in investing activities during 2018 and 2017 was approximately \$15.3 million and \$272.1 million, respectively. The provision of cash during 2019 was comprised primarily of proceeds from the sale of 10 franchised dealerships and proceeds from the sale of property and equipment, offset partially by purchases of land, property and equipment. The use of cash during 2018 was comprised primarily of purchases of land, property and equipment, offset partially by proceeds from the sale of seven franchised dealerships. The use of cash during 2017 was comprised primarily of purchases of land, property and equipment and the acquisition of one pre-owned vehicle store, offset partially by proceeds from the sale of three franchised dealerships.

The significant components of capital expenditures relate primarily to dealership renovations, the purchase of certain existing dealership facilities which had previously been financed under long-term operating leases, and the purchase and development of new real estate parcels for the relocation of existing dealerships and the construction of EchoPark stores. During 2019, 2018 and 2017, we generated net proceeds from mortgage financing in the amount of approximately \$109.1 million, \$21.1 million and \$52.5 million, respectively, to purchase certain existing dealership facilities and to fund certain capital expenditures.

**Cash Flows from Financing Activities** - Net cash used in financing activities was approximately \$284.4 million and \$128.8 million for 2019 and 2018, respectively. Net cash provided by financing activities was approximately \$112.5 million for 2017. For 2019, cash used in financing activities was comprised primarily of the extinguishment of the 5.0% Notes, scheduled principal payments and repayments of long-term debt and net repayments on notes payable - floor plan - non-trade, offset partially by proceeds from mortgage notes and the 2019 Mortgage Facility. For 2018, cash used in financing activities was comprised primarily of net repayments on revolving credit facilities, scheduled principal payments and repayments of long-term debt and repurchases of treasury stock, offset partially by proceeds from mortgage notes. For 2017, cash provided by financing activities was comprised primarily of proceeds from the issuance of the 6.125% Notes, net borrowings on notes payable - floor plan - non-trade and proceeds from mortgage notes, offset partially by the extinguishment of the 7.0% Notes, repurchases of treasury stock and scheduled principal payments and repayments of long-term debt.

**Cash Flows from Discontinued Operations** - The accompanying consolidated statements of cash flows include both continuing and discontinued operations. Net cash flows from operating activities associated with discontinued operations for 2019, 2018 and 2017 were not material to total cash flows.

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

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

	Year Ended December 31, 2019				Year Ended December 31, 2018			
	Franchised Dealerships Segment	EchoPark Segment	Discontinued Operations	Total	Franchised Dealerships Segment	EchoPark Segment	Discontinued Operations	Total
	(In thousands)							
Net income (loss)				\$ 144,137				\$ 51,650
Provision for income taxes				54,954				22,645
Income (loss) before taxes	\$ 210,167	\$ (10,522)	\$ (554)	\$ 199,091	\$ 129,481	\$ (54,169)	\$ (1,017)	\$ 74,295
Non-floor plan interest (1)	48,774	1,701	—	50,475	50,000	1,641	408	52,049
Depreciation & amortization (2)	85,093	10,553	—	95,646	88,857	7,795	—	96,652
Stock-based compensation expense	10,797	—	—	10,797	11,853	—	—	11,853
Loss (gain) on exit of leased dealerships	(170)	—	—	(170)	1,281	20	408	1,709
Asset impairment charges	1,101	19,667	—	20,768	27,931	1,583	—	29,514
Loss (gain) on debt extinguishment	6,690	—	—	6,690	—	—	—	—
Long-term compensation-related charges	—	—	—	—	—	32,522	—	32,522
Loss (gain) on franchise disposals	(74,812)	—	—	(74,812)	(39,307)	—	—	(39,307)
Adjusted EBITDA (3)	\$ 287,640	\$ 21,399	\$ (554)	\$ 308,485	\$ 270,096	\$ (10,608)	\$ (201)	\$ 259,287

(1) Includes interest expense, other, net, in the accompanying consolidated statements of income, net of any amortization of debt issuance costs or net debt discount/premium included in (2) below.

(2) Includes the following line items from the accompanying consolidated statements of cash flows: depreciation and amortization of property and equipment; debt issuance cost amortization; and debt discount amortization, net of premium amortization.

(3) Adjusted EBITDA is a non-GAAP financial measure.

**Future Liquidity Outlook**

Our future contractual obligations are as follows:

	2020	2021	2022	2023	2024	Thereafter	Total
	(In thousands)						
Floor plan facilities	\$ 1,539,094	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,539,094
Long-term debt (1)	69,908	63,274	50,241	68,857	108,462	354,226	714,968
Letters of credit	14,636	—	—	—	—	—	14,636
Estimated interest payments on floor plan facilities (2)	6,967	—	—	—	—	—	6,967
Estimated interest payments on long-term debt (3)	33,529	31,032	28,719	26,007	23,096	42,544	184,927
Operating leases (net of sublease rentals)	64,577	58,093	51,337	49,689	44,012	215,240	482,948
Construction contracts	18,039	—	—	—	—	—	18,039
Other purchase obligations (4)	9,708	8,770	329	329	27	—	19,163
Liability for uncertain tax positions (5)	500	—	—	—	—	3,859	4,359
Total	\$ 1,756,958	\$ 161,169	\$ 130,626	\$ 144,882	\$ 175,597	\$ 615,869	\$ 2,985,101

(1) Long-term debt amounts consist only of principal obligations.

(2) Floor plan facility balances are correlated with the amount of vehicle inventory and are generally due at the time that a vehicle is sold. Estimated interest payments were calculated using the December 31, 2019 floor plan facility balance, the weighted average interest rate for the three months ended December 31, 2019 of 2.69% and the assumption that floor plan

balances at December 31, 2019 would be relieved within 60 days in connection with the sale of the associated vehicle inventory.

(3) Estimated interest payments include receipts related to interest rate caps.

(4) Other purchase obligations include contracts for real estate purchases, office supplies, utilities, acquisition-related obligations and various other items or other services.

(5) Amount represents recorded liability, including interest and penalties, related to "Accounting for Uncertain Income Tax Positions" in the ASC. See Note 1, "Description of Business and Summary of Significant Accounting Policies," and Note 7, "Income Taxes," to the accompanying consolidated financial statements.

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

#### ***Seasonality***

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

#### **Off-Balance Sheet Arrangements**

##### ***Guarantees and Indemnification Obligations***

In connection with the operation and disposition of our dealerships, we have entered into various guarantees and indemnification obligations. When we sell dealerships, we attempt to assign any related lease to the buyer of the dealership to eliminate any future liability. However, if we are unable to assign the related leases to the buyer, we will attempt to sublease the leased properties to the buyer at a rate equal to the terms of the original leases. In the event we are unable to sublease the properties to the buyer with terms at least equal to our leases, we may be required to record lease exit accruals. As of December 31, 2019, our future gross minimum lease payments related to properties subleased to buyers of sold dealerships totaled approximately \$38.5 million. Future sublease payments expected to be received related to these lease payments were approximately \$37.4 million at December 31, 2019.

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

We also guarantee the floor plan commitments of our 50%-owned joint venture, the amount of which was approximately \$4.3 million at December 31, 2019. We expect the aggregate amount of the obligations we guarantee to fluctuate based on dealership disposition activity. Although we seek to mitigate our exposure in connection with these matters, these guarantees and indemnification obligations, including environmental exposures and the financial performance of lease assignees and sublessees, cannot be predicted with certainty. An unfavorable resolution of one or more of these matters could have a material adverse effect on our liquidity and capital resources. See Note 12, "Commitments and Contingencies," to the accompanying consolidated financial statements for further discussion regarding these guarantees and indemnification obligations.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.****Interest Rate Risk**

Our variable rate floor plan facilities, the 2019 Mortgage Facility, the 2016 Revolving Credit Facility and our other variable rate notes expose us to risks caused by fluctuations in the applicable interest rates. The total outstanding balance of such variable instruments after considering the effect of outstanding cash flow hedge instruments was approximately \$1.2 billion at December 31, 2019 and approximately \$0.9 billion at December 31, 2018. A change of 100 basis points in the underlying interest rate would have caused a change in interest expense of approximately \$16.4 million in 2019 and approximately \$11.5 million in 2018. Of the total change in interest expense, approximately \$14.1 million and \$9.1 million in 2019 and 2018, respectively, would have resulted from our floor plan facilities.

In addition to our variable rate debt, as of December 31, 2019 and 2018, certain of our dealership lease facilities had monthly lease payments that fluctuated based on LIBOR interest rates. An increase in interest rates of 100 basis points would not have had a significant impact on rent expense in 2019 and 2018 due to the leases containing LIBOR floors which were above the LIBOR rate during 2019 and 2018.

As of both December 31, 2019 and 2018, we had interest rate cap agreements to limit our exposure to increases in LIBOR rates above certain levels. Under the terms of the interest rate cap agreements, interest rates reset monthly. The fair value of the interest rate cap positions at December 31, 2019 was a net asset of approximately \$0.1 million, included in other assets in the accompanying consolidated balance sheets. The fair value of the interest rate cap positions at December 31, 2018 was a net asset of approximately \$4.8 million, with approximately \$3.0 million included in other assets and approximately \$1.8 million included in other current assets in the accompanying consolidated balance sheets. Under the terms of these agreements, we will receive and pay interest based on the following:

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

(1) Under these interest rate caps, no payment from the counterparty will occur unless the stated receive rate exceeds the stated cap rate. If this occurs, a net payment to us from the counterparty based on the spread between the receive rate and the cap rate will be recognized as a reduction of interest expense, other, net in the accompanying consolidated statements of income.

(2) The one-month LIBOR rate was approximately 1.763% at December 31, 2019. These interest rate caps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of these interest rate caps are recorded in total other comprehensive income (loss) before taxes in the accompanying consolidated statements of comprehensive income.

**SONIC AUTOMOTIVE, INC.**

Absent the acceleration of payments of principal that may result from non-compliance with financial and operational covenants under our various indebtedness, future principal maturities of variable and fixed rate debt and related interest rate caps are as follows:

	2020	2021	2022	2023	2024	Thereafter	Total	Asset (Liability) Fair Value
(In thousands)								
<b>Long-term debt:</b>								
Fixed rate maturities	\$ 17,881	\$ 13,389	\$ 23,877	\$ 21,062	\$ 31,349	\$ 336,977	\$ 444,535	
Fixed rate outstanding (1)	\$ 444,535	\$ 426,654	\$ 413,265	\$ 389,387	\$ 368,325			\$ (457,212)
Average rate on fixed outstanding debt (1)	5.51 %	5.56 %	5.58 %	5.63 %	6.24 %	5.75 %		
Variable rate maturities	\$ 52,027	\$ 49,885	\$ 26,364	\$ 47,795	\$ 77,113	\$ 17,249	\$ 270,433	
Variable rate outstanding (1)	\$ 270,433	\$ 218,407	\$ 168,522	\$ 142,159	\$ 94,364			\$ (271,808)
Average rate on variable outstanding debt (1)	3.35 %	3.29 %	3.24 %	3.21 %	3.02 %	4.66 %		
<b>Cash flow hedge instruments:</b>								
Interest rate cap notional maturities	\$ 562,500	\$ 375,000	\$ 250,000	\$ —	\$ —	\$ —		
Interest rate cap notional outstanding (1)	\$ 562,500	\$ 375,000	\$ 250,000	\$ —	\$ —	\$ —		\$ 246
Average interest income rate on interest rate cap notional outstanding (1)	— %	— %	— %	— %	— %	N/A		

(1) Based on amounts outstanding at January 1 of each respective period.

**Foreign Currency Risk**

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

**Item 8. Financial Statements and Supplementary Data.**

Our consolidated financial statements and the related notes begin on page F-3 herein.

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

None.

**Item 9A. Controls and Procedures.**

*Disclosure Controls and Procedures.* Under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), we evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2019. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2019.

Our CEO and CFO have each concluded that the consolidated financial statements included in this Annual Report on Form 10-K present fairly, in all material respects, the financial position, results of operations and cash flows of the Company and its subsidiaries in conformity with U.S. GAAP.

*Management’s Report on Internal Control Over Financial Reporting.* Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2019 based on the framework in *Internal Control - Integrated Framework* published in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2019. The attestation report of our independent registered public accounting firm on the Company’s internal control over financial reporting is set forth in “Item 8. Financial Statements and Supplementary Data” in this Annual Report on Form 10-K.

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

*Changes in Internal Control over Financial Reporting.* We implemented the new lease standard as of January 1, 2019. As a result, we made significant modifications to internal control over financial reporting during the first quarter of 2019, including changes to accounting policies and procedures, operational processes and documentation practices.

There has been no change during the fourth quarter ended December 31, 2019, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information.**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

The information required by this item with respect to our executive officers appears in Part I of this Annual Report on Form 10-K under the heading “Information About Our Executive Officers” and is incorporated herein by reference. The other information required by this item is furnished by incorporation by reference to the information under the headings “Election of Directors,” “Corporate Governance and Board of Directors,” “Delinquent Section 16(a) Reports” and “Additional Corporate Governance and Other Information - Corporate Governance Guidelines, Code of Business Conduct and Ethics and Committee Charters” in the definitive proxy statement (to be filed hereafter) for our 2020 Annual Meeting of Stockholders (the “Proxy Statement”).

**Item 11. Executive Compensation.**

The information required by this item is furnished by incorporation by reference to the information under the headings “Executive Compensation” and “Director Compensation” in the Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by this item is furnished by incorporation by reference to the information under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in the Proxy Statement.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information required by this item is furnished by incorporation by reference to the information under the headings “Corporate Governance and Board of Directors - Director Independence,” “Corporate Governance and Board of Directors - Policies and Procedures for Review, Approval or Ratification of Transactions with Affiliates” and “Corporate Governance and Board of Directors - Transactions with Affiliates” in the Proxy Statement.

**Item 14. Principal Accountant Fees and Services.**

The information required by this item is furnished by incorporation by reference to the information under the heading “Ratification of the Appointment of Independent Registered Public Accounting Firm” in the Proxy Statement.



## PART IV

**Item 15. Exhibits and Financial Statement Schedules.**

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

1. Financial Statements: Consolidated balance sheets as of December 31, 2019 and 2018; consolidated statements of income for the years ended December 31, 2019, 2018 and 2017; consolidated statements of comprehensive income for the years ended December 31, 2019, 2018 and 2017; consolidated statements of stockholders' equity for the years ended December 31, 2019, 2018 and 2017; and consolidated statements of cash flows for the years ended December 31, 2019, 2018 and 2017.
2. Financial Statement Schedules: No financial statement schedules are required to be filed (no respective financial statement captions) 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 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.

EXHIBIT NO.	DESCRIPTION
3.1	<a href="#"><u>Amended and Restated Certificate of Incorporation of Sonic Automotive, Inc., dated August 7, 1997 (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-13395)).</u></a>
3.2	<a href="#"><u>Certificate of Designation, Preferences and Rights of Class A Convertible Preferred Stock, dated March 20, 1998 (incorporated by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-13395)).</u></a>
3.3	<a href="#"><u>Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Sonic Automotive, Inc., dated June 16, 1999 (incorporated by reference to Exhibit 3.3 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-13395)).</u></a>
3.4	<a href="#"><u>Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Sonic Automotive, Inc., dated April 18, 2017 (incorporated by reference to Exhibit 3.4 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-13395)).</u></a>
3.5	<a href="#"><u>Amended and Restated Bylaws of Sonic Automotive, Inc., dated July 27, 2017 (incorporated by reference to Exhibit 3.5 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 (File No. 001-13395)).</u></a>
4.1*	<a href="#"><u>Description of Securities of Sonic Automotive, Inc.</u></a>
4.2	<a href="#"><u>Specimen Class A Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-1/A filed October 17, 1997 (File No. 333-33295)).</u></a>
4.3	<a href="#"><u>Registration Rights Agreement, dated as of March 10, 2017, by and among Sonic Automotive, Inc., the guarantors set forth on the signature pages thereto and Merrill Lynch, Pierce, Fenner &amp; Smith Incorporated, as representative of the several initial purchasers (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed March 14, 2017 (File No. 001-13395)).</u></a>
4.4	<a href="#"><u>Indenture, dated as of March 10, 2017, by and among Sonic Automotive, Inc., the guarantors named therein and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed March 14, 2017 (File No. 001-13395)).</u></a>
4.5	<a href="#"><u>Form of 6.125% Senior Subordinated Notes due 2027 (incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K filed March 14, 2017 (File No. 001-13395)).</u></a>
10.1	<a href="#"><u>Fourth Amended and Restated Credit Agreement, dated as of November 30, 2016, among Sonic Automotive, Inc.; each lender a party thereto; Bank of America, N.A., as administrative agent, swing line lender and an l/c issuer; and Wells Fargo Bank, National Association, as an l/c issuer (incorporated by reference to Exhibit 10.11 to the Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 001-13395)).</u></a>
10.2	<a href="#"><u>Form of Promissory Note, dated November 30, 2016, executed by Sonic Automotive, Inc., as borrower, in favor of each of the lenders to the Fourth Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.12 to the Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 001-13395)).</u></a>
10.3	<a href="#"><u>Fourth Amended and Restated Subsidiary Guaranty Agreement, dated as of November 30, 2016, by the subsidiaries of Sonic Automotive, Inc. named therein, as guarantors, to Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.13 to the Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 001-13395)).</u></a>
10.4	<a href="#"><u>Fourth Amended and Restated Securities Pledge Agreement, dated as of November 30, 2016, among Sonic Automotive, Inc., the subsidiaries of Sonic Automotive, Inc. named therein and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.14 to the Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 001-13395)).</u></a>

SONIC AUTOMOTIVE, INC.

EXHIBIT NO.	DESCRIPTION
10.5	<a href="#"><u>Fourth Amended and Restated Escrow and Security Agreement, dated as of November 30, 2016, among Sonic Automotive, Inc., the subsidiaries of Sonic Automotive, Inc. named therein and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.15 to the Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 001-13395)).</u></a>
10.6	<a href="#"><u>Fourth Amended and Restated Security Agreement, dated as of November 30, 2016, among Sonic Automotive, Inc., the subsidiaries of Sonic Automotive, Inc. named therein and Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.16 to the Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 001-13395)).</u></a>
10.7	<a href="#"><u>Third Amended and Restated Syndicated New and Used Vehicle Floorplan Credit Agreement, dated as of November 30, 2016, among Sonic Automotive, Inc., the subsidiaries of Sonic Automotive, Inc. named therein; each lender a party thereto; Bank of America, N.A., as administrative agent, new vehicle swing line lender and used vehicle swing line lender; and Bank of America, N.A., as revolving administrative agent (incorporated by reference to Exhibit 10.17 to the Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 001-13395)).</u></a>
10.8	<a href="#"><u>Form of Promissory Note, dated November 30, 2016, executed by Sonic Automotive, Inc. and the subsidiaries of Sonic Automotive, Inc. named therein, as borrowers, in favor of each of the lenders to the Third Amended and Restated Syndicated New and Used Vehicle Floorplan Credit Agreement (incorporated by reference to Exhibit 10.18 to the Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 001-13395)).</u></a>
10.9	<a href="#"><u>Third Amended and Restated Company Guaranty Agreement, dated as of November 30, 2016, by Sonic Automotive, Inc. to Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.19 to the Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 001-13395)).</u></a>
10.10	<a href="#"><u>Third Amended and Restated Subsidiary Guaranty Agreement, dated as of November 30, 2016, by the subsidiaries of Sonic Automotive, Inc. named therein, as guarantors, to Bank of America, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.20 to the Annual Report on Form 10-K for the year ended December 31, 2016 (File No. 001-13395)).</u></a>
10.11*	<a href="#"><u>Credit Agreement, dated as of November 22, 2019, among Sonic Automotive, Inc.; each lender a party thereto; and PNC Bank, National Association, as administrative agent.</u></a>
10.12*	<a href="#"><u>Subsidiary Guaranty Agreement, dated as of November 22, 2019, by the subsidiaries of Sonic Automotive, Inc. named therein, as guarantors, to PNC Bank, National Association, as administrative agent for the lenders.</u></a>
10.13*	<a href="#"><u>Form of Promissory Note, dated November 22, 2019, executed by Sonic Automotive, Inc., as borrower, in favor of each of the lenders to the Credit Agreement.</u></a>
10.14	<a href="#"><u>Standard Form of Lease executed with Capital Automotive L.P. or its affiliates (incorporated by reference to Exhibit 10.38 to the Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-13395)).</u></a>
10.15	<a href="#"><u>Standard Form of Lease Guaranty executed with Capital Automotive L.P. or its affiliates (incorporated by reference to Exhibit 10.39 to the Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-13395)).</u></a>
10.16	<a href="#"><u>Amendment to Guaranty and Subordination Agreements, dated as of January 1, 2005, by and between Sonic Automotive, Inc., as guarantor, and Capital Automotive L.P. and its affiliates named therein, as landlord (incorporated by reference to Exhibit 10.40 to the Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-13395)).</u></a>
10.17	<a href="#"><u>Second Amendment to Guaranty and Subordination Agreements, dated as of March 12, 2009, by and between Sonic Automotive, Inc., as guarantor, and Capital Automotive L.P. and its affiliates named therein, as landlord (incorporated by reference to Exhibit 10.41 to the Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-13395)).</u></a>
10.18	<a href="#"><u>Side Letter to Second Amendment to Guaranty and Subordination Agreements, dated as of March 12, 2009, by and between Sonic Automotive, Inc., as guarantor, and Capital Automotive L.P. and its affiliates named therein, as landlord (incorporated by reference to Exhibit 10.42 to the Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-13395)).</u></a>
10.19	<a href="#"><u>Sonic Automotive, Inc. Employee Stock Purchase Plan, amended and restated as of May 8, 2002 (incorporated by reference to Exhibit 10.15 to the Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-13395)). (1)</u></a>
10.20	<a href="#"><u>Sonic Automotive, Inc. Nonqualified Employee Stock Purchase Plan, amended and restated as of October 23, 2002 (incorporated by reference to Exhibit 10.16 to the Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-13395)). (1)</u></a>
10.21	<a href="#"><u>Sonic Automotive, Inc. Supplemental Executive Retirement Plan, effective January 1, 2010 (incorporated by reference to Exhibit 10.46 to the Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-13395)). (1)</u></a>

SONIC AUTOMOTIVE, INC.

EXHIBIT NO.	DESCRIPTION
10.22	<a href="#">First Amendment to Sonic Automotive, Inc. Supplemental Executive Retirement Plan, effective January 1, 2010 (incorporated by reference to Exhibit 10.47 to the Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-13395)). (1)</a>
10.23	<a href="#">Second Amendment to Sonic Automotive, Inc. Supplemental Executive Retirement Plan, effective January 1, 2010 (incorporated by reference to Exhibit 10.59 to the Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-13395)). (1)</a>
10.24	<a href="#">Third Amendment to Sonic Automotive, Inc. Supplemental Executive Retirement Plan, effective February 12, 2015 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed February 13, 2015 (File No. 001-13395)). (1)</a>
10.25	<a href="#">Fourth Amendment to Sonic Automotive, Inc. Supplemental Executive Retirement Plan, effective April 1, 2018. (incorporated by reference to Exhibit 10.25 to the Annual Report on Form 10-Q for the quarter ended June 30, 2018 (File No. 001-13395)). (1)</a>
10.26	<a href="#">Sonic Automotive, Inc. 2012 Stock Incentive Plan, amended and restated as of April 24, 2019 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed April 26, 2019 (File No. 001-13395)). (1)</a>
10.27	<a href="#">Sonic Automotive, Inc. 2012 Stock Incentive Plan Form of Incentive Stock Option Award Agreement (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (File No. 001-13395)). (1)</a>
10.28	<a href="#">Sonic Automotive, Inc. 2012 Stock Incentive Plan Form of Nonstatutory Stock Option Award Agreement (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (File No. 001-13395)). (1)</a>
10.29	<a href="#">Sonic Automotive, Inc. 2012 Stock Incentive Plan Form of Performance-Based Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (File No. 001-13395)). (1)</a>
10.30	<a href="#">Sonic Automotive, Inc. 2012 Stock Incentive Plan Form of Performance-Based Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (File No. 001-13395)). (1)</a>
10.31	<a href="#">Sonic Automotive, Inc. 2012 Stock Incentive Plan Performance-Based Restricted Stock Unit Award Agreement for Retention Grant, dated May 6, 2015, between Sonic Automotive, Inc. and Jeff Dyke (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed May 8, 2015 (File No. 001-13395)). (1)</a>
10.32	<a href="#">Sonic Automotive, Inc. 2012 Stock Incentive Plan Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (File No. 001-13395)). (1)</a>
10.33	<a href="#">Sonic Automotive, Inc. 2012 Stock Incentive Plan Form of Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (File No. 001-13395)). (1)</a>
10.34	<a href="#">Sonic Automotive, Inc. 2012 Stock Incentive Plan Form of Stock Appreciation Rights Award Agreement (incorporated by reference to Exhibit 10.7 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (File No. 001-13395)). (1)</a>
10.35	<a href="#">Sonic Automotive, Inc. 2012 Formula Restricted Stock and Deferral Plan for Non-Employee Directors, amended and restated effective as of April 18, 2017 (incorporated by reference to Appendix B to the Definitive Proxy Statement on Schedule 14A filed March 6, 2017 (File No. 001-13395)). (1)</a>
10.36	<a href="#">Sonic Automotive, Inc. 2012 Formula Restricted Stock and Deferral Plan for Non-Employee Directors Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-13395)). (1)</a>
10.37	<a href="#">Sonic Automotive, Inc. 2012 Formula Restricted Stock and Deferral Plan for Non-Employee Directors Form of Deferred Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-13395)). (1)</a>
10.38	<a href="#">Director Compensation Policy (incorporated by reference to Exhibit 10.39 to the Annual Report on Form 10-K for the year ended December 31, 2017 (File No. 001-13395)). (1)</a>
10.39	<a href="#">Employment Agreement of Heath R. Byrd, dated October 18, 2007, as amended December 19, 2008 (incorporated by reference to Exhibit 10.54 to the Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 001-13395)). (1)</a>
10.40	<a href="#">Form of Change in Control Agreement (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed May 8, 2015 (File No. 001-13395)). (1)</a>
10.41	<a href="#">Agreement between Sonic Automotive, Inc. and B. Scott Smith, effective as of September 25, 2018 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed September 27, 2018 (File No. 001-13395)). (1)</a>

SONIC AUTOMOTIVE, INC.

EXHIBIT NO.	DESCRIPTION
10.42	<a href="#">Severance and Release Agreement between Sonic Automotive, Inc. and B. Scott Smith, effective as of March 6, 2019 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed March 8, 2019 (File No. 001-13395)). (1)</a>
21.1*	<a href="#">Subsidiaries of Sonic Automotive, Inc.</a>
23.1*	<a href="#">Consent of KPMG LLP.</a>
31.1*	<a href="#">Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1**	<a href="#">Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2**	<a href="#">Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS*	Inline XBRL Instance Document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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\* Filed herewith.

\*\* Furnished herewith.

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

**Item 16. Form 10-K Summary.**

None.



## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
Sonic Automotive, Inc.:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Sonic Automotive, Inc. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019 and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 21, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

### *Change in Accounting Principles*

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standards Codification (ASC) Topic 842, *Leases* and revenue as of January 1, 2018, due to the adoption of ASC Topic 606, *Revenue from Contracts with Customers*.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

### *Critical Audit Matter*

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### *Assessment of the carrying value of goodwill for the EchoPark stores reporting unit*

As discussed in Notes 1 and 5 to the consolidated financial statements, the Company tests goodwill for impairment at least annually, or more frequently when events or circumstances indicate an impairment might have occurred. The goodwill balance as of December 31, 2019 was \$476 million, of this amount, the goodwill balance for the EchoPark stores reporting unit was \$60 million.

We identified the assessment of the carrying value of goodwill for the EchoPark stores reporting unit as a critical audit matter. Specifically, certain assumptions used to estimate the fair value of the EchoPark stores reporting unit required subjective and

challenging auditor judgment as changes to the projected earnings, residual growth rate and the discount rate assumptions could have an effect on the assessment of the recoverability of the carrying value of goodwill.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's goodwill impairment assessment process, including controls related to the determination of the fair value of the EchoPark stores reporting unit, the related projected earnings, residual growth rate, and the discount rate. We performed sensitivity analyses over the projected earnings, residual growth rate and discount rate assumptions to assess their impact on the Company's determination that the fair value of the EchoPark stores reporting unit exceeded its carrying value. We compared the Company's projected earnings to actual results to assess the Company's ability to accurately estimate projected earnings. We also involved a valuation professional with specialized skill and knowledge who assisted in:

- evaluating the Company's discount rate, by comparing it against a discount rate range that was independently developed using publicly available market data;
- evaluating the Company's residual growth rate for EchoPark stores, including an evaluation of relevant industry data; and
- developing an independent estimate of the EchoPark stores reporting unit's fair value using the reporting unit's cash flow projections and an independently developed discount rate; and comparing the results of our estimate of the fair value to the Company's fair value estimate.

/s/ KPMG LLP

We have served as the Company's auditor since 2014.

Charlotte, North Carolina

February 21, 2020



## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
Sonic Automotive, Inc.:

### *Opinion on Internal Control Over Financial Reporting*

We have audited Sonic Automotive, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019 and the related notes (collectively, the consolidated financial statements), and our report dated February 21, 2020 expressed an unqualified opinion on those consolidated financial statements.

### *Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### *Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Charlotte, North Carolina  
February 21, 2020

**SONIC AUTOMOTIVE, INC.  
CONSOLIDATED BALANCE SHEETS**

	December 31, 2019	December 31, 2018
	(Dollars in thousands)	
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 29,103	\$ 5,854
Receivables, net	432,742	438,186
Inventories	1,517,875	1,528,461
Other current assets	37,890	20,886
Total current assets	2,017,610	1,993,387
Property and Equipment, net	1,097,247	1,178,489
Goodwill	475,791	509,592
Other Intangible Assets, net	64,300	69,705
Operating Right-of-Use Lease Assets	337,842	—
Finance Right-of-Use Lease Assets	34,691	—
Other Assets	43,554	45,634
Total Assets	<u>\$ 4,071,035</u>	<u>\$ 3,796,807</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Notes payable - floor plan - trade	\$ 860,871	\$ 821,074
Notes payable - floor plan - non-trade	678,223	712,966
Trade accounts payable	135,217	114,263
Operating short-term lease liabilities	43,332	—
Finance short-term lease liabilities	1,564	—
Accrued interest	10,830	13,417
Other accrued liabilities	266,211	257,823
Current maturities of long-term debt	69,908	26,304
Total current liabilities	2,066,156	1,945,847
Long-Term Debt	636,978	918,779
Other Long-Term Liabilities	73,746	75,887
Operating Long-Term Lease Liabilities	304,151	—
Finance Long-Term Lease Liabilities	36,313	—
Deferred Income Taxes	8,927	33,178
Commitments and Contingencies		
<b>Stockholders' Equity:</b>		
Class A Convertible Preferred Stock, none issued	—	—
Class A Common Stock, \$0.01 par value; 100,000,000 shares authorized; 64,733,667 shares issued and 31,105,000 shares outstanding at December 31, 2019; 64,197,385 shares issued and 30,721,226 shares outstanding at December 31, 2018	647	642
Class B Common Stock, \$0.01 par value; 30,000,000 shares authorized; 12,029,375 shares issued and outstanding at December 31, 2019 and 2018	121	121
Paid-in capital	755,904	745,052
Retained earnings	790,158	670,691
Accumulated other comprehensive income (loss)	(2,062)	4,233
Treasury stock, at cost; 33,628,667 Class A Common Stock shares held at December 31, 2019 and 33,476,159 Class A Common Stock shares held at December 31, 2018	(600,004)	(597,623)
Total Stockholders' Equity	944,764	823,116
Total Liabilities and Stockholders' Equity	<u>\$ 4,071,035</u>	<u>\$ 3,796,807</u>

See notes to consolidated financial statements.

**SONIC AUTOMOTIVE, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Year Ended December 31,		
	2019	2018	2017
(Dollars and shares in thousands, except per share amounts)			
<b>Revenues:</b>			
New vehicles	\$ 4,889,171	\$ 4,974,097	\$ 5,295,051
Used vehicles	3,489,972	2,973,498	2,622,053
Wholesale vehicles	202,946	217,625	171,064
Total vehicles	8,582,089	8,165,220	8,088,168
Parts, service and collision repair	1,395,303	1,380,887	1,416,010
Finance, insurance and other, net	476,951	405,523	363,030
Total revenues	10,454,343	9,951,630	9,867,208
<b>Cost of Sales:</b>			
New vehicles	(4,656,084)	(4,732,595)	(5,030,125)
Used vehicles	(3,342,576)	(2,830,510)	(2,467,150)
Wholesale vehicles	(207,378)	(228,874)	(179,778)
Total vehicles	(8,206,038)	(7,791,979)	(7,677,053)
Parts, service and collision repair	(727,288)	(713,526)	(732,479)
Total cost of sales	(8,933,326)	(8,505,505)	(8,409,532)
Gross profit	1,521,017	1,446,125	1,457,676
Selling, general and administrative expenses	(1,099,374)	(1,145,325)	(1,147,773)
Impairment charges	(20,768)	(29,514)	(9,394)
Depreciation and amortization	(93,169)	(93,623)	(88,944)
Operating income (loss)	307,706	177,663	211,565
<b>Other income (expense):</b>			
Interest expense, floor plan	(48,519)	(48,398)	(36,395)
Interest expense, other, net	(52,953)	(54,059)	(52,524)
Other income (expense), net	(6,589)	106	(14,522)
Total other income (expense)	(108,061)	(102,351)	(103,441)
Income (loss) from continuing operations before taxes	199,645	75,312	108,124
Provision for income taxes for continuing operations - benefit (expense)	(55,108)	(22,922)	(13,971)
Income (loss) from continuing operations	144,537	52,390	94,153
<b>Discontinued operations:</b>			
Income (loss) from discontinued operations before taxes	(554)	(1,017)	(1,942)
Provision for income taxes for discontinued operations - benefit (expense)	154	277	772
Income (loss) from discontinued operations	(400)	(740)	(1,170)
Net income (loss)	\$ 144,137	\$ 51,650	\$ 92,983
<b>Basic earnings (loss) per common share:</b>			
Earnings (loss) per share from continuing operations	\$ 3.36	\$ 1.23	\$ 2.14
Earnings (loss) per share from discontinued operations	(0.01)	(0.02)	(0.03)
Earnings (loss) per common share	\$ 3.35	\$ 1.21	\$ 2.11
Weighted average common shares outstanding	43,016	42,708	43,997
<b>Diluted earnings (loss) per common share:</b>			
Earnings (loss) per share from continuing operations	\$ 3.31	\$ 1.22	\$ 2.12
Earnings (loss) per share from discontinued operations	(0.01)	(0.02)	(0.03)
Earnings (loss) per common share	\$ 3.30	\$ 1.20	\$ 2.09
Weighted average common shares outstanding	43,710	42,950	44,358

See notes to consolidated financial statements.

**SONIC AUTOMOTIVE, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
Net income (loss)	\$ 144,137	\$ 51,650	\$ 92,983
Other comprehensive income (loss) before taxes:			
Change in fair value of interest rate swap and rate cap agreements	(3,819)	2,173	6,186
Amortization of terminated interest rate swap agreements	(2,484)	(429)	—
Pension actuarial income (loss)	(2,670)	2,368	(429)
Total other comprehensive income (loss) before taxes	(8,973)	4,112	5,757
Provision for income tax benefit (expense) related to components of other comprehensive income (loss)	2,678	(1,186)	(2,188)
Other comprehensive income (loss)	(6,295)	2,926	3,569
Comprehensive income (loss)	\$ 137,842	\$ 54,576	\$ 96,552

See notes to consolidated financial statements.

**SONIC AUTOMOTIVE, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Class A Common Stock		Class A Treasury Stock		Class B Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
	(In thousands)									
Balance at December 31, 2016	62,967	\$ 630	(30,263)	\$ (536,166)	12,029	\$ 121	\$ 721,695	\$ 541,146	\$ (2,262)	\$ 725,164
Shares awarded under stock compensation plans	490	5	—	—	—	—	40	—	—	45
Purchases of treasury stock	—	—	(2,027)	(37,347)	—	—	—	—	—	(37,347)
Effect of cash flow hedge instruments, net of tax expense of \$2,351	—	—	—	—	—	—	—	—	3,835	3,835
Pension actuarial income, net of tax benefit of \$163	—	—	—	—	—	—	—	—	(266)	(266)
Restricted stock amortization	—	—	—	—	—	—	11,119	—	—	11,119
Net income (loss)	—	—	—	—	—	—	—	92,983	—	92,983
Class A dividends declared (\$0.20 per share)	—	—	—	—	—	—	—	(6,367)	—	(6,367)
Class B dividends declared (\$0.20 per share)	—	—	—	—	—	—	—	(2,406)	—	(2,406)
Balance at December 31, 2017	63,457	\$ 635	(32,290)	\$ (573,513)	12,029	\$ 121	\$ 732,854	\$ 625,356	\$ 1,307	\$ 786,760
Shares awarded under stock compensation plans	740	7	—	—	—	—	345	—	—	352
Purchases of treasury stock	—	—	(1,186)	(24,110)	—	—	—	—	—	(24,110)
Effect of cash flow hedge instruments, net of tax expense of \$460	—	—	—	—	—	—	—	—	1,284	1,284
Pension actuarial income, net of tax expense of \$726	—	—	—	—	—	—	—	—	1,642	1,642
Restricted stock amortization	—	—	—	—	—	—	11,853	—	—	11,853
Net income (loss)	—	—	—	—	—	—	—	51,650	—	51,650
Cumulative effect of change in accounting principle (1)	—	—	—	—	—	—	—	3,918	—	3,918
Class A dividends declared (\$0.24 per share)	—	—	—	—	—	—	—	(7,346)	—	(7,346)
Class B dividends declared (\$0.24 per share)	—	—	—	—	—	—	—	(2,887)	—	(2,887)
Balance at December 31, 2018	64,197	\$ 642	(33,476)	\$ (597,623)	12,029	\$ 121	\$ 745,052	\$ 670,691	\$ 4,233	\$ 823,116
Shares awarded under stock compensation plans	537	5	—	—	—	—	55	—	—	60
Purchases of treasury stock	—	—	(153)	(2,381)	—	—	—	—	—	(2,381)
Effect of cash flow hedge instruments, net of tax benefit of \$1,944	—	—	—	—	—	—	—	—	(4,359)	(4,359)
Pension actuarial income, net of tax benefit of \$734	—	—	—	—	—	—	—	—	(1,936)	(1,936)
Restricted stock amortization	—	—	—	—	—	—	10,797	—	—	10,797
Net income (loss)	—	—	—	—	—	—	—	144,137	—	144,137
Cumulative effect of change in accounting principle (1)	—	—	—	—	—	—	—	(7,428)	—	(7,428)
Class A dividends declared (\$0.40 per share)	—	—	—	—	—	—	—	(12,430)	—	(12,430)
Class B dividends declared (\$0.40 per share)	—	—	—	—	—	—	—	(4,812)	—	(4,812)
Balance at December 31, 2019	64,734	\$ 647	(33,629)	\$ (600,004)	12,029	\$ 121	\$ 755,904	\$ 790,158	\$ (2,062)	\$ 944,764

(1) See Note 1, "Description of Business and Summary of Significant Accounting Policies," for further discussion of the effects of adoption of new accounting pronouncements.

See notes to consolidated financial statements.

**SONIC AUTOMOTIVE, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 144,137	\$ 51,650	\$ 92,983
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization of property and equipment	89,949	93,617	88,938
Provision for bad debt expense	522	531	748
Other amortization	5	617	649
Debt issuance cost amortization	2,478	2,418	2,383
Debt discount amortization, net of premium amortization	—	—	157
Stock-based compensation expense	10,797	11,853	11,119
Deferred income taxes	(20,845)	(20,606)	(27,760)
Net distributions from equity investee	(101)	(225)	(138)
Asset impairment charges	20,768	29,514	9,394
Loss (gain) on disposal of dealerships and property and equipment	(75,318)	(43,164)	(10,194)
Loss (gain) on exit of leased dealerships	(170)	1,709	2,157
Loss (gain) on retirement of debt	6,690	—	14,607
Changes in assets and liabilities that relate to operations:			
Receivables	4,652	50,351	(52,989)
Inventories	(78,523)	(78,701)	57,250
Other assets	47,472	11,288	3,266
Notes payable - floor plan - trade	39,797	16,836	(46,299)
Trade accounts payable and other liabilities	(21,396)	15,987	16,612
Total adjustments	26,777	92,025	69,900
Net cash provided by (used in) operating activities	170,914	143,675	162,883
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of businesses, net of cash acquired	—	—	(76,610)
Purchases of land, property and equipment	(125,576)	(163,619)	(234,245)
Proceeds from sales of property and equipment	10,841	19,554	596
Proceeds from sales of dealerships	250,711	128,734	38,150
Proceeds from company-owned life insurance	805	—	—
Net cash provided by (used in) investing activities	136,781	(15,331)	(272,109)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net (repayments) borrowings on notes payable - floor plan - non-trade	(34,743)	3,868	33,745
Borrowings on revolving credit facilities	482,488	918,967	327,070
Repayments on revolving credit facilities	(482,488)	(993,967)	(252,070)
Proceeds from issuance of long-term debt	109,088	21,072	302,483
Debt issuance costs	(1,427)	(144)	(4,855)
Principal payments and repurchase of long-term debt	(40,274)	(45,053)	(36,836)
Repurchase of debt securities	(294,095)	—	(210,914)
Reduction of finance lease liabilities	(5,181)	—	—
Purchases of treasury stock	(2,381)	(24,110)	(37,347)
Issuance of shares under stock compensation plans	60	352	45
Dividends paid	(15,493)	(9,827)	(8,851)
Net cash provided by (used in) financing activities	(284,446)	(128,842)	112,470
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,249	(498)	3,244
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,854	6,352	3,108
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 29,103	\$ 5,854	\$ 6,352
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:</b>			
Effect of cash flow hedge instruments (net of tax benefit of \$1,944 in the year ended December 31, 2019 and net of tax expense of \$460 and \$2,351 in the years ended December 31, 2018 and 2017, respectively)	\$ (4,359)	\$ 1,284	\$ 3,835
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>			
Cash paid (received) during the period for:			
Interest, including amount capitalized	\$ 104,204	\$ 98,126	\$ 89,525
Income taxes	\$ 72,752	\$ 35,217	\$ 42,907

See notes to consolidated financial statements.

## 1. Description of Business and Summary of Significant Accounting Policies

**Organization and Business** - Sonic Automotive, Inc. (“Sonic,” the “Company,” “we,” “us” or “our”) is one of the largest automotive retailers in the United States (as measured by total revenue). As a result of the way we manage our business, we had two reportable segments as of December 31, 2019: (1) the Franchised Dealerships Segment and (2) the EchoPark Segment. For management and operational reporting purposes, we group certain businesses together that share management and inventory (principally used vehicles) into “stores.” As of December 31, 2019, we operated 86 stores in the Franchised Dealerships Segment and nine stores in the EchoPark Segment. The Franchised Dealerships Segment consists of 99 new vehicle franchises (representing 21 different brands of cars and light trucks) and 15 collision repair centers in 12 states.

The Franchised Dealerships Segment provides comprehensive services, including (1) sales of both new and used cars and light trucks; (2) sales of replacement parts and performance of vehicle maintenance, manufacturer warranty repairs, and paint and collision repair services (collectively, “Fixed Operations”); and (3) arrangement of extended warranties, service contracts, financing, insurance and other aftermarket products (collectively, “finance and insurance” or “F&I”) for our customers. The EchoPark Segment sells used cars and light trucks and arranges F&I product sales for our customers in pre-owned vehicle specialty retail locations. Our EchoPark business operates independently from our franchised dealerships business.

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

**Recent Accounting Pronouncements** - In February 2016, the Financial Accounting Standards Board (the “FASB”) established Accounting Standards Codification (“ASC”) 842, “Leases,” by issuing Accounting Standards Update (“ASU”) 2016-02 (and subsequent amendments via ASU 2018-01, ASU 2018-10 and ASU 2018-11) in order to increase transparency and comparability among organizations by recognizing operating lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new lease standard was effective for us on January 1, 2019. Prior to adoption of the new lease standard, only leases classified as capital leases under ASC Topic 840, “Leases,” were recorded in the consolidated balance sheets. Under ASC 842, “Leases,” we classify leases as either finance leases (formerly capital leases) or operating leases, and a right-of-use asset and lease liability are required to be recognized in the consolidated balance sheets for both finance and operating leases with a term longer than 12 months. The new lease standard required a modified retrospective transition approach and provides an optional transition method to either (1) record current existing leases as of the effective date; or (2) record leases existing as of the earliest comparative period presented in the financial statements by recasting comparative period financial statements. We adopted the new lease standard as of January 1, 2019 using the effective date as our date of application. As such, financial statement information and disclosures required under the new lease standard are not provided for dates and periods prior to January 1, 2019. The new lease standard provides for a number of optional practical expedients in transition, which include: (1) not requiring an entity to reassess prior conclusions about lease identification, lease classification or initial direct costs; (2) allowing an entity to use a portfolio approach for similar lease assets; (3) allowing an entity to elect an accounting policy to choose not to separate non-lease components of an agreement from lease components (by asset class); (4) allowing the use of hindsight in estimating lease term or assessing impairment of right-of-use assets; and (5) not requiring an entity to reassess prior conclusions about land easements. We elected all of the practical expedients permitted under the transition guidance within the new lease standard. The new lease standard also provides practical expedients for ongoing accounting. We elected the short-term lease recognition exemption for our real estate and equipment leases, which means that for those leases that qualify, we do not recognize right-of-use assets or lease liabilities and recognize the expense related to the short-term leases on a straight-line basis over the lease term and any variable lease payments in the period in which the obligation for those payments is incurred. We have also elected the practical expedient that allows us not to separate non-lease components of an agreement from lease components (for certain non-real estate assets). See Note 16, “Leases,” for further discussion on leases.

In August 2017, the FASB issued ASU 2017-12, which amends the hedge accounting recognition and presentation requirements in ASC Topic 815, “Derivatives and Hedging.” This ASU expands and refines hedge accounting for both non-financial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. It also includes certain targeted improvements to simplify the application of current guidance related to hedge accounting. For public companies, this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this ASU did not materially impact our consolidated financial statements.

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

In February 2018, the FASB issued ASU 2018-02, which allows the reclassification of stranded tax effects, as a result of the Tax Cuts and Jobs Acts of 2017 (the “Tax Act”), from accumulated other comprehensive income to retained earnings. For public companies, this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this ASU did not materially impact our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07 to expand the scope of ASC Topic 718, “Compensation - Stock Compensation,” to include share-based payment transactions for acquiring goods and services from non-employees. For public companies, this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of this ASU did not materially impact our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses (ASC Topic 326): Measurement of Credit Losses on Financial Instruments.” The amendment in this update replaced the previous incurred loss impairment methodology of recognizing credit losses when a loss is probable, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to assess credit loss estimates. This ASU is effective for fiscal years beginning after December 15, 2019. We adopted this ASU as of January 1, 2020 and the effects of this ASU are not expected to materially impact our consolidated financial statements.

**Use of Estimates** - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires Sonic’s management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the accompanying consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates, particularly related to allowance for credit loss, realization of inventory values, intangible asset and deferred tax asset values, reserves for tax contingencies and legal matters, reserves for future commission revenue to be returned to the third-party provider for early termination of customer contracts (“chargebacks”), estimates of certain retrospective finance and insurance revenue, results reported as continuing and discontinued operations, insurance reserves, lease exit accruals and certain accrued expenses.

**Cash and Cash Equivalents** - We classify cash and all highly liquid investments with a maturity of three months or less at the date of purchase, including short-term time deposits and government agency and corporate obligations, as cash and cash equivalents. In the event that we are in a book overdraft cash position as of a reporting date, the book overdraft position is reclassified from cash and cash equivalents to trade accounts payable in the consolidated balance sheets and is reflected as activity in trade accounts payable and other liabilities in the consolidated statements of cash flows. We were not in a book overdraft position as of December 31, 2019 or 2018.

**Revenue Recognition** - As of January 1, 2018, we adopted ASC Topic 606 (ASC 606), “Revenue from Contracts with Customers.” Under this standard, revenue is recognized when a customer obtains control of promised goods or services and in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. The standard applies a five-step model that includes: (1) identifying the contract(s) with the customer; (2) identifying the performance obligation(s) in the contract(s); (3) determining the transaction price; (4) allocating the transaction price to the performance obligation(s) in the contract(s); and (5) recognizing revenue as the performance obligation(s) are satisfied. The standard also requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We do not include the cost of obtaining contracts within the related revenue streams since we elected the practical expedient to expense the costs to obtain a contract when incurred. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative financial information has not been restated and continues to be reported under the accounting standards in effect for that period.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The cumulative effect of the adjustments to our December 31, 2018 consolidated statements of income and January 1, 2018 consolidated balance sheet for the adoption of ASC Topic 606 was as follows:

Income Statement	Pre-ASC 606 Results Year Ended December 31, 2018	Effects of Adoption of ASC 606	As Reported Year Ended December 31, 2018
(In thousands)			
<b>Revenues:</b>			
Parts, service and collision repair	\$ 1,380,506	\$ 381	\$ 1,380,887
Finance, insurance and other, net	\$ 396,905	\$ 8,618	\$ 405,523
<b>Cost of Sales:</b>			
Parts, service and collision repair	\$ (713,259)	\$ (267)	\$ (713,526)
Selling, general and administrative expenses:	\$ (1,145,294)	\$ (31)	\$ (1,145,325)
Operating income (loss):	\$ 168,962	\$ 8,701	\$ 177,663
<b>Balance Sheet</b>			
	December 31, 2017	Effects of Adoption of ASC 606	January 1, 2018
(In thousands)			
<b>Assets:</b>			
Receivables, net	\$ 482,126	\$ 4,590	\$ 486,716
Contract assets (1)	\$ —	\$ 2,082	\$ 2,082
<b>Liabilities:</b>			
Other accrued liabilities	\$ 237,963	\$ 1,286	\$ 239,249
Deferred income taxes	\$ 51,619	\$ 1,468	\$ 53,087
<b>Stockholders' Equity:</b>			
Retained earnings	\$ 625,356	\$ 3,918	\$ 629,274

(1) Receivables, net in the accompanying consolidated balance sheet as of December 31, 2018 includes approximately \$4.7 million related to work in process and a contract asset of approximately \$5.4 million related to F&I retro revenues. Changes in contract assets from January 1, 2018 to December 31, 2018 were primarily due to ordinary business activity.

Management has evaluated our established business processes, revenue transaction streams and accounting policies, and identified our material revenue streams to be: (1) the sale of new vehicles; (2) the sale of used vehicles to retail customers; (3) the sale of wholesale used vehicles at third-party auctions; (4) the arrangement of vehicle financing and the sale of service, warranty and other insurance contracts; and (5) the performance of vehicle maintenance and repair services and the sale of related parts and accessories. Generally, performance conditions are satisfied when the associated vehicle is either delivered or returned to a customer and customer acceptance has occurred, or over time as the maintenance and repair services are performed. We do not have any revenue streams with significant financing components as payments are typically received within a short period of time following completion of the performance obligation(s). Upon adoption, we changed the timing of revenue recognition related to: (1) service and collision repair orders that are incomplete as of a reporting date ("work in process") and (2) certain retrospective finance and insurance revenue earned in periods subsequent to the completion of the initial performance obligation ("F&I retro revenues"). We previously recognized work in process when the service was completed and recognized F&I retro revenues at the amount that would be due at each reporting date based on the performance of the portfolio at such date, which results in the acceleration of revenue recognition. Under ASC 606, work in process revenues are recognized over time based on the completed work to date. Under ASC 606, F&I retro revenues are recognized when the product contract has been executed with the end customer and are estimated each reporting period based on the expected value method using historical and projected data, which results in the acceleration of revenue recognition. F&I retro revenues, which represent variable consideration, subject to constraint, are to be included in the transaction price and recognized when or as the performance obligation is satisfied. F&I retro revenues can vary based on a variety of factors, including number of contracts and history of cancellations and claims. Accordingly, we utilize this historical and projected data to constrain the consideration to the extent that it is probable that a significant reversal in the amount of cumulative revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

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

Receivables, net in the accompanying consolidated balance sheet as of December 31, 2019 include approximately \$5.1 million related to work in process and a contract asset of approximately \$12.9 million related to F&I retro revenues included in receivables, net on the accompanying consolidated balance sheets.

We arrange financing for customers through various financial institutions and receive a commission from the financial institution either in a flat fee amount or in an amount equal to the difference between the interest rates charged to customers and the predetermined interest rates set by the financial 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. We 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 of sale.

As of December 31, 2019 and 2018, the amounts recorded as allowances for finance, insurance and service contract commission chargeback reserves were approximately \$32.0 million and \$25.8 million, respectively, and were classified as other accrued liabilities and other long-term liabilities in the accompanying consolidated balance sheets.

**Floor Plan Assistance** - We receive floor plan assistance payments from certain manufacturers. This assistance reduces the carrying value of our new vehicle inventory and is recognized as a reduction of cost of sales at the time the vehicle is sold. Amounts recognized as a reduction of cost of sales were approximately \$41.5 million, \$42.2 million and \$45.3 million for 2019, 2018 and 2017, respectively.

**Contracts in Transit** - Contracts in transit represent customer finance contracts evidencing loans or lease agreements between us, as creditor, and the customer, as borrower, to acquire or lease a vehicle in situations where a third-party finance source has given us initial, non-binding approval to assume our 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 10 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 us. Contracts in transit are included in receivables, net on the accompanying consolidated balance sheets and totaled approximately \$230.9 million and \$227.8 million at December 31, 2019 and 2018, respectively.

**Accounts Receivable** - In addition to contracts in transit, our accounts receivable primarily consists of amounts due from automobile manufacturers for repair services performed on vehicles with a remaining factory warranty and amounts due from third parties from the sale of parts. We evaluate receivables for collectability based on the age of the receivable, the credit history of the customer and past collection experience. The recorded allowance for doubtful accounts receivable was not significant at December 31, 2019 and 2018.

**Inventories** - Inventories of new vehicles, recorded net of manufacturer credits, and used vehicles, including demonstrators, are stated at the lower of specific cost or net realizable value. 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 net realizable value. Other inventories are primarily service loaner vehicles and, to a lesser extent, vehicle chassis, other supplies and capitalized customer work-in-progress (open customer vehicle repair orders). Other inventories are stated at the lower of specific cost (depreciated cost for service loaner vehicles) or net realizable value.

We assess the valuation of all of our vehicle and parts inventories and maintain a reserve where the cost basis exceeds the fair market value. In making this assessment for new vehicles, used vehicles, service loaners and parts inventory, we consider recent internal and external market data and the age of the vehicles to estimate the inventory's fair market value. The risk with vehicle inventory is minimized by the fact that vehicles can be transferred within our network of dealerships. The risk with parts inventories is minimized by the fact that excess or obsolete parts can also be transferred within our network of dealerships or can usually be returned to the manufacturer. Recorded inventory reserves were not significant at December 31, 2019 and 2018.

**Property and Equipment** - Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. We amortize leasehold improvements over the shorter of

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

the estimated useful life or the remaining available lease term. The available lease term includes renewal options if the exercise of a renewal option has been determined to be reasonably assured.

The range of estimated useful lives is as follows:

Leasehold, buildings and land improvements	10-30 years
Furniture, fixtures and equipment	3-10 years

We review the carrying value of property and equipment and other long-term assets (including related right-of-use assets for leased properties, but excluding goodwill and franchise assets) for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If such an indication is present, we compare the carrying amount of the asset to the estimated undiscounted cash flows related to that asset. We conclude 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 we determine 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, we determine fair value by using a discounted cash flow model. See Note 4, "Property and Equipment," for a discussion of impairment charges.

**Derivative Instruments and Hedging Activities** - We utilize derivative financial instruments for the purpose of hedging the risks of certain identifiable and anticipated transactions. Commonly, the types of risks being hedged are those relating to the variability of cash flows caused by fluctuations in interest rates. We document our risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. As of December 31, 2019, we utilized interest rate cap agreements to limit our exposure to increases in London InterBank Offered Rate ("LIBOR") rates above certain levels. See Note 6, "Long-Term Debt," for further discussion of derivative instruments and hedging activities.

**Goodwill** - 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. In accordance with "Intangibles - Goodwill and Other" in the ASC, we test goodwill for impairment at least annually (as of October 1 of each year), or more frequently if indications of impairment exist. The ASC also states that if an entity determines, based on an assessment of certain qualitative factors, that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then a quantitative goodwill impairment test is unnecessary.

For purposes of goodwill impairment testing, we have two reporting units, which consist of: (1) our traditional franchised dealerships and (2) our EchoPark stores. The carrying value of our goodwill totaled approximately \$475.8 million at December 31, 2019, \$415.8 million of which was related to our franchised dealerships reporting unit and \$60.0 million of which was related to our EchoPark reporting unit. For each reporting unit, we utilized the Discounted Cash Flows ("DCF") method to estimate its enterprise value as of October 1, 2019. The significant assumptions in our DCF model include projected earnings, a discount rate (and estimates in the discount rate inputs) and residual growth rates. In evaluating goodwill for impairment, if the fair value of a reporting unit is less than its carrying value, the difference would represent the amount of required goodwill impairment. To the extent the reporting unit's earnings decline significantly or there are changes in one or more of these assumptions that would result in lower valuation results, it could cause the carrying value of the reporting unit to exceed its fair value and thus require us to record goodwill impairment.

Based on the results of our quantitative test as of October 1, 2019, each reporting unit's fair value exceeded its carrying value. As a result, we were not required to record goodwill impairment for either of our reporting units. See Note 5, "Intangible Assets and Goodwill," for further discussion of goodwill.

**Other Intangible Assets** - The principal identifiable intangible assets other than goodwill acquired in an acquisition are rights under franchise or dealer agreements with manufacturers. We classify franchise and dealer agreements as indefinite lived intangible assets as it has been our experience that renewals have occurred without substantial cost or material modifications to the underlying agreements. As such, we believe that our franchise and dealer agreements will contribute to cash flows for an indefinite period, therefore the carrying amount of franchise rights is not amortized. Franchise and dealer agreements acquired on or after July 1, 2001 have been included in other intangible assets, net on the accompanying consolidated balance sheets. Prior to July 1, 2001, franchise and dealer agreements were recorded and amortized as part of goodwill and remain as part of goodwill on the accompanying consolidated balance sheets. In accordance with "Intangibles - Goodwill and Other" in the ASC, we evaluate other intangible assets for impairment annually (as of October 1 each year) or more frequently if indications of impairment exist.

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We utilized a DCF model to estimate the fair value of the franchise assets for each of our franchises with recorded franchise assets. The significant assumptions in our DCF model include projected revenue, projected operating margin, a discount rate (and estimates in the discount rate inputs) and residual growth rates. In projecting the franchises' revenue and growth rates, we developed many assumptions which may include, but are not limited to, revenue growth, internal revenue enhancement initiatives, cost control initiatives, internal investment programs (such as training, technology and infrastructure) and inventory floor plan borrowing rates. Our expectation of revenue growth is in part driven by our estimates of new vehicle industry sales volume in future periods. We believe the historic and projected industry sales volume is a good general indicator of growth or contraction in the retail automotive industry.

Based on the October 1, 2019 impairment test, we determined that the fair value of the franchise assets exceeded the carrying value of the franchise assets for all of our franchises, resulting in no franchise asset impairment charges during 2019. See Note 5, "Intangible Assets and Goodwill," for further discussion of franchise and dealer agreements.

**Insurance Reserves** - We have various self-insured and high deductible casualty and other insurance programs which require the Company to make estimates in determining the ultimate liability it 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 certain cases, a discount factor. As of December 31, 2019 and 2018, we had approximately \$23.1 million and \$22.9 million, respectively, reserved for such programs.

**Income Taxes** - Income taxes are provided for the tax effects of transactions reported in the accompanying consolidated financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are provided at 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. As a matter of course, the Company is regularly audited by various taxing authorities and, from time to time, these audits result in proposed assessments where the ultimate resolution may result in the Company owing additional taxes. Management believes that the Company's tax positions comply, in all material respects, with applicable tax law and that the Company has adequately provided for any reasonably foreseeable outcome related to these matters.

From time to time, we engage in transactions in which the tax consequences may be subject to uncertainty. Significant judgment is required in assessing and estimating the tax consequences of these transactions. We determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, we presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. A tax position that does not meet the more-likely-than-not recognition threshold is measured to determine the amount of benefit to be recognized in the consolidated financial statements. The tax position is measured at the largest amount of benefit that is likely to be realized upon ultimate settlement. We adjust our estimates periodically because of ongoing examinations by and settlements with the various taxing authorities, as well as changes in tax laws, regulations and precedent. See Note 7, "Income Taxes," for further discussion of our uncertain tax positions.

**Concentrations of Credit and Business Risk** - Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash on deposit with financial institutions. At times, amounts invested with financial institutions exceed Federal Deposit Insurance Corporation insurance limits. Concentrations of credit risk with respect to receivables are limited primarily to receivables from automobile manufacturers, totaling approximately \$94.8 million and \$93.8 million at December 31, 2019 and 2018, respectively, and receivables from financial institutions (which include manufacturer-affiliated finance companies and commercial banks), totaling approximately \$258.7 million at December 31, 2019 and 2018. Credit risk arising from trade receivables from commercial customers is reduced by the large number of customers comprising the trade receivables balances.

We are subject to a concentration of risk in the event of financial distress or other adverse events related to any of the automobile manufacturers whose franchised dealerships are included in our brand portfolio. We purchase our new vehicle inventory from various automobile manufacturers at the prevailing prices available to all franchised dealerships. In addition, we finance a substantial portion of our new vehicle inventory with manufacturer-affiliated finance companies. Our results of operations could be adversely affected by the manufacturers' inability to supply our dealerships with an adequate supply of new vehicle inventory and related floor plan financing. We also have concentrations of risk related to the geographic markets in which our dealerships operate. Changes in overall economic, retail automotive or regulatory environments in one or more of these markets could adversely impact the results of our operations.

**Financial Instruments and Market Risks** - As of December 31, 2019 and 2018, the fair values of our financial instruments including receivables, notes receivable from finance contracts, notes payable - floor plan, trade accounts payable, borrowings under the revolving credit facilities and certain mortgage notes approximated their carrying values due either to

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length of maturity or existence of variable interest rates that approximate prevailing market rates. See Note 11, "Fair Value Measurements," for further discussion of the fair value and carrying value of our fixed rate long-term debt and other financial instruments.

We have variable rate notes payable - floor plan, revolving credit facilities, a mortgage facility and other variable rate notes that expose us to risks caused by fluctuations in the underlying interest rates. The counterparties to our interest rate cap agreements are large financial institutions, however, we could be exposed to loss in the event of non-performance by any of these counterparties. See further discussion in Note 6, "Long-Term Debt."

**Advertising** - We expense advertising costs in the period incurred, net of earned cooperative manufacturer credits that represent reimbursements for specific, identifiable and incremental advertising costs. Advertising expense amounted to approximately \$60.8 million, \$63.1 million and \$61.6 million for 2019, 2018 and 2017, respectively, and is classified in selling, general and administrative expenses in the accompanying consolidated statements of income.

We have cooperative advertising reimbursement agreements with certain automobile manufacturers we represent. These agreements require us to provide the manufacturer with support for qualified, actual advertising expenditures in order to receive reimbursement under the agreements. It is uncertain whether or not we would maintain the same level of advertising expenditures if these manufacturers discontinued their cooperative programs. Cooperative manufacturer credits classified as an offset to advertising expenses were approximately \$25.3 million, \$26.7 million and \$26.0 million for 2019, 2018 and 2017, respectively.

**Segment Information** - We have determined we have two reportable segments: (1) the Franchised Dealerships Segment and (2) the EchoPark Segment, for purposes of reporting financial condition and results of operations. The Franchised Dealerships Segment is comprised of retail automotive franchises that sell new vehicles and buy and sell used vehicles, sell replacement parts, perform vehicle repair and maintenance services, and arrange finance and insurance products. The EchoPark Segment is comprised of pre-owned vehicle specialty retail locations that provide customers an opportunity to search our nationwide inventory, purchase a pre-owned vehicle, select finance and insurance products and sell their current vehicle to us.

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

## **2. Business Acquisitions and Dispositions**

### **Acquisitions**

We did not acquire any businesses during 2019 or 2018. We opened one new EchoPark store in California during 2019 and opened one manufacturer-awarded luxury franchised dealership and three new EchoPark stores in 2018. We acquired one pre-owned business (that was subsequently converted to an EchoPark store) for approximately \$76.6 million during 2017. Acquisitions are included in the consolidated financial statements from the date of acquisition.

### **Dispositions**

We disposed of one luxury franchised dealership and nine mid-line import franchised dealerships in 2019, which generated net cash from dispositions of approximately \$250.7 million. We disposed of two luxury franchised dealerships and five mid-line import franchised dealerships in 2018, which generated net cash from dispositions of approximately \$128.7 million. Additionally, we terminated one luxury franchised dealership and ceased operations at a previously acquired pre-owned store in Florida and four stores in our EchoPark Segment in 2018. We disposed of one domestic franchised dealership and two mid-line import franchised dealerships in 2017, which generated net cash from dispositions of approximately \$38.2 million. In conjunction with dealership dispositions, we have agreed to indemnify the buyers from certain liabilities and costs arising from operations or events that occurred prior to sale but which may or may not have been known at the time of sale, including environmental liabilities and liabilities resulting from the breach of representations or warranties made under the agreements. See Note 12, "Commitments and Contingencies," for further discussion.

Prior to our adoption of ASU 2014-08 beginning with our Quarterly Report on Form 10-Q for the period ended June 30, 2014, individual dealership franchises sold, terminated or classified as held for sale were reported as discontinued operations. The results of operations of these dealership franchises sold or terminated on or prior to March 31, 2014 are reported as discontinued operations for all periods presented. Dealership franchises sold after March 31, 2014 have not been reclassified to discontinued operations since they did not meet the criteria in ASU 2014-08.

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Income (loss) from operations and lease exit accrual adjustments and charges associated with disposed dealerships classified as discontinued operations were as follows:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Income (loss) from operations before taxes	\$ (554)	\$ (610)	\$ (735)
Lease exit accrual adjustments and charges	—	(407)	(1,207)
Income (loss) from discontinued operations before taxes	<u>\$ (554)</u>	<u>\$ (1,017)</u>	<u>\$ (1,942)</u>

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

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Income (loss) from operations before taxes and items below	\$ 3,154	\$ (4,313)	\$ (736)
Gain (loss) on disposal of dealerships (1)	76,461	39,307	9,974
Lease exit accrual adjustments and charges	170	210	(1,207)
Impairment charges	—	(4,180)	(318)
Income (loss) before taxes	<u>\$ 79,785</u>	<u>\$ 31,024</u>	<u>\$ 7,713</u>
Total revenues	<u>\$ 307,849</u>	<u>\$ 783,275</u>	<u>\$ 1,140,514</u>

(1) Included in selling, general and administrative expenses in the accompanying consolidated statements of income.

In the ordinary course of business, we evaluate our dealership franchises for possible disposition based on various strategic and performance criteria. As of December 31, 2019, we did not have any franchises classified as held for sale; however, in the future, we may sell franchises that are not currently held for sale.

### 3. Inventories and Related Notes Payable - Floor Plan

Inventories consist of the following:

	December 31, 2019	December 31, 2018
		(In thousands)
New vehicles	\$ 983,123	\$ 1,027,727
Used vehicles	319,791	293,179
Service loaners	152,278	141,542
Parts, accessories and other	62,683	66,013
Net inventories	<u>\$ 1,517,875</u>	<u>\$ 1,528,461</u>

We finance all of our new and certain of our used vehicle inventory through standardized floor plan facilities with either a syndicate of financial institutions and manufacturer-affiliated finance companies or directly with individual manufacturer-affiliated finance companies and other lending institutions. The new and used vehicle floor plan facilities bear interest at variable rates based on either LIBOR or prime rates, depending on the lender arrangement. The weighted average interest rate for our new vehicle floor plan facilities was 3.03%, 3.10% and 2.37% for 2019, 2018 and 2017, respectively. Our floor plan interest expense related to the new vehicle floor plan arrangements is partially offset by amounts received from manufacturers in the form of floor plan assistance capitalized in inventory and charged against cost of sales when the associated inventory is sold. For 2019, 2018 and 2017, we recognized a reduction in cost of sales of approximately \$41.5 million, \$42.2 million and \$45.3 million, respectively, related to manufacturer floor plan assistance.

The weighted average interest rate for our used vehicle floor plan facilities was 3.10%, 2.98% and 2.61% for 2019, 2018 and 2017, respectively.

The new and used vehicle floor plan facilities are collateralized by vehicle inventory and other assets, excluding goodwill and other intangible assets, of the relevant dealership subsidiary. The new and used vehicle 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 of these restrictive covenants as of December 31, 2019.

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**4. Property and Equipment**

Property and equipment, net consists of the following:

	December 31, 2019	December 31, 2018
	(In thousands)	
Land	\$ 373,301	\$ 381,527
Building and improvements (1)	969,609	989,872
Furniture, fixtures and equipment	346,260	330,149
Construction in progress	50,928	59,523
Total, at cost	1,740,098	1,761,071
Less accumulated depreciation	(616,611)	(575,720)
Subtotal	1,123,487	1,185,351
Less assets held for sale (2)	(26,240)	(6,862)
Property and equipment, net	\$ 1,097,247	\$ 1,178,489

(1) As discussed in Note 1, "Description of Business and Summary of Significant Accounting Policies," due to the adoption of ASC 842, "Leases," effective January 1, 2019, previously existing capital lease assets have been reclassified from property and equipment, net to financing - right-of-use assets in the accompanying consolidated balance sheet as of December 31, 2019.

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

Interest capitalized in conjunction with construction projects and software development was approximately \$.6 million, \$1.5 million and \$2.2 million for 2019, 2018 and 2017, respectively. As of December 31, 2019, commitments for facility construction projects totaled approximately \$18.0 million.

During 2019, 2018 and 2017, property and equipment impairment charges were recorded as noted in the following table:

Year Ended December 31,	Franchised Dealerships Segment		EchoPark Segment		Consolidated	
	(In thousands)					
2019	\$ 1,101	\$ 19,667	\$ 20,768			
2018	\$ 25,832	\$ 1,582	\$ 27,414			
2017	\$ 3,890	\$ 1,004	\$ 4,894			

Impairment charges were due to the fair value adjustments of long-lived assets held for sale related to real estate at former EchoPark locations, the abandonment of certain internally developed software applications, the abandonment and disposal of dealership equipment or our estimate that based on historical and projected operating losses for certain dealerships, these dealerships would not be able to recover recorded property and equipment asset balances.

**5. Intangible Assets and Goodwill**

The changes in the carrying amount of franchise assets and goodwill for 2019 and 2018 were as follows:

	Franchise Assets	Net Goodwill	
	(In thousands)		
Balance at December 31, 2017	\$ 69,900	\$ 525,780	(1)
Reductions from dispositions	(2,100)	(16,188)	
Reductions from impairment	(2,100)	—	
Balance at December 31, 2018	\$ 65,700	\$ 509,592	(1)
Reductions from dispositions	(1,400)	(33,801)	
Balance at December 31, 2019	\$ 64,300	\$ 475,791	(1)

(1) Net of accumulated impairment losses of \$797.6 million.

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**Other Intangible Assets**

Other intangible assets consist of franchise assets and definite life intangible assets, and are presented net of accumulated amortization on the accompanying consolidated balance sheets. Pursuant to applicable accounting pronouncements, we evaluate our franchise assets and definite life intangible assets for impairment annually (as of October 1 of each year) or more frequently if indications of impairment exist. There were no franchise asset impairment charges for 2019 and \$2.1 million for 2018, which was recorded in continuing operations based on the impairment evaluations performed. As discussed below in Note 16, "Leases," due to the adoption of ASC 842, "Leases," effective January 1, 2019, previously existing definite life intangible assets have been reclassified from other intangible assets, net to right-of-use assets in the accompanying consolidated balance sheet as of December 31, 2019.

**6. Long-Term Debt**

Long-term debt consists of the following:

	December 31, 2019	December 31, 2018
	(In thousands)	
2016 Revolving Credit Facility (1)	\$ —	\$ —
5.0% Senior Subordinated Notes due 2023 (the "5.0% Notes")	—	289,273
6.125% Senior Subordinated Notes due 2027 (the "6.125% Notes")	250,000	250,000
2019 Mortgage Facility (2)	109,088	—
Mortgage notes to finance companies - fixed rate, bearing interest from 3.51% to 7.03%	194,535	215,196
Mortgage notes to finance companies - variable rate, bearing interest at 1.50 to 2.90 percentage points above one-month or three-month LIBOR	161,345	180,959
Other	—	20,589
Subtotal	714,968	956,017
Debt issuance costs	(8,082)	(10,934)
Total debt	706,886	945,083
Less current maturities	(69,908)	(26,304)
Long-term debt	\$ 636,978	\$ 918,779

(1) The interest rate on the 2016 Revolving Credit Facility (as defined below) was 150 and 250 basis points above LIBOR at December 31, 2019 and 2018, respectively.

(2) The interest rate on the 2019 Mortgage Facility (as defined below) was 200 basis points above LIBOR at December 31, 2019.

Future maturities of long-term debt are as follows:

Year Ending December 31,	Principal (In thousands)
2020	\$ 69,908
2021	63,274
2022	50,241
2023	68,857
2024	108,462
Thereafter	354,226
Total	\$ 714,968

**2016 Credit Facilities**

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



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to mature on November 30, 2021. The amendment and restatement of the 2016 Credit Facilities extended the scheduled maturity date, increased availability under the 2016 Revolving Credit Facility by \$25.0 million and increased availability under the 2016 Floor Plan Facilities by \$215.0 million, among other things.

Availability under the 2016 Revolving Credit Facility is calculated as the lesser of \$250.0 million or a borrowing base calculated based on certain eligible assets, less the aggregate face amount of any outstanding letters of credit under the 2016 Revolving Credit Facility (the "2016 Revolving Borrowing Base"). The 2016 Revolving Credit Facility may be increased at our option up to \$300.0 million upon satisfaction of certain conditions. Based on balances as of December 31, 2019, the 2016 Revolving Borrowing Base was approximately \$245.3 million. As of December 31, 2019, we had no outstanding borrowings and approximately \$14.6 million in outstanding letters of credit under the 2016 Revolving Credit Facility, resulting in total borrowing availability of approximately \$230.7 million under the 2016 Revolving Credit Facility.

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

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

#### **5.0% Notes**

On May 9, 2013, we issued \$300.0 million in aggregate principal amount of unsecured 5.0% Senior Subordinated Notes due May 15, 2023 ("the 5% Notes"). During the year ended December 31, 2016, we repurchased approximately \$10.7 million of the 5.0% Notes for approximately \$10.6 million in cash, plus accrued and unpaid interest related thereto. On December 30, 2019, we repurchased all of the remaining 5.0% Notes outstanding, totaling approximately \$289.3 million aggregate principal amount, using cash on hand, net proceeds from the disposition of several franchised dealerships and proceeds from borrowings under the 2019 Mortgage Facility. We paid approximately \$295.9 million in cash, including an early redemption premium of 1.667% and accrued and unpaid interest, to extinguish the 5.0% Notes. In conjunction with the redemption of the 5.0% Notes, we recognized a loss on debt extinguishment of approximately \$6.7 million, recorded in other income (expense), net in the accompanying consolidated statements of income. In addition, we recognized approximately \$0.5 million of double-carry interest in interest expense, other, net in the accompanying consolidated statements of income for the period during which both the 5.0% Notes and the 2019 Mortgage Facility had outstanding balances. On December 30, 2019, after the repurchase of all of the outstanding 5.0% Notes, there were no notes outstanding under the indenture which governed the 5.0% Notes, and the indenture was discharged at that time.

#### **6.125% Notes**

On March 10, 2017, we issued \$250.0 million in aggregate principal amount of unsecured senior subordinated 6.125% Notes which mature on March 15, 2027. The 6.125% Notes were issued at a price of 100.0% of the principal amount thereof. We used the net proceeds from the issuance of the 6.125% Notes to repurchase all of the outstanding 7.0% Senior Subordinated Notes due 2022 (the "7.0% Notes") on March 27, 2017. Remaining proceeds from the issuance of the 6.125% Notes were used for general corporate purposes. Balances outstanding under the 6.125% Notes are guaranteed by all of our domestic operating subsidiaries. These guarantees are full and unconditional and joint and several. The parent company has no independent assets or operations. The non-domestic operating subsidiary that is not a guarantor is considered to be minor. Interest on the 6.125% Notes is payable semi-annually in arrears on March 15 and September 15 of each year. We may redeem the 6.125% Notes, in whole or in part, at any time on or after March 15, 2022 at the following redemption prices, which are expressed as percentages of the principal amount:

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

Before March 15, 2022, we may redeem all or a part of the 6.125% Notes at a redemption price equal to 100.0% of the principal amount of the 6.125% Notes redeemed, plus the Applicable Premium (as defined in the indenture governing the 6.125% Notes) and any accrued and unpaid interest, if any, to the redemption date. In addition, on or before March 15, 2020, we may redeem up to 35% of the aggregate principal amount of the 6.125% Notes at a redemption price equal to 106.125% of the par value of the 6.125% Notes redeemed, plus accrued and unpaid interest, if any, to the redemption date with proceeds from certain equity offerings. The indenture governing the 6.125% Notes also provides that holders of the 6.125% Notes may require us to repurchase the 6.125% Notes at a purchase price equal to 101.0% of the par value of the 6.125% Notes, plus accrued and unpaid interest, if any, to the date of purchase if we undergo a Change of Control (as defined in the indenture governing the 6.125% Notes).

The indenture governing the 6.125% Notes contains certain specified restrictive covenants. We have agreed not to pledge any assets to any third-party lender of senior subordinated debt except under certain limited circumstances. We also have agreed to certain other limitations or prohibitions concerning the incurrence of other indebtedness, guarantees, liens, certain types of investments, certain transactions with affiliates, mergers, consolidations, issuance of preferred stock, cash dividends to stockholders, distributions, redemptions and the sale, assignment, lease, conveyance or disposal of certain assets. Specifically, the indenture governing the 6.125% Notes limits our ability to pay quarterly cash dividends on our Class A and Class B Common Stock in excess of \$0.12 per share. We may only pay quarterly cash dividends on our Class A and Class B Common Stock if we comply with the terms of the indenture governing the 6.125% Notes. We were in compliance with all restrictive covenants in the indenture governing the 6.125% Notes as of December 31, 2019.

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

#### **2019 Mortgage Facility**

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

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

Amounts outstanding under the 2019 Mortgage Facility bear interest at (i) a specified rate above LIBOR (as defined in the 2019 Mortgage Facility), ranging from 1.50% to 2.75% per annum according to a performance-based pricing grid determined by the Company's Consolidated Total Lease Adjusted Leverage Ratio (as defined in the 2019 Mortgage Facility) as of the last day of the immediately preceding fiscal quarter (the "Performance Grid"); or (ii) a specified rate above the Base Rate (as defined in the 2019 Mortgage Facility), ranging from 0.50% to 1.75% per annum according to the Performance Grid. Interest on the 2019 Mortgage Facility is paid monthly in arrears calculated using the Base Rate plus the Applicable Rate (as defined in the 2019 Mortgage Facility) according to the Performance Grid. Repayment of principal is paid quarterly commencing on March 31, 2020 through September 30, 2024 at a rate of 2.50% of the aggregate initial principal amount. A balloon payment of the remaining balance will be due at the November 22, 2024 maturity date. Prior to the November 22, 2024 maturity date, the Company reserves the right to prepay the principal amount outstanding at any time without premium or penalty provided the prepayment amount exceeds \$0.5 million.

The 2019 Mortgage Facility contains usual and customary representations and warranties, and usual and customary affirmative and negative covenants, including covenants which could restrict or prohibit indebtedness, liens, payment of dividends and other restricted payments, capital expenditures and material dispositions and acquisitions of assets, as well as

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other usual and customary covenants and default provisions. Specifically, the 2019 Mortgage Facility permits quarterly cash dividends on our Class A and Class B Common Stock up to \$0.10 per share so long as no Event of Default (as defined in the 2019 Mortgage Facility) has occurred and is continuing and provided that we remain in compliance with all financial covenants under the 2019 Mortgage Facility.

**Mortgage Notes to Finance Companies**

As of December 31, 2019, the weighted average interest rate of other mortgage notes, excluding the 2019 Mortgage Facility, was 4.36% and the total outstanding mortgage principal balance of these notes was approximately \$355.9 million. These mortgage notes require monthly payments of principal and interest through their respective maturities, are secured by the underlying properties and contain certain cross-default provisions. Maturity dates for these mortgage notes range between 2020 and 2033.

**Covenants**

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

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

	Covenant		
	Minimum Consolidated Liquidity Ratio	Minimum Consolidated Fixed Charge Coverage Ratio	Maximum Consolidated Total Lease Adjusted Leverage Ratio
Required ratio	1.05	1.20	5.75
December 31, 2019 actual	1.11	1.60	3.21

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

After giving effect to the applicable restrictions on the payment of dividends under our debt agreements, as of December 31, 2019, we had at least \$59.9 million of net income and retained earnings free of such restrictions. We were in compliance with all restrictive covenants as of December 31, 2019.

In addition, many of our facility leases are governed by a guarantee agreement between the landlord and us that contains financial and operating covenants. The financial covenants under the guarantee agreement are identical to those under the 2016 Credit Facilities and the 2019 Mortgage Facility with the exception of one additional financial covenant related to the ratio of EBTDAR to rent (as defined in the guarantee agreement) with a required ratio of no less than 1.50 to 1.00. As of December 31, 2019, the ratio was 5.57 to 1.00.

**Derivative Instruments and Hedging Activities**

As of December 31, 2019 and 2018, we had interest rate cap agreements to limit our exposure to increases in LIBOR rates above certain levels. Under the terms of these interest rate cap agreements, interest rates reset monthly. We paid cash premiums of approximately \$2.5 million and \$2.8 million in the years ended December 31, 2019 and 2018, respectively, upon entering into new interest rate cap agreements, and the cash premiums were reflected in operating cash flows for the periods in which the premiums were paid. The unamortized premium amounts related to the outstanding interest rate caps were approximately \$3.7 million and \$4.6 million as of December 31, 2019 and 2018, respectively, and will be amortized through interest expense, other, net in the accompanying consolidated statements of income over the remaining term of the interest rate cap agreements. The fair value of the interest rate cap positions at December 31, 2019 was a net asset of approximately \$0.1

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million, with approximately \$0.1 million included in other assets in the accompanying consolidated balance sheets. The fair value of the interest rate cap positions at December 31, 2018 was an asset of approximately \$4.8 million, with approximately \$1.8 million included in other current assets and approximately \$3.0 million included in other assets in the accompanying consolidated balance sheets.

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

(1) Under these interest rate caps, no payment will occur unless the stated receive rate exceeds the stated pay rate. If this occurs, a net payment to us from the counterparty based on the spread between the receive rate and the pay rate will be recognized as a reduction of interest expense, other, net in the accompanying consolidated statements of income.

(2) The one-month LIBOR rate was approximately 1.763% at December 31, 2019.

The interest rate caps are designated as cash flow hedges, and the changes in the fair value of these instruments are recorded in other comprehensive income (loss) in the accompanying consolidated statements of comprehensive income and are disclosed in the supplemental schedule of non-cash financing activities in the accompanying consolidated statements of cash flows. The incremental interest income related to the interest rate caps was approximately \$1.2 million and \$0.2 million for 2019 and 2018, respectively, and is included as a reduction of interest expense, other, net in the accompanying consolidated statements of income and the interest amount is disclosed in the supplemental disclosures of cash flow information in the accompanying consolidated statements of cash flows. The incremental interest expense related to the interest rate swaps was approximately \$3.1 million for 2017 and is included in interest expense, other, net in the accompanying consolidated statements of income and the interest amount is disclosed in the supplemental disclosures of cash flow information in the accompanying consolidated statements of cash flows. The estimated net expense expected to be reclassified out of accumulated other comprehensive income (loss) into results of operations during the next 12 months is approximately \$1.3 million related to the interest rate caps.

## 7. Income Taxes

The provision for income taxes for continuing operations - benefit (expense) consists of the following:

	Year Ended December 31,		
	2019	2018	2017
(In thousands)			
Current:			
Federal	\$ (62,016)	\$ (37,028)	\$ (34,877)
State	(12,563)	(7,411)	(7,292)
Total current	(74,579)	(44,439)	(42,169)
Deferred	19,471	21,517	28,198
Total provision for income taxes for continuing operations - benefit (expense)	\$ (55,108)	\$ (22,922)	\$ (13,971)

The provision for income taxes for continuing operations - benefit (expense) includes a benefit of \$8.4 million related to the remeasurement of the net deferred tax liability as of December 31, 2017, due to a reduction in the U.S. statutory federal income tax rate from 35.0% to 21.0% (beginning in 2018) resulting from enactment of the Tax Act which was signed into law in December 2017. The effect of this benefit is shown separately in the following rate reconciliation table. The reconciliation of the U.S. statutory federal income tax rate with our federal and state overall effective income tax rate from continuing operations is as follows:

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	Year Ended December 31,		
	2019	2018	2017
U.S. statutory federal income tax rate	21.00 %	21.00 %	35.00 %
Effective state income tax rate	4.10 %	4.60 %	4.58 %
Valuation allowance adjustments	(0.18)%	0.20 %	(0.59)%
Uncertain tax positions	(0.45)%	0.17 %	0.71 %
Effect of change in future U.S. statutory federal income tax rate	0.00 %	0.00 %	(26.27)%
Non-deductible compensation	1.48 %	3.06 %	0.23 %
Other	1.65 %	1.41 %	(0.74)%
Effective income tax rate	<u>27.60 %</u>	<u>30.44 %</u>	<u>12.92 %</u>

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 our deferred tax assets and liabilities are as follows:

	December 31, 2019	December 31, 2018
	(In thousands)	
<b>Deferred tax assets:</b>		
Accruals and reserves	\$ 27,271	\$ 24,948
State net operating loss carryforwards	10,771	12,687
Basis difference in property and equipment	20,923	11,515
Interest and state taxes associated with the liability for uncertain income tax positions	938	1,175
Fair value of interest rate swaps and interest rate caps	1,153	—
Basis difference in liabilities related to right-of-use assets	93,808	—
Other	2,146	1,778
Total deferred tax assets	<u>157,010</u>	<u>52,103</u>
<b>Deferred tax liabilities:</b>		
Fair value of interest rate swaps and caps	—	(462)
Basis difference in inventories	(804)	(838)
Basis difference in goodwill	(61,397)	(69,646)
Basis difference in right-of-use assets	(90,679)	—
Other	(2,316)	(2,544)
Total deferred tax liabilities	<u>(155,196)</u>	<u>(73,490)</u>
Valuation allowance	(7,775)	(8,138)
Net deferred tax asset (liability)	<u>\$ (5,961)</u>	<u>\$ (29,525)</u>

Net long-term deferred tax asset balances were approximately \$3.0 million and \$3.7 million at December 31, 2019 and 2018, respectively, and are recorded in other assets on the accompanying consolidated balance sheets. Net long-term deferred tax liability balances were approximately \$8.9 million and \$33.2 million at December 31, 2019 and 2018, respectively, and are recorded in deferred income taxes on the accompanying consolidated balance sheets.

We have approximately \$248.4 million in gross state net operating loss carryforwards that will expire between 2020 and 2039. Management reviews these carryforward positions, the time remaining until expiration and other opportunities to realize these carryforwards in making an assessment as to whether it is more likely than not that these carryforwards will be realized. The results of future operations, regulatory framework of the taxing authorities and other related matters cannot be predicted with certainty and, therefore, differences from the assumptions used in the development of management's judgment could occur. As of December 31, 2019, we had recorded a valuation allowance amount of approximately \$7.8 million related to certain state net operating loss carryforward deferred tax assets as we determined that we would not be able to generate sufficient state taxable income in the related entities to realize the accumulated net operating loss carryforward balances.

At January 1, 2019, we had liabilities of approximately \$5.5 million recorded related to unrecognized tax benefits. Included in the liabilities related to unrecognized tax benefits at January 1, 2019, was approximately \$0.6 million related to interest and penalties which we have estimated may be paid as a result of our tax positions. It is our policy to classify the

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expense related to interest and penalties to be paid on underpayments of income taxes within income tax expense. A summary of the changes in the liability related to our unrecognized tax benefits is presented below.

	2019	2018	2017
	(In thousands)		
Unrecognized tax benefit liability, January 1 (1)	\$ 4,901	\$ 4,645	\$ 4,357
New positions	—	—	653
Prior period positions:			
Increases	1,795	7	491
Decreases	(2,697)	(199)	(539)
Increases from current period positions	582	714	692
Settlements	(653)	—	—
Lapse of statute of limitations	(8)	(69)	(781)
Other	(81)	(197)	(228)
Unrecognized tax benefit liability, December 31 (2)	<u>\$ 3,839</u>	<u>\$ 4,901</u>	<u>\$ 4,645</u>

(1) Excludes accrued interest and penalties of \$0.6 million, \$0.6 million and \$0.8 million at January 1, 2019, 2018 and 2017, respectively.

(2) Excludes accrued interest and penalties of \$0.5 million, \$0.6 million and \$0.6 million at December 31, 2019, 2018 and 2017, respectively. Amount presented is net of state net operating losses of \$0.0 million, \$0.0 million and \$0.1 million at December 31, 2019, 2018 and 2017, respectively.

Approximately \$3.8 million and \$4.9 million of the unrecognized tax benefits as of December 31, 2019 and 2018, respectively, would ultimately affect the income tax rate if recognized. Included in the December 31, 2019 recorded liability is approximately \$0.5 million related to interest and penalties which we have estimated may be paid as a result of our tax positions. We do not anticipate any significant changes in our unrecognized tax benefit liability within the next 12 months.

Sonic and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. Sonic's 2016 through 2019 U.S. federal income tax returns remain open to examination by the U.S. Internal Revenue Service. Sonic and its subsidiaries' state income tax returns remain open to examination by state taxing authorities for years ranging from 2015 to 2019.

The primary effect of the change in the U.S. federal income tax rate from 35.0% to 21.0%, as required by the Tax Act, related to the adjustment of deferred income tax balances. In periods prior to the year ended December 31, 2017, the income tax benefit or expense related to the reversal of deferred income tax assets and liabilities was expected to be realized at a federal income tax rate of 35.0%. Because of the Tax Act, the reversal of deferred income tax asset and liabilities in subsequent periods is recorded assuming a federal income tax rate of 21.0%. There were no significant provisional amounts considered in our recorded income tax balances at December 31, 2019. However, as the Tax Act was signed into law on December 22, 2017, clarifications of the Tax Act's provisions may be issued at later dates that alter our understanding of the Tax Act's provisions and thus may affect recorded income tax balances. Interpretations related to the Tax Act's provisions concerning depreciation, interest and compensation deductibility could impact recorded income tax balances.

#### 8. Related Parties

Certain of our dealerships purchase the zMAX micro-lubricant from Oil-Chem Research Corporation ("Oil-Chem"), a subsidiary of Speedway Motorsports, LLC f/k/a Speedway Motorsports Inc. ("Speedway Motorsports"), for resale to Fixed Operations customers of our dealerships in the ordinary course of business. Sonic's Executive Chairman, Mr. O. Bruton Smith, is also the Executive Chairman of Speedway Motorsports, and Mr. Smith's son, Mr. Marcus G. Smith, a director and a greater than 10% beneficial owner of Sonic, is the Chief Executive Officer and President and a director of Speedway Motorsports, and an Executive Vice President of Sonic Financial Corporation ("SFC"). Total purchases from Oil-Chem by our dealerships were approximately \$1.6 million in both 2019 and 2018, and approximately \$1.9 million in 2017. We also engaged in other transactions with various Speedway Motorsports subsidiaries, consisting primarily of (1) merchandise and apparel purchases from SMISC Holdings, LLC. (d/b/a SMI Properties) for approximately \$0.9 million in each of 2019, 2018 and 2017; and (2) vehicle sales to various Speedway Motorsports subsidiaries for approximately \$0.2 million in each of 2019, 2018 and 2017.

We participate in various aircraft-related transactions with SFC, a privately held company controlled by Mr. O. Bruton Smith and his family. Such transactions include, but are not limited to, the use of aircraft owned by SFC for business-related travel by our executives, a management agreement with SFC for storage and maintenance of aircraft leased by us from

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unrelated third parties and the use of our aircraft for business-related travel by certain affiliates of SFC. We incurred net expenses of approximately \$0.3 million in both 2019 and 2018, and approximately \$0.4 million in 2017 in aircraft-related transactions with these related parties.

**9. Capital Structure and Per Share Data**

*Preferred Stock* - We have 3,000,000 shares of “blank check” preferred stock authorized with such designations, rights and preferences as may be determined from time to time by our Board of Directors. Our 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, 2019 or 2018.

*Common Stock* - We have two classes of common stock. We have authorized 100,000,000 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. We have also authorized 30,000,000 shares of Class B Common Stock at a par value of \$0.01 per share. Class B Common Stock entitles its holder to 10 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 our charter. The two classes of common stock share equally in dividends and in the event of liquidation.

*Share Repurchases* - Prior to December 31, 2019, our Board of Directors had authorized us to expend up to \$95.0 million to repurchase shares of our Class A Common Stock. As of December 31, 2019, we had repurchased a total of approximately 33.6 million shares of Class A Common Stock at an average price per share of approximately \$17.84 and had redeemed and retired 13,801.5 shares of the Preferred Stock at an average price of \$1,000 per share. As of December 31, 2019, we had approximately \$81.2 million remaining under our Board’s authorization.

*Per Share Data* - The calculation of diluted earnings per share considers the potential dilutive effect of restricted stock units, restricted stock awards and stock options granted under Sonic’s stock compensation plans (and any non-forfeitable dividends paid on such awards), in addition to Class A Common Stock purchase warrants.

**10. Employee Benefit Plans**

Substantially all of our employees are eligible to participate in a 401(k) plan. Contributions by us to our 401(k) plans were approximately \$0.9 million, \$0.2 million and \$8.0 million in 2019, 2018 and 2017, respectively.

*Stock Compensation Plans*

We currently have two active stock compensation plans: the Sonic Automotive, Inc. 2012 Stock Incentive Plan (the “2012 Plan”) and the Sonic Automotive, Inc. 2012 Formula Restricted Stock and Deferral Plan for Non-Employee Directors (the “2012 Formula Plan”). Collectively, these plans are referred to as the “Stock Plans.” During the second quarter of 2012, our stockholders voted to approve the 2012 Plan and the 2012 Formula Plan, with authorization for issuance of 2,000,000 shares of Class A Common Stock and 300,000 shares of Class A Common Stock, respectively. During the second quarter of 2015, our stockholders voted to increase the number of shares of Class A Common Stock authorized for issuance under the 2012 Plan from 2,000,000 shares to 4,000,000 shares. During the second quarter of 2017, our stockholders voted to increase the number of shares of Class A Common Stock authorized for issuance under the 2012 Formula Plan from 300,000 shares to 500,000 shares. During the second quarter of 2019, our stockholders voted to increase the number of shares of Class A Common Stock authorized for issuance under the 2012 Plan from 4,000,000 shares to 6,000,000 shares.

The Stock Plans were adopted by our Board of Directors in order to attract and retain key personnel. Under the 2012 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 us. The options are granted at the fair market value of our Class A Common Stock at the date of grant, typically vest over a period ranging from six months to three years, are exercisable upon vesting and typically expire 10 years from the date of grant. The 2012 Plan also authorizes the issuance of restricted stock awards and restricted stock units. Restricted stock award and restricted stock unit grants under the 2012 Plan typically vest over a period ranging from one to three years, but may be longer in certain cases. The 2012 Formula Plan provides for grants of restricted stock awards or deferred restricted stock units to non-employee directors and restrictions on those shares expire on the earlier of the first anniversary of the grant date or the day before the next annual meeting of our stockholders, except to the extent that such grant is considered an interim grant for a newly elected non-employee director, in which case, restrictions on those shares expire on the first anniversary of the grant date. Individuals holding non-vested restricted stock awards under the 2012 Plan and the 2012 Formula Plan have voting rights and certain grants may receive

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dividends on non-vested shares. Individuals holding restricted stock units as of December 31, 2019 granted under the 2012 Plan do not have voting or dividend rights. We issue new shares of Class A Common Stock to employees and directors to satisfy our option exercise and stock grant obligations. To offset the effects of these transactions, we have historically repurchased shares of our Class A Common Stock after considering cash flow, market conditions and other factors; however, there is no guarantee that this will occur in future periods.

A summary of the status of the stock options related to the Stock Plans is presented below:

	Options Outstanding		Exercise Price Per Share (Low - High)		Weighted Average Exercise Price Per Share		Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value
(In thousands, except per share data, term in years)									
Balance at December 31, 2018	33	\$	1.81 - 1.81		\$ 1.81		0.3	\$	392
Exercised	(33)	\$	1.81 - 1.81		\$ 1.81				

	Year Ended December 31,		
	2019	2018	2017
(In thousands)			
Intrinsic value of stock options exercised	\$ 426	\$ 3,564	\$ 425

We recognize compensation expense within selling, general and administrative expenses related to the stock options granted under the Stock Plans. No stock option compensation expense was recognized during 2019, 2018 or 2017, as all previous stock option grants were completely vested prior to December 31, 2012.

A summary of the status of the non-vested restricted stock award and restricted stock unit grants related to the Stock Plans is presented below:

	Non-Vested Restricted Stock Awards and Restricted Stock Units		Weighted Average Grant Date Fair Value per Share
(In thousands, except per share data)			
Balance at December 31, 2018	2,161	\$	21.20
Granted	968	\$	13.38
Forfeited	(295)	\$	19.75
Vested	(487)	\$	18.82
Balance at December 31, 2019	2,347	\$	19.34

During 2019, approximately 911,000 restricted stock units were awarded to our executive officers and other key associates under the 2012 Plan. These awards were made in connection with establishing the objective performance criteria for 2019 incentive compensation and vest over three years. The majority of the restricted stock units awarded to executive officers and other key associates are subject to forfeiture, in whole or in part, based upon specified measures of Sonic's earnings per share performance for 2019, continuation of employment and compliance with any restrictive covenants contained in an agreement between us and the respective executive officer or other key associate. Also in 2019, approximately 57,000 restricted stock awards were granted to our Board of Directors pursuant to the 2012 Formula Plan and vest on the earlier of the first anniversary of the grant date or the day before the next annual meeting of our stockholders, except to the extent that such grant is considered an interim grant for a newly elected non-employee director, in which case, restrictions on those shares expire on the first anniversary of the grant date. We recognized compensation expense within selling, general and administrative expenses related to restricted stock units and restricted stock awards of approximately \$10.8 million, \$11.9 million and \$11.1 million in 2019, 2018 and 2017, respectively.

Tax benefits recognized related to restricted stock unit and restricted stock award compensation expense were approximately \$9 million, \$3.0 million and \$4.2 million for 2019, 2018 and 2017, respectively. Total compensation cost related to non-vested restricted stock units and restricted stock awards not yet recognized at December 31, 2019 was approximately \$29.1 million and is expected to be recognized over a weighted average period of approximately 6.5 years.



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*Supplemental Executive Retirement Plan*

On December 7, 2009, the Compensation Committee of our Board of Directors approved and adopted the Sonic Automotive, Inc. Supplemental Executive Retirement Plan (the "SERP") to be effective as of January 1, 2010. The SERP is a non-qualified deferred compensation plan that is unfunded for federal tax purposes. The SERP included 12 active or former members of senior management at December 31, 2019. The purpose of the SERP is to attract and retain key members of management by providing a retirement benefit in addition to the benefits provided by our tax-qualified and other non-qualified deferred compensation plans.

The following table sets forth the status of the SERP:

	Year Ended December 31,	
	2019	2018
	(In thousands)	
<b>Change in projected benefit obligation:</b>		
Obligation at January 1	\$ 13,326	\$ 13,556
Service cost	1,731	1,933
Interest cost	575	470
Actuarial loss (gain)	2,641	(2,368)
Amendments/settlements/curtailments loss (gain)	—	—
Benefits paid	(265)	(265)
Obligation at December 31 (1)	<u>\$ 18,008</u>	<u>\$ 13,326</u>
Accumulated benefit obligation	<u>\$ 13,694</u>	<u>\$ 10,191</u>

(1) For 2019, approximately \$0.4 million is included in other accrued liabilities and approximately \$17.6 million is included in other long-term liabilities in the accompanying consolidated balance sheets. For 2018, approximately \$0.3 million is included in other accrued liabilities and approximately \$13.0 million is included in other long-term liabilities in the accompanying consolidated balance sheets.

	Year Ended December 31,	
	2019	2018
	(In thousands)	
<b>Change in fair value of plan assets:</b>		
Plan assets at January 1	\$ —	\$ —
Actual return on plan assets	—	—
Employer contributions	265	265
Benefits paid	(265)	(265)
Plan assets at December 31	<u>—</u>	<u>—</u>
Funded status recognized	<u>\$ (18,008)</u>	<u>\$ (13,326)</u>

The following table provides the cost components of the SERP:

	Year Ended December 31,	
	2019	2018
	(In thousands)	
Service cost	\$ 1,731	\$ 1,933
Interest cost	575	470
Net pension expense (benefit)	<u>\$ 2,306</u>	<u>\$ 2,403</u>

The weighted average assumptions used to determine the benefit obligation and net periodic benefit costs consist of:

	As of December 31,	
	2019	2018
Discount rate	2.99 %	4.36 %
Rate of compensation increase	3.00 %	3.00 %

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The estimated future benefit payments expected to be paid for each of the next five years and the sum of the payments expected for the next five years thereafter are:

Year Ending December 31,	Estimated Future Benefit Payments (In thousands)
2020	\$ 360
2021	\$ 360
2022	\$ 360
2023	\$ 360
2024	\$ 360
2025 - 2029	\$ 2,414

*Multiemployer Benefit Plan*

Five of our dealership subsidiaries in northern California currently make fixed-dollar contributions to the Automotive Industries Pension Plan (the "AI Pension Plan") pursuant to collective bargaining agreements between our subsidiaries and the International Association of Machinists (the "IAM") and the International Brotherhood of Teamsters (the "IBT"). The AI Pension Plan is a "multiemployer plan" as defined under the Employee Retirement Income Security Act of 1974, as amended, and our five dealership subsidiaries are among approximately 188 employers that are obligated to make contributions to the AI Pension Plan pursuant to collective bargaining agreements with the IAM, the IBT and other unions. The risks of participating in this multiemployer pension plan are different from single-employer plans in the following aspects:

- assets contributed to the multiemployer pension plan by one employer may be used to provide benefits to employees of other participating employers;
- if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and
- if we choose to stop participating in the multiemployer pension plan, we may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Our participation in the AI Pension Plan for 2019, 2018 and 2017 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (the "EIN"). Unless otherwise noted, the most recent Pension Protection Act of 2006 (the "PPA") zone status available in the years ended December 31, 2019 and 2018 is for the plan's year-end at December 31, 2018 and 2017, respectively. The zone status is based on information that we received from the AI Pension Plan. Among other factors, plans in the red zone are generally less than 65% funded ("Critical Status"), plans in the yellow zone are less than 80% funded and plans in the green zone are at least 80% funded. The "FIP/RP Status - Pending/Implemented" column indicates plans for which a Financial Improvement Plan ("FIP") or a Rehabilitation Plan ("RP") is either pending or has been implemented. The last column lists the expiration dates of the collective bargaining agreements to which the plan is subject. The number of employees covered by the AI Pension Plan decreased 1.0% from December 31, 2017 to December 31, 2018 and decreased 5.5% from December 31, 2018 to December 31, 2019, affecting the period-to-period comparability of the contributions for 2019, 2018 and 2017.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status	Sonic Contributions			Surcharge Imposed	Collective Bargaining Agreement Expiration Date
		2019	2018	Pending /Implemented	Year Ended December 31,				
					2019	2018	2017		
					(In thousands)				
AI Pension Plan	94-1133245	Red	Red	RP Implemented	\$181	\$176	\$171	Yes	Between October 2021 and February 2022

Our participating dealership subsidiaries were not listed in the AI Pension Plan's Form 5500 as providing more than 5% of the total contributions for the plan years ended December 31, 2019 and December 31, 2018. In June 2006, we received information that the AI Pension Plan was substantially underfunded as of December 31, 2005. In July 2007, we received updated information that the AI Pension Plan continued to be substantially underfunded as of December 31, 2006, with the amount of such underfunding increasing versus year end 2005. In March 2008, the Board of Trustees of the AI Pension Plan

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notified participants, participating employers and local unions that the AI Pension Plan's actuary, in accordance with the requirements of the PPA, had issued a certification that the AI Pension Plan was in Critical Status effective with the plan year commencing January 1, 2008. In conjunction with the AI Pension Plan's Critical Status, the Board of Trustees of the AI Pension Plan adopted a RP that implemented reductions or eliminations of certain adjustable benefits that were previously available under the AI Pension Plan (including some forms of early retirement benefits, and disability and death benefits, among other items), and also implemented a requirement on all participating employers to increase employer contributions to the AI Pension Plan for a seven-year period which commenced in 2013. As of April 2015, the AI Pension Plan's actuary certified that the AI Pension Plan remained in Critical Status for the plan year commencing January 1, 2015. According to publicly available information, in September 2016, the AI Pension Plan made a formal application for approval of suspension of benefits with the U.S. Treasury Department, which, if approved by the U.S. Treasury Department, would have implemented a benefit reduction effective July 1, 2017 for participants in the AI Pension Plan. The filing included an Actuarial Certification of Plan Status as of January 1, 2016 that the AI Pension Plan previously filed with the U.S. Internal Revenue Service on March 30, 2016, which reported that the AI Pension Plan was in critical and declining status as of January 1, 2016 and further notified that the AI Pension Plan is making the scheduled progress in meeting the requirements of the plan's previously adopted RP. The September 2016 filing with the U.S. Treasury Department also included an Actuarial Certification of Plan Solvency as of July 1, 2016 with the actuarial firm's projection that the proposed suspensions of benefits are reasonably estimated to enable the AI Pension Plan to avoid insolvency assuming the proposed suspensions of benefits continue indefinitely. In May 2017, the U.S. Treasury Department denied the application to suspend benefits but noted that it remains willing to discuss the issues presented in the September 2016 formal application for suspension of benefits. As of April 2019, the AI Pension Plan's actuary certified that the AI Pension Plan remained in critical status for the plan year commencing January 1, 2019 and is projected to become insolvent in 2031. Under applicable federal law, any employer contributing to a multiemployer pension plan that completely ceases participating in the plan while the plan is underfunded is subject to payment of such employer's assessed share of the aggregate unfunded vested benefits of the plan. In certain circumstances, an employer can be assessed withdrawal liability for a partial withdrawal from a multiemployer pension plan. In addition, if the financial condition of the AI Pension Plan were to continue to deteriorate to the point that the AI Pension Plan is forced to terminate and be administered by the Pension Benefit Guaranty Corporation (the "PBGC"), the participating employers could be subject to assessments by the PBGC to cover the participating employers' assessed share of the unfunded vested benefits. If any of these adverse events were to occur in the future, it could result in a substantial withdrawal liability assessment to us.

#### **11. Fair Value Measurements**

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

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access. Assets utilizing Level 1 inputs include marketable securities that are actively traded, including our stock or public bonds.

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

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

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

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disclosed is determined based on the lowest level input (Level 3 being the lowest level) that is significant to the fair value measurement.

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

Assets and liabilities recorded at fair value in the accompanying consolidated balance sheets as of December 31, 2019 and 2018 are as follows:

	Fair Value Based on Significant Other Observable Inputs (Level 2)	
	December 31, 2019	December 31, 2018
(In thousands)		
<b>Assets:</b>		
Cash surrender value of life insurance policies (1)	\$ 32,799	\$ 31,395
Cash flow swaps and interest rate caps designated as hedges (2)	97	4,839
<b>Total assets</b>	<b>\$ 32,896</b>	<b>\$ 36,234</b>
<b>Liabilities:</b>		
Deferred compensation plan (3)	\$ 17,890	\$ 19,848
<b>Total liabilities</b>	<b>\$ 17,890</b>	<b>\$ 19,848</b>

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

(2) As of December 31, 2019, approximately \$0.1 million was included in other assets in the accompanying consolidated balance sheets. As of December 31, 2018, approximately \$1.8 million and \$3.0 million were included in other current assets and other assets, respectively, in the accompanying consolidated balance sheets.

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

The carrying value of assets and liabilities measured at fair value on a non-recurring basis but not completely adjusted to fair value in the accompanying consolidated balance sheet as of December 31, 2019, are included in the table below. Certain components of long-lived assets held and used have been adjusted to fair value through impairment charges as discussed in Note 4, "Property and Equipment," and Note 5, "Intangible Assets and Goodwill."

	Significant Unobservable Inputs (Level 3) as of December 31, 2019	Total Gains / (Losses) for the Year Ended December 31, 2019 (2)
(In thousands)		
Long-lived assets held and used (1)	\$ 7,286	\$ (1,345)
Assets held for sale (1)	\$ 23,030	\$ (17,741)

(1) See Note 1, "Description of Business and Summary of Significant Accounting Policies," and Note 4, "Property and Equipment." The fair values less costs to sell of long-lived assets or disposal groups held for sale are assessed each reporting period they remain classified as held for sale. Subsequent changes in the held for sale long-lived asset's or disposal group's fair value less cost to sell (increase or decrease) are reported as an adjustment to its carrying amount, except that the adjusted carrying amount cannot exceed the carrying amount of the long-lived asset or disposal group at the time it was initially classified as held for sale.

(2) Excludes impairment loss of approximately \$1.7 million related to long lived assets that were disposed during the year ended December 31, 2019.

As of December 31, 2019 and 2018, the fair values of our financial instruments, including receivables, notes receivable from finance contracts, notes payable - floor plan, trade accounts payable, borrowings under the revolving credit facilities and certain mortgage notes, approximated their carrying values due either to length of maturity or existence of variable interest rates that approximate prevailing market rates.

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The fair value and carrying value of our fixed rate long-term debt were as follows:

	December 31, 2019		December 31, 2018	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(In thousands)			
5.0% Notes (1)	\$ —	\$ —	\$ 262,515	\$ 289,273
6.125% Notes (1)	\$ 261,250	\$ 250,000	\$ 216,250	\$ 250,000
Mortgage Notes (2)	\$ 195,962	\$ 194,535	\$ 218,402	\$ 215,196
Other (2)	\$ —	\$ —	\$ 20,437	\$ 20,588

(1) As determined by market quotations as of December 31, 2019 and 2018, respectively (Level 1).

(2) As determined by DCF (Level 3).

## 12. Commitments and Contingencies

### *Lease Exit Accruals*

A significant number of our dealership properties are leased under long-term operating lease arrangements. Prior to January 1, 2019, if leased properties were no longer being utilized in operations, we recorded lease exit accruals. These situations could include the relocation of an existing facility or the sale of a dealership when the buyer will not be subleasing the property for either the remaining term of the lease or for an amount equal to our obligation under the lease, or situations in which a facility is closed as a result of the associated franchise being terminated by us or the manufacturer and no other operations continue on the leased property. The lease exit accruals represented the present value of the lease payments, net of estimated sublease rentals, for the remaining life of the operating leases and other accruals necessary to satisfy lease commitments to the landlords. As of December 31, 2018, the net liability related to these lease exit accruals was approximately \$4.6 million. As discussed in Note 16, "Leases" due to the adoption of ASC 842, "Leases," effective January 1, 2019, previously existing lease exit accruals have been reclassified from other accrued liabilities and other long-term liabilities to a reduction in right-of-use assets in the accompanying consolidated balance sheet as of December 31, 2019. Beginning January 1, 2019, right-of-use assets have been evaluated for impairment consistent with the impairment guidance in ASC 842, "Leases," and ASC 360, "Property, Plant, and Equipment," which is similar to our historical practice of recording lease exit accruals. However, beginning January 1, 2019, instead of recording new lease exit accruals, the result would be the reduction of the related right-of-use asset as an impairment charge.

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

	(In thousands)
Balance at December 31, 2018	\$ 4,634
Effect of adoption of ASC 842, "Leases"	(4,634)
Balance at December 31, 2019	\$ —

Many of our facility operating leases are subject to affirmative and financial covenant provisions related to a subordination and guaranty agreement executed with the landlord of many of our facility properties. The required financial covenants related to certain lease agreements are as follows:

	Covenant			
	Minimum Consolidated Liquidity Ratio	Minimum Consolidated Fixed Charge Coverage Ratio	Maximum Consolidated Total Lease Adjusted Leverage Ratio	Minimum EBT DAR to Rent Ratio
Required ratio	1.05	1.20	5.75	1.50
December 31, 2019 actual	1.11	1.60	3.21	5.57

### *Guarantees and Indemnifications*

In accordance with the terms of our operating lease agreements, our dealership subsidiaries, acting as lessees, generally agree to indemnify the lessor from certain exposure arising as a result of the use of the leased premises, including

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environmental exposure and repairs to leased property upon termination of the lease. In addition, we have generally agreed to indemnify the lessor in the event of a breach of the lease by the lessee.

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

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

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

*Legal Matters*

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

Included in other accrued liabilities and other long-term liabilities in the accompanying consolidated balance sheet as of December 31, 2019 were approximately \$2.2 million and \$0.3 million, respectively, in reserves that Sonic was holding for pending proceedings. Included in other accrued liabilities and other long-term liabilities in the accompanying consolidated balance sheet as of December 31, 2018 were approximately \$2.4 million for such reserves. Except as reflected in such reserves, Sonic is currently unable to estimate a range of reasonably possible loss, or a range of reasonably possible loss in excess of the amount accrued, for pending proceedings.

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

The changes in accumulated other comprehensive income (loss) by component for 2019 are as follows:

	<b>Gains and (Losses) on Cash Flow Hedges</b>	<b>Defined Benefit Pension Plan</b>	<b>Total Accumulated Other Comprehensive Income (Loss)</b>
	(In thousands)		
Balance at December 31, 2018	\$ 3,034	\$ 1,199	\$ 4,233
Other comprehensive income (loss) before reclassifications (1)	(1,646)	(1,935)	(3,581)
Amounts reclassified out of accumulated other comprehensive income (loss) (2)	(2,714)	—	(2,714)
Net current-period other comprehensive income (loss)	(4,360)	(1,935)	(6,295)
Balance at December 31, 2019	<u>\$ (1,326)</u>	<u>\$ (736)</u>	<u>\$ (2,062)</u>

(1) Net of tax benefit of \$836 related to gains on cash flow hedges and tax benefit of \$734 related to the defined benefit pension plan.

(2) Net of tax benefit of \$1,108 related to gains on cash flow hedges.

See the heading "Derivative Instruments and Hedging Activities" in Note 6, "Long-Term Debt," for further discussion of our cash flow hedges. For further discussion of our defined benefit pension plan, see Note 10, "Employee Benefit Plans."

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**14. Segment Information**

As of December 31, 2019, we had two operating segments: (1) retail automotive franchises that sell new vehicles and buy and sell used vehicles, sell replacement parts, perform vehicle repair and maintenance services, and arrange finance and insurance products (the “Franchised Dealerships Segment”); and (2) pre-owned vehicle specialty retail locations that provide customers an opportunity to search our nationwide inventory, purchase a pre-owned vehicle, select finance and insurance products and sell their current vehicle to us (the “EchoPark Segment”). Sonic has determined that its operating segments also represent its reportable segments. The reportable segments identified above are the business activities of Sonic for which discrete financial information is available and for which operating results are regularly reviewed by our chief operating decision maker to assess operating performance and allocate resources. Sonic’s chief operating decision maker is a group of three individuals consisting of: (1) the Company’s Chief Executive Officer; (2) the Company’s President; and (3) the Company’s Chief Financial Officer.

Reportable segment revenues, segment income (loss), impairment charges, depreciation and amortization, floor plan interest expense, interest expense, other, net, capital expenditures and assets are as follows:

	Year Ended December 31,		
	2019	2018	2017
<b>Segment revenues</b>	<b>(In thousands)</b>		
<b>Franchised Dealerships Segment revenues:</b>			
New vehicles	\$ 4,889,171	\$ 4,974,097	\$ 5,295,051
Used vehicles	2,493,467	2,370,799	2,406,407
Wholesale vehicles	180,020	197,184	161,581
Parts, service and collision repair	1,366,550	1,364,559	1,401,802
Finance, insurance and other, net	363,117	344,814	348,058
Franchised Dealerships Segment revenues	<u>\$ 9,292,325</u>	<u>\$ 9,251,453</u>	<u>\$ 9,612,899</u>
<b>EchoPark Segment revenues:</b>			
Used vehicles	\$ 996,504	\$ 602,698	\$ 215,646
Wholesale vehicles	22,927	20,443	9,483
Parts, service and collision repair	28,753	16,327	14,208
Finance, insurance and other, net	113,834	60,709	14,972
EchoPark Segment revenues	<u>\$ 1,162,018</u>	<u>\$ 700,177</u>	<u>\$ 254,309</u>
Total consolidated revenues	<u>\$ 10,454,343</u>	<u>\$ 9,951,630</u>	<u>\$ 9,867,208</u>

	Year Ended December 31,		
	2019	2018	2017
<b>Segment income (loss) (1)</b>	<b>(In thousands)</b>		
Franchised Dealerships Segment (2)	\$ 211,267	\$ 157,413	\$ 138,468
EchoPark Segment (3)	9,146	(52,587)	(20,950)
Total segment income (loss)	<u>\$ 220,413</u>	<u>\$ 104,826</u>	<u>\$ 117,518</u>
Impairment charges (4)	(20,768)	(29,514)	(9,394)
Income (loss) from continuing operations before taxes	<u>\$ 199,645</u>	<u>\$ 75,312</u>	<u>\$ 108,124</u>
<b>Retail new and used vehicle unit sales volume:</b>			
Franchised Dealerships Segment	226,760	232,885	248,534
EchoPark Segment	49,520	29,437	10,618
Total retail new and used vehicle unit sales volume	<u>276,280</u>	<u>262,322</u>	<u>259,152</u>

(1) Segment income (loss) for each segment is defined as income (loss) from continuing operations before taxes and impairment charges.

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(2) For the year ended December 31, 2019, the above amount includes approximately \$7.0 million of net gain on the disposal of franchised dealerships, offset partially by approximately \$7.2 million of loss on the extinguishment of debt, approximately \$6.3 million of executive transition costs and approximately \$1.1 million of impairment charges. For the year ended December 31, 2018, the above amount includes approximately \$38.9 million of net gain on the disposal of franchised dealerships, offset partially by approximately \$27.9 million of impairment charges, approximately \$4.0 million of storm-related physical damage costs, approximately \$1.7 million of legal costs, approximately \$1.6 million of executive transition costs and approximately \$1.4 million of lease exit charges. For the year ended December 31, 2017, the above amount includes approximately \$14.6 million of net loss on the extinguishment of debt, approximately \$8.9 million of storm-related physical damage and legal costs, approximately \$7.5 million of impairment charges, approximately \$0.7 million of double-carry interest and approximately \$0.3 million of lease exit charges, offset partially by approximately \$10.0 million of net gain on the disposal of franchised dealerships.

(3) For the year ended December 31, 2019, the above amount includes approximately \$9.7 million of impairment charges related to building and land held for sale at former EchoPark locations. For the year ended December 31, 2018, the above amount includes approximately \$32.5 million of long-term compensation-related charges and approximately \$1.6 million of impairment charges. For the year ended December 31, 2017, the above amount includes approximately \$1.9 million of impairment charges, approximately \$1.3 million of long-term compensation-related charges, approximately \$0.6 million of lease exit charges and approximately \$0.2 million of storm-related physical damage and legal costs.

(4) For the year ended December 31, 2019, the above amount includes approximately \$1.1 million of impairment charges for the Franchised Dealerships Segment and approximately \$19.7 million of impairment charges for the EchoPark Segment. For the year ended December 31, 2018, the above amount includes approximately \$7.9 million of impairment charges for the Franchised Dealerships Segment and approximately \$1.6 million of impairment charges for the EchoPark Segment. For the year ended December 31, 2017, the above amount includes approximately \$7.5 million of impairment charges for the Franchised Dealerships Segment and approximately \$1.9 million of impairment charges for the EchoPark Segment.

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>Impairment charges:</b>			
Franchised Dealerships Segment	\$ 1,101	\$ 27,932	\$ 7,491
EchoPark Segment	19,667	1,582	1,903
Total impairment charges	\$ 20,768	\$ 29,514	\$ 9,394

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>Depreciation and amortization:</b>			
Franchised Dealerships Segment	\$ 82,636	\$ 85,849	\$ 83,741
EchoPark Segment	10,533	7,774	5,203
Total depreciation and amortization	\$ 93,169	\$ 93,623	\$ 88,944

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>Floor plan interest expense:</b>			
Franchised Dealerships Segment	\$ 45,055	\$ 46,126	\$ 35,030
EchoPark Segment	3,464	2,272	1,365
Total floor plan interest expense	\$ 48,519	\$ 48,398	\$ 36,395



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	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>Interest expense, other, net:</b>			
Franchised Dealerships Segment	\$ 51,231	\$ 52,396	\$ 51,548
EchoPark Segment	1,722	1,663	976
Total interest expense, other, net	<u>\$ 52,953</u>	<u>\$ 54,059</u>	<u>\$ 52,524</u>

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>Capital expenditures:</b>			
Franchised Dealerships Segment	\$ 89,332	\$ 116,854	\$ 195,220
EchoPark Segment	36,244	46,765	39,025
Total capital expenditures	<u>\$ 125,576</u>	<u>\$ 163,619</u>	<u>\$ 234,245</u>

	December 31,	
	2019	2018
	(In thousands)	
<b>Assets:</b>		
Franchised Dealerships Segment	\$ 3,797,878	\$ 3,485,280
EchoPark Segment	244,054	305,673
Corporate and other:		
Cash and cash equivalents	29,103	5,854
Total assets	<u>\$ 4,071,035</u>	<u>\$ 3,796,807</u>

**15. Summary of Quarterly Financial Data (Unaudited)**

The following table summarizes our results of operations as presented in the accompanying consolidated statements of income by quarter for 2019 and 2018:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
<b>Year Ended December 31, 2019</b>				
Total revenues (1)	\$ 2,389,138	\$ 2,614,081	\$ 2,702,720	\$ 2,748,404
Gross profit (1)	\$ 359,011	\$ 381,311	\$ 386,811	\$ 393,884
Net income (loss) (2)	\$ 42,221	\$ 26,599	\$ 29,010	\$ 46,307
Earnings (loss) per common share - Basic (2) (3)	\$ 0.98	\$ 0.62	\$ 0.67	\$ 1.07
Earnings (loss) per common share - Diluted (2) (3)	\$ 0.98	\$ 0.61	\$ 0.66	\$ 1.04
<b>Year Ended December 31, 2018</b>				
Total revenues (1)	\$ 2,400,773	\$ 2,505,749	\$ 2,470,849	\$ 2,574,259
Gross profit (1)	\$ 352,499	\$ 362,375	\$ 360,536	\$ 370,715
Net income (loss) (2)	\$ (2,194)	\$ 16,905	\$ 15,118	\$ 21,821
Earnings (loss) per common share - Basic (2) (3)	\$ (0.05)	\$ 0.40	\$ 0.35	\$ 0.51
Earnings (loss) per common share - Diluted (2) (3)	\$ (0.05)	\$ 0.39	\$ 0.35	\$ 0.51

(1) Results are for continuing operations.

(2) Results include both continuing operations and discontinued operations.

(3) The sum of net income per common share for the quarters may not equal the full year amount due to weighted average common shares being calculated on a quarterly versus annual basis.

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

Net income for the fourth quarter ended December 31, 2019 includes approximately \$9.3 million of pre-tax net gain on the disposal of franchised dealerships, offset partially by approximately \$17.7 million of pre-tax impairment charges related to building and land held for sale at former EchoPark locations and certain capitalized software costs, and approximately \$7.2 million of loss on the extinguishment of debt (including double-carry interest) related to the redemption of the 5.0% Notes.

Net income for the first quarter ended March 31, 2019 includes approximately \$46.7 million of pre-tax net gain on the disposal of franchised dealerships, offset partially by approximately \$6.3 million of pre-tax long-term compensation-related charges and approximately \$1.9 million of pre-tax impairment charges related to the abandonment of certain construction projects.

Net income for the fourth quarter ended December 31, 2018 includes approximately \$5.6 million of pre-tax impairment charges related to property and equipment, capitalized software projects, dealership facility construction projects and franchise asset write-offs, offset partially by a benefit of approximately \$0.8 million related to pre-tax lease exit accrual adjustments.

Net income for the third quarter ended September 30, 2018 includes approximately \$1.6 million of pre-tax executive transition costs, approximately \$1.2 million of pre-tax charges related to storm-related physical damage and approximately \$0.3 million of pre-tax costs related to the sale of franchised dealerships.

Net income for the second quarter ended June 30, 2018 includes approximately \$8.0 million of pre-tax gain related to the sale of franchised dealerships and a pre-tax benefit of approximately \$2.6 million related to lease exit accrual adjustments, offset partially by approximately \$23.3 million of pre-tax long-term compensation-related charges, approximately \$10.3 million of pre-tax impairment charges related to certain construction projects and approximately \$3.1 million of pre-tax charges related to storm-related physical damage and legal costs.

Net income for the first quarter ended March 31, 2018 includes approximately \$9.2 million of pre-tax long-term compensation-related charges, approximately \$4.8 million of pre-tax lease exit charges, approximately \$3.6 million of pre-tax impairment charges related to certain construction projects and approximately \$1.5 million of pre-tax legal costs, offset partially by a pre-tax net gain of approximately \$1.2 million related to the sale of franchised dealerships.

#### **16. Leases**

The cumulative effect of the adoption of ASC 842, "Leases," on our unaudited consolidated balance sheet as of January 1, 2019 was the recognition of right-of-use assets of approximately \$406.9 million (including approximately \$18.9 million related to capital leases that was reclassified from property and equipment, net in the accompanying consolidated balance sheet as of December 31, 2018) and related lease liabilities of approximately \$419.5 million (including approximately \$20.6 million related to capital leases that was reclassified from current maturities of long-term debt and long-term debt in the accompanying consolidated balance sheet as of December 31, 2018). Upon adoption of ASC 842, "Leases," we evaluated right-of-use assets for impairment and determined that approximately \$10.5 million of impairment was required related to newly recognized right-of-use assets that would have been impaired in previous periods. This impairment of the right-of-use assets as of January 1, 2019 was recorded, net of related income tax effects, as a \$7.4 million reduction of beginning retained earnings. The adoption of ASC 842, "Leases," did not have a material effect on our consolidated statements of income or our consolidated statements of cash flows.

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The effect of the adoption of ASC 842, "Leases," on our unaudited consolidated balance sheet as of January 1, 2019 and our consolidated balance sheet as of December 31, 2019 was as follows:

Balance Sheet	Before Impact of ASC 842		Effects of Adoption of ASC 842		After Impact of ASC 842	
	December 31, 2018		(In thousands)		January 1, 2019	
<b>Assets</b>						
Property and Equipment, net	\$	1,178,489	\$	(18,948)	\$	1,159,541
Other Intangible Assets, net		69,705		(4,005)		65,700
Right-of-Use Assets		—		406,918		406,918
<b>Liabilities</b>						
Current lease liabilities	\$	—	\$	48,832	\$	48,832
Other accrued liabilities		257,823		(1,987)		255,836
Long-Term Debt		918,779		(20,557)		898,222
Long-Term Lease Liabilities		—		370,647		370,647
Other Long-Term Liabilities		75,887		(2,508)		73,379
Deferred Income Taxes		33,178		(3,034)		30,144
<b>Stockholders' Equity</b>						
Retained earnings	\$	670,691	\$	(7,428)	\$	663,263

Right-of-Use Assets	Adoption of ASC 842 as of January 1, 2019		New Leases		Modifications (1)		Amortization		As Reported December 31, 2019	
	(In thousands)									
Finance Leases	\$	18,948	\$	121	\$	18,835	\$	(3,213)	\$	34,691
Operating Leases		387,970		10,081		(15,205)		(45,004)		337,842
Total Right-of-Use Assets	\$	406,918	\$	10,202	\$	3,630	\$	(48,217)	\$	372,533
<b>Current Lease Liabilities</b>										
Finance Leases	\$	728	\$	12	\$	4,513	\$	(3,689)	\$	1,564
Operating Leases		48,104		1,560		(2,650)		(3,682)		43,332
Total Current Lease Liabilities	\$	48,832	\$	1,572	\$	1,863	\$	(7,371)	\$	44,896
<b>Long-Term Lease Liabilities</b>										
Finance Leases	\$	19,829	\$	109	\$	17,867	\$	(1,492)	\$	36,313
Operating Leases		350,818		8,521		(12,400)		(42,788)		304,151
Total Long-Term Lease Liabilities	\$	370,647	\$	8,630	\$	5,467	\$	(44,280)	\$	340,464

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

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

	<b>Twelve Months Ended December 31, 2019</b>	
	<b>(In thousands)</b>	
<b>Lease Expense</b>		
Finance lease expense		
Reduction of right-of-use assets	\$	3,213
Interest on lease liabilities		5,097
Operating lease expense (1)		68,367
Short-term lease expense (1)		1,570
Variable lease expense		2,120
Sublease income		(14,207)
Total	\$	66,160

(1) Included in operating cash flows in the accompanying consolidated statements of cash flows.

	<b>Twelve Months Ended December 31, 2019</b>	
	<b>(In thousands)</b>	
<b>Other Information</b>		
Cash paid for amounts included in the measurement of lease liabilities		
Financing cash flows for finance leases	\$	5,181
Operating cash flows for finance leases	\$	5,097
Operating cash flows for operating leases	\$	69,834
Right-of-use assets obtained in exchange for lease liabilities		
Finance leases	\$	10,926
Operating leases (1)	\$	22,055

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

	<b>December 31, 2019</b>	
<b>Other Information</b>		
Weighted-average remaining lease term (in years)		
Finance leases		11.8
Operating leases		9.5
Weighted-average discount rate		
Finance leases		18.74 %
Operating leases		6.69 %

	<b>Undiscounted Lease Cash Flows Under ASC 842 as of December 31, 2019</b>		
	<b>Finance</b>	<b>Operating</b>	<b>Receipts from Subleases</b>
	<b>(In thousands)</b>		
<b>Year Ending December 31,</b>			
2020	\$ 6,608	\$ 64,577	\$ (10,795)
2021	6,760	58,093	(8,078)
2022	6,768	51,337	(6,103)
2023	6,829	49,689	(6,103)
2024	6,947	44,012	(5,042)
Thereafter	43,787	215,240	(4,270)
Total	\$ 77,699	\$ 482,948	\$ (40,391)
Less: Present value discount	(39,822)	(135,465)	
Lease liabilities	\$ 37,877	\$ 347,483	

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

For comparison purposes, the following table provides the future minimum lease payments as presented in our Annual Report on Form 10-K for the year ended December 31, 2018 in accordance with ASC 840, "Leases."

Year Ending December 31,	Undiscounted Lease Cash Flows Under ASC 840 as of December 31, 2018		
	Finance	Operating	Receipts from Subleases
	(In thousands)		
2019	\$ 6,985	\$ 82,177	\$ (13,430)
2020	7,165	66,023	(10,508)
2021	7,357	51,501	(8,534)
2022	7,374	37,152	(7,232)
2023	7,609	33,486	(7,013)
Thereafter	48,239	127,026	(13,116)
Total minimum lease payments (receipts)	\$ 84,729	\$ 397,365	\$ (59,833)
Less: Present value discount	(64,140)		
Lease liabilities	\$ 20,589		
Current portion of lease liabilities	\$ 643		
Long-term portion of lease liabilities	\$ 19,946		

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

We recognize a right-of-use asset and a lease liability at the lease commencement date. For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date. For finance leases, the lease liability is initially measured in the same manner and date as for operating leases and is subsequently measured at reduced cost using the effective interest method.

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

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

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

The Company monitors for events or changes in circumstances that require a reassessment of one of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding right-of-use asset unless doing so would reduce the carrying amount of the right-of-use asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative right-of-use asset balance is recorded in profit or loss.

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

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

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

Many of our lease arrangements have one or more existing renewal options to extend the lease term (typically in five- to 10-year increments), which were considered in the calculation of the right-of-use assets and lease liabilities if we determined that it was reasonably certain that an extension option would be exercised. The lease term for all of the Company's leases includes the noncancellable period of the lease plus any additional periods covered by our option to extend the lease that we are reasonably certain to exercise. We determined the probability of the exercise of a lease extension option based on our long-term strategic business outlook and the condition and remaining useful life of the fixed assets at the location subject to the lease agreement, among other factors.

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

In certain situations, we have entered into sublease agreements whereby we sublease all or a portion of a leased real estate asset to a third party. To the extent that we have a sublease related to a lease agreement for an asset that we are no longer using in operations, we have reduced the right-of-use asset by any applicable net deficiency in expected cash flows from that sublease (either due to partial monthly sublease proceeds or a sublease term less than the remaining master lease term). As of December 31, 2018, the net liability related to these lease exit accruals was approximately \$4.6 million as discussed in Note 12, "Commitments and Contingencies." Upon the adoption of ASC 842, "Leases," this balance was reclassified from other accrued liabilities and other long-term liabilities to a reduction in right-of-use assets in the accompanying consolidated balance sheet as of December 31, 2019.

Prior to the adoption of ASC 842, "Leases," we had recorded definite life intangible assets related to favorable lease assets acquired in business combinations. As of December 31, 2018, the net unamortized balance related to these definite life intangible assets was approximately \$4.0 million. Upon adoption of ASC 842, "Leases," this balance was reclassified from other intangible assets, net to right-of-use assets in the accompanying consolidated balance sheet as of December 31, 2019 and continues to be amortized over the remaining lease term.

As part of the new lease standard implementation process, we assessed our existing real estate and equipment lease agreements, identified certain lease components embedded within existing service contracts, evaluated transition guidance and practical expedient elections, implemented lease accounting software and implemented internal controls over lease accounting under the new lease standard.

**DESCRIPTION OF SECURITIES OF  
SONIC AUTOMOTIVE, INC.**

The authorized capital stock of Sonic Automotive, Inc. (“Sonic,” “we,” “us” or “our”) consists of (i) 100,000,000 shares of Class A Common Stock, par value \$0.01 per share; (ii) 30,000,000 shares of Class B Common Stock, par value \$0.01 per share; and (iii) 3,000,000 shares of Preferred Stock, par value \$0.10 per share. Our Class A Common Stock is the only class of our securities which has been registered under Section 12 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

We have summarized certain of the material provisions of our Class A Common Stock below. The following summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the applicable provisions of Delaware law and our Amended and Restated Certificate of Incorporation, as amended (the “Amended and Restated Certificate of Incorporation”), and our Amended and Restated Bylaws (the “Amended and Restated Bylaws”).

**Common Stock**

*Voting Rights; Conversion of Class B Common Stock to Class A Common Stock*

The voting powers, preferences and relative rights of the Class A Common Stock are subject to the following provisions. Holders of Class A Common Stock have one vote per share on all matters submitted to a vote of the stockholders of Sonic, while holders of Class B Common Stock have 10 votes per share on all such matters, except as described below. Holders of all classes of common stock entitled to vote will vote together as a single class on all matters presented to the stockholders for their vote or approval, except as otherwise required by Delaware law. There is no cumulative voting with respect to the election of directors.

Each share of Class B Common Stock may be converted, at the option of the holder thereof, into one fully paid and nonassessable share of Class A Common Stock. In the event any shares of Class B Common Stock held by a member of the Smith Group (as defined below) are transferred outside of the Smith Group, such shares will automatically be converted into shares of Class A Common Stock. In addition, if the total number of shares of common stock held by members of the Smith Group is less than 15% of the total number of shares of common stock outstanding, all of the outstanding shares of Class B Common Stock automatically will be reclassified as Class A Common Stock. In any merger, consolidation or business combination, the consideration to be received per share by holders of Class A Common Stock must be identical to that received by holders of Class B Common Stock, except that in any such transaction in which shares of common stock are distributed, such shares may differ as to voting rights to the extent that voting rights differ between our classes of common stock.

Notwithstanding the foregoing, the holders of Class A Common Stock and Class B Common Stock vote as a single class, with each share of each class entitled to one vote per share, with respect to any transaction proposed or approved by Sonic’s Board of Directors or proposed by or on behalf of holders of the Class B Common Stock or as to which any member of the Smith Group or any affiliate thereof has a material financial interest other than as a then existing stockholder of Sonic constituting a:

- “going private” transaction;
  - sale or other disposition of all or substantially all of Sonic’s assets;
  - sale or transfer of assets that would cause the nature of Sonic’s business to be no longer primarily oriented toward automobile dealership operations and related activities; or
-

- merger or consolidation of Sonic in which the holders of Sonic's common stock will own less than 50% of Sonic's common stock following such transaction.

A "going private" transaction is defined as any "Rule 13e-3 Transaction," as such term is defined in Rule 13e-3 promulgated under the Exchange Act. An "affiliate" is defined as (i) any individual or entity who or that, directly or indirectly, controls, is controlled by, or is under common control with any member of the Smith Group; (ii) any corporation or organization (other than Sonic or a majority-owned subsidiary of Sonic) of which any member of the Smith Group is an officer or partner or is, directly or indirectly, the beneficial owner of 10% or more of any class of voting securities, or in which any member of the Smith Group has a substantial beneficial interest; (iii) a voting trust or similar arrangement pursuant to which any member of the Smith Group generally controls the vote of the shares of common stock held by or subject to such trust or arrangement; (iv) any other trust or estate in which any member of the Smith Group has a substantial beneficial interest or as to which any member of the Smith Group serves as trustee or in a similar fiduciary capacity; or (v) any relative or spouse of any member of the Smith Group or any relative of such spouse, who has the same residence as any member of the Smith Group.

As used herein, the term the "Smith Group" consists of the following persons:

- Mr. O. Bruton Smith and his guardian, conservator, committee or attorney-in-fact;
- Mr. William S. Egan and his guardian, conservator, committee or attorney-in-fact;
- each lineal descendant of Messrs. Smith and Egan (a "Descendant") and their respective guardians, conservators, committees or attorneys-in-fact; and
- each "Family Controlled Entity."

The term "Family Controlled Entity" means (i) any not-for-profit corporation if at least 80% of its board of directors is composed of Mr. Smith, Mr. Egan and/or Descendants; (ii) any other corporation if at least 80% of the value of its outstanding equity is owned by members of the Smith Group; (iii) any partnership if at least 80% of the value of the partnership interests are owned by members of the Smith Group; (iv) any limited liability or similar company if at least 80% of the value of the company is owned by members of the Smith Group; and (v) any trust if (A) at least 80% of the current beneficiaries of the trust are members of the Smith Group or (B) members of the Smith Group have sole dispositive power and sole voting power with respect to at least 80% of the shares of the Class B Common Stock held by the trust.

Under the Amended and Restated Certificate of Incorporation and Delaware law, the holders of each class of our common stock, including the Class A Common Stock, are entitled to vote as a separate class, as applicable, with respect to any amendment to the Amended and Restated Certificate of Incorporation that would increase or decrease the aggregate number of authorized shares of such class, increase or decrease the par value of the shares of such class, or modify or change the powers, preferences or special rights of the shares of such class so as to affect such class adversely.

#### *Dividends*

Holders of the Class A Common Stock are entitled to receive ratably such dividends, if any, as are declared by our Board of Directors out of funds legally available for that purpose. An additional requirement is that dividends paid in shares of Class A Common Stock shall be paid only to holders of Class A Common Stock, and dividends paid in shares of Class B Common Stock shall be paid only to holders of Class B Common Stock. The Amended and Restated Certificate of Incorporation provides that if there is any dividend, subdivision, combination or reclassification in respect of either class of common stock, an identical dividend, subdivision, combination or reclassification in respect of the other class of common stock must be made at the same time.



### *Other Rights*

Stockholders of Sonic have no preemptive or other rights to subscribe for additional shares. In the event of the liquidation, dissolution or winding up of Sonic, holders of Class A Common Stock are entitled to share ratably in all assets available for distribution to holders of common stock after payment in full of creditors. No shares of any class of common stock are subject to a redemption or a sinking fund.

### **Anti-Takeover Effects of Delaware Law, the Restated Certificate of Incorporation and the Amended and Restated Bylaws**

Certain provisions of Delaware law and of the Amended and Restated Certificate of Incorporation and the Amended and Restated Bylaws, summarized in the following paragraphs, may be considered to have an anti-takeover effect and may delay, deter or prevent a tender offer, proxy contest or other takeover attempt that a stockholder might consider to be in such stockholder's best interest, including such an attempt as might result in payment of a premium over the market price for shares held by stockholders.

*Delaware Anti-Takeover Law.* Sonic is subject to the applicable provisions of the General Corporation Law of the State of Delaware, including Section 203. In general, Section 203 prohibits a public Delaware corporation from engaging in a "business combination" and certain other transactions with an "interested stockholder" for a period of three years after the date of the transaction in which such person became an interested stockholder unless: (i) prior to such date, the board of directors approved either the business combination or the transaction, which resulted in the stockholder becoming an interested stockholder; or (ii) upon becoming an interested stockholder, the stockholder then owned at least 85% of the voting stock, as defined in Section 203; or (iii) subsequent to such date, the business combination is approved by both the board of directors and holders of at least 66 2/3% of the corporation's outstanding voting stock, excluding shares owned by the interested stockholder. For these purposes, the term "business combination" includes mergers, asset sales and other similar transactions with an "interested stockholder." An "interested stockholder" is a person who, together with affiliates and associates, owns (or, within the prior three years, did own) 15% or more of the corporation's voting stock. Although Section 203 permits a corporation to elect not to be governed by its provisions, Sonic has not made this election.

*Special Meetings of Stockholders.* The Amended and Restated Bylaws provide that special meetings of stockholders may be called only by the Secretary or any Assistant Secretary (i) at the request of the Chairman, (ii) at the request in writing of a majority of Sonic's Board of Directors or (iii) by the written request of holders of more than 80% of the total voting power of the outstanding shares of capital stock of Sonic then entitled to vote.

*Action by Written Consent.* The Amended and Restated Bylaws also provide that no action required to be taken or that may be taken at any annual or special meeting of stockholders may be taken without a meeting, and that the power of stockholders to consent in writing, without a meeting, to the taking of any action is specifically denied.

*Advance Notice Requirements for Stockholders Proposals and Director Nominations.* The Amended and Restated Bylaws provide that stockholders seeking to bring business before an annual meeting of stockholders, or to nominate candidates for election as directors at an annual or a special meeting of stockholders, must provide timely notice thereof in writing. To be timely, a stockholder's notice must be delivered to, or mailed and received at, the principal executive office of Sonic, (i) in the case of an annual meeting that is called for a date that is within 30 days before or 60 days after the first anniversary of the immediately preceding annual meeting of stockholders, not later than the close of business on the 90<sup>th</sup> day nor earlier than the close of business on the 120<sup>th</sup> day prior to such anniversary date, (ii) in the case of an annual meeting that is called for a date that is more than 30 days before or more than 60 days after the first anniversary of the immediately preceding annual meeting of stockholders, not earlier than the close of business on the 120<sup>th</sup> day prior to such annual meeting and not later than the close of business on the later of the 90<sup>th</sup> day prior to such annual meeting or the 10<sup>th</sup> day following the day on

which public announcement of the date of such meeting is first made by Sonic and (iii) in the case of a special meeting of stockholders called for the purpose of electing directors, not later than the close of business on the 10<sup>th</sup> day following the day on which notice of the date of the meeting was mailed or public disclosure of the date of the meeting was made, whichever occurs first. The Amended and Restated Bylaws also specify certain requirements for a stockholder's notice to be in proper written form. These provisions may preclude some stockholders from bringing matters before the stockholders at an annual or special meeting or from making nominations for directors at an annual or special meeting.

*Conflict of Interest Procedures.* The Amended and Restated Certificate of Incorporation contains provisions providing that transactions between Sonic and its affiliates must be no less favorable to Sonic than would be available in transactions involving arms' length dealing with an unrelated third party. Moreover, any such transaction involving aggregate payments in excess of \$500,000 must be approved by a majority of Sonic's directors and a majority of Sonic's independent directors. Otherwise, Sonic must obtain an opinion as to the financial fairness of the transaction to be issued by an investment banking or appraisal firm of national standing.

#### **Limitations of Liability and Indemnification of Officers and Directors**

Delaware law authorizes corporations to limit or eliminate the personal liability of officers and directors to corporations and their stockholders for monetary damages for breach of the officers' and directors' fiduciary duty of care. The duty of care requires that, when acting on behalf of the corporation, officers and directors must exercise an informed business judgment based on all material information reasonably available to them. Absent the limitations authorized by Delaware law, officers and directors are accountable to corporations and their stockholders for monetary damages for conduct constituting gross negligence in the exercise of their duty of care. Delaware law enables corporations to limit available relief to equitable remedies such as injunction or rescission.

The Amended and Restated Certificate of Incorporation limits the liability of our officers and directors to us and our stockholders to the fullest extent permitted by Delaware law. Specifically, our officers and directors will not be personally liable for monetary damages for breach of an officer's or director's fiduciary duty in such capacity, except for liability:

- for any breach of the officer's or director's duty of loyalty to us or our stockholders;
- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- for unlawful payments of dividends or unlawful stock repurchases or redemptions, as provided in Section 174 of the General Corporation Law of the State of Delaware; or
- for any transaction from which the officer or director derived an improper personal benefit.

The Amended and Restated Bylaws provide indemnification to our officers and directors and certain other persons with respect to certain matters to the maximum extent allowed by Delaware law as it exists now or may hereafter be amended. These provisions do not alter the liability of officers and directors under federal securities laws and do not affect the right to sue (nor to recover monetary damages) under federal securities laws for violations thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act"), may be permitted to officers, directors or persons controlling Sonic pursuant to the foregoing provisions, Sonic has been informed that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

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Published CUSIP Number: 83545FAT1

**CREDIT AGREEMENT**

**Dated as of November 22, 2019**

**among**

**SONIC AUTOMOTIVE, INC.,**

**PNC BANK, NATIONAL ASSOCIATION,  
as Administrative Agent,**

**THE OTHER LENDERS PARTY HERETO**

**and**

**PNC CAPITAL MARKETS LLC,  
as Sole Lead Arranger and Sole Bookrunner**

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## CREDIT AGREEMENT

This CREDIT AGREEMENT (“Agreement”) is entered into as of November 22, 2019, among SONIC AUTOMOTIVE, INC., a Delaware corporation (the “Company”), each lender from time to time party hereto (collectively, the “Lenders” and individually, a “Lender”) and PNC BANK, NATIONAL ASSOCIATION, as Administrative Agent.

The Company has requested that the Lenders provide a \$112,177,500 term loan facility. In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

### Article I.

#### DEFINITIONS AND ACCOUNTING TERMS

**1.01 Defined Terms.** As used in this Agreement, the following terms shall have the meanings set forth below:

“AAA” has the meaning specified in Section 10.15(b)(ii).

“Acquisition” means the acquisition of (i) a controlling equity interest or other controlling ownership interest in another Person (including the purchase of an option, warrant or convertible or similar type security to acquire such a controlling interest at the time it becomes exercisable by the holder thereof), whether by purchase of such equity or other ownership interest or upon the exercise of an option or warrant for, or conversion of securities into, such equity or other ownership interest, (ii) assets of another Person which constitute all or substantially all of the assets of such Person or of a line or lines of business conducted by or a vehicle franchise or vehicle brand licensed or owned by such Person, or (iii) assets constituting a vehicle dealership.

“Acquisition Arrangement” has the meaning specified in Section 7.12.

“Additional Mortgaged Property” has the meaning specified in Section 2.18(a).

“Additional Mortgaged Property Requirements” has the meaning specified in Section 2.18(b).

“Additional Unsecured Indebtedness” means Indebtedness of the Company (which may be guaranteed by the Subsidiaries of the Company on an unsecured basis); provided that, (i) such Indebtedness is (A) not secured by any property of the Company or any Subsidiary, (B) does not have a maturity, and does not require any principal payments (whether by scheduled installment, mandatory prepayment or redemption, or the exercise of any put right), earlier than six (6) months following the Maturity Date, and (C) has terms (including terms of maturity and amortization) that are typical for indebtedness of such type issued at such time and such terms (other than applicable rates of interest) are otherwise no more restrictive, or less advantageous to the Lenders, than the Loan Documents or are otherwise on terms satisfactory to the Administrative Agent, and (ii) after giving effect to the issuance of such Indebtedness, (A) no Event of Default shall have occurred and be continuing or would occur as a result therefrom and (B) such Indebtedness is otherwise permitted under the Revolving Credit Agreement and the Floorplan Credit Agreement.

“Additional Unsecured Indebtedness Prepayment” means any prepayment, redemption, purchase, defeasance, settlement in cash or other satisfaction prior to the scheduled maturity thereof of any Additional Unsecured Indebtedness, provided, however, that “Additional Unsecured Indebtedness

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Prepayment” shall not include any amount prepaid with the proceeds of the refinancing of such Additional Unsecured Indebtedness with new or additional, Additional Unsecured Indebtedness.

“Administrative Agent” means PNC Bank, National Association in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent.

“Administrative Agent’s Office” means the Administrative Agent’s address and, as appropriate, account as set forth on Schedule 10.02, or such other address or account as the Administrative Agent may from time to time notify to the Company and the Lenders.

“Administrative Questionnaire” means an Administrative Questionnaire in a form supplied by the Administrative Agent.

“Affiliate” means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

“Aggregate Commitments” means the Commitments of all the Lenders. The amount of the Aggregate Commitments in effect on the Closing Date is \$112,177,500.

“Agreement” means this Credit Agreement.

“Alternate Source” means as is specified in the definition of Eurodollar Rate.

“Applicable Percentage” means with respect to any Lender at any time, the percentage (carried out to the ninth decimal place) of (i) at any time during the Availability Period, the sum of the unused Aggregate Commitments and Total Outstandings of all Lenders represented by such Lender’s unused Commitment and Total Outstandings at such time and (ii) thereafter, the Total Outstandings of all Lenders represented by the Total Outstandings of such Lender at such time. The initial Applicable Percentage of each Lender is set forth opposite the name of such Lender on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable.

“Applicable Rate” means, from time to time, the following percentages per annum, based upon the Consolidated Total Lease Adjusted Leverage Ratio as set forth in the most recent Compliance Certificate received by the Administrative Agent pursuant to Section 6.02(a)(i):

### Applicable Rate

Pricing Level	Consolidated Total Lease Adjusted Leverage Ratio	Eurodollar Rate Loans	Base Rate Loans
I	Less than 3.50:1.00	1.50%	0.50%
II	Less than 4.00:1.00 but greater than or equal to 3.50:1.00	1.75%	0.75%
III	Less than 4.50:1.00 but greater than or equal to 4.00:1.00	2.00%	1.00%
IV	Less than 5.00:1.00 but greater than or equal to 4.50:1.00	2.25%	1.25%
V	Less than 5.50:1.00 but greater than or equal to 5.00:1.00	2.50%	1.50%
VI	Greater than or equal to 5.50:1.00	2.75%	1.75%

Any increase or decrease in the Applicable Rate resulting from a change in the Consolidated Total Lease Adjusted Leverage Ratio shall become effective as of the first Business Day of the calendar month immediately succeeding the date a Compliance Certificate is delivered pursuant to Section 6.02(a)(i); provided, however, that (i) if a Compliance Certificate is not delivered when due in accordance with such Section, then, upon the request of the Required Lenders, Pricing Level 6 shall apply as of the first Business Day after the date on which such Compliance Certificate was required to have been delivered and shall remain in effect until the date on which such Compliance Certificate is delivered and (ii) the Applicable Rate in effect from the Closing Date through the first Business Day of the calendar month immediately succeeding the date the Compliance Certificate with respect to the fiscal quarter ended December 31, 2019 is delivered pursuant to Section 6.02(a)(i) shall be Pricing Level III.

Notwithstanding anything to the contrary contained in this definition, the determination of the Applicable Rate for any period shall be subject to the provisions of Section 2.10(b).

“Appraised Value” means, with respect to any Substitute Property (or proposed Substitute Property), the appraised value of such Substitute Property (or proposed Substitute Property) as set forth in the appraisal obtained by the Administrative Agent with respect to such Substitute Property (or proposed Substitute Property) in accordance with Section 2.19.

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“Arbitration Rules” has the meaning specified in Section 10.15(b)(ii).

“Arranger” means PNC Bank Capital Markets LLC, in its capacity as sole lead arranger and sole bookrunner.

“Assignee Group” means two or more Eligible Assignees that are Affiliates of one another or two or more Approved Funds managed by the same investment advisor.

“Assignment and Assumption” means an assignment and assumption entered into by a Lender and an Eligible Assignee (with the consent of any party whose consent is required by Section 10.06(b)), and accepted by the Administrative Agent, in substantially the form of Exhibit D or any other form (including electronic documentation generated by use of an electronic platform) approved by the Administrative Agent.

“Attributable Indebtedness” means, on any date, (a) in respect of any capital lease of any Person, the capitalized amount thereof that would appear on a balance sheet of such Person prepared as of such

date in accordance with GAAP, and (b) in respect of any Synthetic Lease Obligation, the capitalized amount of the remaining lease payments under the relevant lease that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP if such lease were accounted for as a capital lease.

“Audited Financial Statements” means the audited consolidated balance sheet of the Company and its Subsidiaries for the fiscal year ended December 31, 2018, and the related consolidated statements of income or operations, shareholders’ equity and cash flows for such fiscal year of the Company and its Subsidiaries, including the notes thereto.

“Availability Period” means, the period from and including the Closing Date to the earliest of (i) the date that is nine (9) months after the Closing Date, (ii) the date of the final Committed Borrowing permitted hereunder pursuant to Section 2.01, (iii) the date of termination of the Aggregate Commitments pursuant to Section 2.06, and (iv) the date of termination of the Commitment of each Lender to make Loans pursuant to Section 8.02.

“Bail-In Action” means the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

“Bail-In Legislation” means, with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

“Base Rate” means, for any day, a fluctuating per annum rate of interest equal to the highest of (i) the Overnight Bank Funding Rate, plus 0.5%, (ii) the Prime Rate, and (iii) the Daily LIBOR Rate, plus 1.00%, so long as Daily LIBOR Rate is offered, ascertainable and not unlawful. Any change in the Base Rate (or any component thereof) shall take effect at the opening of business on the day such change occurs.

“Base Rate Committed Loan” means a Committed Loan that is a Base Rate Loan.

“Base Rate Loan” means a Loan that bears interest based on the Base Rate.

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

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

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

“Borrower Materials” has the meaning specified in Section 6.02.

“Borrowing” means a Committed Borrowing.

“Builder Basket Amount” means, as of any date of determination, with respect to any Restricted Payment or any Subordinated Indebtedness Prepayment, the sum of:

- (A) \$110,000,000; plus

(B) 50% of the aggregate Consolidated Net Income of the Company accrued on a cumulative basis during the period beginning September 30, 2016 and ending on the last day of the Company's last fiscal quarter ending prior to the date of such Restricted Payment or Subordinated Indebtedness Prepayment, or, if such aggregate cumulative Consolidated Net Income shall be a loss, minus 100% of such loss; plus

(C) 100% of the aggregate net cash proceeds and the fair market value of assets other than cash received after September 30, 2016, and on or prior to such date of determination, by the Company either (x) as capital contributions in the form of common equity to the Company or (y) from the issuance or sale (other than to any of its Subsidiaries) of Qualified Capital Stock of the Company or any options, warrants or rights to purchase such Qualified Capital Stock of the Company (except, in each case, to the extent such proceeds are used to purchase, redeem or otherwise retire Capital Stock or Subordinated Indebtedness as set forth below) (and excluding the net cash proceeds and the fair market value of assets other than cash received from the issuance of Qualified Capital Stock financed, directly or indirectly, using funds borrowed from the Company or any Subsidiary until and to the extent such borrowing is repaid); plus

(D) 100% of the aggregate net cash proceeds and the fair market value of assets other than cash received after September 30, 2016, and on or prior to such date of determination, by the Company (other than from any of its Subsidiaries) upon the exercise of any options, warrants or rights to purchase Qualified Capital Stock of the Company (and excluding the net cash proceeds and the fair market value of assets other than cash received from the exercise of any options, warrants or rights to purchase Qualified Capital Stock financed, directly or indirectly, using funds borrowed from the Company or any Subsidiary until and to the extent such borrowing is repaid); plus

(E) 100% of the aggregate net cash proceeds and the fair market value of assets other than cash received after September 30, 2016, and on or prior to such date of determination, by the Company from the conversion or exchange, if any, of debt securities or Redeemable Capital Stock of the Company or its Restricted Subsidiaries into or for qualified Capital Stock of the Company plus, to the extent such debt securities or Redeemable Capital Stock were issued after September 30, 2016, upon the conversion or exchange of such debt securities or Redeemable Capital Stock, the aggregate of net cash proceeds and the fair market value of assets other than cash received from their original issuance (and excluding the net cash proceeds and the fair market value of assets other than cash received from the conversion or exchange of debt securities or Redeemable Capital Stock financed, directly or indirectly, using funds borrowed from the Company or any Subsidiary until and to the extent such borrowing is repaid); plus

(F) in the case of the disposition or repayment of any Specified Investment made after September 30, 2016, and on or prior to such date of determination, an amount (to the extent not included in Consolidated Net Income) equal to (a) the lesser of (i) the return of capital with respect to such Investment and (ii) the initial amount of such Investment, in either case, less the cost of the disposition of such Investment and net of taxes.

“Business Day” means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, the state where the

Administrative Agent's Office is located and, if such day relates to any Eurodollar Rate Loan, means any such day that is also a London Banking Day.

"Buyer Notes" means those promissory notes received by the Company or any Subsidiary as partial or full payment consideration for Dispositions of vehicle dealerships, associated dealership real estate or related businesses, or Dispositions of Subsidiaries, by the Company or such Subsidiary to the obligors of such promissory notes.

"Capital Stock" of any Person means any and all shares, interests, participations, rights in or other equivalents (however designated) of such Person's capital stock or other equity interests whether now outstanding or issued after the date of this Agreement, including limited liability company interests, partnership interests (whether general or limited), 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 (other than a distribution in respect of Indebtedness), the issuing Person, including any Preferred Stock and any rights (other than debt securities convertible into Capital Stock), warrants or options exchangeable for or convertible into such Capital Stock.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. §§9601 et seq.

"Change in Law" means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "Change in Law", regardless of the date enacted, adopted or issued.

"Change of Control" means an event or series of events by which:

(a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) (other than (i) Sonic Financial, O. Bruton Smith or B. Scott Smith; (ii) any spouse or immediate family member of O. Bruton Smith and B. Scott Smith (collectively with O. Bruton Smith and B. Scott Smith, a "Smith Family Member"); or (iii) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners and owners of which are Smith Family Members, (the persons and entities in "i", "ii", and "iii" being referred to, collectively and individually, as the "Smith Group") so long as in the case of clauses (ii) and (iii) O. Bruton Smith or B. Scott Smith retains a majority of the voting rights associated with such ownership) becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have "beneficial ownership" of all securities that such person or group has the right to acquire (such right, an "option right"), whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of 25% or more of the equity securities of the Company entitled to

vote for members of the board of directors or equivalent governing body of the Company on a fully-diluted basis (and taking into account all such securities that such person or group has the right to acquire pursuant to any option right);

(b) during any period of 12 consecutive months, a majority of the members of the board of directors or other equivalent governing body of the Company cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body;

(c) any Person or two or more Persons (excluding members of the Smith Group so long as O. Bruton Smith or B. Scott Smith retains a majority of the voting rights associated with such equity securities) acting in concert shall have acquired by contract or otherwise, or shall have entered into a contract or arrangement that, upon consummation thereof, will result in its or their acquisition of the power to exercise, directly or indirectly, a controlling influence over the management or policies of the Company, or control over the equity securities of the Company entitled to vote for members of the board of directors or equivalent governing body of the Company on a fully-diluted basis (and taking into account all such securities that such Person or group has the right to acquire pursuant to any option right) representing 25% or more of the combined voting power of such securities; or

(d) the Company fails to own, directly or indirectly, 100% of the Equity Interests of any Subsidiary other than as a result of the sale of all Equity Interests in a Subsidiary pursuant to a Permitted Disposition.

“Closing Date” means November 22, 2019.

“Code” means the Internal Revenue Code of 1986.

“Collateral” means the Mortgaged Properties.

“Commitment” means, as to each Lender, its obligation to make Committed Loans to the Company pursuant to Section 2.01, in an aggregate principal amount not to exceed the amount set forth opposite such Lender’s name on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement.

“Committed Borrowing” means a borrowing consisting of simultaneous Committed Loans of the same Type made by each of the Lenders pursuant to Section 2.01.

“Committed Loan” has the meaning specified in Section 2.01.

“Committed Loan Cap” means, at any time of determination, the lesser of (a) \$112,177,500 and (b) the Margined Collateral Value at such time.

“Committed Loan Notice” means a notice of (a) a Borrowing or (b) a conversion of Committed Loans from one Type to the other, pursuant to Section 2.02(a), which shall be substantially in the form of

Exhibit A or such other form as may be approved by the Administrative Agent (including any form on an electronic platform or electronic transmission system as shall be approved by the Administrative Agent), appropriately completed and signed by a Responsible Officer of the Company.

“Commodity Exchange Act” means the Commodity Exchange Act (7 U.S.C. § 1 *et seq.*), as amended from time to time, and any successor statute.

“Company” has the meaning specified in the introductory paragraph hereto.

“Compliance Certificate” means a certificate substantially in the form of Exhibit F.

“Connection Income Taxes” means Other Connection Taxes that are imposed on or measured by net income (however denominated) or that are franchise Taxes or branch profits Taxes.

“Consolidated Current Assets” means, as of any date of determination, the current assets of the Company and its Subsidiaries on a consolidated basis as of such date (but excluding in any event (i) any long-term assets of discontinued operations held for sale, other than such assets which (x) are the subject of an executed non-cancelable purchase and sale agreement between the applicable Loan Party and a Person which is not an Affiliate of any Loan Party and (y) the applicable Loan Party intends, in good faith, to Dispose of within 60 days of such date of determination and (ii) any Investment described in Section 7.02(i)).

“Consolidated Current Liabilities” means, as of any date of determination, the current liabilities of the Company and its Subsidiaries on a consolidated basis as of such date.

“Consolidated EBITDAR” means for any period, on a consolidated basis for the Company and its Subsidiaries, the sum of the amounts for such period, without duplication, of (a) Consolidated Net Income, plus (b) to the extent deducted in computing Consolidated Net Income for such period: (i) Consolidated Interest Expense with respect to non-floorplan Indebtedness (including interest expense not payable in cash), (ii) charges against income for foreign, Federal, state and local income taxes, (iii) depreciation expense, (iv) amortization expense, including, without limitation, amortization of other intangible assets and transaction costs, (v) non-cash charges, (vi) all extraordinary losses, (vii) legal fees, broker fees and other transaction expenses incurred in connection with any Permitted Acquisition (not to exceed \$1,000,000 in the aggregate for each such Acquisition), (viii) Consolidated Rental Expense, and (ix) non-cash lease termination charges, net of any amortization of such charges minus (c) to the extent included in computing Consolidated Net Income for such period, (i) extraordinary gains and (ii) all gains on repurchases of long-term Indebtedness.

“Consolidated Fixed Charge Coverage Ratio” means, as of any date of determination, the ratio of (a) the difference of (i) Consolidated EBITDAR for the four fiscal quarter period ending on such date minus (ii) an amount equal to \$100,000 (representing assumed maintenance capital expenditures) multiplied by the average daily number of physical dealership locations at which the Subsidiaries operated franchised vehicle dealerships during such period to (b) Consolidated Fixed Charges for such period.

“Consolidated Fixed Charges” means, for any period, the sum of (a) Consolidated Interest Expense with respect to non-floorplan Indebtedness for such period (excluding any interest expense not payable in cash and not payable as a result of any default), plus (b) Consolidated Principal Payments for such period, plus (c) Consolidated Rental Expenses for such period, plus (d) Federal, state, local and foreign income taxes paid in cash by the Company and its Subsidiaries on a consolidated basis during such period, plus (e) dividends and distributions paid in cash by the Company and its Subsidiaries on a



consolidated basis during such period, minus (f) cash refunds of Federal, state, local and foreign income taxes received by the Company and its Subsidiaries on a consolidated basis during such period. The calculation of “Consolidated Fixed Charges” is further described in Section 1.03(d).

“Consolidated Funded Indebtedness” means, as of any date of determination, for the Company and its Subsidiaries on a consolidated basis, the sum of (a) the outstanding principal amount of all obligations, whether current or long-term, for borrowed money (including Obligations hereunder) and all obligations evidenced by bonds, debentures, notes, loan agreements or other similar instruments, (b) all purchase money Indebtedness, (c) all direct obligations arising under letters of credit (including standby and commercial), bankers’ acceptances, bank guaranties, surety bonds and similar instruments, (d) all obligations in respect of the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business), (e) Attributable Indebtedness in respect of capital leases and Synthetic Lease Obligations, (f) without duplication, all Guarantees with respect to outstanding Indebtedness of the types specified in clauses (a) through (e) above of Persons other than the Company or any Subsidiary, and (g) all Indebtedness of the types referred to in clauses (a) through (f) above of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which the Company or a Subsidiary is a general partner or joint venturer, unless such Indebtedness is expressly made non-recourse to the Company or such Subsidiary.

“Consolidated Interest Expense” means, for any period, for the Company and its Subsidiaries on a consolidated basis, the sum of (a) all interest (before factory assistance or subsidy), premium payments, debt discount, fees, charges and related expenses of the Company and its Subsidiaries in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with GAAP, and (b) the portion of rent expense of the Company and its Subsidiaries with respect to such period under capital leases that is treated as interest in accordance with GAAP.

“Consolidated Liquidity Ratio” means, as of any date of determination, the ratio of (a) the sum of Consolidated Current Assets (excluding Temporary Excess Cash) plus the Revolving Facility Liquidity Amount to (b) the sum of (i) Consolidated Current Liabilities (but excluding, without duplication and only to the extent such amounts would otherwise have been included in this clause (b)(i), (A) such Consolidated Current Liabilities consisting of any holder put right, balloon, bullet or similar final scheduled principal payment that would repay any Indebtedness permitted by Section 7.03 in full, other than any such holder put right, balloon, bullet or final payment which is due within ninety (90) days following such date of determination, and (B) any Temporary Indebtedness) plus (ii) without duplication, Indebtedness (whether or not reflected as a Consolidated Current Liability) under all floorplan financing arrangements.

“Consolidated Net Income” means, for any period, for the Company and its Subsidiaries on a consolidated basis, the net income of the Company and its Subsidiaries for such period.

“Consolidated Principal Payments” means, for any period, for the Company and its Subsidiaries on a consolidated basis, all scheduled payments of principal and amortization of the Company and its Subsidiaries in connection with Indebtedness for money borrowed (including Permitted Real Estate Indebtedness) or in connection with the deferred purchase price of assets which payments are made or are required to be made during such period, in each case to the extent treated as principal in accordance with GAAP (other than any balloon, bullet or similar final scheduled principal payment that repays such Indebtedness in full). It is acknowledged that payments permitted under Section 7.15 shall not be deemed to be scheduled payments of principal for purposes of determining “Consolidated Principal Payments”.

“Consolidated Rental Expense” means, for any period, on a consolidated basis for the Company and its Subsidiaries, the aggregate amount of fixed and contingent rentals payable in cash by the Company and its Subsidiaries with respect to leases of real and personal property (excluding capital lease obligations) determined in accordance with GAAP for such period (subject to Section 1.03(b)).

“Consolidated Total Lease Adjusted Leverage Ratio” means, as of any date of determination, the ratio of (a) (i) Consolidated Total Outstanding Indebtedness (excluding (v) Indebtedness under the New Vehicle Floorplan Facility, (w) Permitted Silo Indebtedness for New Vehicle or Used Vehicle inventory, (x) Indebtedness under the Used Vehicle Floorplan Facility, (y) Temporary Indebtedness and (z) Permitted Third Party Service Loaner Indebtedness) as of such date minus (ii) the aggregate amount as of the date of determination of unrestricted domestic cash held in (x) accounts on the consolidated balance sheet of the applicable Person and its Restricted Subsidiaries as of such date to the extent the use thereof for application to payment of Indebtedness is not prohibited by law or any contract to which any such Person is a party and such cash is not subject to any Lien and (y) accounts established with Silo Lenders, if any, as an offset to floor plan notes payable that are reflected on the consolidated balance sheet of the applicable Person and its Restricted Subsidiaries as of such date to the extent the use thereof is not prohibited or restricted by law or any contract to which any such Person is a party and is not subject to any Lien; provided that the aggregate amount of cash under clauses (x) and (y) for purposes of this calculation shall in no event exceed \$50,000,000 at any time, plus (iii) eight (8) times Consolidated Rental Expense for the period of four fiscal quarters most recently ended (excluding Consolidated Rental Expense relating to any real property acquired during the period of four fiscal quarters most recently ended but including as Consolidated Rental Expense the “rental payments” for any real property Disposed of and leased back to the Company or its Subsidiaries during the period of four fiscal quarters most recently ended as if such sale-leaseback transaction had occurred on and such “rental payments” began on the first day of such applicable four fiscal quarter period) to (b) Consolidated EBITDAR for the period of four fiscal quarters most recently ended.

“Consolidated Total Outstanding Indebtedness” means, for any period, for the Company and its Subsidiaries on a consolidated basis, the aggregate outstanding principal amount of Consolidated Funded Indebtedness of the Company and its Subsidiaries for such period.

“Contractual Obligation” means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

“Cost of Acquisition” means, with respect to any Acquisition, as at the date of entering into any agreement therefor, the sum of the following (without duplication): (i) the value of the Equity Interests of the Company or any Subsidiary to be transferred in connection with such Acquisition, (ii) the amount of any cash and fair market value of other property (excluding property described in clause (i) and the unpaid principal amount of any debt instrument) given as consideration in connection with such Acquisition, (iii) the amount (determined by using the face amount or the amount payable at maturity, whichever is greater) of any Indebtedness incurred, assumed or acquired by the Company or any Subsidiary in connection with such Acquisition, (iv) all additional purchase price amounts in the form of earnouts and other contingent obligations that should be recorded on the financial statements of the Company and its Subsidiaries in accordance with GAAP in connection with such Acquisition, (v) all amounts paid in respect of covenants not to compete, consulting agreements that should be recorded on the financial statements of the Company and its Subsidiaries in accordance with GAAP, and other

affiliated contracts in connection with such Acquisition, and (vi) the aggregate fair market value of all other consideration given by the Company or any Subsidiary in connection with such Acquisition; provided that (x) the Cost of Acquisition shall not include the purchase price of floored vehicles acquired in connection with such Acquisition, (y) to the extent such Acquisition (or any other Acquisition or proposed Acquisition included in the calculation of any threshold set forth in Section 6.14 or 7.12) includes the purchase or leasing of any real property, the consideration attributable to such real property shall be excluded from the calculation of Cost of Acquisition, and (z) amounts under clause (iv) above shall be excluded from the calculation of Cost of Acquisition to the extent that such amounts as of the date of entering into any agreement with respect to such Acquisition are not reasonably expected to exceed \$5,000,000 in the aggregate (each such determination for each applicable year of earnouts and other contingent obligations with respect to the applicable Acquisition to be based on the reasonably expected operations and financial condition of the Company and its Subsidiaries during the first year after the date of the applicable Acquisition). For purposes of determining the Cost of Acquisition for any transaction, the Equity Interests of the Company shall be valued in accordance with GAAP.

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

“Covered Party” has the meaning specified in Section 10.22.

“Credit Extension” means a Borrowing.

“Daily LIBOR Rate” means, for any day, the rate per annum determined by the Administrative Agent by dividing (x) the Published Rate by (y) a number equal to 1.00 minus the LIBOR Reserve Percentage on such day. Notwithstanding the foregoing, if the Daily LIBOR Rate as determined above would be less than zero percent (0.00%), such rate shall be deemed to be zero percent (0.00%) for purposes of this Agreement.

“Debtor Relief Laws” means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Default” means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

“Default Rate” means an interest rate equal to (i) the Base Rate plus (ii) the Applicable Rate, if any, applicable to Base Rate Loans plus (iii) 2% per annum; provided, however, that with respect to a Eurodollar Rate Loan, the Default Rate shall be an interest rate equal to the interest rate (including any Applicable Rate) otherwise applicable to such Loan plus 2% per annum.

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

“Defaulting Lender” means, subject to Section 2.16(b), any Lender that, as determined by the Administrative Agent, (a) has failed to perform any of its funding obligations hereunder including in respect of its Loans hereunder, or has failed to perform any of its funding obligations under the Revolving Credit Agreement or the Floorplan Credit Agreement, including in respect of its Used Vehicle Floorplan Loans or New Vehicle Floorplan Loans (each as defined in the Floorplan Credit Agreement) thereunder,

in each case within three Business Days of the date required to be funded by it hereunder or thereunder unless such Lender notifies the Administrative Agent and the Company in writing that such failure is the result of such Lender's determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in writing) has not been satisfied, (b) has notified the Company or the Administrative Agent that it does not intend to comply with any such funding obligations or has made a public statement to that effect (unless such writing or public statement relates to such Lender's obligation to fund a Loan hereunder and states that such position is based on such Lender's determination that a condition precedent to funding (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied) with respect to its funding obligations hereunder, thereunder or generally under other agreements in which it commits to extend credit, (c) has failed, within three Business Days after request by the Administrative Agent, to confirm in a manner satisfactory to the Administrative Agent, that it will comply with such funding obligations (provided that such Lender shall cease to be a Defaulting Lender pursuant to this clause (c) upon receipt of such written confirmation by the Administrative Agent and the Company), or (d) has, or has a direct or indirect parent company that has, (i) become the subject of a proceeding under any Debtor Relief Law, (ii) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance Corporation or any other state or federal regulatory authority acting in such a capacity, a custodian appointed for it, or (iii) become the subject of a Bail-In Action; provided that a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any Equity Interest in such Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender. Any determination by the Administrative Agent that a Lender is a Defaulting Lender under any one or more of clauses (a) through (d) above, and of the effective date of such status, shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to Section 2.16(b)) as of the date established therefor by the Administrative Agent in a written notice of such determination, which shall be delivered by the Administrative Agent to the Company and each other Lender promptly following such determination. "Designated Jurisdiction" means any country or territory to the extent that such country or territory itself is the subject of any Sanction.

"Disposition" or "Dispose" means the sale, transfer, license, lease or other disposition (including any sale and leaseback transaction) of any property by any Person, including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith.

"Disputes" has the meaning specified in Section 10.15(b)(i).

"Dollar" and "\$" mean lawful money of the United States.

"EEA Financial Institution" means (a) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any financial institution established in an EEA Member Country which is a Subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent.

“EEA Member Country” means any of the member states of the European Union, Iceland, Liechtenstein, and Norway.

“EEA Resolution Authority” means any public administrative authority or any person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

“Eligible Assignee” means any Person that meets the requirements to be an assignee under Section 10.06(b)(iii), and (v) (subject to such consents, if any, as may be required under Section 10.06(b)(iii)).

“Environmental Indemnity Agreement” has the meaning specified in Section 4.01(a)(xii).

“Environmental Laws” means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Company, any other Loan Party or any of their respective Subsidiaries directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Equity Interests” means, with respect to any Person, all of the shares of capital stock of (or other ownership or profit interests in) such Person, all of the warrants, options or other rights for the purchase or acquisition from such Person of shares of capital stock of (or other ownership or profit interests in) such Person, all of the securities convertible into or exchangeable for shares of capital stock of (or other ownership or profit interests in) such Person or warrants, rights or options for the purchase or acquisition from such Person of such shares (or such other interests), and all of the other ownership or profit interests in such Person (including partnership, member or trust interests therein), whether voting or nonvoting, and whether or not such shares, warrants, options, rights or other interests are outstanding on any date of determination.

“ERISA” means the Employee Retirement Income Security Act of 1974.

“ERISA Affiliate” means any trade or business (whether or not incorporated) under common control with the Company within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

“ERISA Event” means (a) a Reportable Event with respect to a Pension Plan; (b) the withdrawal of the Company or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which such entity was a “substantial employer” as defined in Section 4001(a)(2) of ERISA or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA that has resulted or could reasonably be expected to result in liability of the Company under Title IV of ERISA in excess of \$1,000,000; (c) a complete or partial withdrawal by the Company or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization, in either case that has

resulted or could reasonably be expected to result in liability of the Company under Title IV of ERISA in excess of (i) in the case of the Automotive Industries Pension Trust Fund (EIN # 94-1133245), Plan No. 001, \$25,000,000 and (ii) in all other cases, \$1,000,000; (d) the filing of a notice of intent to terminate or the treatment of a Pension Plan amendment as a termination under Section 4041 or 4041A of ERISA; (e) the institution by the PBGC of proceedings to terminate a Pension Plan, Multiemployer Plan or Multiple Employer Plan; (f) any event or condition which is reasonably likely to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan of the Company or any ERISA Affiliate; (g) except as set forth on Schedule 1.01C, the determination that any Pension Plan, Multiemployer Plan or Multiple Employer Plan is considered an at-risk plan or a plan in endangered or critical status within the meaning of Sections 430, 431 and 432 of the Code or Sections 303, 304 and 305 of ERISA; or (h) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Company or any ERISA Affiliate in excess of (i) in the case of the Automotive Industries Pension Trust Fund (EIN # 94-1133245), Plan No. 001, \$25,000,000 and (ii) in all other cases, \$1,000,000.

“EU Bail-In Legislation Schedule” means the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor person), as in effect from time to time.

“Eurodollar Rate” means, with respect to any Eurodollar Rate Loans, the interest rate per annum determined by the Administrative Agent by dividing (the resulting quotient rounded upwards to the nearest 1/100 of 1%), (a) the rate which appears on the Bloomberg Page BBAM1 (or on such other substitute Bloomberg page that displays rates at which US dollar deposits are offered by leading banks in the London interbank deposit market), or the rate which is quoted by another source selected by the Administrative Agent as an authorized information vendor for the purpose of displaying rates at which US dollar deposits are offered by leading banks in the London interbank deposit market (an “Alternate Source”), at approximately 11:00 a.m., London time, two (2) Business Days prior to the commencement of such Interest Period as the London interbank offered rate for Dollars for an amount comparable to such Loans and having a borrowing date and a maturity comparable to such Interest Period (or if there shall at any time, for any reason, no longer exist a Bloomberg Page BBAM1 (or any substitute page) or any Alternate Source, a comparable replacement rate determined by the Administrative Agent at such time (which determination shall be conclusive absent manifest error)), by (b) a number equal to 1.00 minus the LIBOR Reserve Percentage. Notwithstanding the foregoing, if the Eurodollar Rate as determined under any method above would be less than zero percent (0.00%), such rate shall be deemed to be zero percent (0.00%) for purposes of this Agreement.

The Eurodollar Rate shall be adjusted with respect to any Eurodollar Rate Loan that is outstanding on the effective date of any change in the LIBOR Reserve Percentage as of such effective date. The Administrative Agent shall give prompt notice to the Company of the Eurodollar Rate as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

“Eurodollar Rate Loan” means a Committed Loan that bears interest at a rate based on the “Eurodollar Rate.”

“Event of Default” has the meaning specified in Section 8.01.

“Excluded Investment” means (i) any Investment in the Company, any Restricted Subsidiary or any Person which, as a result of such Investment, (a) becomes a Restricted Subsidiary or (b) is merged or consolidated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Company or any Restricted Subsidiary; (ii) Indebtedness of the Company owing to a Restricted Subsidiary, Indebtedness of a Restricted Subsidiary owing to another Restricted Subsidiary, or guarantees

by a Restricted Subsidiary of the Indenture Notes; (iii) Investments in any of the Indenture Notes; (iv) Temporary Cash Investments; (v) Investments acquired by the Company or any Restricted Subsidiary in connection with an asset sale permitted by any Indenture to the extent such Investments are non-cash proceeds; (vi) any Investment to the extent the consideration therefor consists of Qualified Capital Stock of the Company or any Restricted Subsidiary; (vii) Investments representing Capital Stock or obligations issued to the Company or any Restricted Subsidiary in the ordinary course of the good faith settlement of claims against any other Person by reason of a composition or readjustment of debt or a reorganization of any debtor or any Restricted Subsidiary; (viii) prepaid expenses advanced to employees in the ordinary course of business or other loans or advances to employees in the ordinary course of business not to exceed \$1.0 million in the aggregate at any one time outstanding; (ix) Investments in existence on May 9, 2013; (x) deposits, including interest-bearing deposits, maintained in the ordinary course of business in banks or with floor plan lenders; endorsements for collection or deposit in the ordinary course of business by such Person of bank drafts and similar negotiable instruments of such other Person received as payment for ordinary course of business trade receivables; (xi) Investments acquired in exchange for the issuance of Capital Stock (other than Redeemable Capital Stock or Preferred Stock) of the Company or acquired with the net cash proceeds received by the Company after the date of this Agreement from the issuance and sale of Capital Stock (other than Redeemable Capital Stock or Preferred Stock); provided that such net cash proceeds are used to make such Investment within 10 days of the receipt thereof; (xii) Investments in prepaid expenses, negotiable instruments held for collection and lease, utility and worker's compensation, performance and other similar deposits provided to third parties in the ordinary course of business; (xiii) consumer loans and leases entered into, purchased or otherwise acquired by the Company or its Subsidiaries, as lender, lessor or assignee, as applicable, in the ordinary course of business consistent with past practices; (xiv) items described in clause (c) of the definition of "Investment"; and (xv) in addition to the Investments described in clauses (i) through (xiv) above, Investments in an amount not to exceed the greater of (a) \$25.0 million and (b) 1% of the Company's consolidated tangible assets in the aggregate at any one time outstanding.

"Excluded Taxes" means any of the following Taxes imposed on or with respect to Recipient or required to be withheld or deducted from payment to a Recipient, (a) Taxes imposed on or measured by net income (however denominated), franchise Taxes, and branch profits Taxes, in each case, (i) imposed as a result of such Recipient being organized under the laws of, or having its principal office or, in the case of any Lender, its Lending Office located in, the jurisdiction imposing such Tax (or any political subdivision thereof) or (ii) that are Other Connection Taxes, (b) in the case of a Lender, U.S. federal withholding Taxes imposed on amounts payable to or for the account of such Lender with respect to an applicable interest in a Loan or Commitment pursuant to a law in effect on the date on which (i) such Lender acquires such interest in the Loan or Commitment (other than pursuant to an assignment request by the Company under Section 10.13) or (ii) such Lender changes its Lending Office, except in each such case to the extent that pursuant to Section 3.01(a)(ii), (a)(iii) or (c), amounts with respect to such Taxes were payable either to such Lender's assignor immediately before such Lender became a party hereto or to such Lender immediately before it changed its Lending Office, (c) Taxes attributable to such Recipient's failure to comply with Section 3.01(e) and (d) any U.S. federal withholding Taxes imposed pursuant to FATCA.

"FASB ASC" means the Accounting Standards Codification of the Financial Accounting Standards Board.

"FATCA" means Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantially comparable and not materially more onerous to comply with) and any current or future regulations or official interpretations thereof and any agreements entered into pursuant to Section 1471(b)(1) of the Code.

“Federal Funds Rate” means for any day the rate per annum (based on a year of 360 days and actual days elapsed and rounded upward to the nearest 1/100 of 1%) announced by the Federal Reserve Bank of New York (or any successor) on such day as being the weighted average of the rates on overnight federal funds transactions arranged by federal funds brokers on the previous trading day, as computed and announced by such Federal Reserve Bank (or any successor) in substantially the same manner as such Federal Reserve Bank computes and announces the weighted average it refers to as the “Federal Funds Rate” as of the date of this Agreement; provided that if such Federal Reserve Bank (or its successor) does not announce such rate on any day, the “Federal Funds Rate” for such day shall be the Federal Funds Rate for the last day on which such rate was announced. Notwithstanding the foregoing, if the Federal Funds Rate as determined under any method above would be less than zero percent (0.00%), such rate shall be deemed to be zero percent (0.00%) for purposes of this Agreement.

“Flood Hazard Property” means any real property with respect to which the Administrative Agent requests a flood hazard determination in its sole discretion and which is determined to be in an area designated by the Federal Emergency Management Agency as having special flood or mudslide hazards.

“Flood Requirements” means the following, with respect to any Flood Hazard Property, in each case in form and substance satisfactory to the Lenders: (a) the applicable Loan Party’s written acknowledgment of receipt of written notification from the Administrative Agent (i) as to the fact that such real property is a Flood Hazard Property and (ii) as to whether the community in which each such Flood Hazard Property is located is participating in the National Flood Insurance Program and (b) such other flood hazard determination forms, notices and confirmations thereof as requested by the Lenders and naming the Administrative Agent as loss payee on behalf of the Lenders; and (c) property level information sufficient for the Lenders to determine the adequacy of flood insurance.

“Floorplan Administrative Agent” means, as applicable, Bank of America (in its capacity as the administrative agent under the Floorplan Credit Agreement or any successor administrative agent under the Floorplan Credit Agreement).

“Floorplan Credit Agreement” means the Third Amended and Restated Syndicated New and Used Floorplan Credit Agreement dated as of November 30, 2016 among the Company, the Subsidiaries of the Company party thereto from time to time, the Floorplan Administrative Agent and the Floorplan Lenders (as amended, supplemented or otherwise modified from time to time).

“Floorplan Default” has the meaning specified for the term “Default” in the Floorplan Credit Agreement.

“Floorplan Event of Default” has the meaning specified for the term “Event of Default” in the Floorplan Credit Agreement.

“Floorplan Lenders” means the lenders party from time to time to the Floorplan Credit Agreement.

“Floorplan Loan Documents” has the meaning specified for the term “Loan Documents” in the Floorplan Credit Agreement.

“Foreign Lender” means (a) if the Company is a U.S. Person, a Lender that is not a U.S. Person, and (b) if the Company is not a U.S. Person, a Lender that is resident or organized under laws of a jurisdiction other than that in which the Company is resident for tax purposes. For purposes of this definition, the United States, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.



“Framework Agreement” means a framework agreement, in each case between a Loan Party and a manufacturer or distributor of New Vehicles.

The term “franchise” when used with respect to any vehicle manufacturer or distributor shall be deemed to include each dealership that is authorized by a Franchise Agreement to sell New Vehicles manufactured or distributed by such manufacturer or distributor, whether or not such dealership is expressly referred to as a franchise in the respective Franchise Agreement or Framework Agreement.

“Franchise Agreement” means a franchise agreement, in each case between a Loan Party and a manufacturer or distributor of New Vehicles.

“FRB” means the Board of Governors of the Federal Reserve System of the United States.

“Fund” means any Person (other than a natural Person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its activities.

“GAAP” means generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied.

“Governmental Authority” means the government of the United States or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

“Guarantee” means, as to any Person, any (a) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person (or any right, contingent or otherwise, of any holder of such Indebtedness to obtain any such Lien). The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing Person in good faith. The term “Guarantee” as a verb has a corresponding meaning.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

“Impacted Loans” has the meaning assigned to such term in Section 3.03.

“Indebtedness” means, as to any Person at a particular time, without duplication, all of the following, whether or not included as indebtedness or liabilities in accordance with GAAP:

- (a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes, loan agreements or other similar instruments;
- (b) all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), bankers’ acceptances, bank guaranties, surety bonds and similar instruments;
- (c) net obligations of such Person under any Swap Contract;
- (d) all obligations of such Person to pay the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business and, in each case, not past due for more than 60 days after the date on which such trade account payable was created);
- (e) indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness shall have been assumed by such Person or is limited in recourse;
- (f) capital leases and Synthetic Lease Obligations;
- (g) all obligations of such Person to purchase, redeem, retire, defease or otherwise make any payment in respect of any Equity Interest in such Person or any other Person, valued, in the case of a redeemable preferred interest, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends; and
- (h) all Guarantees of such Person in respect of any of the foregoing.

For all purposes hereof, the Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a joint venturer, unless such Indebtedness is expressly made non-recourse to such Person. The amount of any net obligation under any Swap Contract on any date shall be deemed to be the Swap Termination Value thereof as of such date. The amount of any capital lease or Synthetic Lease Obligation as of any date shall be deemed to be the amount of Attributable Indebtedness in respect thereof as of such date.

“Indemnified Taxes” means (a) Taxes other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of any Loan Party under any Loan Document and (b) to the extent not otherwise described in (a), Other Taxes.

“Indemnitees” has the meaning specified in Section 10.04(b).

“Indentures” means, individually or collectively as the context may require, the 2013-5.0% Indenture or the 2017-6.125% Indenture.

“Indenture Notes” means, individually or collectively as the context may require, the 2013-5.0% Indenture Notes or the 2017-6.125% Indenture Notes.

“Information” has the meaning specified in Section 10.07.

“Initial Appraised Value” means, with respect to any Mortgaged Property, the appraised value of such Mortgaged Property as set forth in a FIRREA-conforming appraisal obtained by the Administrative Agent with respect to such Mortgaged Property prior to (and within 12 months of) the Closing Date, or if such Mortgaged Property is an Additional Mortgaged Property or a Substitute Property, a FIRREA-conforming appraisal obtained by the Administrative Agent with respect to such Additional Mortgaged Property or Substitute Property immediately prior to (and within 12 months of) such Additional Mortgaged Property or Substitute Property becoming a Mortgaged Property.

“Interest Payment Date” means the fifth day of a calendar month, provided that if such day is not a Business Day, the respective Interest Payment Date shall be the next succeeding Business Day.

“Interest Period” means a period of approximately one month commencing on the first Business Day of each month and ending on the first Business Day of the following month.

“Internal Control Event” means a material weakness in, or fraud that involves management or other employees who have a significant role in, the Company’s internal controls over financial reporting, in each case as described in the Securities Laws.

“Investment” means, as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of capital stock or other securities of another Person, (b) a loan, advance or capital contribution to, Guarantee or assumption of debt of, or purchase or other acquisition of any other debt or equity participation or interest in, another Person, including any partnership or joint venture interest in such other Person and any arrangement pursuant to which the investor Guarantees Indebtedness of such other Person, or (c) the purchase or other acquisition (in one transaction or a series of transactions) of assets of another Person that constitute a business unit. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

“Involuntary Disposition” means, with respect to any Collateral, any of the following: (a) any loss, destruction or damage of such Collateral or (b) any condemnation, seizure, or taking, by exercise of the power of eminent domain or otherwise, of such Collateral, or confiscation of such Collateral or the requisition of the use of such Collateral.

“IP Rights” has the meaning specified in Section 5.17.

“IRS” means the United States Internal Revenue Service.

“Joinder Agreement” means each Joinder Agreement, substantially in the form of Exhibit G, executed and delivered by a Subsidiary or any other Person to the Administrative Agent, for the benefit of the Secured Parties, pursuant to Section 6.14.

“Laws” means, collectively, all international, foreign, Federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities,

including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law.

“Lease” means a lease or other agreement (whether written or oral) pursuant to which any Person is granted a possessory interest in, or right to use or occupy, all or any portion of one or more of the Mortgaged Properties, together with all amendments thereto and all restatements, supplements, and other modifications thereof.

“Lender” has the meaning specified in the introductory paragraph hereto.

“Lending Office” means, as to any Lender, the office or offices of such Lender described as such in such Lender’s Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Company and the Administrative Agent, which office may include any Affiliate of such Lender or any domestic or foreign branch of such Lender or such Affiliate. Unless the context otherwise requires each reference to a Lender shall include its applicable Lending Office.

“LIBOR Reserve Percentage” means as of any day the maximum effective percentage in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirements (including supplemental, marginal and emergency reserve requirements) with respect to eurocurrency funding or in respect of eurocurrency liabilities or any similar category of liabilities for a member bank of the Federal Reserve System in New York City.

“Lien” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement in the nature of a security interest of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any easement, right of way or other encumbrance on title to real property, and any financing lease having substantially the same economic effect as any of the foregoing).

“Loan” means an extension of credit by a Lender to the Company under Article II in the form of a Committed Loan.

“Loan Documents” means, collectively, this Agreement, each Note, each Joinder Agreement, each Security Instrument, the Subsidiary Guaranty, and the PNC Letter.

“Loan Parties” means, collectively, the Company and each Subsidiary Guarantor.

“London Banking Day” means any day on which dealings in Dollar deposits are conducted by and between banks in the London interbank eurodollar market.

“Margined Collateral Value” means, at any time, the sum of (a) for all Mortgaged Properties on which material improvements have been constructed thereon, the product of (i) 0.75 multiplied by (ii) the Initial Appraised Value of such Mortgaged Properties, plus (b) for all other Mortgaged Properties, the product of (i) 0.65 multiplied by (ii) the Initial Appraised Value of such Mortgaged Properties.

“Material Adverse Effect” means (a) a material adverse effect on (i) the business, assets, properties, liabilities (actual or contingent), operations or condition (financial or otherwise) of the Company and its Subsidiaries, taken as a whole, (ii) the Mortgaged Properties, taken as a whole, or (iii) the ability of the Company and the Subsidiary Guarantors, taken as a whole, to perform their respective

obligations under any Loan Document to which any of them is a party or (b) an adverse effect on the rights and remedies of the Administrative Agent or the Lenders under the Loan Documents.

“Maturity Date” means November 22, 2024; provided that if any date determined to be a “Maturity Date” is not a Business Day, such Maturity Date shall be the next preceding Business Day.

“Mortgage” or “Mortgages” means, individually and collectively, as the context requires, each of the fee mortgages, deeds of trust, deeds and other similar security documents executed by a Loan Party that purport to grant a Lien to the Administrative Agent (or a trustee for the benefit of the Administrative Agent) for the benefit of the Secured Parties in any Mortgaged Properties, in form and substance satisfactory to the Administrative Agent.

“Mortgaged Property” means the owned property of the Loan Parties listed on Schedule 5.20(c), as supplemented from time to time in accordance with Section 2.18(b)(iii) and Section 2.19(b)(iii) following the addition of Additional Mortgaged Property or a Substitute Property as a Mortgaged Property, including all “Premises” referred to in the Security Instruments with respect to such Mortgaged Property; provided that a Release Property shall no longer constitute a Mortgaged Property after giving effect to the consummation of a Property Substitution or Prepayment Release with respect to such Release Property in accordance with Section 2.19.

“Mortgaged Property Support Documents” means with respect to the fee interest in any Mortgaged Property:

(a) a fully executed and notarized Mortgage encumbering the fee interest of the applicable Loan Party in such real property;

(b) if requested by the Administrative Agent in its sole discretion, maps or plats of an as-built survey of the sites of such real property certified to the Administrative Agent and the title insurance company issuing the policies referred to in clause (c) of this definition in a manner satisfactory to each of the Administrative Agent and such title insurance company, dated a date satisfactory to each of the Administrative Agent and such title insurance company by an independent professional licensed land surveyor, which maps or plats and the surveys on which they are based shall be sufficient to delete any standard printed survey exception contained in the applicable title policy and be made in accordance with the Minimum Standard Detail Requirements for Land Title Surveys jointly established and adopted by the American Land Title Association and the National Society of Professional Surveyors, Inc. in 2016 with items 2, 3, 4, 6(b), 7(a), 7(b)(1), 7(c), 8, 9, 10, 11, 13, 14, 16,17, 18 and 19 on Table A thereof completed;

(c) ALTA mortgage title insurance policies issued by a title insurance company acceptable to the Administrative Agent with respect to such real property, assuring the Administrative Agent that the Mortgage covering such real property creates a valid and enforceable first priority mortgage lien on such real property, free and clear of all defects and encumbrances except Liens permitted under Section 7.01, which title insurance policies shall otherwise be in form and substance satisfactory to the Administrative Agent and shall include such endorsements as are requested by the Administrative Agent;

(d) (i) a completed “Life-of-Loan” Federal Emergency Management Agency Standard Flood Hazard Determination with respect to such real property (together with a notice about special flood hazard area status and flood disaster assistance duly executed by each Loan Party relating thereto) and (ii) if such real property is a Flood Hazard Property, Flood Requirements;

(e) if requested by the Administrative Agent or any Lender, in such Person's sole discretion, an environmental assessment report, as to such real property, in form and substance and from professional firms acceptable to the Administrative Agent and the Lenders;

(f) if requested by the Administrative Agent in its sole discretion, evidence reasonably satisfactory to the Administrative Agent that such real property, and the uses of such real property, are in compliance in all material respects with all applicable zoning Laws (the evidence submitted as to which should include the zoning designation made for such real property, the permitted uses of such real property under such zoning designation and, if available, zoning requirements as to parking, lot size, ingress, egress and building setbacks);

(g) copies of all Leases with respect to such real property and a fully executed and notarized subordination, non-disturbance and attornment agreement with respect to such real property and such Lease; and

(h) if requested by the Administrative Agent in its sole discretion, an opinion of legal counsel to the applicable Loan Party granting the Mortgage on such real property, addressed to the Administrative Agent and each Lender, in form and substance reasonably acceptable to the Administrative Agent.

"Multiemployer Plan" means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which the Company or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

"Multiple Employer Plan" shall mean a Plan which has two or more contributing sponsors (including the Company or any ERISA Affiliate) at least two of whom are not under common control, as such a plan is described in Section 4064 of ERISA.

"Net Cash Proceeds" means the aggregate cash or cash equivalents proceeds received by any Loan Party or any Subsidiary in respect of any Involuntary Disposition, net of (a) direct costs incurred in connection therewith, and (b) taxes paid or payable as a result thereof; it being understood that "Net Cash Proceeds" shall include, without limitation, any cash or cash equivalents received upon the sale or other disposition of any non-cash consideration received by any Loan Party or any Subsidiary in any Involuntary Disposition.

"New Vehicle" means a Vehicle which has never been owned except by a manufacturer, distributor or dealer and (except in the case of Service Loaner Vehicles) has never been registered, and (notwithstanding clause (b) of the definition of "Vehicle") includes Rental Vehicles and Demonstrators (each as defined in the Floorplan Credit Agreement) and Service Loaner Vehicles, in each case whether or not held for sale.

"New Vehicle Floorplan Facility" means the new vehicle floorplan facility described in Section 2.01 through 2.05 of the Floorplan Credit Agreement providing for revolving loans to certain Subsidiaries of the Company by the lenders party thereto.

"New Vehicle Floorplan Loan" has the meaning specified for such term in the Floorplan Credit Agreement.

"Non-Consenting Lender" means any Lender that does not approve any consent, waiver or amendment that (i) requires the approval of all Lenders or all affected Lenders in accordance with the terms of Section 10.01(a) – (h) and (ii) has been approved by the Required Lenders.

“Note” means a promissory note made by the Company, in favor of a Lender evidencing Loans made by such Lender to the Company, as applicable, substantially in the form of Exhibit C.

“Notice of Loan Prepayment” means a notice of prepayment with respect to a Loan, which shall be substantially in the form of Exhibit O or such other form as may be approved by the Administrative Agent (including any form on an electronic platform or electronic transmission system as shall be approved by the Administrative Agent), appropriately completed and signed by a Responsible Officer.

“Obligations” means all advances to, and debts, liabilities, obligations, covenants and duties of, any Loan Party arising under any Loan Document or otherwise with respect to any Loan, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue after the commencement by or against any Loan Party or any Affiliate thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding.

“OFAC” means the Office of Foreign Assets Control of the United States Department of the Treasury.

“Organization Documents” means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

“Other Connection Taxes” means, with respect to any Recipient, Taxes imposed as a result of a present or former connection between such Recipient and the jurisdiction imposing such Tax (other than connections arising from such Recipient having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Loan or Loan Documents).

“Other Taxes” means all present or future stamp, court or documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to any Loan Document, except any such Taxes that are Other Connection Taxes imposed with respect to an assignment (other than an assignment made pursuant to Section 3.05).

“Outstanding Amount” means, with respect to Committed Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of Committed Loans, as the case may be, occurring on such date.

“Overnight Bank Funding Rate” means for any day, the rate comprised of both overnight federal funds and overnight eurocurrency borrowings by U.S.-managed banking offices of depository institutions, as such composite rate shall be determined by the Federal Reserve Bank of New York (“NYFRB”), as set forth on its public website from time to time, and as published on the next succeeding Business Day as the overnight bank funding rate by the NYFRB (or by such other recognized electronic source (such as

Bloomberg) selected by the Administrative Agent for the purpose of displaying such rate); provided, that if such day is not a Business Day, the Overnight Bank Funding Rate for such day shall be such rate on the immediately preceding Business Day; provided, further, that if such rate shall at any time, for any reason, no longer exist, a comparable replacement rate determined by the Administrative Agent at such time (which determination shall be conclusive absent manifest error). If the Overnight Bank Funding Rate determined as above would be less than zero, then such rate shall be deemed to be zero. The rate of interest charged shall be adjusted as of each Business Day based on changes in the Overnight Bank Funding Rate without notice to the Company.

“Participant” has the meaning specified in Section 10.06(d).

“PBGC” means the Pension Benefit Guaranty Corporation.

“Pension Act” shall mean the Pension Protection Act of 2006.

“Pension Funding Rules” means the rules of the Code and ERISA regarding minimum required contributions (including any installment payment thereof) to Pension Plans and set forth in, with respect to plan years ending prior to the effective date of the Pension Act, Section 412 of the Code and Section 302 of ERISA, each as in effect prior to the Pension Act and, thereafter, Section 412, 430, 431, 432 and 436 of the Code and Sections 302, 303, 304 and 305 of ERISA.

“Pension Plan” means any employee pension benefit plan (other than a Multiple Employer Plan or a Multiemployer Plan) that is maintained or is contributed to by the Company and any ERISA Affiliate and is either covered by Title IV of ERISA or is subject to the minimum funding standards under Section 412 of the Code.

“Permitted Acquisition” means any Acquisition permitted by Section 7.12.

“Permitted Disposition” means any Disposition permitted by Section 7.05.

“Permitted Real Estate Indebtedness” means Indebtedness of the Company or a Subsidiary owing to non-Affiliated Persons secured solely by Liens on Permitted Real Estate Indebtedness Collateral so long as the amount of such Indebtedness (as measured for any specified real property parcel and improvements (if any) financed thereby) is no greater than eighty-five percent (85%) of the value of such parcel and improvements set forth in an appraisal thereof prepared by a member of the Appraisal Institute and an independent appraisal firm satisfactory to the Administrative Agent and commissioned in connection with such financing, a copy of which such appraisal has been provided to the Administrative Agent upon its request.

“Permitted Real Estate Indebtedness Collateral” means, with respect to any particular Permitted Real Estate Indebtedness, the applicable real property used (at the time of the incurrence of such Permitted Real Estate Indebtedness) by a Subsidiary of the Company for the operation of a vehicle dealership or a business ancillary thereto, together with related real property rights, improvements, fixtures (other than trade fixtures), insurance payments, leases and rents related thereto and proceeds thereof.

“Permitted Silo Guaranty” means, with respect to any Permitted Silo Indebtedness provided by any Silo Lender, the guaranty of such Indebtedness by (a) the Company or (b) any Subsidiary that operates one or more dealerships at which New Vehicle floorplan financing is provided by such Silo Lender.



“Permitted Silo Indebtedness” means Indebtedness (including Permitted Silo Guaranties but excluding Indebtedness provided pursuant to the Floorplan Credit Agreement) incurred from time to time by any of the Company’s current or future Subsidiaries consisting of floorplan financing for New Vehicles or Used Vehicles provided by financial institutions or manufacturer-affiliated finance companies (“Silo Lenders”) to such Subsidiaries, provided that (i) with respect to financing of Used Vehicles, the proceeds of such financing are used for purchasing and carrying Used Vehicles, (ii) such indebtedness is secured by, in the case of Silo Lenders providing New Vehicle floorplan financing or New Vehicle and Used Vehicle floorplan financing, a lien on certain assets of such Subsidiaries (including New Vehicles and Used Vehicles financed (including related contracts-in-transit) and the proceeds thereof and certain general intangibles, but excluding real property and fixtures (other than trade fixtures)) and (iii) such Indebtedness is otherwise permitted under the Revolving Credit Agreement and the Floorplan Credit Agreement; provided that, Permitted Silo Indebtedness provided by a Silo Lender may be cross-collateralized with other Permitted Silo Indebtedness provided by such Silo Lender.

“Permitted Third Party Service Loaner Indebtedness” means Indebtedness incurred from time to time by any of the Company’s current or future Subsidiaries consisting of financing for Service Loaner Vehicles, which financing is provided by manufacturers, manufacturer affiliated finance companies or other Persons to the Company or such Subsidiary (“Service Loaner Lenders”) so long as (i) such Indebtedness is secured solely by a Lien on said Service Loaner Vehicles so financed by the respective Service Loaner Lenders and the proceeds of such Service Loaner Vehicles, (ii) such Indebtedness is on terms (including pricing terms) that, taken as a whole, are more favorable to the Company and its Subsidiaries than the terms of the Floorplan Credit Agreement, and (iii) such Indebtedness is otherwise permitted under the Revolving Credit Agreement and the Floorplan Credit Agreement.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Plan” shall mean any employee benefit plan within the meaning of Section 3(3) of ERISA (generally including a Pension Plan, but excluding a Multiemployer Plan and Multiple Employer Plan), maintained by the Company or, in the case of a Pension Plan, by an ERISA Affiliate, for employees of the Company or any ERISA Affiliate.

“Platform” has the meaning specified in Section 6.02.

“PNC Bank” means PNC Bank, National Association

“Preferred Stock” means, with respect to any Person, any Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distributions of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over the Capital Stock of any other class in such Person.

“Prepayment Release” has the meaning specified in Section 2.19(a).

“Prime Rate” means the interest rate per annum announced from time to time by the Administrative Agent at its Principal Office as its then prime rate, which rate may not be the lowest or most favorable rate then being charged to commercial borrowers or others by the Administrative Agent and may not be tied to any external rate of interest or index. Any change in the Prime Rate shall take effect at the opening of business on the day such change is announced.

“Principal Office” means the main banking office of the Administrative Agent in Pittsburgh, Pennsylvania.

“Pro Forma Compliance” means that the Company and its Subsidiaries are in pro forma compliance with the financial covenants set forth in Section 7.11 calculated as if the event with respect to which Pro Forma Compliance is being tested had occurred on the first day of each relevant period with respect to which current compliance with such financial covenant would be determined (for example, in the case of a financial covenant based on Consolidated EBITDAR, as if such event had occurred on the first day of the four fiscal quarter period ending on the last day of the most recent fiscal quarter in respect of which financial statements have been delivered pursuant to Section 6.01(a) or (b)). Pro forma calculations made pursuant to this definition that require calculations of Consolidated EBITDAR on a pro forma basis will be made in accordance with Section 1.03(d).

“Pro Forma Compliance Certificate” means, with respect to any event, a duly completed Compliance Certificate demonstrating Pro Forma Compliance for such event.

“Property Substitution” has the meaning specified in Section 2.19(a).

“Public Lender” has the meaning specified in Section 6.02.

“Published Rate” means the rate of interest published each Business Day in The Wall Street Journal “Money Rates” listing under the caption “London Interbank Offered Rates” for a one month period: provided that if no such rate is published therein for any reason, then the Published Rate shall be the rate at which U.S. dollar deposits are offered by leading banks in the London interbank deposit market for a one month period either (a) as published in another publication selected by the Administrative Agent or (b) in an Alternate Source (or if there shall at any time, for any reason, no longer exist any such reference or any Alternate Source), a comparable replacement rate determined by the Administrative Agent at such time (which determination shall be conclusive absent manifest error).

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

“QFC Credit Support” has the meaning specified in Section 10.22.

“Qualified Capital Stock” of any Person means any and all Capital Stock of such Person other than Redeemable Capital Stock.

“RCRA” means the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and Hazardous and Solid Waste Amendments of 1984, 42 U.S.C. §§6901 et seq.

“Recipient” means the Administrative Agent, any Lender, or any other recipient of any payment to be made by or on account of any obligation of any Loan Party hereunder.

“Redeemable Capital Stock” means any Capital Stock that, either by its terms or by the terms of any security into which it is convertible or exchangeable (at the option of the holders thereof), is or upon the happening of an event or passage of time would be, required to be redeemed prior to May 20, 2025 or is redeemable at the option of the holder thereof at any time prior to May 20, 2025 (other than upon a change of control of or sale of assets by the Company in circumstances where a holder of any 2013-5.0% Indenture Notes would have similar rights), or is convertible into or exchangeable for debt securities at any time prior to any such stated maturity at the option of the holder thereof.

“Register” has the meaning specified in Section 10.06(c).

“Registered Public Accounting Firm” has the meaning specified in the Securities Laws and shall be independent of the Company as prescribed in the Securities Laws.

“Related Acquisition or Related Proposed Acquisition” means, with respect to any specified Acquisition (a “Specified Acquisition”), any other Acquisition, or any proposed Acquisition subject to an Acquisition Arrangement, that in each case (a) is part of a related series of Acquisitions or proposed Acquisitions that includes the Specified Acquisition, (b) involves any seller or transferor that is a seller or transferor (or an Affiliate of a seller or transferor) involved in the Specified Acquisition and (c) occurs or is reasonably expected to occur within six (6) months before or after the date of the Specified Acquisition.

“Related Parties” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents, trustees, administrators, managers, advisors, and representatives of such Person and of such Person’s Affiliates.

“Release Price” means, with respect to any Mortgaged Property, an amount equal to 75% of the Initial Appraised Value of such Mortgaged Property.

“Release Property” has the meaning specified in Section 2.19(a).

“Reportable Event” means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30 day notice period has been waived.

“Request for Credit Extension” means with respect to a Borrowing, or conversion of Committed Loans, a Committed Loan Notice.

“Required Financial Information” has the meaning specified in the definition of “Restricted Subsidiary”.

“Required Lenders” means, as of any date of determination, all Lenders as of such date other than any Defaulting Lender.

“Responsible Officer” means the chief executive officer, president, chief financial officer, chief accounting officer, treasurer, assistant treasurer or controller of a Loan Party and solely for purposes of the delivery of incumbency certificate pursuant to Section 4.01, the secretary or assistant secretary of a Loan Party, and, solely for the purposes of notices given pursuant to Article II, any other officer of the applicable Loan Party so designated by any of the foregoing officers in a notice to the Administrative Agent or any other officer of the applicable Loan Party designated in or pursuant to an agreement between the applicable Loan Party and the Administrative Agent. Any document delivered hereunder that is signed by a Responsible Officer of a Loan Party shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Loan Party and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Loan Party. To the extent requested by the Administrative Agent, each Responsible Officer will provide an incumbency certificate and to the extent requested by the Administrative Agent, appropriate authorization documentation, in form and substance satisfactory to the Administrative Agent.

“Restricted Payment” means any dividend or other distribution (whether in cash, securities or other property) with respect to any capital stock or other Equity Interest of the Company or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such capital stock or other Equity Interest, or on account of any return of capital to the stockholders, partners or members (or the equivalent Person thereof) of the Company or any Subsidiary.

“Restricted Subsidiary” means each direct or indirect Subsidiary of the Company that (i) has total assets (including Equity Interests in other Persons) of equal to or greater than \$10,000 (calculated as of the most recent fiscal period with respect to which the Administrative Agent shall have received financial statements required to be delivered pursuant to Sections 6.01(a) or (b) (or if prior to delivery of any financial statements pursuant to such Sections, then calculated based on the Audited Financial Statements) (the “Required Financial Information”), or (ii) has revenues (on a consolidated basis with its Subsidiaries) equal to or greater than \$10,000 for a period of four consecutive fiscal quarters (calculated for the most recent four fiscal quarter period for which the Administrative Agent has received the Required Financial Information); provided, however, that notwithstanding the foregoing, the term “Restricted Subsidiaries” (i) shall also include any Subsidiaries designated as “Restricted Subsidiaries” pursuant to the definition of “Unrestricted Subsidiaries” and (ii) shall not include any Special Purpose Insurance Captive.

“Revolving Administrative Agent” means, as applicable, Bank of America (in its capacity as the administrative agent under the Revolving Credit Agreement or any successor administrative agent under the Revolving Credit Agreement) serving as the collateral agent on behalf of the Secured Parties thereunder.

“Revolving Credit Agreement” means that certain Fourth Amended and Restated Credit Agreement dated as of November 30, 2016 among the Company, the Revolving Administrative Agent and the Revolving Lenders, as amended, supplemented or otherwise modified from time to time.

“Revolving Credit Facility” means the revolving credit facility described in the Revolving Credit Agreement providing for revolving loans to the Company by the Revolving Lenders.

“Revolving Credit Facility Default” has the meaning specified for the term “Default” in the Revolving Credit Agreement.

“Revolving Event of Default” has the meaning specified for the term “Event of Default” in the Revolving Credit Agreement.

“Revolving Loan Documents” has the meaning specified for the term “Loan Documents” in the Revolving Credit Agreement.

“Revolving Facility Liquidity Amount” means, as of any date of determination, the lesser of:

(a) the difference of the Revolving Advance Limit (as defined in the Revolving Credit Agreement) minus Total Outstandings (as defined in the Revolving Credit Agreement), and

(b) the largest principal amount of Loans (as defined in the Revolving Credit Agreement) that may then be borrowed hereunder without resulting in an Event of Default (as defined in the Revolving Credit Agreement) under Section 7.11(c) (on a pro forma basis as of the last day of the most recent fiscal quarter for which a Compliance Certificate was delivered or required to be delivered), after giving pro forma effect to such Loans (as defined in the Revolving Credit Agreement).

“Revolving Facility Loan” means a loan by a Revolving Lender to the Company under the Revolving Credit Agreement.

“Revolving Lender” means each lender that has a commitment under the Revolving Credit Facility or, following termination of such commitments, has Revolving Facility Loans outstanding.

“Sanction(s)” means any sanction administered or enforced by the United States government (including without limitation, OFAC), the United Nations Security Council, the European Union, Her Majesty’s Treasury or other relevant sanctions authority.

“Sarbanes-Oxley” means the Sarbanes-Oxley Act of 2002.

“SEC” means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

“Secured Parties” means, collectively, with respect to each of the Security Instruments, the Administrative Agent and the Lenders.

“Securities Laws” means the Securities Act of 1933, the Securities Exchange Act of 1934, Sarbanes-Oxley and the applicable accounting and auditing principles, rules, standards and practices promulgated, approved or incorporated by the SEC or the Public Company Accounting Oversight Board, as each of the foregoing may be amended and in effect on any applicable date hereunder.

“Security Instruments” means, collectively or individually as the context may indicate, the Mortgages and any related Mortgaged Property Support Documents and all other agreements, instruments and other documents, whether now existing or hereafter in effect, pursuant to which the Company, any other Loan Party, or any other Person shall grant or convey to the Administrative Agent, for the benefit of the Secured Parties a Lien in, or any other Person shall acknowledge any such Lien in, property as security for all or any portion of the Obligations.

“Service Loaner Vehicles” means vehicles which are provided as service loaner vehicles for customers of a Subsidiary that are having their vehicles serviced by such Subsidiary.

“Solvent” means, when used with respect to any Person, that at the time of determination:

(a) the fair value of its assets (both at fair valuation and at present fair saleable value on an orderly basis) is in excess of the total amount of its liabilities, including contingent obligations; and

(b) it is then able and expects to be able to pay its debts as they mature; and

(c) it has capital sufficient to carry on its business as conducted and as proposed to be conducted.

“Sonic Financial” means Sonic Financial Corporation, a North Carolina corporation.

“Special Purpose Insurance Captive” means a Person which (a) at all times shall remain a wholly-owned Subsidiary of the Company or a Subsidiary Guarantor, (b) shall not engage in any business other than the provision of dealer physical damage insurance for new vehicle inventory, workers compensation insurance or healthcare insurance to the Company and its Subsidiaries, (c) if organized in North Carolina (or, in any other jurisdiction, to the extent otherwise permitted by Law) has its Equity Interests pledged pursuant to the Pledge Agreement (as defined in the Revolving Credit Agreement) and (d) has not and shall not (i) transfer any funds to any Person other than (x) payment in the ordinary course of business and on customary market terms of liability claims made by third parties against the Company and its Subsidiaries, (y) payment of its own business expenses in the ordinary course of business and on customary terms, and (z) distributions to the Company or any Subsidiary Guarantor; (ii) make any Investment (other than Investments permitted under applicable insurance guidelines and made in the Company’s reasonable business judgment) in any Person, (iii) incur any Indebtedness (other than

Indebtedness from time to time owed to the Company or any Subsidiary Guarantor) or grant a Lien on any of its assets (other than to secure Indebtedness owed to the Company or any Subsidiary Guarantor), (iv) provide any compensation to directors or employees other than on customary market terms for captive insurance companies or (v) have its Equity Interests pledged to any Person other than as described in clause (c) above. The parties hereto acknowledge that as of the date hereof, SRM Assurance, Ltd. is a Special Purpose Insurance Captive. A Special Purpose Insurance Captive shall not be permitted to have, acquire or form any direct or indirect Subsidiary.

“Specified Investment” means any Investment in any Person other than an Excluded Investment.

“Specified Loan Party” means any Loan Party that is not an “eligible contract participant” under the Commodity Exchange Act (determined prior to giving effect to Section 10.19).

“Subordinated Indebtedness” has the meaning given to such term in the Revolving Credit Agreement and the Floorplan Credit Agreement.

“Subordinated Indebtedness Prepayment” means any prepayment, redemption, purchase, defeasance, settlement in cash or other satisfaction prior to the scheduled maturity thereof of any Subordinated Indebtedness, provided, however, that “Subordinated Indebtedness Prepayment” shall not include any amount prepaid with the proceeds of the refinancing of such Subordinated Indebtedness with new or additional Subordinated Indebtedness.

“Subsidiary” of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of the Company and shall include, without limitation, the Unrestricted Subsidiaries.

“Subsidiary Guarantors” means, collectively, all Restricted Subsidiaries executing a Subsidiary Guaranty on the Closing Date and all other Subsidiaries that enter into a Joinder Agreement (other than any Subsidiary Guarantor that is released in accordance with the terms hereof).

“Subsidiary Guaranty” means the Subsidiary Guaranty Agreement made by the Subsidiary Guarantors in favor of the Administrative Agent and the Lenders, substantially in the form of Exhibit E as supplemented from time to time by execution and delivery of Joinder Agreements pursuant to Section 6.14 and as otherwise supplemented, amended, or modified from time to time.

“Substitution Requirements” has the meaning specified in Section 2.19(b).

“Substitute Property” has the meaning specified in Section 2.19(a).

“Supported QFC” has the meaning specified in Section 10.22.

“Swap Contract” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap

transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a “Master Agreement”), including any such obligations or liabilities under any Master Agreement.

“Swap Termination Value” means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include a Lender or any Affiliate of a Lender).

“Synthetic Lease Obligation” means the monetary obligation of a Person under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property creating obligations that do not appear on the balance sheet of such Person but which, upon the insolvency or bankruptcy of such Person, would be characterized as the indebtedness of such Person (without regard to accounting treatment).

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“Temporary Cash Investments” means (a) cash or (b) Investments held in the form of cash equivalents and short-term marketable securities.

“Temporary Excess Cash” means cash proceeds received by the Company from the issuance of Subordinated Indebtedness permitted by Section 7.03(i), which cash (as set forth in a notice delivered by the Company to the Administrative Agent within five (5) Business Days of the Company’s receipt of such cash proceeds) is intended by the Company to be applied to the prepayment or purchase (whether by open market purchase or pursuant to a tender offer) of other Subordinated Indebtedness, but has not yet been so applied solely because the Company has not completed such prepayment, repurchase or refinancing, so long as such cash is so applied within six (6) months of receipt thereof.

“Temporary Indebtedness” means Subordinated Indebtedness the Company intends to repay (whether by open market purchase or pursuant to a tender offer) using cash proceeds received by the Company from the issuance of other Subordinated Indebtedness permitted by Section 7.03(i); provided that, such applicable Subordinated Indebtedness shall only qualify as “Temporary Indebtedness” for so long as such cash proceeds qualify as “Temporary Excess Cash”.

“Threshold Amount” means \$20,000,000.

“Total Credit Exposure” means, as to any Lender at any time, the unused Commitments and outstanding Loans of such Lender at such time.

“Total Outstandings” means the aggregate Outstanding Amount of all Loans.

“Type” means, with respect to a Loan, its character as a Base Rate Loan or a Eurodollar Rate Loan.

“United States” and “U.S.” mean the United States of America.

“Unrestricted Subsidiaries” means all Subsidiaries of the Company other than the Restricted Subsidiaries; provided that in no event shall the Unrestricted Subsidiaries as a whole have more than \$100,000 in total assets or more than \$100,000 in total revenues for a period of four consecutive fiscal quarters (in each case) calculated as of the most recent four fiscal quarter period for which the Administrative Agent has received the Required Financial Information; and if either such threshold is exceeded, the Company shall immediately designate one or more such Subsidiaries to be “Restricted Subsidiaries” and deliver to the Administrative Agent all documents specified in Section 6.14 for such Subsidiaries, so that after giving effect to such designation, the remaining Unrestricted Subsidiaries shall satisfy such requirements; provided, however, that notwithstanding the foregoing, the assets and revenues of Special Purpose Insurance Captives shall not be taken into account for the purposes of determining the Company’s compliance with, and its covenants relating to, the thresholds described in this definition.

“Used Vehicle” means a Vehicle other than a New Vehicle.

“Used Vehicle Floorplan Facility” means the used vehicle floorplan facility described in Sections 2.06 through 2.08 of the Floorplan Credit Agreement providing for revolving loans to the Company by the lenders party thereto.

“Used Vehicle Floorplan Loan” has the meaning specified for such term in the Floorplan Credit Agreement.

“U.S. Person” means any Person that is a “United States Person” as defined in Section 7701(a)(30) of the Code.

“U.S. Special Resolution Regimes” has the meaning specified in Section 10.22.

“U.S. Tax Compliance Certificate” has the meaning specified in Section 3.01(e)(ii)(B)(III).

“Vehicle” means an automobile or truck with a gross vehicle weight of less than 16,000 pounds which satisfies the following requirements: (a) the vehicle is owned by a Grantor (under and as defined in the Revolving Credit Facility) free of any title defects or any liens or interests of others except for Liens permitted thereon under the Revolving Credit Agreement and the Floorplan Credit Agreement; (b) the vehicle is held for sale in the ordinary course of a Grantor’s (under and as defined in the Revolving Credit Facility) business and is of good and merchantable quality and (c) the vehicle is not a commercial truck designated as Class 4 or above by the U.S. Department of Transportation, Federal Highway Administration.

“Write-Down and Conversion Powers” means, with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

“2013-5.0% Indenture” means the Indenture dated as of May 13, 2013 between the Company, the guarantors set forth therein and U.S. Bank National Association, as Trustee.



“2013-5.0% Indenture Notes” means, collectively, the 5.0% Senior Subordinated Notes due 2023, Series A, and the 5.0% Senior Subordinated Notes due 2023, Series B, in each case issued pursuant to the 2013-5.0% Indenture.

“2017-6.125% Indenture” means the Indenture dated as of March 10, 2017 between the Company, the guarantors set forth therein and U.S. Bank National Association, as Trustee.

“2017-6.125% Indenture Notes” means, collectively, the 6.125% Senior Subordinated Notes due 2027 issued pursuant to the 2017-6.125% Indenture.

**1.02 Other Interpretive Provisions.** With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document (including any Organization Document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), provided that, any reference to a defined term in any such agreement, instrument or other document (including the Revolving Credit Agreement and the Floorplan Credit Agreement) which has been terminated shall have the meaning set forth in such document immediately prior to such termination, (ii) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (iii) the words “hereto,” “herein,” “hereof” and “hereunder,” and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (vi) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including,” the words “to” and “until” each mean “to but excluding,” and the word “through” means “to and including.”

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

**1.03 Accounting Terms.**

(a) Generally. All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial

calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing the Audited Financial Statements, except as otherwise specifically prescribed herein; provided that, all calculations of financial covenants shall reflect the results of both continuing operations and discontinued operations of the Company and its Subsidiaries, and in the event of any such discontinued operations, the Company shall provide subtotals for each of “continuing operations”, “discontinued operations” and “consolidated operations”. Notwithstanding the foregoing, for purposes of determining compliance with any covenant (including the computation of any financial covenant) contained herein, Indebtedness of the Company and its Subsidiaries shall be deemed to be carried at 100% of the outstanding principal amount thereof and the effects of FASB ASC 825 on financial liabilities shall be disregarded. In connection with the Company’s delivery of financial statements hereunder, the Company shall deliver a reconciliation of the calculations of the financial covenants before and after giving effect to the adjustments from FASB ASC 825 described in this Agreement.

(b) Changes in GAAP. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Company or the Required Lenders shall so request, the Administrative Agent, the Lenders and the Company shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of the Required Lenders); provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) the Company shall provide to the Administrative Agent and the Lenders financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP. Without limiting the foregoing, for purposes of determining compliance with Section 7.11, leases shall continue to be classified and accounted for on a basis consistent with that reflected in the Audited Financial Statements for all purposes of this Agreement, notwithstanding any change in GAAP relating thereto, unless the parties hereto shall enter into a mutually acceptable amendment addressing such changes, as provided for above.

(c) Consolidation of Variable Interest Entities. All references herein to consolidated financial statements of the Company and its Subsidiaries or to the determination of any amount for the Company and its Subsidiaries on a consolidated basis or any similar reference shall, in each case, be deemed to include each variable interest entity that the Company is required to consolidate pursuant to FASB ASC 810 as if such variable interest entity were a Subsidiary as defined herein.

(d) Calculation of Consolidated EBITDAR, Consolidated Fixed Charges and Consolidated Rental Expense. Consolidated EBITDAR shall be calculated for any period by including the actual amount for such period, including the Consolidated EBITDAR attributable to Acquisitions permitted hereunder and occurring during such period and (to the extent otherwise included in Consolidated Net Income) excluding the Consolidated EBITDAR attributable to Permitted Dispositions of assets 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 such permitted Acquisition or Permitted Disposition, utilizing (i) 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 Company’s reasonable judgment or (ii) unaudited financial statements (where no audited or reviewed financial statements are required pursuant to the terms of this Agreement) reviewed internally by the Company,

broken down in the Company's reasonable judgment; provided, however, that (x) any such pro forma adjustment of Consolidated EBITDAR shall reflect the Company's and the Subsidiaries' pro forma rental payments related to the assets acquired in any applicable Acquisition (and shall not reflect any rental expense payments of the applicable seller), and (y) any such pro forma adjustment of Consolidated EBITDAR shall not result in an increase of more than 10% of Consolidated EBITDAR prior to such adjustment, unless the Company provides to the Administrative Agent (A) the supporting calculations for such adjustment and (B) such other information as the Administrative Agent may reasonably request to determine the accuracy of such calculations. For purposes of determining "Consolidated Fixed Charges" for any period, the Consolidated Interest Expense, Consolidated Principal Payments and Consolidated Rental Expenses attributable to such Permitted Dispositions described above during such period may, at the option of the Company and subject to the consent of the Administrative Agent (which shall not be unreasonably withheld), be excluded therefrom.

**1.04 Rounding.** Any financial ratios required to be maintained by the Company pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

**1.05 Times of Day.** Unless otherwise specified, all references herein to times of day shall be references to Eastern time (daylight or standard, as applicable).

**1.06 [Reserved].**

**1.07 Rates.** The Administrative Agent does not warrant, nor accept responsibility, nor shall the Administrative Agent have any liability with respect to the administration, submission or any other matter related to the rates in the definition of "Eurodollar Rate" and "Daily LIBOR Rate" or with respect to any comparable or successor rate thereto.

## ARTICLE II

### THE COMMITMENTS AND CREDIT EXTENSIONS

**2.01 Committed Loans.** Subject to the terms and conditions set forth herein, each Lender severally agrees to make loans (each, a "Committed Loan") to the Company from time to time in Dollars on any Business Day during the Availability Period, in an aggregate principal amount of all Committed Loans made by any such Lender not to exceed the principal amount of such Lender's Commitment; provided, that (a) after giving effect to any requested Committed Loans, the aggregate initial principal amount of all Committed Loans made hereunder shall not exceed the Committed Loan Cap in effect at the time of the proposed Borrowing of such Committed Loans and (b) in no event shall the total number of Committed Borrowings occurring during the term of this Agreement exceed four (4). Committed Loans that are repaid or prepaid may not be reborrowed. Committed Loans may be Base Rate Loans or Eurodollar Rate Loans, as further provided herein.

#### **2.02 Borrowings, Conversions and Continuations of Committed Loans.**

(a) Each Committed Borrowing and each conversion of Committed Loans from one Type to the other, shall be made upon the Company's irrevocable notice to the Administrative Agent, which may be given by (A) telephone, or (B) a Committed Loan Notice; provided that any telephonic notice must be confirmed immediately by delivery to the Administrative Agent of a Committed Loan Notice. Each such

Committed Loan Notice must be received by the Administrative Agent not later than 11:00 a.m. (i) three Business Days prior to the requested date of any Borrowing in the case of Eurodollar Rate Loans or of any conversion of Eurodollar Rate Loans to Base Rate Committed Loans or of any conversion of Base Rate Committed Loans to Eurodollar Rate Loans, and (ii) on the requested Business Day of any Borrowing in the case of Base Rate Committed Loans. Each Borrowing of, conversion to or continuation of Eurodollar Rate Loans shall be in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof. Each Borrowing of or conversion to Base Rate Committed Loans shall be in a principal amount of \$1,000,000 or a whole multiple of \$100,000 in excess thereof. Each Committed Loan Notice shall specify (i) whether the Company is requesting a Committed Borrowing or a conversion of Committed Loans from one Type to the other, (ii) the requested date of the applicable Borrowing or conversion, as the case may be (which shall be a Business Day), (iii) the principal amount of Committed Loans to be borrowed or converted, and (iv) the Type of Committed Loans to be borrowed or to which existing Committed Loans are to be converted. If the Company fails to provide a timely Committed Loan Notice requesting a conversion of Eurodollar Rate Loans to Base Rate Loans, such Loans shall, subject to Article III, continue as Eurodollar Rate Loans. If the Company fails to specify a Type of Committed Loan in a Committed Loan Notice, then the applicable Committed Loans shall, subject to Article III, be made as, or converted to, Eurodollar Rate Loans.

(b) Following receipt of a Committed Loan Notice for a Committed Borrowing, the Administrative Agent shall promptly (and in any event, at least one Business Day prior to the requested date of advance of the applicable Committed Loans) notify each Lender of the amount of its Applicable Percentage of the applicable Committed Loans. Each Lender shall make the amount of its Committed Loan available to the Administrative Agent in immediately available funds at the Administrative Agent's Office not later than 2:00 p.m. on the Business Day specified in the applicable Committed Loan Notice. Upon satisfaction of the applicable conditions set forth in Section 4.01 and Section 4.02, the Administrative Agent shall make all funds so received available to the Company in like funds as received by the Administrative Agent by crediting the account of the Company on the books of PNC Bank with the amount of such funds.

(c) The Administrative Agent shall promptly notify the Company and the Lenders of the interest rate applicable to any Eurodollar Rate Loans upon determination of such interest rate. At any time that Base Rate Loans are outstanding, the Administrative Agent shall notify the Company and the Lenders of any change in PNC Bank's prime rate used in determining the Base Rate promptly following the public announcement of such change.

**2.03 [Reserved].**

**2.04 [Reserved].**

**2.05 Prepayments.**

(a) Optional. The Company may, upon notice to the Administrative Agent pursuant to delivery to the Administrative Agent of a Notice of Loan Prepayment, at any time or from time to time voluntarily prepay Committed Loans in whole or in part without premium or penalty subject to Section 3.06; provided that (i) such notice must be in a form acceptable to the Administrative Agent and be received by the Administrative Agent not later than 11:00 a.m. (A) on the date three Business Days prior to the date of the prepayment in connection with the prepayment of Eurodollar Rate Loans and (B) on the date of prepayment of such Loans in connection with the prepayment of Base Rate Loans; (ii) any prepayment of Loans shall be in a principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof or, in each case, if less, the entire principal amount thereof then outstanding. Each such notice shall specify the date and amount of such prepayment and the Type(s) of Loans to be prepaid. The Administrative Agent will promptly notify each applicable Lender of its receipt of each such notice, and

of the amount of such Lender's Applicable Percentage of such prepayment. If such notice is given by the Company, the Company shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein. Subject to Section 2.16, each such prepayment of Committed Loans of the Lenders shall be applied in accordance with their respective Applicable Percentages. Except as set forth in Section 2.19(c), each prepayment of Loans pursuant to the foregoing shall be applied, to the remaining principal repayment installments of the Loans (including any payment due on the Maturity Date) on a pro rata basis. Any prepayment of a Eurodollar Rate Loan shall be accompanied by all accrued interest on the amount prepaid, together with any additional amounts required pursuant to Section 3.06.

(b) Mandatory.

(i) The Company shall prepay the Committed Loans as hereinafter provided in an aggregate amount equal to 100% of the Net Cash Proceeds received by any Loan Party from all Involuntary Dispositions with respect to Collateral within five (5) days of the date of receipt of such Net Cash Proceeds with respect to such Involuntary Disposition; provided, however, that, with respect to an Involuntary Disposition of the type described in clause (a) of such definition, so long as no Default shall have occurred and be continuing and such casualty occurs prior to November 22, 2023, all or any portion of such Net Cash Proceeds shall not be required to be so applied at the election of the Company (as notified by the Company to the Administrative Agent) to the extent such Loan Party reinvests such Net Cash Proceeds in restoration or repair of the applicable loss, destruction or damage of such Collateral within 180 days after the receipt of such Net Cash Proceeds; provided that if such Net Cash Proceeds shall have not been so reinvested shall be immediately applied to prepay the Committed Loans.

(ii) The Company shall prepay the Committed Loans in connection with a Property Substitution or Prepayment Release in the amounts, and to the extent required, pursuant to Section 2.19.

(iii) Each prepayment of Loans pursuant to clause (i) of this Section 2.05(b) shall be applied, to the remaining principal repayment installments of the Loans (including any payment due on the Maturity Date) in inverse order of maturity. Each prepayment of Loans pursuant to clause (ii) of this Section 2.05(b) shall be applied, to the remaining principal repayment installments of the Loans (including any payment due on the Maturity Date) on a pro rata basis. All prepayments under this Section 2.05(b) shall be subject to Section 3.06, but otherwise without premium or penalty, and shall be accompanied by interest on the principal amount prepaid through the date of prepayment.

**2.06 Termination or Reduction of Commitments.**

(a) Optional. The Company may, upon notice to the Administrative Agent, terminate the unused Aggregate Commitments or from time to time permanently reduce the unused Aggregate Commitments; provided that (i) any such notice shall be received by the Administrative Agent not later than 11:00 a.m. five (5) Business Days prior to the date of termination or reduction, and (ii) any such partial reduction shall be in an aggregate amount of \$10,000,000 or any whole multiple of \$1,000,000 in excess thereof. The Administrative Agent will promptly notify the applicable Lenders of any such notice of termination or reduction of the unused Aggregate Commitments. Any reduction of the unused Aggregate Commitments shall be applied to the unused Commitment of each Lender in accordance with its respective Applicable Percentage. All interest accrued until the effective date of any termination of the unused Aggregate Commitments shall be paid on the effective date of such termination.

(b) Mandatory. The unused Aggregate Commitments shall be automatically and permanently terminated on the last day of the Availability Period.

**2.07 Repayment of Loans.** The Company shall make principal payments on the Committed Loans in equal installments on the last Business Day of each fiscal quarter of the Company, commencing

with the fiscal quarter ending March 31, 2020, with the amount of each such principal installment equal to 2.5% of the aggregate initial principal amount of all Committed Borrowings hereunder (other than any Committed Borrowings made in such fiscal quarter); it being further agreed that a final payment comprised of all principal and interest not sooner paid on the Committed Loans, shall be due and payable on the Maturity Date. Each principal payment on the Committed Loans shall be applied to the Committed Loan of each Lender in accordance with its respective Applicable Percentage.

## **2.08 Interest.**

(a) Subject to the provisions of subsection (b) below, (i) each Eurodollar Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Eurodollar Rate plus the Applicable Rate; and (ii) each Base Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Rate.

(b) (i) If any amount of principal of any Loan is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(ii) If any amount (other than principal of any Loan) payable by the Company under any Loan Document is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, then upon the request of the Required Lenders, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(iii) Upon the request of the Required Lenders, while any Event of Default exists (other than as set forth in clauses (b)(i) and (b)(ii) above), the Company shall pay interest on the principal amount of all outstanding Obligations hereunder at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(iv) Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable upon demand.

(c) Interest on each Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified herein. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

## **2.09 Fees.**

(a) [Reserved].

(b) Other Fees. (i) The Company shall pay to the Arranger and the Administrative Agent for their own respective accounts fees in the amounts and at the times specified in the PNC Letter. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

(ii) The Company shall pay to the Lenders such fees as shall have been separately agreed upon in writing in the amounts and at the times so specified. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

## **2.10 Computation of Interest and Fees; Retroactive Adjustments of Applicable Rate.**

(a) All computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed (which results in more fees or interest, as applicable, being paid than if computed on the basis of a 365-day year). Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, provided that any Loan that is repaid on the same day on which it is made shall, subject to Section 2.12(a), bear interest for one day. Each determination by the Administrative Agent of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error.

(b) If, as a result of any restatement of or other adjustment to the financial statements of the Company or for any other reason, the Company or the Lenders determine that (i)(A) the Consolidated Total Lease Adjusted Leverage Ratio as calculated by the Company as of any applicable date was inaccurate and (B) a proper calculation of the Consolidated Total Lease Adjusted Leverage Ratio would have resulted in higher pricing for such period, the Company shall immediately and retroactively be obligated to pay to the Administrative Agent for the account of the applicable Lenders promptly on demand by the Administrative Agent (or, after the occurrence of an actual or deemed entry of an order for relief with respect to the Company under the Bankruptcy Code of the United States, automatically and without further action by the Administrative Agent or any Lender), an amount equal to the excess of the amount of interest and fees that should have been paid for such period over the amount of interest and fees actually paid for such period; and (ii)(A) the Consolidated Total Lease Adjusted Leverage Ratio as calculated by the Company as of any applicable date was inaccurate and (B) a proper calculation of the Consolidated Total Lease Adjusted Leverage Ratio would have resulted in lower pricing for such period, the Applicable Rate shall be adjusted as of the date of receipt by the Administrative Agent of a Compliance Certificate reflecting such proper calculation. This paragraph shall not limit the rights of the Administrative Agent or any Lender under Article VIII. The Company's obligations under this paragraph shall survive the termination of the Aggregate Commitments and the repayment of all other Obligations hereunder.

## **2.11 Evidence of Debt.**

The Credit Extensions made by each Lender shall be evidenced by one or more accounts or records maintained by such Lender and by the Administrative Agent in the ordinary course of business. The accounts or records maintained by the Administrative Agent and each Lender shall be conclusive absent manifest error of the amount of the Credit Extensions made by the Lenders to the Company and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Company hereunder to pay any amount owing with respect to the Obligations. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of the Administrative Agent in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error. Upon the request of any Lender made through the Administrative Agent, the Company shall execute and deliver to such Lender (through the Administrative Agent) a Note, which shall evidence such Lender's Loans in addition to such accounts or records. Each Lender may attach schedules to its Note and endorse thereon the date, Type (if applicable), amount and maturity of its Loans and payments with respect thereto.

## **2.12 Payments Generally; Administrative Agent's Clawback.**

(a) General. All payments to be made by the Company shall be made free and clear of and without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by the Company hereunder shall be made to the Administrative Agent, for the account of the respective Lenders to which such payment is owed, at the

Administrative Agent's Office in Dollars and in immediately available funds not later than 2:00 p.m. on the date specified herein. The Administrative Agent will promptly distribute to each Lender its Applicable Percentage, (or other applicable share as provided herein) of such payment in like funds as received by wire transfer to such Lender's Lending Office. All payments received by the Administrative Agent after 2:00 p.m. shall be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue. If any payment to be made by the Company shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected in computing interest or fees, as the case may be.

(b) (i) Funding by Lenders; Presumption by Administrative Agent. Unless the Administrative Agent shall have received notice from a Lender prior to 12:00 noon on the date of a Committed Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Committed Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with Section 2.02 and may (but shall be under no obligation to), in reliance upon such assumption, make available to the Company a corresponding amount. In such event, if a Lender has not in fact made its share of a Committed Borrowing available to the Administrative Agent, then the applicable Lender and the Company jointly and severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount in immediately available funds with interest thereon, for each day from and including the date such amount is made available to the Company but excluding the date of payment to the Administrative Agent, at (A) in the case of a payment to be made by such Lender, the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation, plus any administrative, processing or similar fees customarily charged by the Administrative Agent in connection with the foregoing and (B) in the case of a payment to be made by the Company, the interest rate applicable to Base Rate Loans. If the Company and such Lender shall pay such interest to the Administrative Agent for the same or an overlapping period, the Administrative Agent shall promptly remit to the Company the amount of such interest paid by the Company for such period. If such Lender pays its share of a Committed Borrowing to the Administrative Agent, then the amount so paid shall constitute such Lender's Loan included in the applicable Committed Borrowing. Any payment by the Company shall be without prejudice to any claim the Company may have against a Lender that shall have failed to make such payment to the Administrative Agent.

(ii) Payments by Company; Presumptions by Administrative Agent. Unless the Administrative Agent shall have received notice from the Company prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders hereunder that the Company will not make such payment, the Administrative Agent may assume that the Company has made such payment on such date in accordance herewith and may (but shall be under no obligation to), in reliance upon such assumption, distribute to the Lenders, the amount due. In such event, if the Company has not in fact made such payment, then each of the Lenders, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender, in immediately available funds with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

A notice of the Administrative Agent to any Lender or the Company with respect to any amount owing under this subsection (b) shall be conclusive, absent manifest error.

(c) Failure to Satisfy Conditions Precedent. If any Lender makes available to the Administrative Agent funds for any Loan to be made by such Lender to the Company as provided in the foregoing provisions of this Article II, and such funds are not made available to the Company by the



Administrative Agent because the conditions to the applicable Credit Extension set forth in Article IV are not satisfied or waived in accordance with the terms hereof, the Administrative Agent shall return such funds (in like funds as received from such Lender) to such Lender, without interest.

(d) Obligations of Lenders Several. The obligations of the Lenders hereunder to make Committed Loans and to make payments pursuant to Section 10.04(c) are several and not joint. The failure of any Lender to make any Committed Loan or to make any payment under Section 10.04(c) on any date required hereunder shall not relieve any other Lender of its corresponding obligation to do so on such date, and no Lender shall be responsible for the failure of any other Lender to so make its Committed Loan or to make its payment under Section 10.04(c).

(e) Funding Source. Nothing herein shall be deemed to obligate any Lender to obtain the funds for any Loan in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan in any particular place or manner.

**2.13 Sharing of Payments by Lenders.** If any Lender shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of the Committed Loans made by it, resulting in such Lender's receiving payment of a proportion of the aggregate amount of such Committed Loans or participations and accrued interest thereon greater than its pro rata share thereof as provided herein, then the Lender receiving such greater proportion shall (a) notify the Administrative Agent of such fact, and (b) purchase from the other applicable Lenders (for cash at face value) participations in the applicable Committed Loans or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Committed Loans and other amounts owing them, provided that:

(i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest; and

(ii) the provisions of this Section shall not be construed to apply to (x) any payment made by or on behalf of the Company pursuant to and in accordance with the express terms of this Agreement (including the application of funds arising from the existence of a Defaulting Lender) or (y) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Committed Loans, as the case may be to any assignee or participant, other than an assignment, participation or sub participation to the Company or any Subsidiary thereof (as to which the provisions of this Section shall apply).

The Company consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Company rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Company in the amount of such participation.

**2.14 [Reserved].**

**2.15 [Reserved].**

**2.16 Defaulting Lenders. Adjustments.** Notwithstanding anything to the contrary contained in this Agreement, if any Lender becomes a Defaulting Lender, then, until such time as such Lender is no longer a Defaulting Lender, to the extent permitted by applicable Law:

(i) Waivers and Amendments. Such Defaulting Lender's right to approve or disapprove any amendment, waiver or consent with respect to this Agreement shall be restricted as set forth in Section 10.01.

(ii) Reallocation of Payments. Any payment of principal, interest, fees or other amounts received by the Administrative Agent for the account of such Defaulting Lender (whether voluntary or mandatory, at maturity, pursuant to Article VIII or otherwise), shall be applied at such time or times as may be determined by the Administrative Agent as follows; *first*, as to any payment made in respect of principal of Loans, ratably to the principal amount of Committed Loans of other Lenders as if such Defaulting Lender had no Loans outstanding, until such time as the Outstanding Amount of Committed Loans of each Lender shall equal its pro rata share thereof based on its Applicable Percentage; *second*, to any amounts (including interest thereon) owed hereunder by such Defaulting Lender to the Administrative Agent; and *third*, to the Defaulting Lender or otherwise as required by applicable Law. Any payments, prepayments or other amounts paid or payable to a Defaulting Lender that are applied to pay amounts owed by a Defaulting Lender shall be deemed paid to and redirected by such Defaulting Lender, and each Lender irrevocably consents hereto.

(b) Defaulting Lender Cure. If the Company and the Administrative Agent, agree in writing in their reasonable discretion that a Defaulting Lender should no longer be deemed to be a Defaulting Lender, the Administrative Agent will so notify the parties hereto, whereupon as of the effective date specified in such notice and subject to any conditions set forth therein, such Lender will, to the extent applicable, purchase such portion of outstanding Loans of the other Lenders or take such other actions as the Administrative Agent may determine to be necessary to cause the Committed Loans to be held on a pro rata basis by the Lenders in accordance with their Applicable Percentages, whereupon such Lender will cease to be a Defaulting Lender (and the Applicable Percentages of each Lender will automatically be adjusted on a prospective basis to reflect the foregoing); provided that no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of the Company while such Lender was a Defaulting Lender; and provided, further, that except to the extent otherwise expressly agreed by the affected parties, no change hereunder from Defaulting Lender to Lender will constitute a waiver or release of any claim of any party hereunder arising from such Lender's having been a Defaulting Lender.

**2.17 Security.**

(a) Security. As security for the full and timely payment and performance of all Obligations, the Company shall, and shall cause all other Loan Parties to, on or before the Closing Date, do or cause to be done all things reasonably necessary in the opinion of the Administrative Agent and its counsel to grant to the Administrative Agent for the benefit of the Secured Parties a duly perfected security interest in all Collateral subject to no prior Lien or other encumbrance except as expressly permitted hereunder or under the other Loan Documents and with the priority identified in the Security Instruments. In addition, and without limiting the foregoing, the Company shall take and cause each other Loan Party to take such further action, and deliver or cause to be delivered such further documents

and instruments, as required by the Security Instruments or otherwise as the Administrative Agent may reasonably request to create, perfect and maintain the effectiveness and priority of the Liens contemplated by this Section 2.17 and each of the Security Instruments.

(b) Further Assurances. At the request of the Administrative Agent from time to time, the Company will or will cause all other Loan Parties, as the case may be, to execute, by their respective Responsible Officers, alone or with the Administrative Agent, any certificate, instrument, financing statement, control agreement, statement or document, or to procure any certificate, instrument, statement or document or to take such other action (and pay all related costs) which the Administrative Agent reasonably deems necessary from time to time to create, continue or preserve the Liens in Collateral (and the perfection and priority thereof) of the Administrative Agent for the benefit of the Secured Parties contemplated hereby and by the other Loan Documents.

## **2.18 Additional Mortgaged Properties.**

(a) Additional Mortgaged Properties. Following the Closing Date, the Company may add additional tracts of real property owned by the Company or any of its Subsidiaries as Mortgaged Properties (each an "Additional Mortgaged Property"), subject to the satisfaction of the Additional Mortgaged Property Requirements.

(b) Additional Mortgaged Property Requirements. The addition of any Additional Mortgaged Property shall be subject to the following conditions precedent (collectively, the "Additional Mortgaged Property Requirements"):

(i) the Administrative Agent and the Lenders shall have received at least sixty (60) days prior written notice requesting the real property be added as an Additional Mortgaged Property; provided that no such notice shall be required with respect to the real property set forth on Schedule 2.18;

(ii) the Administrative Agent and the Lenders shall have received a FIRREA-conforming appraisal for such property of the current value of such property as of a date that is within 12 months before the date of the addition of such real property as an Additional Mortgaged Property, which appraisal shall be in form and substance reasonably acceptable to the Administrative Agent;

(iii) the Administrative Agent and the Lenders shall have received (y) the Mortgaged Property Support Documents with respect to such proposed Additional Mortgaged Property and (z) an updated Schedule 5.20(c) that is true, correct and complete after giving effect to the addition of such Additional Mortgaged Property;

(iv) the Administrative Agent and the Lenders shall have received evidence that all insurance required to be maintained pursuant to the Loan Documents has been obtained and is in effect, including endorsements naming the Administrative Agent (on behalf of the Secured Parties) as an additional insured and mortgagee, as the case may be, on all such insurance policies maintained with respect to such proposed Additional Mortgaged Property and the new Loan Parties following the completion of the addition of such Additional Mortgaged Property as a Mortgaged Property;

(v) unless waived by the Administrative Agent, the Company shall have paid all expenses of the Administrative Agent in connection with the addition of such Additional Mortgaged Property, including (i) real property diligence related expenses, including appraisal

and environmental assessment fees, and (ii) fees, charges and disbursements of counsel to the Administrative Agent to the extent invoiced prior to or on the date of the addition of such Additional Mortgaged Property, plus such additional amounts of such fees, charges and disbursements as shall constitute its reasonable estimate of such fees, charges and disbursements incurred or to be incurred by it through the closing proceedings with respect to the addition of such Additional Mortgaged Property (provided that such estimate shall not thereafter preclude a final settling of accounts between the Company and the Administrative Agent);

(vi) any Subsidiary of the Company that owns such Additional Mortgaged Property or leases or operates a vehicle dealership at such Additional Mortgaged Property shall have complied with the requirements of Section 6.14; and

(vii) the Additional Mortgaged Property shall otherwise be reasonably acceptable to the Required Lenders (as evidenced by written notice to the Administrative Agent (which notice may be delivered via electronic mail) from Lenders constituting the Required Lenders).

(c) Flood Requirements. Notwithstanding anything to the contrary contained herein, if at any time Additional Mortgaged Property is to be pledged as a Mortgaged Property hereunder, the Administrative Agent shall not enter into, accept or record any Mortgage in respect of such Additional Mortgaged Property until the Administrative Agent shall have received written confirmation from each Lender (which may be delivered via electronic mail) that flood insurance compliance has been completed by such Lender with respect to such Additional Mortgaged Property.

#### **2.19 Substitution and Release of Mortgaged Property.**

(a) Release. The Company may obtain the release of up to two Mortgaged Properties during the term of this Agreement (each herein called a “Release Property”) by (i) substituting such Release Property with a tract of owner occupied real property owned by the Company or one of its Subsidiaries (a “Substitute Property”) with respect to such Release Property (each such release and substitution herein called, a “Property Substitution.”), subject to the satisfaction of the Substitution Requirements, or (ii) making a prepayment of the Loans in the amount of the Release Price applicable to such Mortgaged Property, which prepayment shall be applied to the remaining principal repayment installments of the Loans (including any payment due on the Maturity Date) in inverse order of maturity (each such release, a “Prepayment Release”).

(b) Substitute Property. Each Property Substitution shall be subject to the satisfaction of the following conditions precedent (collectively, the “Substitution Requirements”):

(i) The Administrative Agent and the Lenders shall have received at least sixty (60) days prior written notice requesting the Property Substitution;

(ii) The Substitute Property shall (A) have an Appraised Value no less than the Initial Appraised Value of the applicable Release Property (or, if the Substitute Property has an Appraised Value of less than the Initial Appraised Value of the applicable Release Property, a prepayment of the Committed Loans in an amount equal to 75% of the amount by which the Initial Appraised Value of the applicable Release Property exceeds the Appraised Value of the Substitute Property (the “Partial Release Price”), which Partial Release Price shall be due and payable at the time of Property Substitution, and shall have been received by the Administrative Agent, in immediately available funds, as a condition to such Property Substitution); provided that if such Substitute Property does not have material improvements constructed thereon, such Substitute Property shall have an Appraised Value of an amount such that 65% of Appraised

Value of such Substitute Property equals 75% of the Initial Appraised Value of the applicable Release Property (or, if less, a prepayment of the Committed Loans in an amount equal to 75% of such difference shall be due and payable at the time of Property Substitution, and shall have been received by the Administrative Agent, in immediately available funds, as a condition to such Property Substitution), and (B) be otherwise acceptable to the Administrative Agent.

(iii) The Administrative Agent and the Lenders shall have received (y) the Mortgaged Property Support Documents with respect to such Substitute Property and (z) an updated Schedule 5.20(c) that is true, correct and complete after giving effect to such Property Substitution;

(iv) The representations and warranties of the Company and each other Loan Party contained in Article V or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct on and as of the date of such Property Substitution, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date, and except that for purposes of this Section 4.02, the representations and warranties contained in subsections (a) and (b) of Section 5.05 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01;

(v) No Default or Event of Default shall exist, or would result from such Property Substitution;

(vi) The Administrative Agent and the Lenders shall have received evidence that all insurance required to be maintained pursuant to the Loan Documents has been obtained and is in effect, including endorsements naming the Administrative Agent (on behalf of the Secured Parties) as an additional insured and mortgagee, as the case may be, on all such insurance policies maintained with respect to the Substitute Property and the new Loan Parties following the completion of the Property Substitution;

(vii) unless waived by the Administrative Agent, the Company shall have paid all expenses of the Administrative Agent in connection with such Property Substitution, including (i) real property diligence related expenses, including appraisal and environmental assessment fees, and (ii) fees, charges and disbursements of counsel to the Administrative Agent to the extent invoiced prior to or on the date of such Property Substitution, plus such additional amounts of such fees, charges and disbursements as shall constitute its reasonable estimate of such fees, charges and disbursements incurred or to be incurred by it through the closing proceedings with respect to such Property Substitution (provided that such estimate shall not thereafter preclude a final settling of accounts between the Company and the Administrative Agent);

(viii) any Subsidiary of the Company that owns such Substitute Property or leases or operates a vehicle dealership at such Substitute Property shall have complied with the requirements of Section 6.14; and

(ix) the Property Substitution and the Substitute Property shall otherwise be reasonably acceptable to the Required Lenders (as evidenced by written notice to the Administrative Agent (which notice may be delivered via electronic mail) from Lenders constituting the Required Lenders).

(c) Prepayment Release. Any Prepayment Release shall be subject to (i) receipt by the Administrative Agent of the Release Price, in immediately available funds, (ii) no Default or Event of Default shall exist, or would result from such Prepayment Release, and (iii) receipt of an updated Schedule 5.20(c) that is true, correct and complete after giving effect to the release of such Release Property.

(d) Further Assurances. After giving effect to any Property Substitution or Prepayment Release, the Administrative Agent agrees (at the expense of the Company) to execute, as applicable, and deliver to the Company any such mortgage releases and other similar discharge or release documents, as are reasonably requested and necessary to release, as of record, the security interests in favor of the Administrative Agent under the Loan Documents in the applicable Release Property and each Subsidiary Guarantor that, after giving effect to such Property Substitution or Prepayment Release, is no longer required to be a Subsidiary Guarantor pursuant to Section 6.14.

(e) Flood Requirements. Notwithstanding anything to the contrary contained herein, if at any time Substitute Property is to be pledged as a Mortgaged Property hereunder, the Administrative Agent shall not enter into, accept or record any Mortgage in respect of such Substitute Property until the Administrative Agent shall have received written confirmation from each Lender (which may be delivered via electronic mail) that flood insurance compliance has been completed by such Lender with respect to such Substitute Property.

### ARTICLE III

#### TAXES, YIELD PROTECTION AND ILLEGALITY

##### 3.01 Taxes.

(a) Payments Free of Taxes; Obligation to Withhold; Payments on Account of Taxes.

(i) Any and all payments by or on account of any obligation of any Loan Party hereunder or under any Loan Document shall be made without deduction or withholding for any Taxes, except as required by applicable Laws. If any applicable Laws (as determined in the good faith discretion of the Administrative Agent) require the deduction or withholding of any Tax from any such payment by the Administrative Agent or a Loan Party, then the Administrative Agent or such Loan Party shall be entitled to make such deduction or withholding, upon the basis of the information and documentation to be delivered pursuant to subsection (e) below.

(ii) If any Loan Party or the Administrative Agent shall be required by the Code to withhold or deduct any Taxes, including both United States Federal backup withholding and withholding taxes, from any payment, then (A) the Administrative Agent shall withhold or make such deductions as are determined by the Administrative Agent to be required based upon the information and documentation it has received pursuant to subsection (e) below, (B) the Administrative Agent shall timely pay the full amount withheld or deducted to the relevant Governmental Authority in accordance with the Code, and (C) to the extent that the withholding or deduction is made on account of Indemnified Taxes, the sum payable by the applicable Loan Party shall be increased as necessary so that after any required withholding or the making of all required deductions (including deductions applicable to additional sums payable under this Section 3.01) the applicable Recipient receives an amount equal to the sum it would have received had no such withholding or deduction been made.

(iii) If any Loan Party or the Administrative Agent shall be required by any applicable Laws other than the Code to withhold or deduct any Taxes from any payment, then (A) such Loan Party or the Administrative Agent, as required by such Laws, shall withhold or make such deductions as are determined by it to be required based upon the information and documentation it has received pursuant to subsection (e) below, (B) such Loan Party or the Administrative Agent, to the extent required by such Laws, shall timely pay the full amount withheld or deducted to the relevant Governmental Authority in accordance with such Laws, and (C) to the extent that the withholding or deduction is made on account of Indemnified Taxes, the sum payable by the applicable Loan Party shall be increased as necessary so that after any required withholding or the making of all required deductions (including deductions applicable to additional sums payable under this Section 3.01) the applicable Recipient receives an amount equal to the sum it would have received had no such withholding or deduction been made.

(b) Payment of Other Taxes by the Company. Without limiting the provisions of subsection (a) above, the Company shall timely pay to the relevant Governmental Authority in accordance with applicable law, or at the option of the Administrative Agent timely reimburse it for the payment of, any Other Taxes.

(c) Tax Indemnifications. (i) The Company shall, and does hereby, indemnify each Recipient, and shall make payment in respect thereof within 10 days after demand therefor, for the full amount of any Indemnified Taxes (including Indemnified Taxes imposed or asserted on or attributable to amounts payable under this Section 3.01) payable or paid by such Recipient or required to be withheld or deducted from a payment to such Recipient, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Company by a Lender (with a copy to the Administrative Agent), or by the Administrative Agent on its own behalf or on behalf of a Lender, shall be conclusive absent manifest error. The Company shall, and does hereby, indemnify the Administrative Agent, and shall make payment in respect thereof within 10 days after demand therefor, for any amount which a Lender for any reason fails to pay indefeasibly to the Administrative Agent as required pursuant to Section 3.01(c)(ii) below.

(ii) Each Lender shall, and does hereby, severally indemnify, and shall make payment in respect thereof within 10 days after demand therefor, (x) the Administrative Agent against any Indemnified Taxes attributable to such Lender (but only to the extent that the Company has not already indemnified the Administrative Agent for such Indemnified Taxes and without limiting the obligation of the Company to do so), (y) the Administrative Agent and the Company, as applicable, against any Taxes attributable to such Lender's failure to comply with the provisions of Section 10.06(d) relating to the maintenance of a Participant Register and (z) the Administrative Agent and the Company, as applicable, against any Excluded Taxes attributable to such Lender, in each case, that are payable or paid by the Administrative Agent or the Company in connection with any Loan Document, and any reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to any Lender by the Administrative Agent shall be conclusive absent manifest error. Each Lender hereby authorizes the Administrative Agent to set off and apply any and all amounts at any time owing to such Lender, as the case may be, under this Agreement or any other Loan Document against any amount due to the Administrative Agent under this clause 3.01(c)(ii).

(d) Evidence of Payments. Upon request by the Company or the Administrative Agent, as the case may be, after any payment of Taxes by the Company or by the Administrative Agent to a

Governmental Authority as provided in this Section 3.01, the Company shall deliver to the Administrative Agent or the Administrative Agent shall deliver to the Company, as the case may be, the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of any return required by Laws to report such payment or other evidence of such payment reasonably satisfactory to the Company or the Administrative Agent, as the case may be.

(e) Status of Lenders; Tax Documentation.

(i) Any Lender that is entitled to an exemption from or reduction of withholding Tax with respect to payments made under any Loan Document shall deliver to the Company and the Administrative Agent, at the time or times reasonably requested by the Company or the Administrative Agent, such properly completed and executed documentation reasonably requested by the Company or the Administrative Agent as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if reasonably requested by the Company or the Administrative Agent, shall deliver such other documentation prescribed by applicable law or reasonably requested by the Company or the Administrative Agent as will enable the Company or the Administrative Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements. Notwithstanding anything to the contrary in the preceding two sentences, the completion, execution and submission of such documentation (other than such documentation set forth in Section 3.01(e)(ii)(A), (ii)(B) and (ii)(D) below) shall not be required if in the Lender's reasonable judgment such completion, execution or submission would subject such Lender to any material unreimbursed cost or expense or would materially prejudice the legal or commercial position of such Lender.

(ii) Without limiting the generality of the foregoing, in the event that the Company is a U.S. Person,

(A) any Lender that is a U.S. Person shall deliver to the Company and the Administrative Agent on or prior to the date on which such Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Company or the Administrative Agent), executed copies of IRS Form W-9 certifying that such Lender is exempt from U.S. federal backup withholding tax;

(B) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Company and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Company or the Administrative Agent), whichever of the following is applicable:

(I) in the case of a Foreign Lender claiming the benefits of an income tax treaty to which the United States is a party (x) with respect to payments of interest under any Loan Document, executed copies of IRS Form W-8BEN or W-8BENE, as applicable, establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "interest" article of such tax treaty and (y) with respect to any other applicable payments under any Loan Document, IRS Form W-8BEN or W-8BENE, as applicable, establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "business profits" or "other income" article of such tax treaty;

(II) executed copies of IRS Form W-8ECI;



(III) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the Code, (x) a certificate substantially in the form of Exhibit N-1 to the effect that such Foreign Lender is not a “bank” within the meaning of Section 881(c)(3)(A) of the Code, a “10 percent shareholder” of the Company within the meaning of Section 881(c)(3)(B) of the Code, or a “controlled foreign corporation” described in Section 881(c)(3)(C) of the Code (a “U.S. Tax Compliance Certificate”) and (y) executed copies of IRS Form W-8BEN or W-8BENE, as applicable; or

(IV) to the extent a Foreign Lender is not the beneficial owner of the applicable interest in any Credit Extension or Commitment, executed copies of IRS Form W-8IMY, accompanied by IRS Form W-SECT, IRS Form W-8BEN or W-8BENE, as applicable, a U.S. Tax Compliance Certificate substantially in the form of Exhibit N-2 or Exhibit N-3, IRS Form W-9, and/or other certification documents from each beneficial owner, as applicable; provided that if the Foreign Lender is a partnership and one or more direct or indirect partners of such Foreign Lender are claiming the portfolio interest exemption, such Foreign Lender may provide a U.S. Tax Compliance Certificate substantially in the form of Exhibit N-4 on behalf of each such direct and indirect partner;

(C) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Company and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Company or the Administrative Agent), executed copies of any other form prescribed by applicable law as a basis for claiming exemption from or a reduction in U.S. federal withholding Tax, duly completed, together with such supplementary documentation as may be prescribed by applicable law to permit the Company or the Administrative Agent to determine the withholding or deduction required to be made; and

(D) if a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such Lender shall deliver to the Company and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Company or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Company or the Administrative Agent as may be necessary for the Company and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender’s obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (D), “FATCA” shall include any amendments made to FATCA after the date of this Agreement. For purposes of determining withholding Taxes imposed under FATCA from and after the effective date of this Agreement, the Company and the Administrative Agent shall treat (and the Lenders hereby authorize the Administrative Agent to treat) the Loans hereunder and this Agreement as not qualifying

as a “grandfathered obligation” within the meaning of Treasury Regulation Section 1.1471-2(b)(2)(i).

(iii) Each Lender agrees that if any form or certification it previously delivered pursuant to this Section 3.01 expires or becomes obsolete or inaccurate in any respect, it shall update such form or certification or promptly notify the Company and the Administrative Agent in writing of its legal inability to do so.

(f) Treatment of Certain Refunds. Unless required by applicable Laws, at no time shall the Administrative Agent have any obligation to file for or otherwise pursue on behalf of a Lender, or have any obligation to pay to any Lender, any refund of Taxes withheld or deducted from funds paid for the account of such Lender, as the case may be. If any Recipient determines that it has received a refund of any Taxes as to which it has been indemnified by the Company or with respect to which the Company has paid additional amounts pursuant to this Section 3.01, it shall pay to the Company an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Company under this Section 3.01 with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) incurred by such Recipient, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Company, upon the request of the Recipient, agrees to repay the amount paid over to the Company (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Recipient in the event the Recipient is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this subsection, in no event will the applicable Recipient be required to pay any amount to the Company pursuant to this subsection the payment of which would place the Recipient in a less favorable net after-Tax position than such Recipient would have been in if Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. This subsection shall not be construed to require any Recipient to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Company or any other Person.

(g) Survival. Each party’s obligations under this Section 3.01 shall survive the resignation or replacement of the Administrative Agent or any assignment of rights by, or the replacement of a Lender, the termination of the Commitments and the repayment, satisfaction or discharge of all other Obligations.

### **3.02 Illegality.**

If any Lender determines that any Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to perform any of its obligations hereunder or make, maintain or fund or charge interest with respect to any Credit Extension, or to determine or charge interest rates based upon the Eurodollar Rate, or any Governmental Authority has imposed material restrictions on the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by such Lender to the Company through the Administrative Agent, (i) any obligation of such Lender to issue, make, maintain, fund or charge interest with respect to any such Credit Extension, or continue Eurodollar Rate Loans, or to convert Base Rate Committed Loans to Eurodollar Rate Loans shall be suspended, and (ii) if such notice asserts the illegality of such Lender making or maintaining Base Rate Loans the interest rate on which is determined by reference to the Eurodollar Rate component of the Base Rate, the interest rate on which Base Rate Loans of such Lender shall, if necessary to avoid such illegality, be determined by the Administrative Agent without reference to the Eurodollar Rate component of the Base Rate, in each case until such Lender notifies the Administrative Agent and the Company that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, (x) the Company shall, upon demand from such Lender (with a copy to the Administrative Agent), prepay or, if applicable, convert all such Eurodollar Rate Loans of such Lender to Base Rate Loans (the interest rate on which Base Rate Loans of such Lender shall, if necessary to avoid such illegality, be determined by the Administrative Agent without reference to the Eurodollar Rate component of the Base Rate) either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such Eurodollar Rate Loans to such day, or immediately, if such Lender may not lawfully continue to maintain such Eurodollar Rate Loans and (y) if such notice asserts the illegality of such Lender determining or charging interest rates based upon the Eurodollar Rate, the Administrative Agent shall during the period of such suspension compute the Base Rate applicable to such Lender without reference to the Eurodollar Rate component thereof until the Administrative Agent is advised in writing by such Lender that it is no longer illegal for such Lender to determine or charge interest rates based upon the Eurodollar Rate. Upon any such prepayment or conversion, the Company shall also pay accrued interest on the amount so prepaid or converted.

### **3.03 Inability to Determine Rates.**

(a) If in connection with any request for a Eurodollar Rate Loan or a conversion to or continuation thereof, (i) the Administrative Agent determines that (A) Dollar deposits are not being offered to banks in the London interbank Eurodollar market for the applicable amount and Interest Period of such Eurodollar Rate Loan, or (B) adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan or in connection with an existing or proposed Base Rate Loan (in each case with respect to clauses (i)(A) or (i)(B) above, "Impacted Loans"), or (ii) the Administrative Agent or the Required Lenders determine that for any reason the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan does not adequately and fairly reflect the cost to such Lenders of funding such Eurodollar Rate Loan, the Administrative Agent will promptly so notify the Company and each Lender. Thereafter, (x) the obligation of the Lenders to make or maintain Eurodollar Rate Loans shall be suspended (to the extent of the affected Eurodollar Rate Loans or Interest Periods) and (y) in the event of a determination described in the preceding sentence with respect to the Eurodollar Rate component of the Base Rate, the utilization of the Eurodollar Rate component in determining the Base Rate shall be suspended, in each case until the Administrative Agent upon the instruction of the Required Lenders revokes such notice. Upon receipt of such notice, the Company may revoke any pending request for a Borrowing of, conversion to or continuation of Eurodollar Rate Loans (to the extent of the affected Eurodollar Rate

Loans or Interest Periods) or, failing that, will be deemed to have converted such request into a request for a Committed Borrowing of Base Rate Loans in the amount specified therein.

(b) Notwithstanding the foregoing, if the Administrative Agent has made the determination described in clause (a)(i) of this section, the Administrative Agent, in consultation with the Company and the affected Lenders, may establish an alternative interest rate for the Impacted Loans, in which case, such alternative rate of interest shall apply with respect to the Impacted Loans until (1) the Administrative Agent revokes the notice delivered with respect to the Impacted Loans under clause (a)(i) of the first sentence of this section, (2) the Administrative Agent or the Required Lenders notify the Administrative Agent and the Company that such alternative interest rate does not adequately and fairly reflect the cost to such Lenders of funding the Impacted Loans, or (3) any Lender determines that any Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for such Lender or its applicable Lending Office to make, maintain or fund Loans whose interest is determined by reference to such alternative rate of interest or to determine or charge interest rates based upon such rate or any Governmental Authority has imposed material restrictions on the authority of such Lender to do any of the foregoing and provides the Administrative Agent and the Company written notice thereof.

(c) Successor LIBOR Rate Index.

(i) If the Administrative Agent determines (which determination shall be final and conclusive, absent manifest error) that either (A) (i) the circumstances set forth in Section 3.03(a) have arisen and are unlikely to be temporary, or (ii) the circumstances set forth in Section 3.03(a) have not arisen but the applicable supervisor or administrator (if any) of the Eurodollar Rate or a Governmental Authority having jurisdiction over the Administrative Agent has made a public statement identifying the specific date after which the Eurodollar Rate shall no longer be used for determining interest rates for loans (either such date, a "LIBOR Termination Date"), or (B) a rate other than the Eurodollar Rate has become a widely recognized benchmark rate for newly originated loans in Dollars in the U.S. market, then the Administrative Agent may (in consultation with the Company) choose a replacement index for the Eurodollar Rate and make adjustments to applicable margins and related amendments to this Agreement as referred to below such that, to the extent practicable, the all-in interest rate based on the replacement index will be substantially equivalent to the all-in Eurodollar Rate-based interest rate in effect prior to its replacement.

(ii) The Administrative Agent and the Company shall enter into an amendment to this Agreement to reflect the replacement index, the adjusted margins and such other related amendments as may be appropriate, in the discretion of the Administrative Agent, for the implementation and administration of the replacement index-based rate. Notwithstanding anything to the contrary in this Agreement or the other Loan Documents (including, without limitation, Section 10.01), such amendment shall become effective without any further action or consent of any other party to this Agreement at 5:00 p.m. Eastern Time on the fifth (5th) Business Day after the date a draft of the amendment is provided to the Lenders, unless the Administrative Agent receives, on or before such fifth (5th) Business Day, a written notice from the Required Lenders (other than any Lender that is also the Administrative Agent) stating that such Lenders object to such amendment.

(iii) Selection of the replacement index, adjustments to the applicable margins, and amendments to this Agreement (A) will be determined with due consideration to the then-current market practices for determining and implementing a rate of interest for newly originated loans in the United States and loans converted from a Eurodollar Rate-based rate to a replacement index-based rate, and (B) may also reflect adjustments to account for (x) the effects of the

transition from the Eurodollar Rate to the replacement index and (y) yield- or risk-based differences between the Eurodollar Rate and the replacement index.

(iv) Until an amendment reflecting a new replacement index in accordance with this Section 3.03(c) is effective, each advance of, conversion to and renewal of a Eurodollar Rate Loan will continue to bear interest with reference to the Eurodollar Rate; provided however, that if the Administrative Agent determines (which determination shall be final and conclusive, absent manifest error) that a LIBOR Termination Date has occurred, then following the LIBOR Termination Date, all Eurodollar Rate Loans shall automatically be converted to the Base Rate Loans until such time as an amendment reflecting a replacement index and related matters as described above is implemented.

(v) Notwithstanding anything to the contrary contained herein, if at any time the replacement index is less than zero, at such times, such index shall be deemed to be zero for purposes of this Agreement.

### **3.04 Increased Costs.**

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except for any reserve requirement reflected in the LIBOR Reserve Percentage);

(ii) subject any Recipient to any Taxes (other than (A) Indemnified Taxes, (B) Taxes described in clauses (b) through (d) of the definition of Excluded Taxes and (C) Connection Income Taxes) on its loans, loan principal, letters of credit, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto; or

(iii) impose on any Lender or the London interbank market any other condition, cost or expense affecting this Agreement or Eurodollar Rate Loans made by such Lender or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making, converting to, continuing or maintaining any Loan the interest on which is determined by reference to the Eurodollar Rate (or, in the case of clause (ii) above, any Loan), or of maintaining its obligation to make any such Loan, then, upon request of such Lender, the Company will pay to such Lender, as the case may be, such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender determines that any Change in Law affecting such Lender or any Lending Office of such Lender or such Lender's holding company, if any, regarding capital or liquidity requirements has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement, the Commitments of such Lender or the Loans made by such Lender, to a level below that which such Lender such Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time the Company will pay to such Lender, such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender or its holding company, as the case may be, as specified in subsection (a) or (b) of this Section and delivered to the Company shall be conclusive absent manifest error. The Company shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of such Lender's right to demand such compensation, provided that the Company shall not be required to compensate a Lender pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than nine months prior to the date that such Lender, notifies the Company of the Change in Law giving rise to such increased costs or reductions and of such Lender's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof).

### **3.05 Mitigation Obligations; Replacement of Lenders.**

(a) Designation of a Different Lending Office. Each Lender may make any Credit Extension to the Company through any Lending Office, provided that the exercise of this option shall not affect the obligation of the Company to repay the Credit Extension in accordance with the terms of this Agreement. If any Lender requests compensation under Section 3.04, or the Company is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, or if any Lender gives a notice pursuant to Section 3.02, then at the request of the Company such Lender shall, as applicable, use reasonable efforts to designate a different Lending Office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 3.01 or 3.04, as the case may be, in the future, or eliminate the need for the notice pursuant to Section 3.02, as applicable, and (ii) in each case, would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Company hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) Replacement of Lenders. If any Lender requests compensation under Section 3.04, or if the Company is required to pay any Indemnified Taxes or additional amounts to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, and in each case, such Lender has declined or is unable to designate a different lending office in accordance with Section 3.05(a), the Company may replace such Lender in accordance with Section 10.13.

**3.06 Compensation for Losses**. Upon demand of any Lender (with a copy to the Administrative Agent) from time to time, the Company shall promptly compensate such Lender for and hold such Lender harmless from any loss, cost or expense incurred by it as a result of:

(a) any continuation, conversion, payment or prepayment of any Loan other than a Base Rate Loan on a day other than the last day of the Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise);

(b) any failure by the Company (for a reason other than the failure of such Lender to make a Loan) to prepay, borrow, continue or convert any Loan other than a Base Rate Loan on the date or in the amount notified by the Company;

(c) any assignment of a Eurodollar Rate Loan on a day other than the last day of the Interest Period therefor as a result of a request by the Company pursuant to Section 10.13;

including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained. The Company shall also pay any customary administrative fees charged by such Lender in connection with the foregoing.

For purposes of calculating amounts payable by the Company to the Lenders under this Section 3.06, each Lender shall be deemed to have funded each Eurodollar Rate Loan made by it at the Eurodollar Rate for such Loan by a matching deposit or other borrowing in the London interbank eurodollar market for a comparable amount and for a comparable period, whether or not such Eurodollar Rate Loan was in fact so funded.

**3.07 Survival.** All of the Company's obligations under this Article III shall survive termination of the Aggregate Commitments, repayment of all other Obligations hereunder, and resignation of the Administrative Agent.

#### ARTICLE IV

##### CONDITIONS PRECEDENT TO EFFECTIVENESS

**4.01 Conditions Precedent to Effectiveness.** The effectiveness of this Agreement is subject to satisfaction or waiver of the following conditions precedent:

(a) The Administrative Agent's receipt of the following, each of which shall be originals or telecopies (followed promptly by originals) unless otherwise specified, each properly executed by a Responsible Officer of the signing Loan Party, each dated the Closing Date (or, in the case of certificates of governmental officials, a recent date before the Closing Date) and each in form and substance satisfactory to the Administrative Agent and each of the Lenders:

(i) executed counterparts of (A) this Agreement, and (B) the Subsidiary Guaranty;

(ii) a Note executed by the Company in favor of each Lender requesting a Note;

(iii) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Loan Party as the Administrative Agent may require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which such Loan Party is a party;

(iv) such documents and certifications as the Administrative Agent may reasonably require to evidence that each Loan Party is duly organized or formed, and that each Loan Party is validly existing, in good standing and qualified to engage in business in the respective jurisdictions specified in Schedule 4.01, which includes each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect;

(v) a favorable opinion of Parker Poe Adams & Bernstein LLP, counsel to the Loan Parties, addressed to the Administrative Agent and each Lender, in form and substance acceptable to the Administrative Agent (which shall include matters of Delaware, North Carolina, Georgia, Virginia and Federal Law) and such other matters concerning the Loan Parties and the Loan Documents as the Required Lenders may reasonably request;

(vi) a favorable opinion of local counsel to the Loan Parties in Colorado, Maryland, Tennessee and Texas, addressed to the Administrative Agent and each Lender in form and substance satisfactory to the Administrative Agent;

(vii) a certificate of a Responsible Officer of the Company either (A) attaching copies of all consents, licenses and approvals required in connection with the execution, delivery and performance by such Loan Party and the validity against such Loan Party of the Loan Documents to which it is a party, and such consents, licenses and approvals shall be in full force and effect, or (B) stating that no such consents, licenses or approvals are so required;

(viii) a certificate signed by a Responsible Officer of the Company certifying that (A) the representations and warranties of the Company and each other Loan Party contained in Article V or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct on and as of the Closing Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date, (B) no Default or Event of Default shall exist, and (C) that there has been no event or circumstance since the date of the Audited Financial Statements that has had or could be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect;

(ix) a certificate signed by the chief executive officer, chief financial officer, treasurer, chief accounting officer or other Responsible Officer of the Company certifying that each Loan Party is Solvent, after giving effect to this Agreement and the other Loan Documents and the Indebtedness pursuant hereto and thereto;

(x) (A) a duly completed preliminary Compliance Certificate as of the last day of the fiscal quarter of the Company ended on September 30, 2019, signed by a Responsible Officer of the Company and (B) a calculation of the Committed Loan Cap as of the Closing Date;

(xi) evidence that all insurance required to be maintained pursuant to the Loan Documents has been obtained and is in effect, including endorsements naming the Administrative Agent (on behalf of the Secured Parties) as an additional insured and loss payee, as the case may be, on all such insurance policies maintained with respect to properties of the Company or any Loan Party constituting part of the Collateral;

(xii) Mortgaged Property Support Documents with respect to the Mortgaged Properties;

(xiii) executed counterparts of an environmental indemnity agreement in form and substance reasonably acceptable to the Administrative Agent, with respect to the Mortgaged Properties;

(xiv) forecasts (including assumptions) prepared by the management of the Company of consolidated balance sheets, income statements and cash flow statements of the



Company and its Subsidiaries in form and substance reasonably satisfactory to the Administrative Agent through fiscal year end 2023;

(xv) upon the reasonable request of any Lender, the Company shall have provided to such Lender, and such Lender shall be reasonably satisfied with, the documentation and other information so requested in connection with applicable “know your customer” and anti-money-laundering rules and regulations, including, without limitation, the Patriot Act, and any Loan Party that qualifies as a “legal entity customer” under the Beneficial Ownership Regulation shall have delivered to each Lender that so requests, a Beneficial Ownership Certification in relation to such Loan Party;

(xvi) (A) the audited consolidated financial statements of the Company and its subsidiaries for the fiscal year ended December 31, 2018, and (B) the internally-prepared quarterly financial statements of the Company and its subsidiaries on a consolidated basis for each fiscal quarter ending at least 45 days prior to the Closing Date and (C) such other financial information as the Administrative Agent may reasonably request; and

(xvii) such other assurances, certificates, documents, consents or opinions as the Administrative Agent or the Required Lenders reasonably may require.

(b) Any upfront fees or other fees required to be paid to the Administrative Agent, the Arranger, or any Lender on or before the Closing Date pursuant to any Loan Document or the Existing Credit Agreement shall have been paid.

(c) Unless waived by the Administrative Agent, the Company shall have paid all expenses of the Administrative Agent owed pursuant to the Fee Letter, including (i) real property diligence related expenses, including appraisal fees, and (ii) the fees, charges and disbursements of counsel to the Administrative Agent to the extent invoiced prior to or on the Closing Date, plus such additional amounts of such fees, charges and disbursements as shall constitute its reasonable estimate of such fees, charges and disbursements incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude a final settling of accounts between the Company and the Administrative Agent).

Without limiting the generality of the provisions of Section 9.03, for purposes of determining compliance with the conditions specified in this Section 4.01, each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required hereunder to be consented to or approved by or acceptable or satisfactory to a Lender unless the Administrative Agent shall have received notice from such Lender prior to the proposed Closing Date specifying its objection thereto.

**4.02 Conditions to all Credit Extensions.** The obligation of each Lender to honor any Request for Credit Extension (other than pursuant to a Committed Loan Notice requesting only a conversion of Committed Loans to the other Type) is subject to the following conditions precedent:

(a) The representations and warranties of the Company and each other Loan Party contained in Article V or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct on and as of the date of such Credit Extension, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date, and except that for purposes of this Section 4.02, the representations and warranties contained in subsections (a) and (b) of Section 5.05 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01.

(b) No Default or Event of Default shall exist, or would result from such proposed Credit Extension or from the application of the proceeds thereof.

(c) The Administrative Agent shall have received a Request for Credit Extension in accordance with the requirements hereof.

Each Request for Credit Extension (other than a Committed Loan Notice requesting only a conversion of Committed Loans to the other Type) submitted by the Company shall be deemed to be a representation and warranty that the conditions specified in Sections 4.02(a) and (b) have been satisfied on and as of the date of the applicable Credit Extension.

## ARTICLE V

### REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to the Administrative Agent and the Lenders that:

**5.01 Existence, Qualification and Power; Compliance with Laws.** Each Loan Party and each Subsidiary thereof (a) is duly organized or formed, validly existing and, as applicable, in good standing under the Laws of the jurisdiction of its incorporation or organization, (b) has all requisite power and authority and all franchises and all requisite governmental licenses, authorizations, consents and approvals to (i) own or lease its assets and carry on its business and (ii) execute, deliver and perform its obligations under the Loan Documents to which it is a party, (c) is duly qualified and is licensed and, as applicable, in good standing under the Laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification or license, and (d) is in compliance with all Laws; except in each case referred to in clause (b)(i), (c) or (d), to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

**5.02 Authorization; No Contravention.** The execution, delivery and performance by each Loan Party of each Loan Document to which such Person is party, have been duly authorized by all necessary corporate or other organizational action, and do not and will not (a) contravene the terms of any of such Person's Organization Documents; (b) conflict with or result in any breach or contravention of, or the creation of any Lien under, or require any payment to be made under (i) any Contractual Obligation to which such Person is a party or affecting such Person or the properties of such Person or any of its Subsidiaries or (ii) any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; or (c) violate any Law. Each Loan Party and each Subsidiary thereof is in compliance with all Contractual Obligations referred to in clauses (b) and (c), except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

**5.03 Governmental Authorization; Other Consents.** No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, any Loan Party of this Agreement or any other Loan Document (other than (i) any such filing necessary or advisable to perfect in favor of the Administrative Agent, for the benefit of the Secured Parties, the Liens on the Collateral and (ii) any such approval, consent, exemption, authorization, other action, notice or filing that has been obtained, taken, given or made and is in full force and effect), except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

**5.04 Binding Effect.** This Agreement has been, and each other Loan Document, when delivered hereunder, will have been, duly executed and delivered by each Loan Party that is party thereto. This Agreement constitutes, and each other Loan Document when so delivered will constitute, a legal, valid and binding obligation of such Loan Party, enforceable against each Loan Party that is party thereto in accordance with its terms.

**5.05 Financial Statements; No Material Adverse Effect; No Internal Control Event.**

(a) The Audited Financial Statements (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; (ii) fairly present the financial condition of the Company and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; and (iii) show all material indebtedness and other liabilities, direct or contingent, of the Company and its Subsidiaries as of the date thereof, including liabilities for taxes, material commitments and Indebtedness.

(b) The unaudited consolidated and consolidating balance sheets of the Company and its Subsidiaries dated September 30, 2019, and the related consolidated statements of income or operations, shareholders' equity and cash flows, and consolidating statements of income or operations, in each case for the fiscal quarter ended on that date, and in each case prior to intercompany eliminations (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein, and (ii) fairly present the consolidated financial condition of the Company and its Subsidiaries as of the date thereof and their consolidated results of operations for the period covered thereby, subject, in the case of clauses (i) and (ii), to the absence of footnotes and to normal year-end audit adjustments. Schedule 5.05 sets forth all material indebtedness and other liabilities, direct or contingent, of the Company and its consolidated Subsidiaries not included in such financial statements, including liabilities for taxes, material commitments and Indebtedness.

(c) Since the date of the Audited Financial Statements, there has been no event or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have a Material Adverse Effect.

(d) To the Company's best knowledge, no Internal Control Event, exists or has occurred since the date of the Audited Financial Statements that has resulted in or could reasonably be expected to result in a misstatement in any material respect, in any financial information delivered or to be delivered to the Administrative Agent or the Lenders, of (x) covenant compliance calculations provided hereunder or (y) the assets, liabilities, financial condition or results of operations of the Company and its Subsidiaries on a consolidated basis.

**5.06 Litigation.** There are no actions, suits, proceedings, claims or disputes pending or, to the knowledge of the Company after due and diligent investigation, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against the Company or any of its Subsidiaries or against any of their properties (including any Mortgaged Property) or revenues that (a) purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby, or (b) if determined adversely, could reasonably be expected to have a Material Adverse Effect. Schedule 5.06 (as supplemented by any written notices provided by the Company after the Closing Date pursuant to Section 6.02(a)) sets forth all actions, suits, proceedings, claims or disputes pending, or to the knowledge of the Company after due and diligent investigation, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority seeking damages or other remedies in excess of the Threshold Amount or which if determined adversely, could reasonably be expected to have a Material Adverse Effect.

**5.07 No Default.** Neither the Company nor any Subsidiary is in default under or with respect to any Contractual Obligation that could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. No Default has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement or any other Loan Document.

**5.08 Ownership of Property.** Each of the Company and each Subsidiary has good record and marketable title in fee simple to, or valid leasehold interests in, all real property necessary or used in the ordinary conduct of its business (including, good record and marketable title in fee simple to the Mortgaged Properties), except for such defects in title as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Collateral is subject to no Liens, other than Liens permitted by Section 7.01.

**5.09 Environmental Compliance.**

(a) The Company and its Subsidiaries conduct in the ordinary course of business a review of the effect of existing Environmental Laws and any material claims alleging potential liability or responsibility for violation of any Environmental Law on their respective businesses, operations and properties, and as a result thereof the Company has reasonably concluded that such Environmental Laws and claims could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(b) Each of the Mortgaged Properties and all operations at the Mortgaged Properties are in compliance with all applicable Environmental Laws, and there is no violation of any Environmental Law with respect to the Mortgaged Properties, and there are no conditions relating to the Mortgaged Properties that could give rise to any Environmental Liability, except, in each case, as could not reasonably be expected to have a Material Adverse Effect. There are no pending or, to the best knowledge of the Company, threatened claims or proceedings under Environmental Laws, including any such claims for liabilities under CERCLA relating to the disposal of Hazardous Materials, against any Mortgaged Property, or against any Loan Party with respect to any Mortgaged Property, except to the extent that the aggregate effect of all such claims and proceedings could not reasonably be expected to have a Material Adverse Effect. There are no facts, circumstances, conditions or occurrences on any Mortgaged Property that, to the best knowledge of the Company, could reasonably be expected (i) to form the basis of any Environmental Liability against any Loan Party or any Mortgaged Property, or (ii) to cause any Mortgaged Property to be subject to any restrictions on the ownership, occupancy, use or transferability of such Mortgaged Property by the Loan Parties under any applicable Environmental Law, except to the extent that the aggregate effect of such facts, circumstances, conditions or occurrences could not reasonably be expected to have a Material Adverse Effect. Hazardous Materials have not been transported or disposed of from the Mortgaged Properties, or generated, treated, stored or disposed of at, on or under any of the Mortgaged Properties or any other location, in each case by or on behalf the Loan Parties in violation of, or in a manner that would be reasonably likely to give rise to liability under, any

applicable Environmental Law, except as could not reasonably be expected to have a Material Adverse Effect. Hazardous Materials have not been released on or from any Mortgaged Property where such release, individually or in the aggregate, may reasonably be expected to have a Material Adverse Effect.

**5.10 Insurance.** The properties of the Company and its Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of the Company, in such amounts, with such deductibles and covering such risks as (i) are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the Company or the applicable Subsidiary operates and (ii) satisfy the requirements of Section 6.07 and the Security Instruments.

**5.11 Taxes.** The Company and its Subsidiaries have filed all Federal, state and other material tax returns and reports required to be filed, and have paid all Federal, state and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings diligently conducted and for which adequate reserves have been provided in accordance with GAAP. There is no proposed tax assessment against the Company or any Subsidiary that would, if made, have a Material Adverse Effect. Neither any Loan Party nor any Subsidiary thereof is party to any tax sharing agreement.

#### **5.12 ERISA Compliance.**

(a) Each Plan, and to the knowledge of the Company, each Multiemployer Plan and Multiple Employer Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other Federal or state Laws. Each Pension Plan which is intended to be a qualified plan under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service to the effect that the form of such Pension Plan is qualified under Section 401(a) of the Code with respect to all plan document qualification requirements for which the applicable remedial amendment period has closed and that the trust related thereto has been determined to be exempt from federal income tax under Section 501(a) of the Code or an application for such a letter is currently being processed by the Internal Revenue Service. To the best knowledge of the Company, nothing has occurred that would prevent or cause the loss of such tax-qualified status.

(b) There are no pending or, to the best knowledge of the Company, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan or to the knowledge of the Company, any Multiemployer Plan or Multiple Employer Plan that could reasonably be expected to have a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has engaged in any prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan, Multiemployer Plan or Multiple Employer Plan that has resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) (i) No ERISA Event has occurred with respect to any Pension Plan, or to the knowledge of the Company, any Multiemployer Plan or Multiple Employer Plan, and neither the Company nor any ERISA Affiliate is aware of any fact, event or circumstance that could reasonably be expected to constitute or result in an ERISA Event; (ii) the Company and each ERISA Affiliate has met all applicable requirements under the Pension Funding Rules in respect of each Pension Plan, and no waiver of the minimum funding standards under the Pension Funding Rules has been applied for or obtained; (iii) as of the most recent valuation date for any Pension Plan, the funding target attainment percentage (as defined in Section 430(d)(2) of the Code) is 60% or higher and neither the Company nor any ERISA Affiliate knows of any facts or circumstances which would cause the funding target attainment percentage for any such plan to drop below 60% as of the most recent valuation date; (iv) neither the Company nor any ERISA Affiliate has incurred any liability to the PBGC other than for the payment of premiums, and there are no premium payments which have become due which are unpaid;

and (v) neither the Company nor any ERISA Affiliate has engaged in a transaction that could be subject to Section 4069 or Section 4212(c) of ERISA.

**5.13 Subsidiaries; Equity Interests.** As of the Closing Date, the Company has no Subsidiaries other than those specifically disclosed in Part (a) of Schedule 5.13, and all of the outstanding Equity Interests in such Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or its Subsidiaries in the amounts specified on Part (a) of Schedule 5.13 free and clear of all Liens. The Company has no equity investments in any other corporation or entity other than those specifically disclosed in Part(b) of Schedule 5.13. All of the outstanding Equity Interests in the Company have been validly issued and are fully paid and nonassessable.

**5.14 Margin Regulations; Investment Company Act.**

(a) The Company is not engaged and will not engage, principally or as one of its important activities, in the business of purchasing or carrying margin stock (within the meaning of Regulation U issued by the FRB), or extending credit for the purpose of purchasing or carrying margin stock.

(b) None of the Company, any Person Controlling the Company, or any Subsidiary is or is required to be registered as an “investment company” under the Investment Company Act of 1940.

**5.15 Disclosure.** The Company has disclosed to the Administrative Agent and the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. No report, financial statement, certificate or other information furnished (whether in writing or orally) by or on behalf of any Loan Party to the Administrative Agent or any Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder or under any other Loan Document (in each case, as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Company represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

**5.16 Compliance with Laws.** Each of the Company and each Subsidiary is in compliance in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its properties, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted or (b) the failure to comply therewith, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

**5.17 Intellectual Property; Licenses, Etc.** The Company and its Subsidiaries own, or possess the right to use, all of the trademarks, service marks, trade names, copyrights, patents, patent rights, franchises, licenses and other intellectual property rights (collectively, “IP Rights”) that are reasonably necessary for the operation of their respective businesses, without conflict with the rights of any other Person, except where the failure to do so, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect. To the best knowledge of the Company, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by the Company or any Subsidiary infringes upon any rights held by any other Person. No claim or litigation regarding any of the foregoing is pending or, to the best knowledge of the Company, threatened, which, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

**5.18 Books and Records.** Each of the Company and each Subsidiary maintains proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied have been made of all financial transactions and matters involving the assets and business of the Company or such Subsidiary, as the case may be.

**5.19 [Reserved].**

**5.20 Collateral; Mortgaged Properties; Leases.**

(a) The provisions of each of the Security Instruments are effective to create in favor of the Administrative Agent for the benefit of the Secured Parties, a legal, valid and enforceable, perfected security interest (with the priority described therein) in all right, title and interest of each applicable Loan Party in the Collateral described therein, except as otherwise permitted hereunder.

(b) No Contractual Obligation to which any Loan Party is a party or by which the property of any Loan Party is bound prohibits the filing or recordation of any of the Loan Documents or any other action which is necessary or appropriate in connection with the perfection of the Liens on Collateral evidenced and created by any of the Loan Documents.

(c) As of the Closing Date, Schedule 5.20(c) lists all of the Mortgaged Properties and all Leases with respect to the Mortgaged Properties, and identifies the applicable Loan Party that owns the fee interest in such Mortgaged Property and the Loan Party that is the tenant under the Lease with respect to such Mortgaged Property.

(d) Each Mortgaged Property is assessed for real estate tax purposes as one or more wholly independent tax parcels, separate from any other real property, and no other real property is assessed and taxed together with any Mortgaged Property or any portion thereof.

(e) Each Mortgaged Property is served by public or private utilities (including water and sewer systems) required and adequate for the current or contemplated use thereof.

(f) Each Mortgaged Property complies in all material respects with the requirements and regulations of the ADA. At the Administrative Agent's written request from time to time, the Company shall provide the Administrative Agent with written evidence of such compliance satisfactory to the Administrative Agent. Subject to the terms of the applicable Lease and any obligations of the applicable tenant thereunder, the Company shall be solely responsible for all such ADA costs of compliance and reporting.

(g) (i) All existing Leases are in full force and effect and are enforceable in accordance with their respective terms, (ii) no material breach or default by any party, or event which would constitute a material breach or default by any party after notice or the passage of time, or both, is continuing under any existing Lease (iii) none of the landlord's interests under any of the Leases, including, but not limited to, rents, additional rents, charges, issues or profits, has been transferred or assigned, except pursuant to the Loan Documents, and (iv) no rent or other payment under any existing Lease has been paid by any tenant for more than one (1) month in advance (except a security deposit shall not be deemed rent collected in advance). True, correct and complete copies of all existing Leases (to the extent written, or a written summary of the material terms thereof, to the extent oral) have been delivered to the Administrative Agent and the Lenders (which delivery may be made by posting such Leases on the Platform).

(h) No Mortgaged Property is a Flood Hazard Property unless the Administrative Agent and the Lenders shall have received the following: (a) the applicable Loan Party's written acknowledgment of receipt of written notification from the Administrative Agent (i) as to the fact that such Mortgaged Property is a Flood Hazard Property, (ii) as to whether the community in which each such Flood Hazard Property is located is participating in the National Flood Insurance Program and (iii) such other flood hazard determination forms, notices and confirmations thereof as requested by the Administrative Agent and (b) copies of insurance policies or certificates of insurance of the applicable Loan Party evidencing flood insurance reasonably satisfactory to the Administrative Agent and naming the Administrative Agent as loss payee on behalf of the Lenders. All flood hazard insurance policies required hereunder have been obtained and remain in full force and effect, and the premiums thereon have been paid in full.

**5.21 Solvency.** Both before and after giving effect to the Loans hereunder, each Loan Party is Solvent. On the Closing Date, both before and after giving effect to the Loans hereunder, each Loan Party is Solvent.

**5.22 Labor Matters.** As of the date hereof, to the Company's and its Subsidiaries' knowledge, there are no material labor disputes to which the Company 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.

**5.23 Acquisitions.** As of the Closing Date and as of the date of each Permitted Acquisition, all material conditions precedent to, all consents from applicable Governmental Authorities, and all other material consents necessary to permit, such Permitted Acquisition will have been obtained, satisfied, or waived (except that (i) no conditions imposed by the Loan Documents are so waivable other than with the consent of the Required Lenders and (ii) no other conditions shall be waived if such waiver would materially adversely affect the benefits to be obtained by the Company or the Secured Parties from such Acquisition), as the case may be.

**5.24 Real Estate Indebtedness.** The amount of any Indebtedness of the Company and its Subsidiaries secured by Liens on the real property and improvements financed thereby is no greater than eighty-five percent (85%) of the value of such real property and improvements as set forth in an appraisal of such real property and improvements prepared by an independent member of the Appraisal Institute certified appraiser in connection with such Indebtedness (which appraisal shall be delivered to Administrative Agent upon its request).

**5.25 Service Loaner Vehicles.** Any Service Loaner Vehicles that are financed by, or constitute collateral for, any Permitted Third Party Service Loaner Indebtedness are designated as Service Loaner Vehicles in the books of record and account of the Company and its Subsidiaries.

**5.26 Permitted Third Party Service Loaner Indebtedness.** All Indebtedness for the financing of Service Loaner Vehicles provided by Service Loaner Lenders is secured solely by a Lien on said Service Loaner Vehicles so financed by the respective Service Loaner Lenders and the proceeds of such Service Loaner Vehicles.



**5.27 OFAC.** Neither the Company, nor any of its Subsidiaries, nor any director or officer thereof, nor, to the knowledge of the Company and its Subsidiaries, any employee, agent, affiliate or representative of the Company or any of its Subsidiaries, is an individual or entity that is, or is owned or controlled by any individual or entity that is (i) currently the subject or target of any Sanctions, (ii) located, organized or resident in a Designated Jurisdiction, or (iii) included on OFAC's List of Specially Designated Nationals, HMT's Consolidated List of Financial Sanctions Targets and the Investment Ban List, or any similar list enforced by any other relevant sanctions authority.

**5.28 Anti-Corruption Laws.** The Company and its Subsidiaries have conducted their businesses in compliance with the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act of 2010, and in all material respects with applicable anti-corruption laws and have instituted and maintained policies and procedures designed to promote and achieve compliance with such laws.

**5.29 EEA Financial Institutions.** No Loan Party is an EEA Financial Institution.

**5.30 Taxpayer Identification Number.** The Company's true and correct U.S. taxpayer identification number is set forth on Schedule 10.02.

**5.31 Beneficial Ownership Certificate.** The information included in the Beneficial Ownership Certification, if applicable, is true and correct in all respects.

## ARTICLE VI

### AFFIRMATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, the Company shall, and shall (except in the case of the covenants set forth in Sections 6.01, 6.02, and 6.03) cause each Subsidiary to:

**6.01 Financial Statements.** Deliver to the Administrative Agent and each Lender, in form and detail satisfactory to the Administrative Agent and the Required Lenders:

(a) as soon as available, but in any event within ninety (90) days after the end of each fiscal year of the Company (or if earlier, fifteen (15) days after the date required to be filed with the SEC (without giving effect to any extension permitted by the SEC)):

(i) an audited consolidated balance sheet of the Company and its Subsidiaries as at the end of such fiscal year, setting forth in comparative form the figures for the previous fiscal year, in reasonable detail and prepared in accordance with GAAP;

(ii) [Reserved];

(iii) the related audited consolidated statement of income or operations for such fiscal year setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP;

(iv) [Reserved];

(v) the related audited consolidated statements of stockholders' equity and cash flows for such fiscal year setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP;

such consolidated financial statements to be audited and accompanied by (x) a report and opinion of a Registered Public Accounting Firm of nationally recognized standing reasonably acceptable to the Required Lenders as to whether such financial statements are free of material misstatement, which report and opinion shall be prepared in accordance with audit standards of the Public Company Accounting Oversight Board and applicable Securities Laws and shall not be subject to any "going concern" or like qualification or exception or any qualification or exception as to the scope of such audit or with respect to the absence of material misstatement; and (y) (A) management's assessment of the effectiveness of the Company's internal controls over financial reporting as of the end of such fiscal year of the Company as required in accordance with Item 308 of SEC Regulation S-K expressing a conclusion which contains no statement that there is a material weakness in such internal controls, except for such material weaknesses as to which the Required Lenders do not object, and (B) an attestation report of such Registered Public Accounting Firm on management's assessment of, and the opinion of the Registered Public Accounting Firm independently assessing the effectiveness of, the Company's internal controls over financial reporting in accordance with Item 308 of SEC Regulation S-K, PCAOB Auditing Standard No. 2 and Section 404 of Sarbanes-Oxley and expressing a conclusion which contains no statement that there is a material weakness in such internal controls, except for such material weakness as to which the Required Lenders do not object, and such consolidating statements to be certified by a Responsible Officer of the Company to the effect that such statements are fairly stated in all material respects when considered in relation to the consolidated financial statements of the Company and its Subsidiaries;

(b) as soon as available, but in any event within forty-five (45) days after the end of each of the first three fiscal quarters of each fiscal year of the Company (or if earlier, five days after the date required to be filed with the SEC (without giving effect to any extension permitted by the SEC)):

(i) an unaudited consolidated balance sheet of the Company and its Subsidiaries as at the end of such fiscal quarter, setting forth in comparative form the figures for the corresponding fiscal quarter of the previous fiscal year, in reasonable detail and prepared in accordance with GAAP;

(ii) [Reserved];

(iii) the related unaudited consolidated statement of income or operations for such fiscal quarter (and the portion of the Company's fiscal year then ended) setting forth in each case in comparative form the figures for the corresponding fiscal quarter (and portion) of the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP;

(iv) [Reserved];

(v) the related unaudited consolidated statements of stockholders' equity and cash flows for such fiscal quarter (and the portion of the Company's fiscal year then ended) setting forth in comparative form the figures for the corresponding fiscal quarter (and portion) of the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP;

such consolidated and consolidating financial statements described in this Section 6.01(b) to be unaudited and certified by a Responsible Officer of the Company as fairly presenting the financial condition, results of operations, shareholders' equity and cash flows of the Company and its Subsidiaries in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes;

(c) if requested by the Administrative Agent, as soon as available, but in any event within thirty (30) days after the end of each calendar month (including December, but excluding the last month of the fiscal quarter periods described in Section 6.01(b)) of each fiscal year of the Company (or if earlier than such 30th day, five days after the date required to be filed with the SEC (without giving effect to any extension permitted by the SEC)):

(i) an unaudited consolidated balance sheet of the Company and its Subsidiaries as at the end of such calendar month, setting forth in comparative form the figures for the corresponding calendar month of the previous fiscal year, in reasonable detail and prepared in accordance with GAAP;

(ii) [Reserved];

(iii) the related unaudited consolidated statement of income or operations for such calendar month (and the portion of the Company's fiscal year then ended) setting forth in each case in comparative form the figures for the corresponding calendar month (and portion) of the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP;

(iv) [Reserved];

(v) the related unaudited consolidated statements of stockholders' equity and cash flows for such calendar month (and the portion of the Company's fiscal year then ended) setting forth in comparative form the figures for the corresponding calendar month (and portion) of the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP;

such consolidated and consolidating financial statements described in this Section 6.01(c) to be unaudited and certified by a Responsible Officer of the Company as fairly presenting the financial condition, results of operations, shareholders' equity and cash flows of the Company and its Subsidiaries in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes.

(d) as requested by Administrative Agent, financial statements for any Special Purpose Insurance Captives.

As to any information contained in materials furnished pursuant to Section 6.02(g), the Company shall not be separately required to furnish such information under clause (a), (b), (c) or (d) above, but the foregoing shall not be in derogation of the obligation of the Company to furnish the information and materials described in clauses (a), (b), (c) and (d) above at the times specified therein.

**6.02 Certificates; Other Information.** Deliver to the Administrative Agent and each Lender, in form and detail satisfactory to the Administrative Agent and the Required Lenders:

(a) Concurrently with:

(i) the delivery of the financial statements referred to in Section 6.01(a) and (b) and (if such monthly financial statements are requested by the Administrative Agent) Section 6.01(c), (A) a duly completed Compliance Certificate signed by a Responsible Officer of the Company, including the calculation of the financial covenants set forth in Section 7.11(a), (b) and (c) and (B) a schedule (which such schedule may be included in the Compliance Certificate delivered with respect to such period) describing all actions, suits, proceedings, claims or disputes pending, or to the knowledge of the Company after due and diligent investigation, threatened or

contemplated, at law, in equity, in arbitration or before any Governmental Authority seeking damages or other remedies in excess of the Threshold Amount;

(ii) the delivery of the financial statements referred to in Section 6.01(c) (with respect to each January, February, April, May, July, August, October and November), if requested by the Administrative Agent, a duly completed Compliance Certificate signed by a Responsible Officer of the Company, but only including the calculation of the financial covenant set forth in Section 7.11(a);

(iii) the delivery of the financial statements referred to in Section 6.01(a), financial projections for the 12 months succeeding the date of such financial statements, such projections to be prepared by management of the Company, in form satisfactory to the Administrative Agent; and

(iv) any event described herein requiring Pro Forma Compliance, a duly completed Pro Forma Compliance Certificate (including the calculation of the financial covenants set forth in Section 7.11(a), (b) and (c)) signed by a Responsible Officer of the Company;

(b) to the extent any Loan Party qualifies as a “legal entity customer” under the Beneficial Ownership Regulation, an updated Beneficial Ownership Certification promptly following any change in the information provided in the Beneficial Ownership Certification delivered to any Lender in relation to such Loan Party that would result in a change to the list of beneficial owners identified in such certification;

(c) [Reserved]

(d) in the event of any Acquisition, the certificates and information required by Section 7.12;

(e) [Reserved]

(f) [Reserved]

(g) promptly after any request by the Administrative Agent or any Lender, copies of any detailed audit reports, management letters or recommendations submitted to the board of directors (or the audit committee of the board of directors) of the Company by independent accountants in connection with the accounts or books of the Company or any Subsidiary, or any audit of any of them;

(h) promptly after the same are available, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of the Company, and copies of all annual, regular, periodic and special reports and registration statements which the Company may file or be required to file with the SEC under Section 13 or 15(d) of the Securities Exchange Act of 1934, and not otherwise required to be delivered to the Administrative Agent pursuant hereto;

(i) promptly, and in any event within five Business Days after receipt thereof by any Loan Party or any Subsidiary thereof, copies of each notice or other correspondence received from the SEC (or comparable agency in any applicable non-U.S. jurisdiction) concerning any investigation or possible investigation by such agency regarding financial or other operational results of any Loan Party or any Subsidiary thereof;

(j) promptly after any request by the Administrative Agent, copies of any non-cancelable purchase and sale agreement referenced in the definition of “Consolidated Current Assets”;

(k) [Reserved]; and

(l) promptly, such additional information regarding the business, financial or corporate affairs of the Company or any Subsidiary, or compliance with the terms of the Loan Documents, as the Administrative Agent or any Lender may from time to time reasonably request.

Documents required to be delivered pursuant to Section 6.01(a), (b) or (c) or Section 6.02(g) (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Company posts such documents, or provides a link thereto on the Company’s website on the Internet at the website address listed on Schedule 10.02; or (ii) on which such documents are posted on the Company’s behalf on an Internet or intranet website, if any, to which each Lender and the Administrative Agent have access (whether a commercial, third-party website or whether sponsored by the Administrative Agent); provided that: (i) the Company shall deliver paper copies of such documents to the Administrative Agent or any Lender that requests the Company to deliver such paper copies until a written request to cease delivering paper copies is given by the Administrative Agent or such Lender and (ii) the Company shall notify the Administrative Agent and each Lender (by telecopier or electronic mail) of the posting of any such documents and provide to the Administrative Agent by electronic mail electronic versions (i.e., soft copies) of such documents. The Administrative Agent shall have no obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by the Company with any such request for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

The Company hereby acknowledges that (a) the Administrative Agent and/or the Arranger may, but shall not be obligated to, make available to the Lenders materials and/or information provided by or on behalf of the Company hereunder (collectively, “Borrower Materials”) by posting the Borrower Materials on IntraLinks, Syndtrak, ClearPar, or a substantially similar electronic transmission system (the “Platform”) and (b) certain of the Lenders (each, a “Public Lender”) may have personnel who do not wish to receive material non-public information with respect to the Company or its Affiliates, or the respective securities of any of the foregoing, and who may be engaged in investment and other market-related activities with respect to such Persons’ securities. The Company hereby agrees that it will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all Borrower Materials that are to be made available to Public Lenders shall be clearly and conspicuously marked “PUBLIC” which, at a minimum, shall mean that the word “PUBLIC” shall appear prominently on the first page thereof; (x) by marking Borrower Materials “PUBLIC”, the Company shall be deemed to have authorized the Administrative Agent, the Arranger, and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Company or its securities for purposes of United States Federal and state securities laws (provided, however, that to the extent such Borrower Materials constitute Information, they shall be treated as set forth in Section 10.07); (y) all Borrower Materials marked “PUBLIC” are permitted to be made available through a portion of the Platform designated “Public Side Information”; and (z) the Administrative Agent and the Arranger shall be entitled to treat any Borrower Materials that are not marked “PUBLIC” as being suitable only for posting on a portion of the Platform not designated “Public Side Information”.

**6.03 Notices.** Promptly notify the Administrative Agent and each Lender:

(a) of the occurrence of any Default;

(b) of any matter that has resulted or could reasonably be expected to result in a Material Adverse Effect, including (i) breach or non-performance of, or any default under, a Contractual Obligation of the Company or any Subsidiary; (ii) any notice or correspondence from or on behalf of the applicable franchisor, distributor or manufacturer, the Company or any Subsidiary alleging that any such event has occurred with respect to any Franchise Agreement or Framework Agreement, (iii) any dispute, litigation, investigation, proceeding or suspension between the Company or any Subsidiary and any Governmental Authority which such dispute, litigation, investigation, proceeding or suspension arising under this clause (iii) has resulted or could reasonably be expected to result in a Material Adverse Effect; or (iv) the commencement of, or any material development in, any litigation or proceeding affecting the Company or any Subsidiary, including pursuant to any applicable Environmental Laws, where the result of such event arising under this clause (iv) has resulted or could reasonably be expected to result in a Material Adverse Effect;

(c) of the occurrence of any ERISA Event with respect to a Pension Plan, and subject to notification to the Company, with respect to a Multiemployer Plan or Multiple Employer Plan;

(d) of any material change in accounting policies or financial reporting practices by the Company or any Subsidiary;

(e) the Registered Public Accounting Firm's determination or the Company's determination at any time of the occurrence or existence of any Internal Control Event;

(f) [Reserved];

(g) [Reserved];

(h) of the establishment of any program providing for Permitted Third Party Service Loaner Indebtedness of the Company or any Subsidiary, including notice of the name of each manufacturer or finance company providing such Indebtedness and of each Person (including the Company or any Subsidiary) able to incur Indebtedness under such program; and

(i) of one or more of the following environmental matters: (i) any notice of any material claim under Environmental Laws relating to any Mortgaged Property; (ii) any condition or occurrence on or arising from any Mortgaged Property that (x) results in noncompliance in any material respect by the Company with any applicable Environmental Law or (y) could reasonably be expected to form the basis of a material claim under Environmental Laws against a Loan Party or any such Mortgaged Property; (iii) any condition or occurrence on any Mortgaged Property that could reasonably be expected to cause such Mortgaged Property to be subject to any material restrictions on the ownership, occupancy, use or transferability by the Loan Parties under any Environmental Law; and (iv) any material removal or remedial actions to be taken in response to the actual or alleged presence or release of any Hazardous Material on any Mortgaged Property as required by any Environmental Law or any Governmental Authority.

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer of the Company setting forth details of the occurrence referred to therein and stating what action the Company has taken and proposes to take with respect thereto. Each notice pursuant to Section 6.03(a)

shall describe with particularity any and all provisions of this Agreement and any other Loan Document that have been breached.

**6.04 Payment of Obligations.** Pay and discharge as the same shall become due and payable (a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, including Vehicles, unless the same are being contested in good faith by appropriate proceedings diligently conducted and adequate reserves in accordance with GAAP are being maintained by the Company or such Subsidiary; (b) all lawful claims which, if unpaid, would by law become a Lien upon its property; and (c) all Indebtedness, as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness.

**6.05 Preservation of Existence, Etc.; Maintenance of Vehicle Title Documentation.** (a) Preserve, renew and maintain in full force and effect its legal existence and good standing under the Laws of the jurisdiction of its organization except in a transaction permitted by Section 7.04 or 7.05; (b) take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; (c) preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which could reasonably be expected to have a Material Adverse Effect; and (d) if applicable, preserve and maintain, in accordance with its standard policies and procedures, all manufacturer statements of origin, certificates of origin, certificates of title or ownership and other customary vehicle title documentation necessary or desirable in the normal conduct of its business and maintain records evidencing which Vehicles are being used as Demonstrators and Rental Vehicles (each as defined in the Floorplan Credit Agreement).

**6.06 Maintenance of Properties; Repairs.** Maintain, preserve and protect the Mortgaged Properties and all of its other material properties and equipment necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted; (b) make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so could not reasonably be expected to have a Material Adverse Effect; and (c) use the standard of care typical in the industry in the operation and maintenance of its facilities.

**6.07 Maintenance of Insurance.**

(a) (i) Maintain with financially sound and reputable insurance companies not Affiliates of the Company or any Subsidiary, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business and otherwise as required by the Security Instruments; (ii) maintain general public liability insurance at all times with financially sound and reputable insurance companies not Affiliates of the Company or any Subsidiary, against liability on account of damage to persons and property; and (iii) maintain insurance to the extent required under all applicable workers' compensation laws and against loss by reason of business interruption with such insurance policies to be in form reasonably satisfactory to the Administrative Agent. Each of the policies described in this Section 6.07 shall provide that the insurer shall give the Administrative Agent not less than thirty (30) days' (or ten (10) days' in the case of termination for non-payment) prior written notice before any material amendment to any such policy by endorsement or any lapse, termination or cancellation thereof, each such policy of liability insurance shall list the Administrative Agent as an additional insured, and each such policy of casualty insurance with respect to the Mortgaged Properties shall list the Administrative Agent as lenders loss payable and mortgagee in accordance with Schedule 6.07 and, in each case, in form and substance satisfactory to the Administrative Agent.

(b) Without limitation of the foregoing, the Loan Parties shall keep each of the Mortgaged Properties insured during the term of this Agreement, for the mutual benefit of the Loan Parties and the Administrative Agent (on behalf of the Lenders), against fire and such other hazards that would be covered by an insurance policy issued on a Special Form Cause of Loss (“All Risk”) basis (“Casualty Policy”), in accordance with the insurance requirements set forth on Schedule 6.07.

(c) The Loan Parties shall (i) maintain fully paid flood hazard insurance on all Flood Hazard Properties constituting Collateral, on such terms and in such amounts as required by The National Flood Insurance Reform Act of 1994 or as otherwise required by the Administrative Agent or any Lender, (ii) furnish to the Administrative Agent evidence of the renewal (and payment of renewal premiums therefor) of all such policies prior to the expiration or lapse thereof, and (iii) furnish to the Administrative Agent prompt written notice of any redesignation of any Mortgaged Property into or out of a special flood hazard area.

#### **6.08 Compliance with Laws and Contractual Obligations.**

(a) Comply in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees and all Contractual Obligations applicable to it or to its business or property, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted; or (b) the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

(b) Without limitation the generality of the foregoing, of any of the provisions hereof, the Loan Parties: (i) shall comply with, and maintain all Mortgaged Properties in compliance in all material respects with, any applicable Environmental Laws; (ii) shall obtain and maintain in full force and effect all material governmental approvals required for its operations at or on the Mortgaged Properties by any applicable Environmental Laws; (iii) shall cure as soon as reasonably practicable any material violation of applicable Environmental Laws with respect to the Mortgaged Properties; (iv) shall not, and shall not permit any other Person to, own or operate on any of the Mortgaged Properties, any landfill or dump or hazardous waste treatment, storage or disposal facility as defined pursuant to the RCRA, or any comparable state law; and (v) shall not use, generate, treat, store, release or dispose of Hazardous Materials at or on any Mortgaged Property except in the ordinary course of its business and in compliance in all material respects with all Environmental Laws.

**6.09 Books and Records.** Maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Company or such Subsidiary, as the case may be, including, if applicable, books and records specifying the year, make, model, cost, price, location and vehicle identification number of each Vehicle owned by the Company or such Subsidiary.

#### **6.10 Inspection Rights; Environmental Reports.**

(a) Permit representatives and independent contractors of the Administrative Agent and each Lender to visit and inspect any of its properties, to examine its corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss its affairs, finances and accounts with its directors, officers, and independent public accountants, all at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Company; provided, however, that when an Event of Default exists the Administrative Agent or any Lender (or any of their respective representatives or independent contractors) may do any of the foregoing at the expense of the Company at any time during normal business hours and without advance notice. After the occurrence and during the continuation of an Event of Default, the Administrative Agent may



obtain, at the cost of the Company, a re-appraisal of any Mortgaged Property and the Loan Parties shall fully cooperate with the Administrative Agent and the appraiser in obtaining the necessary information to prepare such re-appraisal.

(b) At the written request of the Administrative Agent from time to time, provide to the Lenders within seventy-five (75) days (or such longer period as the Administrative Agent permits in its sole discretion) after such request, at the expense of the Company, an environmental site assessment report for any Mortgaged Property at which the Administrative Agent reasonably believes that a material violation of Environmental Laws has occurred, prepared by an environmental consulting firm acceptable to the Administrative Agent, indicating the presence or absence of Hazardous Materials and the estimated cost of any compliance, removal or remedial action in connection with any Hazardous Materials on such Mortgaged Property. Without limiting the generality of the foregoing, if the Administrative Agent determines at any time that a material risk exists that any such report will not be provided within the time referred to above, the Administrative Agent may retain an environmental consulting firm to prepare such report at the expense of the Company, and the Company hereby grants at the time of such request to the Administrative Agent, the Lenders, such firm and any agents or representatives thereof an irrevocable non-exclusive license, subject to the rights of tenant, to enter onto their respective Mortgaged Properties to undertake such an assessment.

**6.11 Use of Proceeds.** Use the proceeds of the Credit Extensions to refinance a portion of the 2013 5.0% Indenture Notes and to pay fees and expenses in connection with the entering into of this Agreement and such refinancing.

**6.12 [Reserved].**

**6.13 [Reserved].**

**6.14 Additional Subsidiaries.** Cause each Subsidiary of the Company that owns any fee interest in a Mortgaged Property, or leases or operates a vehicle dealership at any Mortgaged Property, to be a Subsidiary Guarantor, and cause any such Subsidiary that is not a Subsidiary Guarantor, to promptly deliver to the Administrative Agent:

(i) a Joinder Agreement duly executed by such Subsidiary with all schedules and information thereto appropriately completed;

(ii) unless the Required Lenders expressly waive such requirement in accordance with Section 10.01, an opinion or opinions of counsel to such Subsidiary dated as of the date of delivery of such Joinder Agreements (and other Loan Documents) provided for in this Section 6.14 and addressed to the Administrative Agent, in form and substance acceptable to the Administrative Agent;

(iii) the documents described in Sections 4.01(a)(iii), (iv), (vii), (xi) and (xiii) with respect to such Subsidiary; and

(iv) evidence satisfactory to the Administrative Agent that all taxes, filing fees, recording fees and other related transaction costs have been paid;

provided that the Administrative Agent shall not enter into or accept any joinder of a Subsidiary pursuant to this Section 6.14 until the Administrative Agent shall have received written confirmation from each Lender (which may be delivered via electronic mail) that it has completed its applicable diligence under

“know your customer” and anti-money-laundering rules and regulations, including, without limitation, the Patriot Act, and the Beneficial Ownership Regulation.

**6.15 Further Assurances.** Execute, acknowledge, deliver, and record or file such further instruments, including, without limitation, further security agreements, financing statements, and continuation statements, and do such further acts as may be reasonably necessary, desirable, or proper to carry out more effectively the purposes of this Agreement, to protect the Liens granted in this Agreement or the Loan Documents to which any Loan Party is a party and against the rights or interests of third Persons, including without limitation, if requested by any Lender in its reasonable judgment or pursuant to its regulatory practice, flood hazard certifications and, if any applicable real property or contents are in a Flood Hazard Property, Flood Requirements, and the Company will pay all reasonable costs connected with any of the foregoing.

**6.16 [Reserved].**

**6.17 Notices regarding Indebtedness.** At the time the Company or any Loan Party enters into any Subordinated Indebtedness or Additional Unsecured Indebtedness, the Company shall deliver to the Administrative Agent a certificate, in form and substance acceptable to the Administrative Agent, attaching copies of all material documentation relating to such Subordinated Indebtedness or Additional Unsecured Indebtedness, stating the amount of such Indebtedness and certifying that (i) such Indebtedness complies with the requirements of Sections 7.15 and 7.09 and the definition of “Subordinated Indebtedness” or “Additional Unsecured Indebtedness”, as applicable, and (ii) no Event of Default shall have occurred and be continuing or would occur as a result thereof.

**6.18 [Reserved].**

**6.19 [Reserved].**

**6.20 Anti-Corruption Laws.** Conduct its businesses in compliance with the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act of 2010, and other similar corruption legislation in other jurisdictions, and maintain policies and procedures designed to promote and achieve compliance with such laws.

**6.21 Leases.** The Loan Parties shall comply in all material respects with each Lease. The Loan Parties shall not amend or change, or allow to be amended or changed any Lease to reduce rent thereunder or in any other manner materially adverse to the rights of the Administrative Agent or any Lender without the written consent of the Required Lenders; provided that, at all times, each tenant under each Lease shall be a Loan Party. No Loan Party shall enter into any new Lease, or terminate or accept the termination of any Lease, without in each case obtaining the prior written consent of the Administrative Agent.

**ARTICLE VII**  
**NEGATIVE COVENANTS**

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, the Company shall not, nor shall it permit any Subsidiary to, directly or indirectly:

**7.01 Liens.** Create, incur, assume or suffer to exist any Lien upon any of the Collateral, other than the following:

(a) Liens pursuant to any Loan Document;

(b) Liens for taxes not yet due or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person in accordance with GAAP;

(c) easements, rights-of-way, restrictions and other similar encumbrances affecting real property which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the applicable Person; and

(d) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than thirty (30) days or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person.

**7.02 Investments.** Make any Investments, except:

(a) Investments held by the Company or such Subsidiary in the form of cash equivalents or short-term marketable securities;

(b) advances to officers, directors and employees of the Company and Subsidiaries in an aggregate amount not to exceed \$5,000,000 at any time outstanding, for travel, entertainment, relocation and analogous ordinary business purposes;

(c) Investments of the Company in any Subsidiary Guarantor and Investments of any Subsidiary Guarantor in the Company or in another Subsidiary Guarantor;

(d) Investments consisting of extensions of credit in the nature of accounts receivable or notes receivable arising from the grant of trade credit in the ordinary course of business, and Investments received in satisfaction or partial satisfaction thereof from financially troubled account debtors to the extent reasonably necessary in order to prevent or limit loss;

(e) Guarantees permitted by Section 7.03;

(f) Acquisitions permitted by Section 7.12;

(g) [Reserved];

(h) Buyer Notes obtained by the Company or a Subsidiary in connection with a Disposition permitted by Section 7.05(h), provided, however, that the aggregate amount of all such Investments at any one time shall not exceed \$10,000,000;

(i) Investments made in connection with the Company's supplemental executive retirement plan, as the same may be amended, so long as such Investments do not exceed \$5,000,000 in any given calendar year;

(j) Investments in Special Purpose Insurance Captives, such Investments not to exceed \$25,000,000 in the aggregate over the term of the Obligations hereunder; and

(k) other Investments not exceeding \$10,000,000 in the aggregate in any fiscal year of the Company.

**7.03 Indebtedness.** Create, incur, assume or suffer to exist any Indebtedness, except:

(a) Indebtedness under the Loan Documents;

(b) Indebtedness outstanding on the date hereof and listed on Schedule 7.03 and any refinancings, refundings, renewals or extensions thereof; provided that (i) the amount of such Indebtedness is not increased at the time of such refinancing, refunding, renewal or extension except by an amount equal to a reasonable premium or other reasonable amount paid, and fees and expenses reasonably incurred, in connection with such refinancing and by an amount equal to any existing commitments unutilized thereunder and (ii) the terms relating to principal amount, amortization, maturity, collateral (if any) and subordination (if any), and other material terms taken as a whole, of any such refinancing, refunding, renewing or extending Indebtedness, and of any agreement entered into and of any instrument issued in connection therewith, are no less favorable in any material respect to the Loan Parties or the Lenders than the terms of any agreement or instrument governing the Indebtedness being refinanced, refunded, renewed or extended and the interest rate applicable to any such refinancing, refunding, renewing or extending Indebtedness does not exceed the then applicable market interest rate;

(c) Guarantees of the Company or any Subsidiary Guarantor in respect of Indebtedness otherwise permitted hereunder of the Company or any Subsidiary Guarantor;

(d) obligations (contingent or otherwise) of the Company or any Subsidiary existing or arising under any Swap Contract, provided that (i) such obligations are (or were) entered into by such Person in the ordinary course of business for the purpose of directly mitigating risks associated with liabilities, commitments, investments, assets, or property held or reasonably anticipated by such Person, or changes in the value of securities issued by such Person, and not for purposes of speculation or taking a "market view;" and (ii) such Swap Contract does not contain any provision exonerating the non-defaulting party from its obligation to make payments on outstanding transactions to the defaulting party;

(e) Indebtedness in respect of retail installment contracts; provided, however, that the aggregate principal amount of such Indebtedness at any one time outstanding shall not exceed \$5,000,000;

(f) Indebtedness in respect of capital leases, Synthetic Lease Obligations and purchase money obligations for fixed or capital assets; provided, however, that (x) the aggregate amount of all such Indebtedness at any one time outstanding shall not exceed \$10,000,000 and (y) such Indebtedness is otherwise permitted under the Revolving Credit Agreement and the Floorplan Credit Agreement;

(g) Indebtedness in an aggregate principal amount not to exceed \$10,000,000 at any time outstanding;

(h) Permitted Silo Indebtedness so long as such Indebtedness is otherwise permitted under the Revolving Credit Agreement and the Floorplan Credit Agreement;

(i) Subordinated Indebtedness permitted under the Revolving Credit Agreement and the Floorplan Credit Agreement;

(j) [Reserved];

(k) [Reserved];

(l) Additional Unsecured Indebtedness if both immediately prior to the issuance of such Additional Unsecured Indebtedness and after giving effect to such Additional Unsecured Indebtedness (i) no Default or Event of Default shall exist, and (ii) the Company and its Subsidiaries shall be in Pro Forma Compliance, as evidenced by a Pro Forma Compliance Certificate; provided, however, that the aggregate amount of all such Additional Unsecured Indebtedness at any one time outstanding shall not exceed \$50,000,000;

(m) [Reserved];

(n) Permitted Real Estate Indebtedness;

(o) Permitted Third Party Service Loaner Indebtedness;

(p) Indebtedness under the Floorplan Credit Agreement; and

(q) Indebtedness under the Revolving Credit Agreement; and

(r) Indebtedness under any “Cash Management Arrangement” permitted under (and as defined in) the Revolving Credit Agreement and the Floorplan Credit Agreement.

**7.04 Fundamental Changes.** Merge, dissolve, liquidate, consolidate with or into another Person, or Dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to or in favor of any Person, except that, so long as no Default exists or would result therefrom:

(a) any Subsidiary may merge with (i) the Company, provided that the Company shall be the continuing or surviving Person, or (ii) any one or more other Subsidiaries, provided that when any Subsidiary Guarantor is merging with another Subsidiary, the Subsidiary Guarantor shall be the continuing or surviving Person;

(b) subject to Section 6.14, any Subsidiary may merge into or consolidate with another Person in order to consummate an Acquisition permitted by Section 7.12; provided that (i) if the Company is a party to any such merger or consolidation, the Company is the survivor thereof, and (ii) except as described in clause (i) above, if a Subsidiary Guarantor is a party to any such merger or consolidation, a Subsidiary Guarantor is the survivor thereof;

(c) any Subsidiary may Dispose of all or substantially all of its assets (upon voluntary liquidation or otherwise) to the Company or to another Subsidiary;

(d) any Subsidiary may Dispose of all or substantially all of its assets to or in favor of any Person in one transaction or in a series of transactions, provided that such Disposition or Dispositions satisfy the requirements of Section 7.05(h); and

(e) any Subsidiary which has Disposed of all or substantially all of its assets in accordance with the terms of this Agreement may be dissolved or have its entity status terminated;

provided, however, that the Loan Parties shall not make any Disposition in respect of any Collateral.

**7.05 Dispositions.** Make any Disposition or enter into any agreement to make any Disposition, except:

(a) Dispositions of obsolete or worn out property, whether now owned or hereafter acquired, in the ordinary course of business;

(b) Dispositions of inventory in the ordinary course of business;

(c) Dispositions of equipment or real property to the extent that (i) such property is exchanged for credit against the purchase price of similar replacement property or (ii) the proceeds of such Disposition are reasonably promptly applied to the purchase price of such replacement property;

(d) Dispositions of property by any Subsidiary to the Company or to a Subsidiary of the Company that is a “Subsidiary Guarantor” under (and as defined in) the Revolving Credit Agreement and the Floorplan Credit Agreement;

(e) Dispositions permitted by Section 7.04;

(f) Dispositions by the Company and its Subsidiaries of property pursuant to sale-leaseback transactions, provided that the book value of all property so Disposed of shall not exceed \$50,000,000 in any fiscal year;

(g) Dispositions of retail installment sales contracts and related intangible property arising from the sale or lease of vehicles, assets, or services in the ordinary course of business; and

(h) Dispositions by the Company and its Subsidiaries not otherwise permitted under this Section 7.05; provided that at the time of such Disposition, (i) no Default shall exist or would result from such Disposition and (ii) in the case of a dealership Subsidiary, such Disposition is otherwise permitted under the Revolving Credit Agreement and the Floorplan Credit Agreement;

provided, however, that, other than Dispositions of obsolete or worn out fixtures (which may be considered to be part of a Mortgaged Property) in the ordinary course of business, the Loan Parties shall not make any Disposition in respect of any Collateral except for any Disposition permitted above with respect to a Release Property, subject to the satisfaction of the conditions applicable to the Property Substitution or Prepayment Release with respect to such Release Property in accordance with Section 2.19.

**7.06 Restricted Payments.** Declare or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so, except that, so long as no Default shall have occurred and be continuing at the time of any action described below or would result therefrom:

(a) each Subsidiary may make Restricted Payments to the Company and any Subsidiaries of the Company that are “Subsidiary Guarantors” under (and as defined in) the Revolving Credit Agreement and the Floorplan Credit Agreement;

(b) the Company may declare and make dividend payments or other distributions payable solely in the common stock or other common Equity Interests of such Person;

(c) any Loan Party may make “net share settlements” of vested restricted stock for tax withholding;

(d) [Reserved];

(e) [Reserved];

(f) the Company may declare and make cash dividends in an aggregate amount per fiscal quarter of up to \$0.10 per share for each share of the Company’s Qualified Capital Stock outstanding as of the quarterly record date for dividends payable in respect of such fiscal quarter (as such amount shall be adjusted for changes in the capitalization of the Company upon recapitalizations, reclassifications, stock splits, stock dividends, reverse stock splits, stock consolidations and similar transactions), provided, however, in the event a Change of Control occurs (and without waiving any Default arising from such Change of Control, or any condition to the payment of cash dividends relating to such Default), the aggregate amounts (if any) permitted to be paid in cash dividends per fiscal quarter shall not exceed the aggregate amounts of such cash dividends paid in the same fiscal quarter most recently occurring prior to such Change of Control; provided further that for the purposes of this exception, shares of Qualified Capital Stock issued for less than fair market value (other than shares issued pursuant to options or otherwise in accordance with the Company’s stock option, employee stock purchase or other equity compensation plans) shall not be deemed outstanding; and

(g) the Company may make additional Restricted Payments (including cash dividends not otherwise permitted by clause (f)), provided that the sum of (i) aggregate amount of such Restricted Payments which are permitted solely by virtue of this Section 7.06(g) and which are declared or made on or after the date of this Agreement plus (ii) the aggregate amount of Subordinated Indebtedness Prepayments and Additional Unsecured Indebtedness Prepayments that are made on or after the date of this Agreement, plus (iii) the aggregate amount of Investments (excluding (A) Loans and advances to the extent these have been repaid and (B) items described in clause (c) of the definition of “Investment”, provided that such items are related to the sale, service, or storage of vehicles or other related services and products) that are made on or after the date of this Agreement, does not exceed the Builder Basket Amount.

**7.07 Change in Nature of Business.** Engage in any material line of business substantially different from those lines of business conducted by the Company and its Subsidiaries on the date hereof or any business substantially related or incidental thereto. In addition, each Special Purpose Insurance Captive is prohibited from engaging in any business other than the provision of business insurance to the Company and its Subsidiaries.

**7.08 Transactions with Affiliates.** Enter into any transaction of any kind with any Affiliate of the Company, whether or not in the ordinary course of business, other than on fair and reasonable terms substantially as favorable to the Company or such Subsidiary as would be obtainable by the Company or such Subsidiary at the time in a comparable arm's length transaction with a Person other than an Affiliate (including with respect to any Special Purpose Insurance Captive and any premiums paid thereto); provided that the foregoing restriction shall not apply to transactions between or among the Company and any Subsidiary Guarantor or between and among any Subsidiary Guarantors.

**7.09 Burdensome Agreements.** Enter into any Contractual Obligation (other than this Agreement or any other Loan Document) that (a) limits the ability (i) of any Subsidiary to make Restricted Payments to the Company or any Loan Party or to otherwise transfer property to the Company or any Loan Party, (ii) of any Subsidiary to Guarantee the Indebtedness of the Company, or (iii) of the Company or any Subsidiary to create, incur, assume or suffer to exist Liens on property of such Person; provided, however, that (x) clauses (i), (ii) and (iii) above shall not prohibit any such restriction on Restricted Payments, Guarantees or liens incurred or provided in favor of any Floorplan Secured Party under the Floorplan Loan Documents or any Revolving Secured Party under the Revolving Loan Documents, and (y) clause (iii) above shall not prohibit any negative pledge incurred or provided in favor of any holder of Indebtedness permitted under Section 7.03(e), (g) or (n) solely to the extent any such negative pledge relates to the property financed by or securing such Indebtedness, or (z) manufacturer limitations on dividends set forth in Franchise Agreements or Framework Agreements which limitations relate to minimum capitalization requirements for dealerships; or (b) requires the grant of a Lien to secure an obligation of such Person if a Lien is granted to secure another obligation of such Person.

**7.10 Use of Proceeds.** Use the proceeds of any Credit Extension, whether directly or indirectly, and whether immediately, incidentally or ultimately, to purchase or carry margin stock (within the meaning of Regulation U of the FRB) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose.

**7.11 Financial Covenants.**

(a) Consolidated Liquidity Ratio. Permit the Consolidated Liquidity Ratio as of the end of any fiscal quarter (or at the request of the Administrative Agent, as of the end of any calendar month) to be less than 1.05 to 1.00.

(b) Consolidated Fixed Charge Coverage Ratio. Permit the Consolidated Fixed Charge Coverage Ratio at any time to be less than 1.20 to 1.00.

(c) Consolidated Total Lease Adjusted Leverage Ratio. Permit the Consolidated Total Lease Adjusted Leverage Ratio at any time to be greater than 5.75 to 1.00.

**7.12 Acquisitions.** Enter into any agreement, contract, binding commitment or other arrangement providing for a transaction which would, if consummated, constitute an Acquisition, or take any action to solicit the tender of securities or proxies in respect thereof in order to effect any Acquisition, (each, an "Acquisition Arrangement") unless (i) the Person to be (or whose assets are to be) acquired does not oppose such Acquisition and the material line or lines of business of the Person to be acquired are substantially the same as one or more line or lines of business conducted by the Company and its Subsidiaries, or substantially related or incidental thereto, (ii) no Default or Revolving Credit Facility Default or Floorplan Default shall have occurred and be continuing either immediately prior to or immediately after giving effect to such Acquisition and, (iii) if the aggregate Cost of Acquisition of all Acquisitions (including such Acquisition) occurring in any fiscal year (together with any other Related Acquisition or Related Proposed Acquisition with respect to such Acquisition, whether or not occurring or expected to occur in the same fiscal year) is in excess of \$65,000,000, (x) no Default would exist immediately after giving effect to such Acquisitions, (y) the Company shall have furnished to the



Administrative Agent pro forma historical financial statements as of the end of the most recently completed fiscal year of the Company and most recent interim fiscal quarter, if applicable, giving effect to such Acquisition and all other Acquisitions consummated since such fiscal year end, and (z) the Company and its Subsidiaries shall be in Pro Forma Compliance after giving effect to such Acquisition, as evidenced by a Pro Forma Compliance Certificate delivered simultaneously with such pro forma historical financial statements, (iv) the Person acquired shall be a wholly-owned Subsidiary, or be merged into the Company or a wholly-owned Subsidiary, immediately upon consummation of the Acquisition (or if assets are being acquired, the acquiror shall be the Company or a wholly-owned Subsidiary), and (v) after the consummation of such Acquisition, the Company or any applicable Subsidiary shall have complied with the provisions of Section 6.14; provided that, clause (iii) of this Section 7.12 shall not apply to any agreement, contract, binding commitment or other arrangement providing for a transaction which would, if consummated, constitute an Acquisition of a Person with respect to which real property constitutes all or substantially all of the such Person's assets.

**7.13 [Reserved].**

**7.14 Amendments of Certain Indebtedness.** Amend, modify or change in any manner any term or condition of any of the Subordinated Indebtedness or any Additional Unsecured Indebtedness permitted by Section 7.03(i) or (l) or refinance or replace any such Indebtedness so that the terms and conditions thereof are less favorable to the Administrative Agent, and the Lenders than the terms and conditions of the relevant Indebtedness as of the later of the Closing Date or the date of incurrence thereof.

**7.15 Prepayments, etc, of Certain Indebtedness.** Make any Subordinated Indebtedness Prepayment or Additional Unsecured Indebtedness Prepayment, except that the Company may make such Subordinated Indebtedness Prepayment or Additional Unsecured Indebtedness Prepayment, provided that (a) no Default shall have occurred and be continuing at the time of any such Subordinated Indebtedness Prepayment or Additional Unsecured Indebtedness Prepayment or would result therefrom, and (b) the sum of (i) aggregate amount of such Subordinated Indebtedness Prepayments and Additional Unsecured Indebtedness Prepayments made on or after the date of this Agreement plus (ii) the aggregate amount of Restricted Payments permitted by Section 7.06(g) that are declared or made on or after the date of this Agreement, plus (iii) the aggregate amount of Investments (excluding (A) Loans and advances to the extent these have been repaid and (B) items described in clause (c) of the definition of "Investment", provided that such items are related to the sale, service, or storage of vehicles or other related services and products) that are made on or after the date hereof, does not exceed the Builder Basket Amount.

**7.16 [Reserved].**

**7.17 [Reserved].**

**7.18 [Reserved].**

**7.19 [Reserved].**

**7.20 [Reserved].**

**7.21 [Reserved].**

**7.22 Sanctions.** Directly or indirectly, use the proceeds of any Credit Extension, or lend, contribute or otherwise make available such proceeds to any Subsidiary, joint venture partner or other individual or entity, to fund any activities of or business with any individual or entity, or in any Designated Jurisdiction, that, at the time of such funding, is the subject of Sanctions, or in any other manner that will result in a violation by any individual or entity (including any individual or entity participating in the transaction, whether as Lender, Arranger, Administrative Agent, or otherwise) of Sanctions.

**7.23 [Reserved].**

**7.24 Anti-Corruption Laws.** Directly or indirectly use the proceeds of any Credit Extension for any purpose which would breach the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act of 2010, and other similar anti-corruption legislation in other jurisdictions.

**7.25 Post-Closing Deliveries.** Fail to satisfy any of the requirements set forth on Schedule 7.25 within the time period specified therein.

## ARTICLE VIII

### EVENTS OF DEFAULT AND REMEDIES

**8.01 Events of Default.** Any of the following shall constitute an Event of Default (each an “Event of Default”):

(a) Non-Payment. The Company or any other Loan Party fails to pay (i) when and as required to be paid herein, any amount of principal of any Loan or (ii) within five (5) days after the same becomes due, any interest on any Loan or any fee due hereunder, or (iii) within five (5) days after the same becomes due, any other amount payable hereunder or under any other Loan Document; or

(b) Specific Covenants. The Company fails to perform or observe any term, covenant or agreement contained in any of Sections 6.01, 6.02(a), (b), (c) or (d), 6.03, 6.05, 6.07 (with respect to the maintenance of casualty insurance with respect to any Mortgaged Property); 6.10 or 6.11 or Article VII; or

(c) Other Defaults. Any Loan Party fails to perform or observe any other covenant or agreement (not specified in subsection (a) or (b) above) contained in any Loan Document on its part to be performed or observed and such failure continues for thirty (30) days after the giving of written notice to such Loan Party specifying the alleged default; or

(d) Representations and Warranties. Any representation, warranty, certification or statement of fact made or deemed made by or on behalf of the Company or any other Loan Party herein, in any other Loan Document, or in any document delivered in connection herewith or therewith shall be incorrect or misleading in any material respect when made or deemed made; or

(e) Cross-Default. (i) The Company or any Subsidiary (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any Indebtedness or Guarantee (other than Indebtedness hereunder) having a principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement), either individually or in the aggregate for all Indebtedness for which a payment default then exists, of more than the Threshold Amount, or (B) fails to observe or perform any other agreement or condition relating to any such Indebtedness or Guarantee or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event

occurs (each, an “Other Event”), the effect of which default or Other Event is to cause, or to permit the holder or holders of such Indebtedness or the beneficiary or beneficiaries of such Guarantee (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness in excess of the Threshold Amount (either individually or in the aggregate for all Indebtedness for which a covenant default then exists) to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made, prior to its stated maturity, or such Guarantee to become payable or cash collateral in respect thereof to be demanded; provided that, the mere fact that any Indebtedness is a “demand obligation” and payment thereof may be demanded at any time (whether or not any Person has defaulted thereunder) shall not, by itself, constitute an “Other Event,” but the demand for payment thereof shall constitute an “Other Event”; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (A) any event of default under such Swap Contract as to which the Company or any Subsidiary is the Defaulting Party (as defined in such Swap Contract) or (B) any Termination Event (as so defined) under such Swap Contract as to which the Company or any Subsidiary is an Affected Party (as so defined) and, in either event, the Swap Termination Value owed by the Company or such Subsidiary as a result thereof is greater than the Threshold Amount; or

(f) Insolvency Proceedings, Etc. The Company, any Loan Party or any of their respective Subsidiaries institutes or consents to the institution of any proceeding under any Debtor Relief Law, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of such Person and the appointment continues undischarged or unstayed for sixty (60) calendar days; or any proceeding under any Debtor Relief Law relating to any such Person or to all or any material part of its property is instituted without the consent of such Person and continues undismissed or unstayed for sixty (60) calendar days, or an order for relief is entered in any such proceeding; or

(g) Inability to Pay Debts; Attachment. (i) The Company or any Subsidiary becomes unable or admits in writing its inability or fails generally to pay its debts as they become due, or (ii) any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the property of any such Person and is not released, vacated or fully bonded within thirty (30) days after its issue or levy; or

(h) Judgments. There is entered against the Company or any Subsidiary (i) a final judgment or order for the payment of money in an aggregate amount exceeding the Threshold Amount (in each case, to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage), or (ii) any one or more non-monetary final judgments that have, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and, in either case, (A) enforcement proceedings are commenced by any creditor upon such judgment or order, or (B) there is a period of ten (10) consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect; or

(i) ERISA. (i) An ERISA Event occurs with respect to a Pension Plan, Multiemployer Plan or Multiple Employer Plan which has resulted or could reasonably be expected to result in liability of the Company under Title IV of ERISA to the Pension Plan, Multiemployer Plan, Multiple Employer Plan or the PBGC in an aggregate amount in excess of the Threshold Amount, or (ii) the Company or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of \$25,000,000; or

(j) Invalidity of Loan Documents. (i) Any Loan Document, at any time after its execution and delivery and for any reason other than as expressly permitted hereunder or thereunder or satisfaction in full of all the Obligations, ceases to be in full force and effect; (ii) any Security Instrument shall for any reason (other than pursuant to the terms thereof) cease to create a valid security interest in the Collateral purported to be covered thereby or such security interest shall for any reason cease to be a perfected security interest with the priority provided therefor in such Security Instrument subject only to those Liens permitted by Section 7.01; or (iii) any Loan Party or any other Person contests in any manner the validity or enforceability of any Loan Document; or any Loan Party denies that it has any or further liability or obligations under any Loan Document, or purports to revoke, terminate or rescind any Loan Document; or

(k) Change of Control. There occurs any Change of Control; or

(l) Franchise Agreements. (i) Any Franchise Agreement to which a Subsidiary Guarantor is a party is terminated or suspended or expires and a replacement for such Franchise Agreement is not entered into within 30 days of such termination, suspension or expiration, (ii) there occurs a default by any Person in the performance or observance of any term of any Franchise Agreement to which a Subsidiary Guarantor is a party which is not cured within any applicable cure period therein, or (iii) there occurs any change in any Franchise Agreement to which a Subsidiary Guarantor is a party, except in each case referred to in clauses (i), (ii) and (iii) to the extent such termination, suspension, expiration, default or change (either individually or in the aggregate) could not reasonably be expected to have a Material Adverse Effect; provided that, in the event a Franchise Agreement to which a Subsidiary Guarantor is a party expires in accordance with its terms, if and for so long as the respective Subsidiary Guarantor and manufacturer or distributor are negotiating in good faith to renew such Franchise Agreement, and the respective manufacturer or distributor has not taken (and is not reasonably expected to take) any action to terminate such Franchise Agreement, such expiration shall not by itself be considered an Event of Default under this Section 8.01(l); or

(m) Floorplan Event of Default. A Floorplan Event of Default shall occur and be continuing.

(n) Revolving Event of Default. A Revolving Event of Default shall occur and be continuing.

(o) Uninsured Casualty. An uninsured casualty with respect to the Mortgaged Properties in excess of the Threshold Amount.

**8.02 Remedies Upon an Event of Default.** If any Event of Default occurs and is continuing, the Administrative Agent shall, at the request of, or may, with the consent of, the Required Lenders, take any or all of the following actions:

(i) declare the commitment of each Lender to make Loans to be terminated, whereupon such commitments and obligation shall be terminated;

(ii) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Company;

(iii) [Reserved]; and

(iv) exercise on behalf of itself and the Lenders all rights and remedies available to it and the Lenders under the Loan Documents;

provided, however, that upon the occurrence of an actual or deemed entry of an order for relief with respect to the Company under the Bankruptcy Code of the United States, the obligation of each Lender to make Loans shall automatically terminate, the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable, in each case without further act of the Administrative Agent or any Lender.

**8.03 Application of Funds.** After the exercise of remedies provided for in this Article VIII (or after the Loans have automatically become immediately due and payable), any amounts received on account of the Obligations shall, subject to the provisions of Section 2.16, be applied by the Administrative Agent in the following order:

First, to payment of that portion of the Obligations constituting fees, indemnities, expenses and other amounts (including fees, charges and disbursements of counsel to the Administrative Agent and amounts payable under Article III) payable to the Administrative Agent in its capacity as such;

Second, to payment of that portion of the Obligations constituting fees, indemnities and other amounts (other than principal and interest) payable to the Lenders (including fees, charges and disbursements of counsel to the respective Lenders (including fees and time charges for attorneys who may be employees of any Lender) and amounts payable under Article III), ratably among them in proportion to the respective amounts described in this clause Third payable to them;

Third, to payment of that portion of the Obligations constituting interest on the Loans and other Obligations, ratably among the Lenders in proportion to the respective amounts described in this clause Third payable to them;

Fourth, to payment of that portion of the Obligations constituting unpaid principal of the Loans, ratably among the Lenders in proportion to the respective amounts described in this clause Fourth held by them;

Fifth, to the payment of all other Obligations of the Loan Parties owing under or in respect of the Loan Documents that are due and payable to the Administrative Agent and the other Secured Parties, or any of them, on such date, ratably based on the respective aggregate amounts of all such Obligations owing to the Administrative Agent and the other Secured Parties on such date; and

Last, the balance, if any, after all of the Obligations have been indefeasibly paid in full, to the Company or as otherwise required by Law.

## ARTICLE IX

### ADMINISTRATIVE AGENT

#### 9.01 Appointment and Authority.

(a) Each of the Lenders hereby irrevocably appoints PNC Bank to act on its behalf as the Administrative Agent hereunder and under the other Loan Documents and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. The provisions of this Article are solely for the benefit of the Administrative Agent and the Lenders, and neither the Company nor any other Loan Party shall have rights as a third party beneficiary of any of such provisions. It is understood and agreed that the use of the term “agent” herein or in any other Loan Documents (or any other similar term) with reference to the Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable Law. Instead such term is used as a matter of market custom, and is intended to create or reflect only an administrative relationship between contracting parties.

(b) The Administrative Agent shall also act as the “collateral agent” under the Loan Documents, and each of the Lenders hereby irrevocably appoints and authorizes the Administrative Agent to act as the agent of such Lender for purposes of acquiring, holding and enforcing any and all Liens on Collateral granted by any of the Loan Parties to secure any of the Obligations, together with such powers and discretion as are reasonably incidental thereto. In this connection, the Administrative Agent, as “collateral agent” and any co-agents, sub-agents and attorneys-in-fact appointed by the Administrative Agent pursuant to Section 9.05 for purposes of holding or enforcing any Lien on the Collateral (or any portion thereof) granted under the Security Instruments, or for exercising any rights and remedies thereunder at the direction of the Administrative Agent, shall be entitled to the benefits of all provisions of this Article IX and Article X (including Section 10.04(c), as though such co-agents, sub-agents and attorneys-in-fact were the “collateral agent” under the Loan Documents) as if set forth in full herein with respect thereto.

**9.02 Rights as a Lender.** The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent and the term “Lender” or “Lenders” shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Administrative Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, own securities of, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with the Company or any Subsidiary or other Affiliate thereof as if such Person were not the Administrative Agent hereunder and without any duty to account therefor to the Lenders.

**9.03 Exculpatory Provisions.** The Administrative Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents, and its duties hereunder shall be administrative in nature. Without limiting the generality of the foregoing, the Administrative Agent:

(a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing;

(b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Administrative Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein or in the other Loan Documents), provided that the Administrative Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or applicable law, including for the avoidance of doubt any action that may be in violation of the automatic stay under any Debtor Relief Law or that may effect a forfeiture, modification or termination of property of a Defaulting Lender in violation of any Debtor Relief Law;

(c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Company or any of its Affiliates that is communicated to or obtained by the Person serving as the Administrative Agent or any of its Affiliates in any capacity;

(d) The Administrative Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Required Lenders (or, in each case, such other number or percentage of the Lenders as shall be necessary, or as the Administrative Agent shall believe in good faith shall be necessary, under the circumstances as provided in Sections 10.01 and 8.02) or (ii) in the absence of its own gross negligence or willful misconduct, as determined by a court of competent jurisdiction by a final and nonappealable judgment. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until notice describing such Default is given to the Administrative Agent by the Company or a Lender; and

(e) The Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document, or the creation, perfection or priority of any Lien purported to be created by the Security Instruments, (v) the value or the sufficiency of any Collateral, or (vi) the satisfaction of any condition set forth in Article IV or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

**9.04 Reliance by Administrative Agent .** The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of a Loan, that by its terms must be fulfilled to the satisfaction of a Lender, the Administrative Agent may presume that such condition is satisfactory to such Lender unless the Administrative Agent shall have received notice to the contrary from such Lender prior to the making of such Loan. The Administrative Agent may consult with legal counsel (who may be counsel for the Company), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

**9.05 Delegation of Duties.** The Administrative Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent. The Administrative Agent shall not be responsible for the negligence or misconduct of any sub-agents except to the extent that a court of competent jurisdiction determines in a final and nonappealable judgment that the Administrative Agent acted with gross negligence or willful misconduct in the selection of such sub-agents.

**9.06 Resignation of Administrative Agent.** The Administrative Agent may at any time give notice of its resignation to the Lenders and the Company. Upon receipt of any such notice of resignation, the Required Lenders shall have the right, in consultation with the Company, to appoint a successor, which shall be a bank with an office in the United States, or an Affiliate of any such bank with an office in the United States. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, (or such earlier day as shall be agreed by the Required Lenders) (the “Resignation Effective Date”), then the retiring Administrative Agent may (but shall not be obligated to) on behalf of the Lenders, appoint a successor Administrative Agent meeting the qualifications set forth above, provided that in no event shall any successor Administrative Agent be a Defaulting Lender. Whether or not a successor has been appointed, such resignation shall become effective in accordance with such notice on the Resignation Effective Date.

(a) If the Person serving as Administrative Agent is a Defaulting Lender pursuant to clause (d) of the definition thereof, the Required Lenders may, to the extent permitted by applicable law, by notice in writing to the Company and such Person remove such Person as Administrative Agent and, in consultation with the Company, appoint a successor. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days (or such earlier day as shall be agreed by the Required Lenders) (the “Removal Effective Date”), then such removal shall nonetheless become effective in accordance with such notice on the Removal Effective Date.

(b) With effect from the Resignation Effective Date or the Removal Effective Date (as applicable) (1) the retiring or removed Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents (except that in the case of any collateral security held by the Administrative Agent on behalf of the Lenders under any of the Loan Documents, the retiring Administrative Agent shall continue to hold such collateral security until such time as a successor Administrative Agent is appointed) and (2) except for any indemnity payments or other amounts then owed to the retiring or removed Administrative Agent, all payments, communications and determinations provided to be made by, to or through the Administrative Agent shall instead be made by or to each Lender, until such time, if any, as the Required Lenders appoint a successor Administrative Agent as provided for above. Upon the acceptance of a successor’s appointment as Administrative Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring (or removed) Administrative Agent (other than as provided in Section 3.01(g) and other than any rights to indemnity payments or other amounts owed to the retiring or removed Administrative Agent as of the Resignation Effective Date or the Removal Effective Date, as applicable), and the retiring or removed Administrative Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this Section). The fees payable by the Company to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Company and such successor. After the retiring or removed Administrative Agent’s resignation or removal hereunder and under the other



Loan Documents, the provisions of this Article and Section 10.04 shall continue in effect for the benefit of such retiring or removed Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them (i) while the retiring or removed Administrative Agent was acting as Administrative Agent and (ii) after such resignation or removal for as long as any of them continues to act in any capacity hereunder or under the other Loan Documents, including (a) acting as collateral agent or otherwise holding any collateral security on behalf of any of the Lenders and (b) in respect of any actions take in connection with transferring the agency to any successor Administrative Agent.

(c) [Reserved].

**9.07 Non-Reliance on Administrative Agent and Other Lenders.** Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such 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 the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

**9.08 No Other Duties, Etc.** Anything herein to the contrary notwithstanding, none of the Bookrunner, Arranger, Syndication Agent or Co-Documentation Agents listed on the cover page hereof shall have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Administrative Agent or a Lender hereunder.

**9.09 Administrative Agent May File Proofs of Claim; Credit Bidding.** In case of the pendency of any proceeding under any Debtor Relief Law or any other judicial proceeding relative to any Loan Party, the Administrative Agent (irrespective of whether the principal of any Loan shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Administrative Agent shall have made any demand on the Company) shall be entitled and empowered, by intervention in such proceeding or otherwise.

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders and the Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders, the Administrative Agent and their respective agents and counsel and all other amounts due the Lenders and the Administrative Agent under Sections 2.10 and 10.04) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender to make such payments to the Administrative Agent and, if the Administrative Agent shall consent to the making of such payments directly to the Lenders, to pay to the Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Administrative Agent and its agents and counsel, and any other amounts due the Administrative Agent under Sections 2.10 and 10.04.

Nothing contained herein shall be deemed to authorize the Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender any plan of reorganization, arrangement, adjustment

or composition affecting the Obligations or the rights of any Lender to authorize the Administrative Agent to vote in respect of the claim of any Lender in any such proceeding.

The Secured Parties hereby irrevocably authorize the Administrative Agent, at the direction of the Required Lenders, to credit bid all or any portion of the Obligations (including accepting some or all of the Collateral in satisfaction of some or all of the Obligations pursuant to a deed in lieu of foreclosure or otherwise) and in such manner purchase (either directly or through one or more acquisition vehicles) all or any portion of the Collateral (a) at any sale thereof conducted under the provisions of the Bankruptcy Code of the United States, including under Sections 363, 1123 or 1129 of the Bankruptcy Code of the United States, or any similar Laws in any other jurisdictions to which a Loan Party is subject, (b) at any other sale or foreclosure or acceptance of collateral in lieu of debt conducted by (or with the consent or at the direction of) the Administrative Agent (whether by judicial action or otherwise) in accordance with any applicable Law. In connection with any such credit bid and purchase, the Obligations owed to the Secured Parties shall be entitled to be, and shall be, credit bid on a ratable basis (with Obligations with respect to contingent or unliquidated claims receiving contingent interests in the acquired assets on a ratable basis that would vest upon the liquidation of such claims in an amount proportional to the liquidated portion of the contingent claim amount used in allocating the contingent interests) in the asset or assets so purchased (or in the Equity Interests or debt instruments of the acquisition vehicle or vehicles that are used to consummate such purchase). In connection with any such bid (i) the Administrative Agent shall be authorized to form one or more acquisition vehicles to make a bid, (ii) the Administrative Agent shall be authorized to adopt documents providing for the governance of the acquisition vehicle or vehicles (provided that any actions by the Administrative Agent with respect to such acquisition vehicle or vehicles, including any disposition of the assets or Equity Interests thereof shall be governed, directly or indirectly, by the vote of the Required Lenders, irrespective of the termination of this Agreement and without giving effect to the limitations on actions by the Required Lenders contained in clauses (a) through (h) of Section 10.01 of this Agreement), (iii) the Administrative Agent shall be authorized to assign the relevant Obligations to any such acquisition vehicle pro rata by the Lenders, as a result of which each of the Lenders shall be deemed to have received a pro rata portion of any Equity Interests and/or debt instruments issued by such an acquisition vehicle on account of the assignment of the Obligations to be credit bid, all without the need for any Secured Party or acquisition vehicle to take any further action, and (iv) to the extent that Obligations that are assigned to an acquisition vehicle are not used to acquire Collateral for any reason (as a result of another bid being higher or better, because the amount of Obligations assigned to the acquisition vehicle exceeds the amount of debt credit bid by the acquisition vehicle or otherwise), such Obligations shall automatically be reassigned to the Lenders pro rata and the Equity Interests and/or debt instruments issued by any acquisition vehicle on account of the Obligations that had been assigned to the acquisition vehicle shall automatically be cancelled, without the need for any Secured Party or any acquisition vehicle to take any further action.

**9.10 Collateral and Guaranty Matters.** Without limiting the provision of Section 9.09, each of the Lenders irrevocably authorize the Administrative Agent, at its option and in its discretion,

(a) to release any Lien on any property granted to or held by the Administrative Agent under any Loan Document (i) upon termination of the Aggregate Commitments and payment in full of all Obligations (other than contingent indemnification obligations), (ii) in connection with a Property Substitution or Prepayment Release in accordance with Section 2.19; or (iii) subject to Section 10.01, if approved, authorized or ratified in writing by the Required Lenders; and

(b) to release any Subsidiary Guarantor from its obligations under the Subsidiary Guaranty if such Person ceases to be required to provide such a Subsidiary Guaranty pursuant to Section 6.14 as a result of a transaction permitted under the Loan Documents.

Upon request by the Administrative Agent at any time, the Required Lenders will confirm in writing the Administrative Agent's authority to release or subordinate its interest in particular types or items of property, or to release any Subsidiary Guarantor from its obligations under the Subsidiary Guaranty pursuant to this Section 9.10. In each case as specified in this Section 9.10, the Administrative Agent will, at the Company's expense, execute and deliver to the applicable Loan Party such documents as such Loan Party may reasonably request to evidence the release of such item of Collateral from the assignment and security interest granted under the Security Instruments or to subordinate its interest in such item, or to release such Subsidiary Guarantor from its obligations under the Subsidiary Guaranty, in each case in accordance with the terms of the Loan Documents and this Section 9.10.

**9.11 [Reserved].**

**9.12 [Reserved].**

## ARTICLE X

### MISCELLANEOUS

**10.01 Amendments, Etc..** No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by the Company or any other Loan Party therefrom, shall be effective unless in writing signed by the Required Lenders and the Company or the applicable Loan Party, as the case may be, and acknowledged by the Administrative Agent (such acknowledgement not to be unreasonably withheld or delayed), and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such amendment, waiver or consent shall:

(a) waive any condition set forth in Section 4.01(a) without the written consent of each Lender;

(b) extend or increase the Commitment of any Lender (or reinstate any Commitment terminated pursuant to Section 8.02) without the written consent of such Lender;

(c) postpone any date fixed by this Agreement or any other Loan Document for any payment of principal, interest, fees or other amounts due to the Lenders (or any of them) or any scheduled or mandatory reduction of the Aggregate Commitments hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby;

(d) reduce the principal of, or the rate of interest specified herein on, any Loan, or (subject to clause (ii) of the second proviso to this Section 10.01) any fees or other amounts payable hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby; provided, however, that only the consent of the Required Lenders shall be necessary (i) to amend the definition of "Default Rate" or to waive any obligation of the Company to pay interest at the Default Rate or (ii) to amend any financial covenant hereunder (or any defined term used therein) even if the effect of such amendment would be to reduce the rate of interest on any Loan or to reduce any fee payable hereunder;

(e) change Section 8.03 in a manner that would alter the pro rata sharing of payments required thereby without the written consent of each Lender;

(f) change any provision of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to amend, waive or

otherwise modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender;

(g) release all or substantially all of the value of the Subsidiary Guaranty without the written consent of each Lender; or

(h) release all or substantially all of the Collateral in any transaction or series of related transactions, except as specifically required by the Loan Documents, without the written consent of each Lender;

and, provided further, that (i) no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Lenders required above, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document; and (ii) the PNC Letter may be amended, or rights or privileges thereunder waived, in a writing executed only by the respective parties thereto. Notwithstanding anything to the contrary herein, no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder, (and any amendment, waiver or consent which by its terms requires the consent of all Lenders or each affected Lender may be effected with the consent of all Lenders other than Defaulting Lenders), except that (x) the Commitment or Loans of any Defaulting Lender may not be increased or extended without the consent of such Lender and (y) any waiver, amendment or modification described in clauses (a) through (h) of this Section 10.01 requiring the consent of all Lenders or each affected Lender that by its terms affects any Defaulting Lender disproportionately adversely relative to other affected Lenders shall require the consent of such Defaulting Lender.

#### **10.02 Notices; Effectiveness; Electronic Communication.**

(a) Notices; Effectiveness; Electronic Communications. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by facsimile or electronic mail as follows, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

(i) if to the Company, any other Loan Party, the Administrative Agent, to the address, facsimile number, electronic mail address or telephone number specified for such Person on Schedule 10.02; and

(ii) if to any other Lender, to the address, facsimile number, electronic mail address or telephone number specified in its Administrative Questionnaire (including, as appropriate, notices delivered solely to the Person designated by a Lender on its Administrative Questionnaire then in effect for the delivery of notices that may contain material non-public information relating to the Company).

Notices and other communications sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices and other communications sent by facsimile shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient). Notices and other communications delivered through electronic communications to the extent provided in subsection (b) below shall be effective as provided in such subsection (b).

(b) Electronic Communications. Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communication (including e-mail, FpML messaging, and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent, provided that the foregoing shall not apply to notices to any Lender pursuant to Article II if such Lender has notified the Administrative Agent that it is incapable of receiving notices under such Article by electronic communication. The Administrative Agent or the Company may each, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor; provided that, for both clauses (i) and (ii), if such notice, email or other communication is not sent during the normal business hours of the recipient, such notice, email or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient.

(c) The Platform. THE PLATFORM IS PROVIDED "AS IS" AND "AS AVAILABLE." THE AGENT PARTIES (AS DEFINED BELOW) DO NOT WARRANT THE ACCURACY OR COMPLETENESS OF THE BORROWER MATERIALS OR THE ADEQUACY OF THE PLATFORM, AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS IN OR OMISSIONS FROM THE BORROWER MATERIALS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY ANY AGENT PARTY IN CONNECTION WITH THE BORROWER MATERIALS OR THE PLATFORM. In no event shall the Administrative Agent or any of its Related Parties (collectively, the "Agent Parties") have any liability to the Company, any Lender, or any other Person for losses, claims, damages, liabilities or expenses of any kind (whether in tort, contract or otherwise) arising out of the Company's, any Loan Party's or the Administrative Agent's transmission of Borrower Materials or notices through the Platform, any other electronic messaging service, or through the Internet, except to the extent that such losses, claims, damages, liabilities or expenses are determined by a court of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Agent Party; provided, however, that in no event shall any Agent Party have any liability to the Company, any Loan Party, any Lender, or any other Person for indirect, special, incidental, consequential or punitive damages (as opposed to direct or actual damages).

(d) Change of Address, Etc. Each of the Company and the Administrative Agent, may change its address, facsimile or telephone number for notices and other communications hereunder by notice to the other parties hereto. Each other Lender may change its address, facsimile or telephone number for notices and other communications hereunder by notice to the Company and the Administrative Agent. In addition, each Lender agrees to notify the Administrative Agent from time to time to ensure that the Administrative Agent has on record (i) an effective address, contact name, telephone number, facsimile number and electronic mail address to which notices and other communications may be sent and (ii) accurate wire instructions for such Lender. Furthermore, each Public Lender agrees to cause at least one individual at or on behalf of such Public Lender to at all times

have selected the “Private Side Information” or similar designation on the content declaration screen of the Platform in order to enable such Public Lender or its delegate, in accordance with such Public Lender’s compliance procedures and applicable Law, including United States Federal and state securities Laws, to make reference to Borrower Materials that are not made available through the “Public Side Information” portion of the Platform and that may contain material non-public information with respect to the Company or its securities for purposes of United States Federal or state securities laws.

(e) Reliance by Administrative Agent and Lenders. The Administrative Agent, and the Lenders shall be entitled to rely and act upon any notices (including telephonic notices, Committed Loan Notices and Notice of Loan Prepayment) purportedly given by or on behalf of the Company even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Company shall indemnify the Administrative Agent, each Lender and the Related Parties of each of them from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of the Company. All telephonic notices to and other telephonic communications with the Administrative Agent may be recorded by the Administrative Agent, and each of the parties hereto hereby consents to such recording.

**10.03 No Waiver; Cumulative Remedies; Enforcement.** No failure by any Lender or the Administrative Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder or under any Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided, and provided under each other Loan Document are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

Notwithstanding anything to the contrary contained herein or in any other Loan Document, the authority to enforce rights and remedies hereunder and under the other Loan Documents against the Loan Parties or any of them shall be vested exclusively in, and all actions and proceedings at law in connection with such enforcement shall be instituted and maintained exclusively by, the Administrative Agent in accordance with Section 8.02 for the benefit of all the Lenders; provided, however, that the foregoing shall not prohibit (a) the Administrative Agent from exercising on its own behalf the rights and remedies that inure to its benefit (solely in its capacity as Administrative Agent) hereunder and under the other Loan Documents, (b) any Lender from exercising setoff rights under applicable Laws (subject to the terms of Section 2.13), or (c) any Lender from filing proofs of claim or appearing and filing pleadings on its own behalf during the pendency of a proceeding relative to any Loan Party under any Debtor Relief Law; and provided, further, that if at any time there is no Person acting as Administrative Agent hereunder and under the other Loan Documents, then (i) the Required Lenders shall have the rights otherwise ascribed to the Administrative Agent pursuant to Section 8.02 and (ii) in addition to the matters set forth in clauses (a), (b) and (c) of the preceding proviso and subject to Section 2.13, any Lender may, with the consent of the Required Lenders, enforce any rights and remedies available to it and as authorized by the Required Lenders.

#### 10.04 Expenses; Indemnity; Damage Waiver.

(a) Costs and Expenses. The Company shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and each of its Affiliates (including the reasonable fees, charges and disbursements of counsel for the Administrative Agent), in connection with the syndication of the credit facilities provided for herein, the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), and shall pay all fees and time charges for attorneys who may be employees of the Administrative Agent or any Lender, in connection with the enforcement or protection of its rights, including any audit fees incurred when conducting any audit of any Loan Party or any Collateral during the continuance of any Event of Default (A) in connection with this Agreement and the other Loan Documents, including its rights under this Section, or (B) in connection with the Loans made hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans. The Company shall also pay for (or reimburse the Administrative Agent for any costs of) any real estate appraisals, limited updated appraisals, and environmental reports, and any review of such appraisals, limited updated appraisals, and environmental reports by the Administrative Agent's internal or external consultants relating to the Mortgaged Properties, in each case to the extent any such appraisal, limited updated appraisal, or environmental report is required to be delivered to (or received by) the Administrative Agent pursuant to the terms of the Agreement, or is otherwise delivered or requested by the Company or any Subsidiary.

(b) Indemnification by the Company. The Company shall indemnify the Administrative Agent (and any sub-agent thereof), each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the fees, charges and disbursements of any counsel for any Indemnitee), and shall indemnify and hold harmless each Indemnitee from all fees and time charges and disbursements for attorneys who may be employees of any Indemnitee, incurred by any Indemnitee or asserted against any Indemnitee by any Person (including the Company or any other Loan Party) other than such Indemnitee and its Related Parties arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder, or the consummation of the transactions contemplated hereby or thereby, or, in the case of the Administrative Agent (and any sub-agent thereof) and its Related Parties only, the administration of this Agreement and the other Loan Documents, (ii) any Loan or the use or proposed use of the proceeds therefrom, (iii) any actual or alleged presence or release of Hazardous Materials at, on, under or emanating from any property owned, leased or operated by the Company or any of its Subsidiaries, or any Environmental Liability related in any way to the Company or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Company or any other Loan Party, and regardless of whether any Indemnitee is a party thereto, **in all cases, whether or not caused by or arising, in whole or in part, out of the comparative, contributory or sole negligence of the Indemnitee; provided** that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or (y) result from a claim brought by the Company or any other Loan Party against an Indemnitee for breach in bad faith of such Indemnitee's obligations hereunder or under any other Loan Document, if the Company or such Loan Party has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction. Without limiting the provisions of Section 3.01(c), this

Section 10.04(b) shall not apply with respect to Taxes other than any Taxes that represent losses, claims, damages, etc. arising from any non-Tax claim.

(c) Reimbursement by Lenders. To the extent that the Company for any reason fails to indefeasibly pay any amount required under subsection (a) or (b) of this Section to be paid by it to the Administrative Agent (or any sub-agent thereof), or any Related Party of any of the foregoing, each Lender severally agrees to pay to the Administrative Agent (or any such sub-agent), or such Related Party, as the case may be, such Lender's pro rata share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought based on each Lender's share of the Total Credit Exposure at such time) of such unpaid amount (including any such unpaid amount in respect of a claim asserted by such Lender), such payment to be made severally among them based on such Lenders' Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent (or any such sub-agent), in its capacity as such, or against any Related Party of any of the foregoing acting for the Administrative Agent (or any such sub-agent), in connection with such capacity. The obligations of the Lenders under this subsection (c) are subject to the provisions of Section 2.12(d).

(d) Waiver of Consequential Damages, Etc. To the fullest extent permitted by applicable law, the Company shall not assert, and the Company hereby waives, and acknowledges that no other Person shall have, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or the use of the proceeds thereof. No Indemnitee referred to in subsection (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed to such unintended recipients by such Indemnitee through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby, except to the extent such damages are found in a final, nonappealable judgment by a court of competent jurisdiction to have resulted from such Indemnitee's gross negligence or willful misconduct.

(e) Payments. All amounts due under this Section shall be payable not later than ten Business Days after demand therefor.

(f) Survival. The agreements in this Section and the indemnity provisions of Section 10.02(e) shall survive the resignation of the Administrative Agent, the replacement of any Lender, the termination of the Aggregate Commitments and the repayment, satisfaction or discharge of all the other Obligations.

**10.05 Payments Set Aside.** To the extent that any payment by or on behalf of the Company is made to the Administrative Agent or any other Lender, or the Administrative Agent or any other Lender exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Administrative Agent, or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred, and (b) each Lender severally agrees to pay to the Administrative Agent upon demand its applicable share (without duplication) of any amount so recovered from or repaid by the Administrative Agent, plus interest thereon from the date of such



demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders under clause (b) of the preceding sentence shall survive the payment in full of the Obligations and the termination of this Agreement.

#### **10.06 Successors and Assigns.**

(a) Successors and Assigns Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that neither the Company nor any other Loan Party may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Administrative Agent and each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an assignee in accordance with the provisions of Section 10.06(b), (ii) by way of participation in accordance with the provisions of Section 10.06(d), or (iii) by way of pledge or assignment of a security interest subject to the restrictions of Section 10.06(f) (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders. Any Lender may at any time assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); provided that any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment and the Loans at the time owing to it or contemporaneous assignments to related Approved Funds (determined after giving effect to such assignments) that equal at least the amount specified in paragraph (b)(i)(B) of this Section in the aggregate or in the case of an assignment to a Lender, an Affiliate of a Lender or an Approved Fund, no minimum amount need be assigned; and

(B) in any case not described in subsection (b)(i)(A) of this Section, the aggregate amount of the Commitment (which for this purpose includes Loans outstanding thereunder) or, if the Commitment is not then in effect, the principal outstanding balance of the Loans of the assigning Lender subject to each such assignment, determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than \$5,000,000 unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Company otherwise consents (each such consent not to be unreasonably withheld or delayed); provided, however, that concurrent assignments to members of an Assignee Group and concurrent assignments from members of an Assignee Group to a single Eligible Assignee (or to an Eligible Assignee and members of its Assignee Group) will be treated as a single assignment for purposes of determining whether such minimum amount has been met.

(ii) Proportionate Amounts. Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loans and the Commitment assigned.

(iii) Required Consents. No consent shall be required for any assignment except to the extent required by subsection (b)(i)(B) of this Section and, in addition:

(A) the consent of the Company (such consent not to be unreasonably withheld or delayed) shall be required unless (1) an Event of Default has occurred and is continuing at the time of such assignment or (2) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund; provided that the Company shall be deemed to have consented to any such assignment unless it shall object thereto by written notice to the Administrative Agent within five (5) Business Days after having received notice thereof;

(B) the consent of the Administrative Agent (such consent not to be unreasonably withheld or delayed) shall be required if such assignment is to a Person that is not a Lender, an Affiliate of such Lender or an Approved Fund with respect to such Lender;

(C) [Reserved]; and

(D) [Reserved].

(iv) Assignment and Assumption. The parties to each permitted assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee in the amount of \$3,500, provided however, that the Administrative Agent may, in its sole discretion, elect to waive such processing and recordation fee in the case of any assignment. The assignee, if it is not a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

(v) No Assignment to Certain Persons. No such assignment shall be made (A) to any Loan Party or any Affiliates or Subsidiaries of any Loan Party, or (B) to any Defaulting Lender or any of its Subsidiaries, or any Person who, upon becoming a Lender hereunder, would constitute any of the foregoing Persons described in this clause (B), or (C) to a natural Person (or a holding company investment vehicle or trust for, or owned and operated for the primary benefit of a natural Person).

(vi) Certain Additional Payments. In connection with any assignment of rights and obligations of any Defaulting Lender hereunder, no such assignment shall be effective unless and until, in addition to the other conditions thereto set forth herein, the parties to the assignment shall make such additional payments to the Administrative Agent in an aggregate amount sufficient, upon distribution thereof as appropriate (which may be outright payment, purchases by the assignee of participations, or other compensating actions, including funding, with the consent of the Company and the Administrative Agent, the applicable pro rata share of Loans previously requested but not funded by the Defaulting Lender, to each of which the applicable assignee and assignor hereby irrevocably consent), to (x) pay and satisfy in full all payment liabilities then owed by such Defaulting Lender to the Administrative Agent or any Lender hereunder

(and interest accrued thereon) and (y) acquire (and fund as appropriate) its full pro rata share of all Loans in accordance with its Applicable Percentage. Notwithstanding the foregoing, in the event that any assignment of rights and obligations of any Defaulting Lender hereunder shall become effective under applicable Law without compliance with the provisions of this paragraph, then the assignee of such interest shall be deemed to be a Defaulting Lender for all purposes of this Agreement until such compliance occurs.

Subject to acceptance and recording thereof by the Administrative Agent pursuant to subsection (c) of this Section, from and after the effective date specified in each Assignment and Assumption, the assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 3.01, 3.04, 3.05, and 10.04 with respect to facts and circumstances occurring prior to the effective date of such assignment; provided, that except to the extent otherwise expressly agreed by the affected parties, no assignment by a Defaulting Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender. Upon request, the Company (at its expense) shall execute and deliver a Note to the assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (d) of this Section.

(c) Register. The Administrative Agent, acting solely for this purpose as an agent of the Company (and such agency being solely for tax purposes), shall maintain at the Administrative Agent's Office a copy of each Assignment and Assumption delivered to it (or the equivalent thereof in electronic form) and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amounts (and stated interest) of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive absent manifest error, and the Company, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. In addition, the Administrative Agent shall maintain on the Register information regarding the designation, and revocation of designation, of any Lender as a Defaulting Lender. The Register shall be available for inspection by the Company at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender may request and receive from the Administrative Agent a copy of the Register.

(d) Participations. Any Lender may at any time, without the consent of, or notice to, the Company, or the Administrative Agent, sell participations to any Person (other than a natural Person, or a holding company, investment vehicle or trust for, or owned and operated for the primary benefit of a natural Person, a Defaulting Lender or the Company or any of the Company's Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Company, the Administrative Agent and the Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. For the avoidance of doubt,

each Lender shall be responsible for the indemnity under Section 10.04(c) without regard to the existence of any participation.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in the first proviso to Section 10.01 that affects such Participant. The Company agrees that each Participant shall be entitled to the benefits of Sections 3.01 and 3.04 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section (it being understood that the documentation required under Section 3.01(e) shall be delivered to the Lender who sells the participation) to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section; provided that such Participant (A) agrees to be subject to the provisions of Sections 3.05 and 10.13 as if it were an assignee under paragraph (b) of this Section and (B) shall not be entitled to receive any greater payment under Sections 3.01 or 3.04, with respect to any participation, than the Lender from whom it acquired the applicable participation would have been entitled to receive, except to the extent such entitlement to receive a greater payment results from a Change in Law that occurs after the Participant acquired the applicable participation. Each Lender that sells a participation agrees, at the Company's request and expense, to use reasonable efforts to cooperate with the Company to effectuate the provisions of Section 3.05 with respect to any Participant. Each Participant agrees to be subject to Section 2.13 as though it were a Lender. Each Lender that sells a participation shall, acting solely for this purpose as non-fiduciary agent of the Company, maintain a register on which it enters the name and address of each Participant and the principal amounts (and .stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"); provided that no Lender shall have any obligation to disclose all or any portion of the Participant Register (including the identity of any Participant or any information relating to a Participant's interest in any commitments, loans, letters of credit or its other obligations under any Loan Document) to any Person except to the extent that such disclosure is necessary to establish that such commitment, loan, letter of credit or other obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary. For the avoidance of doubt, the Administrative Agent (in its capacity as Administrative Agent) shall have no responsibility for maintaining a Participant Register.

(e) [Reserved].

(f) Certain Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under any of its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) Electronic Execution of Assignments and Certain Other Documents. The words "delivery," "execute," "execution," "signed," "signature," and words of like import in any Loan Document or any other document executed in connection herewith shall be deemed to include electronic signatures, the electronic matching of assignment terms and contract formations on electronic platforms approved by the Administrative Agent, or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable Law, including the

Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act; provided that notwithstanding anything contained herein to the contrary neither the Administrative Agent nor any Lender is under any obligation to agree to accept electronic signatures in any form or in any format unless expressly agreed to by the Administrative Agent or such Lender pursuant to procedures approved by it and provided further without limiting the foregoing, upon the request of any party, any electronic signature shall be promptly followed by such manually executed counterpart.

(h) [Reserved].

**10.07 Treatment of Certain Information; Confidentiality.** Each of the Administrative Agent, and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates and to its Related Parties (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent required or requested by any regulatory authority purporting to have jurisdiction over such Person or its Related Parties (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights and obligations under this Agreement or (ii) any actual or prospective party (or its Related Parties) to any swap, derivative or other transaction under which payments are to be made by reference to the Company and its obligations, this Agreement or payments hereunder, (g) on a confidential basis to (i) any rating agency in connection with rating the Company or its Subsidiaries or the credit facilities provided hereunder or (ii) the CUSIP Service Bureau or any similar agency in connection with the issuance and monitoring of CUSIP numbers of other market identifiers with respect to the credit facilities provided hereunder, (h) with the consent of the Company or (i) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section or (y) becomes available to the Administrative Agent, any Lender or any of their respective Affiliates on a nonconfidential basis from a source other than the Company. In addition, the Administrative Agent and the Lenders may disclose the existence of this Agreement and information contained in this Agreement to market data collectors, similar service providers to the lending industry and service providers to the Administrative Agent and the Lenders in connection with the administration of this Agreement, the other Loan Documents, and the Commitments.

For purposes of this Section, “Information” means all information received from the Company or any Subsidiary relating to the Company or any Subsidiary or any of their respective businesses, other than any such information that is available to the Administrative Agent or any Lender on a nonconfidential basis prior to disclosure by the Company or any Subsidiary, provided that, in the case of information received from the Company or any Subsidiary after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Each of the Administrative Agent and the Lenders acknowledges that (a) the Information may include material non-public information concerning the Company or a Subsidiary, as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with applicable Law, including United States Federal and state securities Laws.

**10.08 [Reserved].**

**10.09 Interest Rate Limitation.** Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by applicable Law (the “Maximum Rate”). If the Administrative Agent or any Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Loans or, if it exceeds such unpaid principal, refunded to the Company. In determining whether the interest contracted for, charged, or received by the Administrative Agent or a Lender exceeds the Maximum Rate, such Person may, to the extent permitted by applicable Law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

**10.10 Counterparts; Integration; Effectiveness.** This Agreement and the other Loan Documents may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement and the other Loan Documents shall become effective when they shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement or any other Loan Document by telecopy or other electronic imaging means shall be effective as delivery of a manually executed counterpart of this Agreement or such other Loan Document.

**10.11 Survival of Representations and Warranties.** All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Administrative Agent and each Lender, regardless of any investigation made by the Administrative Agent or any Lender or on their behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default at the time of any Credit Extension, and shall continue in full force and effect as long as any Loan or any other Obligation hereunder shall remain unpaid or unsatisfied.

**10.12 Severability.** If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. Without limiting the foregoing provisions of this Section 10.12, if and to the extent that the enforceability of any provisions in this Agreement relating to Defaulting Lenders shall be limited by Debtor Relief Laws, as determined in good faith by the Administrative Agent, then such provisions shall be deemed to be in effect only to the extent not so limited.

**10.13 Replacement of Lenders.** If the Company is entitled to replace a Lender pursuant to the provisions of Section 3.05, or if any Lender is a Defaulting Lender or a Non-Consenting Lender, then the Company may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 10.06), all of its interests, rights (other than its existing rights to payments pursuant to Sections 3.01 and 3.04) and obligations under this Agreement and the related Loan Documents to an Eligible Assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that:

(a) the Company shall have paid to the Administrative Agent the assignment fee specified in Section 10.06(b);

(b) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Company (in the case of all other amounts);

(c) in the case of any such assignment resulting from a claim for compensation under Section 3.04 or payments required to be made pursuant to Section 3.01, such assignment will result in a reduction in such compensation or payments thereafter;

(d) such assignment does not conflict with applicable Laws; and

(e) in the case of an assignment resulting from a Lender becoming a Non-Consenting Lender, the applicable assignee shall have consented to the applicable amendment, waiver or consent.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Company to require such assignment and delegation cease to apply.

**10.14 Governing Law; Jurisdiction; Etc.**

(a) GOVERNING LAW. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS AND ANY CLAIMS, CONTROVERSY, DISPUTE OR CAUSE OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT (EXCEPT, AS TO ANY OTHER LOAN DOCUMENT, AS EXPRESSLY SET FORTH THEREIN) AND THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NORTH CAROLINA.

(b) SUBMISSION TO JURISDICTION. THE COMPANY IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NORTH CAROLINA SITTING IN MECKLENBURG COUNTY AND OF THE UNITED STATES FOR THE WESTERN DISTRICT, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NORTH CAROLINA STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR

PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT THE ADMINISTRATIVE AGENT, ANY LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST THE COMPANY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(c) WAIVER OF VENUE. THE COMPANY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN PARAGRAPH (B) OF THIS SECTION. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(d) SERVICE OF PROCESS. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 10.02. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

#### **10.15 Waiver of Jury Trial; Binding Arbitration.**

(a) Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

#### **(b) Binding Arbitration.**

(i) Agreement to Arbitrate. Upon demand of any party, whether made before or after institution of any judicial proceeding, any dispute, claim or controversy arising out of, connected with or relating to this Agreement or any other Loan Document ("Disputes"), between or among parties hereto and to the other Loan Documents shall be resolved by binding arbitration as provided herein. Institution of a judicial proceeding by a party does not waive the right of that party to demand arbitration hereunder. Disputes may include tort claims, counterclaims, claims brought as class actions, claims arising from Loan Documents executed in the future, disputes as to whether a matter is subject to arbitration, or claims concerning any aspect of the past, present or future relationships arising out of or connected with the Loan Documents. The parties hereto do not waive any applicable Federal or state substantive Law (including the protections afforded to banks under 12 U.S.C. Section 91 or any similar applicable state Law) except as provided herein. A judgment upon the award may be entered in any court having jurisdiction.



(ii) General Rules of Arbitration. Any arbitration proceeding will (A) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the Loan Documents between the parties, (B) be conducted by the American Arbitration Association (the “AAA”), or such other administrator as the parties shall mutually agree upon, in accordance with the commercial dispute resolution procedures of the AAA, unless the claim or counterclaim is at least \$1,000,000 exclusive of claimed interest, arbitration fees and costs, in which case the arbitration shall be conducted in accordance with the AAA’s optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to, as applicable, as the “Arbitration Rules”) and (C) proceed in a location in Charlotte, North Carolina selected by the AAA. The expedited procedures set forth in Rule 51, et seq. of the Arbitration Rules shall be applicable to claims of less than \$1,000,000. All applicable statutes of limitations shall apply to any Dispute. If there is any inconsistency between the terms hereof and the Arbitration Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Notwithstanding anything in the foregoing to the contrary, any arbitration proceeding demanded hereunder shall begin within ninety (90) days after such demand thereof and shall be concluded within one hundred twenty (120) days after such demand. These time limitations may not be extended unless a party hereto shows cause for extension and then such extension shall not exceed a total of sixty (60) days.

(iii) Arbitrators. Any arbitration proceeding in which the amount in controversy is \$5,000,000 or less will be decided by a single arbitrator selected according to the Arbitration Rules, and who shall not render an award of greater than \$5,000,000. Any dispute in which the amount in controversy exceeds \$5,000,000 shall be decided by majority vote of a panel of three arbitrators; provided that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the jurisdiction of the state where the hearing will be conducted or a neutral retired judge of the jurisdiction, state or federal, of the state where the hearing will be conducted, in either case with a minimum of ten years’ experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. In any arbitration proceeding, the arbitrator will decide (by documents only or with a hearing at the arbitrator’s discretion) any pre-hearing motions that are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive Law of the State of North Carolina and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure or other applicable Law.

(iv) Preservation of Certain Remedies. Notwithstanding the preceding binding arbitration provisions, the parties hereto and the other Loan Documents preserve, without diminution, certain remedies that such Persons may employ or exercise freely, either alone, in conjunction with or during a Dispute. Each such Person shall have and hereby reserves the right to proceed in any court of proper jurisdiction or by self-help to exercise or prosecute the following remedies, as applicable: (A) all rights to foreclose against any real or personal property or other security by exercising a power of sale granted in the Loan Documents or under applicable Law or by judicial foreclosure and sale, including a proceeding to confirm the sale, (B) all rights of self-help including peaceful occupation of property and collection of rents, set off,

and peaceful possession of property, (C) obtaining provisional or ancillary remedies including injunctive relief, sequestration, garnishment, attachment, appointment of receiver and in filing an involuntary bankruptcy proceeding, and (D) when applicable, a judgment by confession of judgment. Preservation of these remedies does not limit the power of an arbitrator to grant similar remedies that may be requested by a party in a Dispute.

**10.16 USA PATRIOT Act Notice** . Each Lender that is subject to the Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Company that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Act”), it is required to obtain, verify and record information that identifies the Company, which information includes the name and address of the Company and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Company in accordance with the Act. The Company shall, promptly following a request by the Administrative Agent or any Lender, provide all documentation and other information that the Administrative Agent or such Lender requests in order to comply with its ongoing obligations under applicable “know your customer” and anti-money laundering rules and regulations, including the Act.

**10.17 MIRE Events**. Any increase, extension or renewal of the credit facility evidenced by this Agreement shall be subject to flood insurance due diligence and flood insurance compliance reasonably satisfactory to the Administrative Agent and all Lenders.

**10.18 No Advisory or Fiduciary Responsibility**. In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), the Company acknowledges and agrees, and acknowledges its Affiliates’ understanding, that: (i) (A) the arranging and other services regarding this Agreement provided by the Administrative Agent and the Arranger are arm’s-length commercial transactions between the Company and its Affiliates, on the one hand, and the Administrative Agent and the Arranger, on the other hand, (B) the Company has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, and (C) the Company is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; (ii) (A) the Administrative Agent and the Arranger each is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for the Company or any of its Affiliates, or any other Person and (B) neither the Administrative Agent nor the Arranger has any obligation to the Company or any of its Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; and (iii) the Administrative Agent and the Arranger and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Company and its Affiliates, and neither the Administrative Agent nor the Arranger has any obligation to disclose any of such interests to the Company or its Affiliates. To the fullest extent permitted by law, the Company hereby waives and releases any claims that it may have against the Administrative Agent and the Arranger with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby.

**10.19 [Reserved]** .

**10.20 Electronic Execution of Assignments and Certain Other Documents** . The words “execute,” “execution,” “signed,” “signature,” and words of like import in or related to any document to be signed in connection with this Agreement and the transactions contemplated hereby (including without limitation Assignment and Assumptions, amendments or other modifications, Committed Loan Notices, waivers and consents) shall be deemed to include electronic signatures, the electronic matching of assignment terms and contract formations on electronic platforms approved by the Administrative Agent, or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed

signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act; provided that notwithstanding anything contained herein to the contrary the Administrative Agent is under no obligation to agree to accept electronic signatures in any form or in any format unless expressly agreed to by the Administrative Agent pursuant to procedures approved by it.

**10.21 Acknowledgment and Consent to Bail-In of EEA Financial Institutions .** Solely to the extent any Lender that is an EEA Financial Institution is a party to this Agreement and notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any Lender that is an EEA Financial Institution arising under any Loan Document, to the extent such liability is unsecured, may be subject to the write-down and conversion powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

(a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any Lender that is an EEA Financial Institution; and

(b) the effects of any Bail-In Action on any such liability, including, if applicable:

(i) a reduction in full or in part or cancellation of any such liability;

(ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or

(iii) the variation of the terms of such liability in connection with the exercise of the write-down and conversion powers of any EEA Resolution Authority.

**10.22 Acknowledgement Regarding Any Supported QFCs .** To the extent that the Loan Documents provide support, through a guarantee or otherwise, for any Swap Contract or any other agreement or instrument that is a QFC (such support, "QFC Credit Support", and each such QFC, a "Supported QFC"), the parties acknowledge and agree as follows with respect to the resolution power of the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (together with the regulations promulgated thereunder, the "U.S. Special Resolution Regimes") in respect of such Supported QFC and QFC Credit Support (with the provisions below applicable notwithstanding that the Loan Documents and any Supported QFC may in fact be stated to be governed by the laws of the State of New York and/or of the United States or any other state of the United States): In the event a Covered Entity that is party to a Supported QFC (each, a "Covered Party") becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer of such Supported QFC and the benefit of such QFC Credit Support (and any interest and obligation in or under such Supported QFC and such QFC Credit Support, and any rights in property securing such Supported QFC or such QFC Credit Support) from such Covered Party will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if the Supported QFC and such QFC Credit Support (and any such interest, obligation and rights in property) were governed by the laws of the United States or a state of the United States. In the event a Covered Party or a BHC Act Affiliate of a Covered Party becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under the Loan Documents that might otherwise apply to such Supported QFC or any QFC Credit Support that may be exercised against such Covered Party are permitted to be exercised to no greater extent than

such Default Rights could be exercised under the U.S. Special Resolution Regime if the Supported QFC and the Loan Documents were governed by the laws of the United States or a state of the United States. Without limitation of the foregoing, it is understood and agreed that rights and remedies of the parties with respect to a Defaulting Lender shall in no event affect the rights of any Covered Party with respect to a Supported QFC or any QFC Credit Support.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK;  
SIGNATURE PAGES FOLLOW.]

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

**COMPANY:**

**SONIC AUTOMOTIVE, INC.**

By: /s/ Heath R. Byrd

Name: Heath R. Byrd

Title: Executive Vice President and Chief Financial Officer

CREDIT AGREEMENT  
(Sonic Automotive, Inc.)  
S-1

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**ADMINISTRATIVE AGENT:**

**PNC BANK, NATIONAL ASSOCIATION,**  
as Administrative Agent

By: /s/ Krutesh Trivedi

Name: Krutesh Trivedi

Title: Vice President

**LENDERS:**

**PNC BANK, NATIONAL ASSOCIATION**, as Lender

By: /s/ Krutesh Trivedi

Name: Krutesh Trivedi

Title: Vice President

**WELLS FARGO BANK, NATIONAL ASSOCIATION**, as Lender

By: /s/ Jeffrey E. Bullard, Sr.

Name: Jeffrey E. Bullard, Sr.

Title: Senior Vice President

CREDIT AGREEMENT  
(Sonic Automotive, Inc.)  
S-4

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**FORM OF COMMITTED LOAN NOTICE**

Date: \_\_\_\_\_, \_\_\_\_\_

To: PNC Bank, National Association, as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of November 22, 2019 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Credit Agreement" the terms defined therein being used herein as therein defined), among Sonic Automotive, Inc., a Delaware corporation (the "Company"), the Lenders from time to time party thereto and PNC Bank, National Association, as Administrative Agent.

The undersigned hereby requests (select one):

- A Borrowing of Committed Loans
- A conversion of Committed Loans

1. On \_\_\_\_\_ (a Business Day).

2. In the amount of \$ \_\_\_\_\_.

3. Comprised of \_\_\_\_\_.  
[Type of Committed Loan requested]

[With respect to such Borrowing of a Committed Loans, the undersigned hereby represents and warrants that (i) such request complies with Section 2.01 of the Credit Agreement and (ii) each of the conditions set forth in Sections 4.2(a) and (b) of the Credit Agreement have been satisfied on and as of the date of such Borrowing.]

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**[RESERVED]**

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**FORM OF NOTE**

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FOR VALUE RECEIVED, the undersigned (the “Company”) hereby promises to pay to [LENDER] or its registered assigns (the “Lender”), in accordance with the provisions of the Credit Agreement (as hereinafter defined), the principal amount of each Loan from time to time made by the Lender to the Company under that certain Credit Agreement, dated as of November 22, 2019 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the “Credit Agreement”, the terms defined therein being used herein as therein defined), among the Company, the Lenders from time to time party thereto and PNC Bank, National Association, as Administrative Agent.

The Company promises to pay interest on the unpaid principal amount of each Loan from the date of such Loan until such principal amount is paid in full, at such interest rates and at such times as provided in the Credit Agreement. All payments of principal and interest shall be made to the Administrative Agent for the account of the Lender in Dollars in immediately available funds at the Administrative Agent’s Office. If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Credit Agreement.

This Note is one of the Notes referred to in the Credit Agreement, is entitled to the benefits thereof and may be prepaid in whole or in part subject to the terms and conditions provided therein. This Note is also entitled to the benefits of the Subsidiary Guaranty and is secured by the Collateral. Upon the occurrence and continuation of one or more of the Events of Default specified in the Credit Agreement, all amounts then remaining unpaid on this Note shall (if required by the Credit Agreement) become, or may be declared to be, immediately due and payable all as provided in the Credit Agreement. Loans made by the Lender shall be evidenced by one or more loan accounts or records maintained by the Lender in the ordinary course of business. The Lender may also attach schedules to this Note and endorse thereon the date, amount and maturity of its Loans and payments with respect thereto.

The Company, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Note.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NORTH CAROLINA.

**SONIC AUTOMOTIVE, INC.**

By: \_  
Name: \_  
Title: \_

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FORM OF ASSIGNMENT AND ASSUMPTION

This Assignment and Assumption (this “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [the][each] 1 Assignor identified in item 1 below ([the][each, an] “Assignor”) and [the][each] Assignee identified in item 2 below ([the][each, an] “Assignee”). [It is understood and agreed that the rights and obligations of [the Assignors][the Assignees] hereunder are several and not joint. 2 Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the “Credit Agreement”), receipt of a copy of which is hereby acknowledged by the Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, [the][each] Assignor hereby irrevocably sells and assigns to [the Assignee][the respective Assignees], and [the][each] Assignee hereby irrevocably purchases and assumes from [the Assignor][the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (i) all of [the Assignor’s][the respective Assignors’] rights and obligations in [its capacity as a Lender][their respective capacities as Lenders] under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor][the respective Assignors] under the respective facilities identified below (including, without limitation, the Letters of Credit or the Swing Line Loans included in such facilities) and (ii) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor (in its capacity as a Lender)][the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned by [the][any] Assignor to [the][any] Assignee pursuant to clauses (i) and (ii) above being referred to herein collectively as [the][an] “Assigned Interest”). Each such sale and assignment is without recourse to [the][any] Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by [the][any] Assignor.

1. Assignor: \_\_\_\_\_  
[Assignor [is][is not] a Defaulting Lender.]

2. Assignee: \_\_\_\_\_  
[for each Assignee, indicate [Affiliate][Approved Fund] of [identify Lender]]

3. Borrower or the Company: Sonic Automotive, Inc., a Delaware corporation

4. Administrative Agent: PNC Bank, National Association, as the administrative agent under the Credit Agreement

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5. Credit Agreement: Credit Agreement, dated as of November 22, 2019 among Sonic Automotive, Inc., a Delaware corporation, the Lenders from time to time party thereto and PNC Bank, National Association, as Administrative Agent.

6. Assigned Interest:

Assignor[s] - List each Assignor, as appropriate.	Assignee[s] <sup>2</sup>	Aggregate Amount of unused Commitment and Loans for all Lenders <sup>3</sup>	Amount of unused Commitment and Loans Assigned*	Percentage Assigned of unused Commitment and Loans <sup>2</sup>	CUSIP Number
		\$ _____	\$ _____	_____%	
		\$ _____	\$ _____	_____%	
		\$ _____	\$ _____	_____%	

[7. Trade Date: \_\_\_\_\_]<sup>4</sup>

Effective Date: \_\_\_\_\_, 20\_\_ [TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR  
[NAME OF ASSIGNOR]

By: \_  
Title:

ASSIGNEE  
[NAME OF ASSIGNEE]

By: \_  
Title:

<sup>1</sup> List each Assignor, as appropriate.

<sup>2</sup> List each Assignee, as appropriate.

\* Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

<sup>3</sup> Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

<sup>4</sup> To be completed if the Assignor and the Assignee intend that the minimum assignment amount is to be determined as of the Trade Date.

[Consented to and]<sup>5</sup> Accepted:

PNC BANK, NATIONAL ASSOCIATION, as  
Administrative Agent

By: \_  
Title:

[Consented to:]<sup>6</sup>

SONIC AUTOMOTIVE, INC.

By: \_  
Title:

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<sup>5</sup> To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

<sup>6</sup> To be added only if the consent of the Company is required by the terms of the Credit Agreement

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## ANNEX 1 TO ASSIGNMENT AND ASSUMPTION

### STANDARD TERMS AND CONDITIONS FOR

#### ASSIGNMENT AND ASSUMPTION

##### 1. Representations and Warranties.

1.1 Assignor. [The][Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the][the relevant] Assigned Interest, (ii) [the][such] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Company, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Company, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. [The][Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all the requirements to be an assignee under Section 10.06(b)(iii) and (v) of the Credit Agreement (subject to such consents, if any, as may be required under Section 10.06(b)(iii) of the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of [the][the relevant] Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it is sophisticated with respect to decisions to acquire assets of the type represented by [the][such] Assigned Interest and either it, or the Person exercising discretion in making its decision to acquire [the][such] Assigned Interest, is experienced in acquiring assets of such type, (v) it has received a copy of the Credit Agreement, and has received or has been accorded the opportunity to receive copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it deems appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the][such] Assigned Interest, (vi) it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the][such] Assigned Interest, and (vii) if it is a Foreign Lender, attached hereto is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by [the] [such] Assignee; and (b) agrees that (i) it will, independently and without reliance upon the Administrative Agent, [the][any] Assignor 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 taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of [the] [each] Assigned Interest (including payments of principal, interest, fees and other amounts) to [the][the relevant] Assignor for amounts which have accrued to but excluding the

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Effective Date and to [the][the relevant] Assignee for amounts which have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the law of the State of North Carolina.

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**FORM OF SUBSIDIARY GUARANTY**

[attached]

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**FORM OF COMPLIANCE CERTIFICATE**

Financial Statement Date: \_\_\_\_\_, \_\_\_\_\_

To: PNC Bank, National Association, as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of November 22, 2019 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the “Credit Agreement”; all terms used herein but not otherwise defined herein have the respective meanings given thereto in the Credit Agreement), among Sonic Automotive, Inc., a Delaware corporation (the “Company”), the lenders from time to time party thereto and PNC Bank, National Association, as Administrative Agent.

The undersigned Responsible Officer hereby certifies as of the date hereof that he/she is the\_\_of the Company, and that, as such, he/she is authorized to execute and deliver this Certificate to the Administrative Agents on the behalf of the Company, and that:

[Use following paragraph 1 for fiscal year-end financial statements]

1. Attached hereto as Schedule 1 are the year-end audited financial statements required by Section 6.01(a) of each Credit Agreement for the fiscal year of the Company ended as of the above date, together with the report and opinion of an independent certified public accountant required by such section.

[Use following paragraph 1 for fiscal quarter-end financial statements]

1. Attached hereto as Schedule 1 are the unaudited financial statements required by Section 6.01(b) of each Credit Agreement for the fiscal quarter of the Company ended as of the above date. Such quarterly financial statements fairly present the financial condition, results of operations and cash flows of the Company and its Subsidiaries in accordance with GAAP as at

[Use following paragraph 1 for fiscal month-end financial statements]

1. Attached hereto as Schedule 1 are the unaudited financial statements required by Section 6.01(c) of each Credit Agreement for the fiscal month of the Company ended as of the above date. Such monthly financial statements fairly present the financial condition, results of operations and cash flows of the Company and its Subsidiaries in accordance with GAAP as at such date and for such period, subject only to normal year-end audit adjustments and the absence of footnotes.

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2. The undersigned has reviewed and is familiar with the terms of each Credit Agreement and has made, or has caused to be made under his/her supervision, a detailed review of the transactions and condition (financial or otherwise) of the Company and its Subsidiaries during the accounting period covered by the attached financial statements.

3. A review of the activities of the Loan Parties during such fiscal period has been made under the supervision of the undersigned with a view to determining whether during such fiscal period each Loan Party has performed and observed all of its Obligations under the Loan Documents, and

[select one:]

[to the best knowledge of the undersigned during such fiscal period, each Loan Party performed and observed each covenant and condition of the Loan Documents applicable to it, and no Default has occurred and is continuing.]

--or--

[the following covenants or conditions have not been performed or observed and the following is a list of each such Default and its nature and status:]

4. The representations and warranties of the Company and each Loan Party contained in Article V of the Credit Agreement, and any representations and warranties of any Loan Party that are contained in any document furnished at any time under or in connection with the Loan Documents, are true and correct on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this Compliance Certificate, the representations and warranties contained in subsections (a) and (b) of Section 5.05 of the Credit Agreement shall be deemed to refer to the most recent statements furnished pursuant to clauses (a), (b) and (c), respectively, of Section 6.01 of the Credit Agreement, including the statements in connection with which this Compliance Certificate is delivered.

5. The financial covenant analyses and information set forth on Schedule 2 attached hereto are true and accurate on and as of the date of this Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Compliance Certificate as of \_\_\_\_\_, \_\_\_\_\_.

SONIC AUTOMOTIVE, INC.

By: \_  
Name: \_  
Title: \_

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For the Quarter/Year ended \_\_\_\_\_ (“Statement Date”)

SCHEDULE 1  
to the Compliance Certificate

[Financial Statements to be attached ]

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For the Quarter/Year ended \_\_\_\_\_ (“Statement Date”)

SCHEDULE 2  
to the Compliance Certificate  
(\$ in 000's)

[to be attached]

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FORM OF JOINDER AGREEMENT

**THIS JOINDER AGREEMENT** (the “Joinder Agreement”), dated as of \_\_, 20\_\_ is made by [\_\_\_\_], a \_\_\_\_ (the “Joining Subsidiary”), and delivered to PNC BANK, NATIONAL ASSOCIATION, in its capacity as Administrative Agent (the “Administrative Agent”) under that certain Credit Agreement (as amended, revised, modified, supplemented or amended and restated from time to time, the “Credit Agreement”), dated as of November 22, 2019, by and among Sonic Automotive, Inc., a Delaware corporation (the “Company”), the Lenders from time to time party thereto and PNC Bank, National Association, as Administrative Agent. All capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Credit Agreement.

**WHEREAS**, certain Subsidiaries of the Company and the Administrative Agent have entered into a Subsidiary Guaranty Agreement dated as of November 22, 2019 (as amended, revised, modified, supplemented or amended and restated from time to time, the “Subsidiary Guaranty Agreement”);

**WHEREAS**, the Joining Subsidiary is required by the terms of the Credit Agreement to become a “Guarantor” under the Subsidiary Guaranty Agreement and be joined as a party to the Subsidiary Guaranty Agreement as a Guarantor (as defined in the Subsidiary Guaranty Agreement);

**WHEREAS**, the Joining Subsidiary will materially benefit from the credit facilities made available and to be made available to the Company by the Lenders under the Credit Agreement;

**NOW, THEREFORE**, the Joining Subsidiary hereby agrees as follows with the Administrative Agent, for the benefit of the Secured Parties (as defined in the Credit Agreement):

1. **Subsidiary Guaranty Agreement.**

a. **Joinder.** The Joining Subsidiary hereby irrevocably, absolutely and unconditionally becomes a party to the Subsidiary Guaranty Agreement as a “Guarantor” (such term as used in this Section 1 having the meaning set forth in the Subsidiary Guaranty Agreement) and bound by all the terms, conditions, obligations, liabilities and undertakings of each Guarantor or to which any Guarantor is subject thereunder, including without limitation the joint and several, unconditional, absolute, continuing and irrevocable guarantee to the Administrative Agent for the benefit of the Secured Parties of the payment and performance in full of the Guaranteed Liabilities (as defined in the Subsidiary Guaranty Agreement) whether now existing or hereafter arising, all with the same force and effect as if the Joining Subsidiary were a signatory to the Subsidiary Guaranty Agreement.

b. **Affirmations.** The Joining Subsidiary hereby acknowledges and reaffirms as of the date hereof with respect to itself, its properties and its affairs each of the representations, warranties, acknowledgements and certifications applicable to, and each of the waivers by, any Guarantor contained in the Subsidiary Guaranty Agreement.

2. **Miscellaneous.**



a. **Notices.** Except as otherwise provided herein, whenever it is provided herein that any notice, demand, request, consent, approval, declaration or other communication shall or may be given to or served upon any of the parties by any other party, or whenever any of the parties desires to give and serve upon any other party any communication with respect to this Joinder Agreement, each such notice, demand, request, consent, approval, declaration or other communication shall be in writing and shall be given in the manner, and deemed received, as provided for in the Credit Agreement.

b. **Severability.** Whenever possible, each provision of this Joinder Agreement shall be interpreted in a manner as to be effective and valid under applicable law, but if any provision of this Joinder Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Joinder Agreement. This Joinder Agreement is to be read, construed and applied together with the Credit Agreement and the other Loan Documents, which, taken together, set forth the complete understanding and agreement of the Administrative Agent and the Lenders and the Joining Subsidiary with respect to the matters referred to herein and therein.

c. **Successors and Assigns.** This Joinder Agreement and all obligations of the Joining Subsidiary hereunder shall be binding upon the successors and assigns of the Joining Subsidiary (including any debtor-in-possession on behalf of the Joining Subsidiary) and shall, together with the rights and remedies of the Administrative Agent, for the benefit of the Secured Parties, hereunder, inure to the benefit of the Administrative Agent and the Secured Parties, all future holders of any instrument evidencing any of the Obligations and their respective successors and assigns. No sales of participations, other sales, assignments, transfers or other dispositions of any agreement governing or instrument evidencing the Obligations or any portion thereof or interest therein shall in any manner affect the Liens granted to the Administrative Agent, for the benefit of the Secured Parties, under the Loan Documents. The Joining Subsidiary may not assign, sell, hypothecate or otherwise transfer any interest in or obligation under this Joinder Agreement.

d. **Counterparts.** This Joinder Agreement may be authenticated in any number of separate counterparts, each of which shall collectively and separately constitute one and the same agreement. This Joinder Agreement may be authenticated by manual signature, facsimile or, if approved in writing by the Administrative Agent, electronic means, all of which shall be equally valid. Without limiting the foregoing provisions of this Section 5(d), the provisions of Section 10.10 of the Credit Agreement shall be applicable to this Joinder Agreement.

e. **Section Titles.** The Section titles contained in this Joinder Agreement are and shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto.

f. **Delivery.** The Joining Subsidiary hereby irrevocably waives notice of acceptance of this Joinder Agreement and acknowledges that the Obligations are and shall be deemed to be incurred, and credit extensions under the Loan Documents made and maintained, in reliance on this Joinder Agreement and the Joining Subsidiary's joinder as a party to the Subsidiary Guaranty Agreement, as herein provided.

g. **Governing Law; Venue; Waiver of Jury Trial.** The provisions of Sections 10.14 and 10.15 of the Credit Agreement are hereby incorporated by reference as if fully set forth herein.

**IN WITNESS WHEREOF**, the Joining Subsidiary has duly executed and delivered this Joinder Agreement as of the day and year first written above.

JOINING SUBSIDIARY: [ \_\_\_\_\_ ]

—  
By:  
Name:  
Title:

*EXHIBIT H – EXHIBIT M*

[Reserved]

**FORM OF  
U.S. TAX COMPLIANCE CERTIFICATE**

(For Foreign Lenders That Are Not Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Credit Agreement dated as of November 22, 2019 (as amended, restated, extended, supplemented or otherwise modified from time to time, the "Credit Agreement"; the terms defined therein being used herein as therein defined), among Sonic Automotive, Inc., a Delaware corporation (the "Company"), the Lenders from time to time party thereto, and PNC Bank, National Association, as Administrative Agent.

Pursuant to the provisions of Section 3.01(e) of the Credit Agreement, the undersigned hereby certifies that (i) it is the sole record and beneficial owner of the Loan(s) (as well as any Note(s) evidencing such Loan(s)) in respect of which it is providing this certificate, (ii) it is not a bank within the meaning of Section 881(c)(3)(A) of the Code, (iii) it is not a ten percent shareholder of the Company within the meaning of Section 871(h)(3)(B) of the Code and (iv) it is not a controlled foreign corporation related to the Company as described in Section 881(c)(3)(C) of the Code.

The undersigned has furnished the Administrative Agent and the Company with a certificate of its non-U.S. Person status on IRS Form W-8BEN (or W-8BEN-E, as applicable). By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform the Company and the Administrative Agent, and (2) the undersigned shall have at all times furnished the Company and the Administrative Agent with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

[NAME OF LENDER]

By: \_\_

Name: \_\_

Title: \_\_

Date: \_\_, 20 \_\_

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**FORM OF  
U.S. TAX COMPLIANCE CERTIFICATE**

(For Foreign Participants That Are Not Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Credit Agreement dated as of November 22, 2019 (as amended, restated, extended, supplemented or otherwise modified from time to time, the "Credit Agreement"; the terms defined therein being used herein as therein defined), among Sonic Automotive, Inc., a Delaware corporation (the "Company"), the Lenders from time to time party thereto, and PNC Bank, National Association, as Administrative Agent.

Pursuant to the provisions of Section 3.01(e) of the Credit Agreement, the undersigned hereby certifies that (i) it is the sole record and beneficial owner of the participation in respect of which it is providing this certificate, (ii) it is not a bank within the meaning of Section 881(c)(3)(A) of the Code, (iii) it is not a ten percent shareholder of the Company within the meaning of Section 871(h)(3)(B) of the Code, and (iv) it is not a controlled foreign corporation related to the Company as described in Section 881(c)(3)(C) of the Code.

The undersigned has furnished its participating Lender with a certificate of its non-U.S. Person status on IRS Form W-8BEN (or W-8BEN-E, as applicable). By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform such Lender in writing, and (2) the undersigned shall have at all times furnished such Lender with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

[NAME OF PARTICIPANT]

By:\_\_\_

Name:\_\_\_

Title:\_\_\_

Date:\_, 20\_\_

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**FORM OF  
U.S. TAX COMPLIANCE CERTIFICATE**

(For Foreign Participants That Are Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Credit Agreement dated as of November 22, 2019 (as amended, restated, extended, supplemented or otherwise modified from time to time, the "Credit Agreement"; the terms defined therein being used herein as therein defined), among Sonic Automotive, Inc., a Delaware corporation (the "Company"), the Lenders from time to time party thereto, and PNC Bank, National Association, as Administrative Agent.

Pursuant to the provisions of Section 3.01(e) of the Credit Agreement, the undersigned hereby certifies that (i) it is the sole record owner of the participation in respect of which it is providing this certificate, (ii) its direct or indirect partners/members are the sole beneficial owners of such participation, (iii) with respect to such participation, neither the undersigned nor any of its direct or indirect partners/members is a bank extending credit pursuant to a loan agreement entered into in the ordinary course of its trade or business within the meaning of Section 881(c)(3)(A) of the Code, (iv) none of its direct or indirect partners/members is a ten percent shareholder of the Company within the meaning of Section 871(h)(3)(B) of the Code and (v) none of its direct or indirect partners/members is a controlled foreign corporation related to the Company as described in Section 881(c)(3)(C) of the Code.

The undersigned has furnished its participating Lender with IRS Form W-8IMY accompanied by one of the following forms from each of its partners/members that is claiming the portfolio interest exemption: (i) an IRS Form W-8BEN (or W-8BEN-E, as applicable) or (ii) an IRS Form W-8IMY accompanied by an IRS Form W-8BEN (or W-8BEN-E, as applicable) from each of such partner's/member's beneficial owners that is claiming the portfolio interest exemption. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform such Lender and (2) the undersigned shall have at all times furnished such Lender with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

[NAME OF PARTICIPANT]

By: \_\_

Name: \_\_

Title: \_\_

Date: \_\_, 20 \_\_

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**FORM OF  
U.S. TAX COMPLIANCE CERTIFICATE**

(For Foreign Lenders That Are Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Credit Agreement dated as of November 22, 2019 (as amended, restated, extended, supplemented or otherwise modified from time to time, the "Credit Agreement"; the terms defined therein being used herein as therein defined), among Sonic Automotive, Inc., a Delaware corporation (the "Company"), the Lenders from time to time party thereto, and PNC Bank, National Association, as Administrative Agent.

Pursuant to the provisions of Section 3.01(e) of the Credit Agreement, the undersigned hereby certifies that (i) it is the sole record owner of the Loan(s) (as well as any Note(s) evidencing such Loan(s)) in respect of which it is providing this certificate, (ii) its direct or indirect partners/members are the sole beneficial owners of such Loan(s) (as well as any Note(s) evidencing such Loan(s)), (iii) with respect to the extension of credit pursuant to this Credit Agreement or any other Loan Document, neither the undersigned nor any of its direct or indirect partners/members is a bank extending credit pursuant to a loan agreement entered into in the ordinary course of its trade or business within the meaning of Section 881(c)(3)(A) of the Code, (iv) none of its direct or indirect partners/members is a ten percent shareholder of the Company within the meaning of Section 871(h)(3)(B) of the Code and (v) none of its direct or indirect partners/members is a controlled foreign corporation related to the Company as described in Section 881(c)(3)(C) of the Code.

The undersigned has furnished the Administrative Agent and the Company with IRS Form W-8IMY accompanied by one of the following forms from each of its partners/members that is claiming the portfolio interest exemption: (i) an IRS Form W-8BEN (or W-8BEN-E, as applicable) or (ii) an IRS Form W-8IMY accompanied by an IRS Form W-8BEN (or W-8BEN-E, as applicable) from each of such partner's/member's beneficial owners that is claiming the portfolio interest exemption. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform the Company and the Administrative Agent, and (2) the undersigned shall have at all times furnished the Company and the Administrative Agent with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

[NAME OF LENDER]

By:\_\_\_

Name:\_\_\_

Title:\_\_\_

Date:\_, 20\_\_

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**FORM OF NOTICE OF LOAN PREPAYMENT**

TO: PNC Bank, National Association, as Administrative Agent

RE: Credit Agreement dated as of November 22, 2019 by and among SONIC AUTOMOTIVE, INC., a Delaware corporation (the "Company"), the Lenders from time to time party thereto and PNC BANK, NATIONAL ASSOCIATION (as amended, modified, extended, restated, replaced, or supplemented from time to time, the "Credit Agreement"; capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Credit Agreement)

DATE: [Date]

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The Company hereby notifies the Administrative Agent that on \_\_\_\_\_<sup>7</sup> pursuant to the terms of Section 2.05 (Prepayments) of the Credit Agreement, the Company intends to prepay/repay the following Loans as more specifically set forth below:

Optional prepayment of Committed Loan in the following amount(s):

Eurodollar Rate Loans: \$\_\_<sup>8</sup>  
Applicable Interest Period: \_\_

Base Rate Loans: \$\_\_<sup>9</sup>

Delivery of an executed counterpart of a signature page of this notice by fax transmission or other electronic mail transmission (e.g. "pdf" or "tif") shall be effective as delivery of a manually executed counterpart of this notice.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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<sup>7</sup> Specify date of such prepayment

<sup>8</sup> Any prepayment of Eurodollar Rate Loans shall be in a principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof (or if less, the entire principal amount thereof outstanding)

<sup>9</sup> Any prepayment of Base Rate Loans shall be in a principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof (or if less, the entire principal amount thereof outstanding)

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SONIC AUTOMOTIVE, INC.,  
a [ ]

By: \_  
Name: \_  
Title: \_\_\_\_\_

**SUBSIDIARY GUARANTY AGREEMENT**

**THIS SUBSIDIARY GUARANTY AGREEMENT** (this “Guaranty Agreement”), dated as of November 22, 2019, is made by **EACH OF THE UNDERSIGNED AND EACH OTHER PERSON WHO SHALL BECOME A PARTY HERETO BY EXECUTION OF A JOINDER AGREEMENT WHICH IDENTIFIES SUCH PERSON THEREIN AS A “GUARANTOR”** (each a “Guarantor” and collectively the “Guarantors”) to **PNC BANK, NATIONAL ASSOCIATION**, as administrative agent (in such capacity, the “Administrative Agent”) for each of the Lenders now or hereafter party to the Credit Agreement defined below. All capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Credit Agreement.

**WITNESSETH:**

**WHEREAS**, Sonic Automotive, Inc., a Delaware corporation (“the Company”), the Lenders and the Administrative Agent have entered into that certain Credit Agreement dated as of the date hereof (as amended, restated, supplemented or otherwise modified from time to time, the “Credit Agreement”), pursuant to which the Lenders have agreed to make available to the Company, a term loan credit facility; and

**WHEREAS**, the Company, the Administrative Agent and the Lenders have agreed to enter into the Credit Agreement, subject to, among other things, a condition that the parties hereto enter into this Guaranty Agreement; and

**WHEREAS**, each Guarantor is, directly or indirectly, a Subsidiary of the Company; and

**WHEREAS**, each Guarantor will materially benefit from the Loans to be made under the Credit Agreement; and

**WHEREAS**, each Guarantor is required to enter into this Guaranty Agreement pursuant to the terms of the Credit Agreement; and

**WHEREAS**, a material part of the consideration given in connection with and as an inducement to the execution and delivery of the Credit Agreement by the Secured Parties was the obligation of the Company to cause each Guarantor to enter into this Guaranty Agreement, and the Secured Parties are unwilling to extend the credit facilities provided under the Loan Documents unless the Guarantors enter into this Guaranty Agreement;

**NOW, THEREFORE**, in order to induce the Lenders to enter into the Credit Agreement and to make available to the Company the credit facilities provided for in the Credit Agreement, the parties hereto agree as follows:

**1. Guaranty**. Each Guarantor hereby jointly and severally, unconditionally, absolutely, continually and irrevocably guarantees to the Administrative Agent for the benefit of the Secured Parties the payment and performance in full of the Guaranteed Liabilities (as defined

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below). For all purposes of this Guaranty Agreement, “Guaranteed Liabilities” means: (a) the Company’s prompt payment in full, when due or declared due and at all such times, of all Obligations and all other amounts pursuant to the terms of the Credit Agreement, the Notes, and all other Loan Documents heretofore, now or at any time or times hereafter owing, arising, due or payable from the Company to any one or more of the Secured Parties, including principal, interest, premiums and fees (including, but not limited to, loan fees and reasonable fees, charges and disbursements of counsel (“Attorney Costs”)); and (b) each Loan Party’s prompt, full and faithful performance, observance and discharge of each and every agreement, undertaking, covenant and provision to be performed, observed or discharged by such Loan Party under the Credit Agreement, the Notes and all other Loan Documents. The Guarantors’ obligations to the Secured Parties under this Guaranty Agreement are hereinafter collectively referred to as the “Guarantors’ Obligations” and, with respect to each Guarantor individually, the “Guarantor’s Obligations”. Notwithstanding the foregoing, the liability of each Guarantor individually with respect to its Guarantor’s Obligations shall be limited to an aggregate amount equal to the largest amount that would not render its obligations hereunder subject to avoidance under Section 548 of the United States Bankruptcy Code or any comparable provisions of any applicable state law.

Each Guarantor agrees that it is jointly and severally, directly and primarily liable (subject to the limitation in the immediately preceding sentence) for the Guaranteed Liabilities.

Certain of the Guarantors’ Obligations are secured by various Security Instruments referred to in the Credit Agreement.

**2. Payment.** If the Company or any other Loan Party shall default in payment or performance of any of the Guaranteed Liabilities, whether principal, interest, premium, fee (including, but not limited to, loan fees and Attorney Costs), or otherwise, when and as the same shall become due, and after expiration of any applicable grace period, whether according to the terms of the Credit Agreement, by acceleration, or otherwise, or upon the occurrence and during the continuance of any Event of Default under the Credit Agreement, then any or all of the Guarantors will, upon demand thereof by the Administrative Agent, fully pay to the Administrative Agent, for the benefit of the Secured Parties, subject to any restriction on each Guarantor’s Obligations set forth in Section 1 hereof, an amount equal to all the Guaranteed Liabilities then due and owing or declared or deemed to be due and owing. For purposes of this Section 2, the Guarantors acknowledge and agree that “Guaranteed Liabilities” shall be deemed to include any amount (whether principal, interest, premium, fees) which would have been accelerated in accordance with Section 8.02 of the Credit Agreement but for the fact that such acceleration could be unenforceable or not allowable under any Debtor Relief Law.

**3. Absolute Rights and Obligations.** This is a guaranty of payment and not of collection. The Guarantors’ Obligations under this Guaranty Agreement shall be joint and several, absolute and unconditional irrespective of, and each Guarantor hereby expressly waives, to the extent permitted by law, any defense to its obligations under this Guaranty Agreement and all Security Instruments to which it is a party by reason of:

(a) any lack of legality, validity or enforceability of the Credit Agreement, of any of the Notes, of any other Loan Document, or of any other agreement or instrument creating, providing security for, or otherwise relating to any of the Guarantors' Obligations, any of the Guaranteed Liabilities, or any other guaranty of any of the Guaranteed Liabilities (the Loan Documents and all such other agreements and instruments being collectively referred to as the "Related Agreements");

(b) any action taken under any of the Related Agreements, any exercise of any right or power therein conferred, any failure or omission to enforce any right conferred thereby, or any waiver of any covenant or condition therein provided;

(c) any acceleration of the maturity of any of the Guaranteed Liabilities, of the Guarantor's Obligations of any other Guarantor, or of any other obligations or liabilities of any Person under any of the Related Agreements;

(d) any release, exchange, non-perfection, lapse in perfection, disposal, deterioration in value, or impairment of any security for any of the Guaranteed Liabilities, for any of the Guarantor's Obligations of any Guarantor, or for any other obligations or liabilities of any Person under any of the Related Agreements;

(e) any dissolution of the Company or any Guarantor or any other party to a Related Agreement, or the combination or consolidation of the Company or any Guarantor or any other party to a Related Agreement into or with another entity or any transfer or disposition of any assets of the Company or any Guarantor or any other party to a Related Agreement;

(f) any extension (including without limitation extensions of time for payment), renewal, amendment, restructuring or restatement of, any acceptance of late or partial payments under, or any change in the amount of any borrowings or any credit facilities available under, the Credit Agreement, any of the Notes or any other Loan Document or any other Related Agreement, in whole or in part;

(g) the existence, addition, modification, termination, reduction or impairment of value, or release of any other guaranty (or security therefor) of the Guaranteed Liabilities (including without limitation the Guarantor's Obligations of any other Guarantor and obligations arising under any other Guaranty now or hereafter in effect);

(h) any waiver of, forbearance or indulgence under, or other consent to any change in or departure from any term or provision contained in the Credit Agreement, any other Loan Document or any other Related Agreement, including without limitation any term pertaining to the payment or performance of any of the Guaranteed Liabilities, any of the Guarantor's Obligations of any other Guarantor, or any of the obligations or liabilities of any party to any other Related Agreement;

(i) any other circumstance whatsoever (with or without notice to or knowledge of any Guarantor) which may or might in any manner or to any extent vary the risks of such Guarantor, or might otherwise constitute a legal or equitable defense available to, or discharge of, a surety or a guarantor, including without limitation any right to require or claim that resort be had to the Company or any other Loan Party or to any collateral in respect of the Guaranteed Liabilities or Guarantors' Obligations, whether arising under North Carolina General Statutes Sections 26-7 and 26-9 or otherwise.

It is the express purpose and intent of the parties hereto that this Guaranty Agreement and the Guarantors' Obligations hereunder and under each Joinder Agreement shall be absolute and unconditional under any and all circumstances and shall not be discharged except by payment as herein provided.

**4. Currency and Funds of Payment.** All Guarantors' Obligations will be paid in lawful currency of the United States of America and in immediately available funds, regardless of any law, regulation or decree now or hereafter in effect that might in any manner affect the Guaranteed Liabilities, or the rights of any Secured Party with respect thereto as against any Loan Party, or cause or permit to be invoked any alteration in the time, amount or manner of payment by any Loan Party of any or all of the Guaranteed Liabilities.

**5. Events of Default.** Without limiting the provisions of Section 2 hereof, in the event that there shall occur and be continuing an Event of Default, then notwithstanding any collateral or other security or credit support for the Guaranteed Liabilities, at the Administrative Agent's election and without notice thereof or demand therefor, the Guarantors' Obligations shall immediately be and become due and payable.

**6. Subordination.** Until this Guaranty Agreement is terminated in accordance with Section 22 hereof, each Guarantor hereby unconditionally subordinates all present and future debts, liabilities or obligations now or hereafter owing to such Guarantor (i) of the Company, to the payment in full of the Guaranteed Liabilities, (ii) of every other Guarantor (an "obligated guarantor"), to the payment in full of the Guarantors' Obligations of such obligated guarantor, and (iii) of each other Person now or hereafter constituting a Loan Party, to the payment in full of the obligations of such Loan Party owing to any Secured Party and arising under the Loan Documents. All amounts due under such subordinated debts, liabilities, or obligations shall, upon the occurrence and during the continuance of an Event of Default, be collected and, upon request by the Administrative Agent, paid over forthwith to the Administrative Agent for the benefit of the Secured Parties on account of the Guaranteed Liabilities, the Guarantors' Obligations, or such other obligations, as applicable, and, after such request and pending such payment, shall be held by such Guarantor as agent and bailee of the Secured Parties separate and apart from all other funds, property and accounts of such Guarantor.

**7. Suits.** Each Guarantor from time to time shall pay to the Administrative Agent for the benefit of the Secured Parties, on demand, at the Administrative Agent's Office or such other address as the Administrative Agent shall give notice of to such Guarantor, the Guarantors' Obligations as they become or are declared due, and in the event such payment is not made

forthwith, the Administrative Agent may proceed to suit against any one or more or all of the Guarantors. At the Administrative Agent's election, one or more and successive or concurrent suits may be brought hereon by the Administrative Agent against any one or more or all of the Guarantors, whether or not suit has been commenced against the Company, any other Guarantor, or any other Person and whether or not the Secured Parties have taken or failed to take any other action to collect all or any portion of the Guaranteed Liabilities or have taken or failed to take any actions against any collateral securing payment or performance of all or any portion of the Guaranteed Liabilities, and irrespective of any event, occurrence, or condition described in Section 3 hereof.

**8. [Reserved].**

**9. Waiver of Notice; Subrogation.**

(a) Each Guarantor hereby waives to the extent permitted by law notice of the following events or occurrences: (i) acceptance of this Guaranty Agreement; (ii) the Lenders' heretofore, now or from time to time hereafter making Loans and otherwise loaning monies or giving or extending credit to or for the benefit of the Company or any other Loan Party, or otherwise entering into arrangements with any Loan Party giving rise to Guaranteed Liabilities, whether pursuant to the Credit Agreement or the Notes or any other Loan Document or Related Agreement or any amendments, modifications, or supplements thereto, or replacements or extensions thereof; (iii) presentment, demand, default, non-payment, partial payment and protest; and (iv) any other event, condition, or occurrence described in Section 3 hereof. Each Guarantor agrees that each Secured Party may heretofore, now or at any time hereafter do any or all of the foregoing in such manner, upon such terms and at such times as each Secured Party, in its sole and absolute discretion, deems advisable, without in any way or respect impairing, affecting, reducing or releasing such Guarantor from its Guarantor's Obligations, and each Guarantor hereby consents to each and all of the foregoing events or occurrences.

(b) Each Guarantor hereby agrees that payment or performance by such Guarantor of its Guarantor's Obligations under this Guaranty Agreement may be enforced by the Administrative Agent on behalf of the Secured Parties upon demand by the Administrative Agent to such Guarantor without the Administrative Agent being required, such Guarantor expressly waiving to the extent permitted by law any right it may have to require the Administrative Agent, to (i) prosecute collection or seek to enforce or resort to any remedies against the Company or any other Guarantor or any other guarantor of the Guaranteed Liabilities, or (ii) seek to enforce or resort to any remedies with respect to any security interests, Liens or encumbrances granted to the Administrative Agent or any Lender or other party to a Related Agreement by the Company, any other Guarantor or any other Person on account of the Guaranteed Liabilities or any guaranty thereof, **IT BEING EXPRESSLY UNDERSTOOD, ACKNOWLEDGED AND AGREED TO BY SUCH GUARANTOR THAT DEMAND UNDER THIS GUARANTY AGREEMENT MAY BE MADE BY THE ADMINISTRATIVE AGENT, AND THE PROVISIONS HEREOF ENFORCED**

**BY THE ADMINISTRATIVE AGENT, EFFECTIVE AS OF THE FIRST DATE ANY EVENT OF DEFAULT OCCURS AND IS CONTINUING UNDER THE CREDIT AGREEMENT.**

(c) Each Guarantor further agrees with respect to this Guaranty Agreement that it shall not exercise any of its rights of subrogation, reimbursement, contribution or indemnity, nor any right of recourse to security for the Guaranteed Liabilities unless and until 93 days immediately following the date that all Commitments have terminated and all Obligations arising under the Loan Documents have been paid in full (other than contingent indemnification obligations) (the “Facility Termination Date”) shall have elapsed without the filing or commencement, by or against any Loan Party, of any state or federal action, suit, petition or proceeding seeking any reorganization, liquidation or other relief or arrangement in respect of creditors of, or the appointment of a receiver, liquidator, trustee or conservator in respect to, such Loan Party or its assets. This waiver is expressly intended to prevent the existence of any claim in respect to such subrogation, reimbursement, contribution or indemnity by any Guarantor against the estate of any other Loan Party within the meaning of Section 101 of the Bankruptcy Code, in the event of a subsequent case involving any other Loan Party. If an amount shall be paid to any Guarantor on account of such rights at any time prior to termination of this Guaranty Agreement in accordance with the provisions of Section 22 hereof, such amount shall be held in trust for the benefit of the Secured Parties and shall forthwith be paid to the Administrative Agent, for the benefit of the Secured Parties, to be credited and applied upon the Guarantors’ Obligations, whether matured or unmatured, in accordance with the terms of the Credit Agreement or otherwise as the Secured Parties may elect. The agreements in this subsection shall survive repayment of all of the Guarantors’ Obligations, the termination or expiration of this Guaranty Agreement in any manner, including but not limited to termination in accordance with Section 22 hereof, and occurrence of the Facility Termination Date.

**10. Effectiveness; Enforceability.** This Guaranty Agreement shall be effective as of the date first above written and shall continue in full force and effect until termination in accordance with Section 22 hereof. Any claim or claims that the Secured Parties may at any time hereafter have against a Guarantor under this Guaranty Agreement may be asserted by the Administrative Agent on behalf of the Secured Parties by written notice directed to such Guarantor in accordance with Section 24 hereof.

**11. Representations and Warranties.** Each Guarantor warrants and represents to the Administrative Agent, for the benefit of the Secured Parties, that it is duly authorized to execute and deliver this Guaranty Agreement (or the Joinder Agreement to which it is a party, as applicable), and to perform its obligations under this Guaranty Agreement, that this Guaranty Agreement (or the Joinder Agreement to which it is a party, as applicable) has been duly executed and delivered on behalf of such Guarantor by its duly authorized representatives; that this Guaranty Agreement (and any Joinder Agreement to which such Guarantor is a party) is legal, valid, binding and enforceable against such Guarantor in accordance with its terms except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or

similar laws affecting the enforcement of creditors' rights generally and by general equitable principles; and that such Guarantor's execution, delivery and performance of this Guaranty Agreement (and any Joinder Agreement to which such Guarantor is a party) do not violate or constitute a breach of any of its Organizational Documents, any agreement or instrument to which such Guarantor is a party, or any law, order, regulation, decree or award of any governmental authority or arbitral body to which it or its properties or operations is subject.

**12. Expenses.** Each Guarantor agrees to be jointly and severally liable for the payment of all reasonable fees and expenses, including Attorney Costs, incurred by any Secured Party in connection with the enforcement of this Guaranty Agreement, whether or not suit be brought.

**13. Reinstatement.** Each Guarantor agrees that this Guaranty Agreement shall continue to be effective or be reinstated, as the case may be, at any time payment received by any Secured Party in respect of any Guaranteed Liabilities is rescinded or must be restored for any reason, or is repaid by any Secured Party in whole or in part in good faith settlement of any pending or threatened avoidance claim.

**14. Attorney-in-Fact.** To the extent permitted by law, each Guarantor hereby appoints the Administrative Agent, for the benefit of the Secured Parties, as such Guarantor's attorney-in-fact for the purposes of carrying out the provisions of this Guaranty Agreement and taking any action and executing any instrument which the Administrative Agent may deem necessary or advisable to accomplish the purposes hereof, which appointment is coupled with an interest and is irrevocable; provided, that the Administrative Agent shall have and may exercise rights under this power of attorney only upon the occurrence and during the continuance of an Event of Default.

**15. Reliance.** Each Guarantor represents and warrants to the Administrative Agent, for the benefit of the Secured Parties, that: (a) such Guarantor has adequate means to obtain on a continuing basis (i) from the Company, information concerning the Loan Parties and the Loan Parties' financial condition and affairs and (ii) from other reliable sources, such other information as it deems material in deciding to provide this Guaranty Agreement and any Joinder Agreement ("Other Information"), and has full and complete access to the Loan Parties' books and records and to such Other Information; (b) such Guarantor is not relying on any Secured Party or its or their employees, directors, agents or other representatives or Affiliates, to provide any such information, now or in the future; (c) such Guarantor has been furnished with and reviewed the terms of the Credit Agreement and such other Loan Documents and Related Agreements as it has requested, is executing this Guaranty Agreement (or the Joinder Agreement to which it is a party, as applicable) freely and deliberately, and understands the obligations and financial risk undertaken by providing this Guaranty Agreement (and any Joinder Agreement); (d) such Guarantor has relied solely on the Guarantor's own independent investigation, appraisal and analysis of each Loan Party, each Loan Party's financial condition and affairs, the "Other Information", and such other matters as it deems material in deciding to provide this Guaranty Agreement (and any Joinder Agreement) and is fully aware of the same; and (e) such Guarantor has not depended or relied on any Secured Party or its or their employees, directors, agents or



other representatives or Affiliates, for any information whatsoever concerning any Loan Party or any Loan Party's financial condition and affairs or any other matters material to such Guarantor's decision to provide this Guaranty Agreement (and any Joinder Agreement), or for any counseling, guidance, or special consideration or any promise therefor with respect to such decision. Each Guarantor agrees that no Secured Party has any duty or responsibility whatsoever, now or in the future, to provide to such Guarantor any information concerning any Loan Party or any Loan Party's financial condition and affairs, or any Other Information, other than as expressly provided herein, and that, if such Guarantor receives any such information from any Secured Party or its or their employees, directors, agents or other representatives or Affiliates, such Guarantor will independently verify the information and will not rely on any Secured Party or its or their employees, directors, agents or other representatives or Affiliates, with respect to such information.

**16. Rules of Interpretation.** The rules of interpretation contained in Sections 1.02 and 1.05 of the Credit Agreement shall be applicable to this Guaranty Agreement and each Joinder Agreement and are hereby incorporated by reference. All representations and warranties contained herein shall survive the delivery of documents and any extension of credit referred to herein or guaranteed hereby.

**17. Entire Agreement.** This Guaranty Agreement and each Joinder Agreement, together with the Credit Agreement and other Loan Documents, constitutes and expresses the entire understanding between the parties hereto with respect to the subject matter hereof, and supersedes all prior negotiations, agreements, understandings, inducements, commitments or conditions, express or implied, oral or written, except as herein contained. The express terms hereof control and supersede any course of performance or usage of the trade inconsistent with any of the terms hereof. Except as provided in Section 22, neither this Guaranty Agreement nor any Joinder Agreement nor any portion or provision hereof or thereof may be changed, altered, modified, supplemented, discharged, canceled, terminated, or amended orally or in any manner other than as provided in the Credit Agreement.

**18. Binding Agreement; Assignment.** This Guaranty Agreement, each Joinder Agreement and the terms, covenants and conditions hereof and thereof, shall be binding upon and inure to the benefit of the parties hereto and thereto, and to their respective heirs, legal representatives, successors and assigns; provided, however, that no Guarantor shall be permitted to assign any of its rights, powers, duties or obligations under this Guaranty Agreement, any Joinder Agreement or any other interest herein or therein except as expressly permitted herein or in the Credit Agreement. Without limiting the generality of the foregoing sentence of this Section 18, any Lender may assign to one or more Persons, or grant to one or more Persons participations in or to, all or any part of its rights and obligations under the Credit Agreement (to the extent permitted by the Credit Agreement); and to the extent of any such permitted assignment or participation such other Person shall, to the fullest extent permitted by law, thereupon become vested with all the benefits in respect thereof granted to such Lender herein or otherwise, subject however, to the provisions of the Credit Agreement, including Article IX thereof (concerning the Administrative Agent) and Section 10.06 thereof concerning assignments

and participations. All references herein to the Administrative Agent shall include any successor thereof.

**19. [Reserved]**

**20. Severability.** The provisions of this Guaranty Agreement are independent of and separable from each other. If any provision hereof shall for any reason be held invalid or unenforceable, such invalidity or unenforceability shall not affect the validity or enforceability of any other provision hereof, but this Guaranty Agreement shall be construed as if such invalid or unenforceable provision had never been contained herein.

**21. Counterparts.** This Guaranty Agreement may be executed in any number of counterparts each of which when so executed and delivered shall be deemed an original, and it shall not be necessary in making proof of this Guaranty Agreement to produce or account for more than one such counterpart executed by the Guarantors against whom enforcement is sought. Without limiting the foregoing provisions of this Section 21, the provisions of Section 10.10 of the Credit Agreement shall be applicable to this Guaranty Agreement.

**22. Termination.** Subject to reinstatement pursuant to Section 13 hereof, this Guaranty Agreement and each Joinder Agreement, and all of the Guarantors' Obligations hereunder (excluding those Guarantors' obligations relating to Guaranteed Liabilities that expressly survive such termination) shall terminate on the Facility Termination Date.

**23. Remedies Cumulative; Late Payments.** All remedies hereunder are cumulative and are not exclusive of any other rights and remedies of the Administrative Agent or any other Secured Party provided by law or under the Credit Agreement, the other Loan Documents or other applicable agreements or instruments. The making of the Loans and other credit extensions pursuant to the Credit Agreement and other Related Agreements shall be conclusively presumed to have been made or extended, respectively, in reliance upon each Guarantor's guaranty of the Guaranteed Liabilities pursuant to the terms hereof. Any amounts not paid when due under this Guaranty Agreement shall bear interest at the Default Rate.

**24. Notices.** Any notice required or permitted hereunder or under any Joinder Agreement shall be given, (a) with respect to each Guarantor, at the address of the Company indicated in Schedule 10.02 of the Credit Agreement and (b) with respect to the Administrative Agent or any other Secured Party, at the Administrative Agent's address indicated in Schedule 10.02 of the Credit Agreement. All such addresses may be modified, and all such notices shall be given and shall be effective, as provided in Section 10.02 of the Credit Agreement for the giving and effectiveness of notices and modifications of addresses thereunder.

**25. Joinder.** Each Person who shall at any time execute and deliver to the Administrative Agent a Joinder Agreement and who is identified therein as a "Guarantor" shall thereupon irrevocably, absolutely and unconditionally become a party hereto and obligated hereunder as a Guarantor, and all references herein and in the other Loan Documents to the

Guarantors or to the parties to this Guaranty Agreement shall be deemed to include such Person as a Guarantor hereunder.

**26. Governing Law; Venue; Waiver of Jury Trial.**

**(a) THIS GUARANTY AGREEMENT AND EACH JOINDER AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NORTH CAROLINA APPLICABLE TO CONTRACTS EXECUTED, AND TO BE FULLY PERFORMED, IN SUCH STATE.**

**(b) EACH GUARANTOR HEREBY EXPRESSLY AND IRREVOCABLY AGREES AND CONSENTS THAT ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS GUARANTY AGREEMENT OR ANY JOINDER AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREIN OR THEREIN MAY BE INSTITUTED IN ANY STATE OR FEDERAL COURT SITTING MECKLENBURG COUNTY, STATE OF NORTH CAROLINA, UNITED STATES OF AMERICA AND, BY THE EXECUTION AND DELIVERY OF THIS GUARANTY AGREEMENT OR A JOINDER AGREEMENT, SUCH GUARANTOR EXPRESSLY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE IN, OR TO THE EXERCISE OF JURISDICTION OVER IT AND ITS PROPERTY BY, ANY SUCH COURT IN ANY SUCH SUIT, ACTION OR PROCEEDING, AND EACH GUARANTOR HEREBY IRREVOCABLY SUBMITS GENERALLY AND UNCONDITIONALLY TO THE JURISDICTION OF ANY SUCH COURT IN ANY SUCH SUIT, ACTION OR PROCEEDING.**

**(c) EACH GUARANTOR AGREES THAT SERVICE OF PROCESS MAY BE MADE BY PERSONAL SERVICE OF A COPY OF THE SUMMONS AND COMPLAINT OR OTHER LEGAL PROCESS IN ANY SUCH SUIT, ACTION OR PROCEEDING, OR BY REGISTERED OR CERTIFIED MAIL (POSTAGE PREPAID) TO THE ADDRESS FOR NOTICES TO SUCH GUARANTOR IN EFFECT PURSUANT TO SECTION 24 HEREOF, OR BY ANY OTHER METHOD OF SERVICE PROVIDED FOR UNDER THE APPLICABLE LAWS IN EFFECT IN THE STATE OF NORTH CAROLINA.**

**(d) NOTHING CONTAINED IN SUBSECTIONS (b) or (c) HEREOF SHALL PRECLUDE THE ADMINISTRATIVE AGENT FROM BRINGING ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS GUARANTY AGREEMENT OR ANY JOINDER AGREEMENT OR ANY OTHER LOAN DOCUMENT IN THE COURTS OF ANY JURISDICTION WHERE ANY GUARANTOR OR ANY OF SUCH GUARANTOR'S PROPERTY OR ASSETS MAY BE FOUND OR LOCATED. TO THE EXTENT PERMITTED BY THE APPLICABLE LAWS OF ANY SUCH JURISDICTION, EACH GUARANTOR HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION**

**OF ANY SUCH COURT AND EXPRESSLY WAIVES, IN RESPECT OF ANY SUCH SUIT, ACTION OR PROCEEDING, OBJECTION TO THE EXERCISE OF JURISDICTION OVER IT AND ITS PROPERTY BY ANY SUCH OTHER COURT OR COURTS WHICH NOW OR HEREAFTER MAY BE AVAILABLE UNDER APPLICABLE LAW.**

**(e) IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS OR REMEDIES UNDER OR RELATED TO THIS GUARANTY AGREEMENT OR ANY JOINDER AGREEMENT OR ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR THAT MAY IN THE FUTURE BE DELIVERED IN CONNECTION THEREWITH, EACH GUARANTOR AND THE ADMINISTRATIVE AGENT ON BEHALF OF THE SECURED PARTIES HEREBY AGREE, TO THE EXTENT PERMITTED BY APPLICABLE LAW, THAT ANY SUCH ACTION, SUIT OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY AND HEREBY IRREVOCABLY WAIVE, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT ANY SUCH PERSON MAY HAVE TO TRIAL BY JURY IN ANY SUCH ACTION, SUIT OR PROCEEDING.**

**(f) EACH GUARANTOR HEREBY EXPRESSLY WAIVES ANY OBJECTION IT MAY HAVE THAT ANY COURT TO WHOSE JURISDICTION IT HAS SUBMITTED PURSUANT TO THE TERMS HEREOF IS AN INCONVENIENT FORUM.**

(g) Binding Arbitration.

(i) Agreement to Arbitrate. Upon demand of any party, whether made before or after institution of any judicial proceeding, any dispute, claim or controversy arising out of, connected with or relating to this Guaranty Agreement or any other Loan Document (“Disputes”), between or among parties hereto and to the other Loan Documents shall be resolved by binding arbitration as provided herein. Institution of a judicial proceeding by a party does not waive the right of that party to demand arbitration hereunder. Disputes may include tort claims, counterclaims, claims brought as class actions, claims arising from Loan Documents executed in the future, disputes as to whether a matter is subject to arbitration, or claims concerning any aspect of the past, present or future relationships arising out of or connected with the Loan Documents. The parties hereto do not waive any applicable Federal or state substantive Law (including the protections afforded to banks under 12 U.S.C. Section 91 or any similar applicable state Law) except as provided herein. A judgment upon the award may be entered in any court having jurisdiction.

(ii) General Rules of Arbitration. Any arbitration proceeding will (A) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the Loan Documents between the parties, (B) be conducted by the American Arbitration Association (the “AAA”), or such other administrator as the parties shall mutually agree upon, in accordance with the commercial

dispute resolution procedures of the AAA, unless the claim or counterclaim is at least \$1,000,000 exclusive of claimed interest, arbitration fees and costs, in which case the arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to, as applicable, as the "Arbitration Rules") and (C) proceed in a location in Charlotte, North Carolina selected by the AAA. The expedited procedures set forth in Rule 51, et seq. of the Arbitration Rules shall be applicable to claims of less than \$1,000,000. All applicable statutes of limitations shall apply to any Dispute. If there is any inconsistency between the terms hereof and the Arbitration Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Notwithstanding anything in the foregoing to the contrary, any arbitration proceeding demanded hereunder shall begin within ninety (90) days after such demand thereof and shall be concluded within one hundred twenty (120) days after such demand. These time limitations may not be extended unless a party hereto shows cause for extension and then such extension shall not exceed a total of sixty (60) days.

(iii) Arbitrators. Any arbitration proceeding in which the amount in controversy is \$5,000,000 or less will be decided by a single arbitrator selected according to the Arbitration Rules, and who shall not render an award of greater than \$5,000,000. Any dispute in which the amount in controversy exceeds \$5,000,000 shall be decided by majority vote of a panel of three arbitrators; provided that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the jurisdiction of the state where the hearing will be conducted or a neutral retired judge of the jurisdiction, state or federal, of the state where the hearing will be conducted, in either case with a minimum of ten years' experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. In any arbitration proceeding, the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions that are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive Law of the State of North Carolina and may grant any remedy or relief that a court of such state could order or grant within the scope hereof and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a judge could pursuant to the Federal Rules of Civil Procedure or other applicable Law.

(iv) Preservation of Certain Remedies. Notwithstanding the preceding binding arbitration provisions, the parties hereto and the other Loan Documents preserve, without diminution, certain remedies that such Persons may employ or exercise freely, either alone, in conjunction with or during a Dispute. Each such Person shall have and hereby reserves the right to proceed in any court of proper jurisdiction or by self-help to exercise

or prosecute the following remedies, as applicable: (A) all rights to foreclose against any real or personal property or other security by exercising a power of sale granted in the Loan Documents or under applicable Law or by judicial foreclosure and sale, including a proceeding to confirm the sale, (B) all rights of self-help including peaceful occupation of property and collection of rents, set off, and peaceful possession of property, (C) obtaining provisional or ancillary remedies including injunctive relief, sequestration, garnishment, attachment, appointment of receiver and in filing an involuntary bankruptcy proceeding, and (D) when applicable, a judgment by confession of judgment. Preservation of these remedies does not limit the power of an arbitrator to grant similar remedies that may be requested by a party in a Dispute.

*[Signature page follows.]*

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Guaranty Agreement as of the day and year first written above.

**GUARANTORS:**

**SRE COLORADO – 1, LLC**

By: /s/ Heath R. Byrd  
Name: Heath R. Byrd  
Title: Vice President

**SONIC-DENVER T, INC.**

By: /s/ Heath R. Byrd  
Name: Heath R. Byrd  
Title: Vice President

**SRE GEORGIA 5, LLC**

By: /s/ Heath R. Byrd  
Name: Heath R. Byrd  
Title: Vice President

**SRE COLORADO – 1, LLC**

By: /s/ Heath R. Byrd  
Name: Heath R. Byrd  
Title: Vice President

**SAI S. ATLANTA JLR, LLC**

By: /s/ Heath R. Byrd  
Name: Heath R. Byrd  
Title: Vice President

**SRE VIRGINIA – 1, LLC**

By: /s/ Heath R. Byrd  
Name: Heath R. Byrd  
Title: Vice President

**SAI ROCKVILLE IMPORTS, LLC**

By: /s/ Heath R. Byrd  
Name: Heath R. Byrd  
Title: Vice President

**EP REALTY NC, LLC**

By: /s/ Heath R. Byrd  
Name: Heath R. Byrd  
Title: Vice President

**ECHOPARK NC, LLC**

By: /s/ Heath R. Byrd  
Name: Heath R. Byrd  
Title: Vice President

**SRE TENNESSEE 7, LLC**

By: /s/ Heath R. Byrd  
Name: Heath R. Byrd  
Title: Vice President

**SONIC - 2185 CHAPMAN RD., CHATTANOOGA, LLC**

By: /s/ Heath R. Byrd  
Name: Heath R. Byrd  
Title: Vice President

**SRE TENNESSEE - 4, LLC**

By: /s/ Heath R. Byrd  
Name: Heath R. Byrd  
Title: Vice President

**SAI NASHVILLE M, LLC**

By: /s/ Heath R. Byrd  
Name: Heath R. Byrd  
Title: Vice President



**SRE TEXAS - 1, L.P.**

By: Sonic of Texas, Inc., its general partner

By: /s/ Heath R. Byrd  
Name: Heath R. Byrd  
Title: Vice President

**SONIC HOUSTON JLR, LP**

By: Sonic of Texas, Inc., its general partner

By: /s/ Heath R. Byrd  
Name: Heath R. Byrd  
Title: Vice President

**SRE TEXAS - 3, L.P.**

By: Sonic of Texas, Inc., its general partner

By: /s/ Heath R. Byrd  
Name: Heath R. Byrd  
Title: Vice President

**SONIC MOMENTUM JVP, L.P.**

By: Sonic of Texas, Inc., its general partner

By: /s/ Heath R. Byrd  
Name: Heath R. Byrd  
Title: Vice President

**ADMINISTRATIVE AGENT:**

**PNC BANK, NATIONAL ASSOCIATION**, as Administrative Agent

By: /s/ Krutesh Trivedi

Name: Krutesh Trivedi

Title: Vice President

SUBSIDIARY GUARANTY AGREEMENT

(Sonic Automotive, Inc.)

Signature Page

FORM OF NOTE

November 22, 2019

FOR VALUE RECEIVED, the undersigned (the “Company”) hereby promises to pay to \_\_\_\_\_ or its registered assigns (the “Lender”), in accordance with the provisions of the Credit Agreement (as hereinafter defined), the principal amount of each Loan from time to time made by the Lender to the Company under that certain Credit Agreement, dated as of November 22, 2019 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the “Credit Agreement”, the terms defined therein being used herein as therein defined), among the Company, the Lenders from time to time party thereto and PNC Bank, National Association, as Administrative Agent.

The Company promises to pay interest on the unpaid principal amount of each Loan from the date of such Loan until such principal amount is paid in full, at such interest rates and at such times as provided in the Credit Agreement. All payments of principal and interest shall be made to the Administrative Agent for the account of the Lender in Dollars in immediately available funds at the Administrative Agent’s Office. If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Credit Agreement.

This Note is one of the Notes referred to in the Credit Agreement, is entitled to the benefits thereof and may be prepaid in whole or in part subject to the terms and conditions provided therein. This Note is also entitled to the benefits of the Subsidiary Guaranty and is secured by the Collateral. Upon the occurrence and continuation of one or more of the Events of Default specified in the Credit Agreement, all amounts then remaining unpaid on this Note shall (if required by the Credit Agreement) become, or may be declared to be, immediately due and payable all as provided in the Credit Agreement. Loans made by the Lender shall be evidenced by one or more loan accounts or records maintained by the Lender in the ordinary course of business. The Lender may also attach schedules to this Note and endorse thereon the date, amount and maturity of its Loans and payments with respect thereto.

The Company, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Note.

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THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NORTH CAROLINA.

**SONIC AUTOMOTIVE, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ENTITY	Domestic	Foreign	ASSUMED NAME
AnTrev, LLC	NC		
Arngar, Inc.	NC		Cadillac of South Charlotte
Autobahn, Inc.	CA		Autobahn Motors
Avalon Ford, Inc.	DE	CA	
Car Cash of North Carolina, Inc.	NC	NC	
Cornerstone Acceptance Corporation	FL	NC OH TN TX	
AM GA, LLC		GA	
AM Realty GA, LLC		GA	
ECHOPARK: AM GA, LLC	GA		
ECHOPARK: AM Realty GA, LLC	GA		
ECHOPARK: Echopark Automotive, Inc.	DE	CO FL NC	EchoPark
ECHOPARK: EchoPark Driver Education, LLC	CO		
ECHOPARK: EchoPark FL, LLC	FL		AutoMatch Fort Myers AutoMatch Jacksonville AutoMatch Ocala
ECHOPARK: EchoPark AZ, LLC		AZ	
ECHOPARK: EchoPark CA, LLC		CA	EchoPark
ECHOPARK: EchoPark NC, LLC	NC		
ECHOPARK: EchoPark Realty TX, LLC	TX		
ECHOPARK: EchoPark SC, LLC	SC		
ECHOPARK: EchoPark TX, LLC	TX		EchoPark
ECHOPARK: EP Realty NC, LLC	NC		
ECHOPARK: EP Realty SC, LLC	SC		
ECHOPARK: EP Realty SC, LLC	AZ		
ECHOPARK: SAI Vehicle Subscription, Inc.	DE	TX	

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ENTITY	Domestic	Foreign	ASSUMED NAME
ECHOPARK: SAIDS Realty TX, LLC	TX		
ECHOPARK: SAIDS, LLC	TX		EchoPark
ECHOPARK: TT Denver, LLC	CO		EchoPark
ECHOPARK: TTRE CO 1, LLC	CO		
FAA Beverly Hills, Inc.	CA		Beverly Hills BMW
FAA Capitol N, Inc.	CA		
FAA Concord H, Inc.	CA		Concord Honda
FAA Concord T, Inc.	CA		Concord Scion
FAA Dublin N, Inc.	CA		
FAA Dublin VWD, Inc.	CA		
FAA Holding Corp.	CA		
FAA Las Vegas H, Inc.	NV		Honda West
FAA Poway H, Inc.	CA		Poway Honda
FAA Poway T, Inc.	CA		
FAA San Bruno, Inc.	CA		Melody Toyota Melody Scion
FAA Santa Monica V, Inc.	CA		
FAA Serramonte H, Inc.	CA		Honda of Serramonte
FAA Serramonte L, Inc.	CA		Lexus of Marin Lexus of Serramonte
FAA Serramonte, Inc.	CA		
FAA Stevens Creek, Inc.	CA		
FAA Torrance CPJ, Inc.	CA		
FirstAmerica Automotive, Inc.	DE	CA	
Fort Mill Ford, Inc.	SC		
Franciscan Motors, Inc.	CA		Acura of Serramonte
Frontier Oldsmobile-Cadillac, Inc.	NC		
Kramer Motors Incorporated	CA		Honda of Santa Monica

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ENTITY	Domestic		Foreign	ASSUMED NAME
L Dealership Group, Inc.	TX	CA		
Marcus David Corporation	NC			Town and Country Toyota Town and Country Toyota Certified Used Cars
Massey Cadillac, Inc. (TN-MI)	TN			
Mountain States Motors Co., Inc.	CO			
North Point Imports, LLC	GA			North Point Volvo Cars
Ontario L, LLC	CA			Crown Lexus
Philpott Motors, Ltd.	TX			Philpott Motors Hyundai Philpott Ford
Santa Clara Imported Cars, Inc.	CA			Honda of Stevens Creek
SRM Assurance, Ltd.			Cayman Is.	
Stevens Creek Cadillac, Inc.	CA			St. Claire Cadillac
The Sonic Automotive Family Emergency Fund ("SAFE")	NC			
Town and Country Ford, Incorporated	NC			
Windward, Inc.	HI	CA		Honda of Hayward
SAI AL HC1, Inc.	AL			
SAI AL HC2, Inc.	AL			Tom Williams Collision Center
SAI Ann Arbor Imports, LLC	MI			
SAI Atlanta B, LLC	GA			Global Imports (BMW) Global Imports MINI
SAI Broken Arrow C, LLC	OK			
SAI Calabasas A, LLC	CA			
SAI Chamblee V, LLC	GA			Dyer and Dyer Volvo Cars
SAI Charlotte M, LLC	NC			
SAI Chattanooga N, LLC	TN			Nissan of Chattanooga East
SAI Clearwater T, LLC	FL			Clearwater Toyota Clearwater Scion
SAI Cleveland N, LLC	TN			Nissan of Cleveland
SAI Columbus Motors, LLC	OH			Hatfield Hyundai Hatfield Subaru

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ENTITY	Domestic	Foreign	ASSUMED NAME
			Hatfield Isuzu
SAI Columbus T, LLC	OH		Toyota West Scion West Hatfield Automall
SAI Columbus VWK, LLC	OH		Hatfield Kia Hatfield Volkswagen
SAI Conroe N, LLC	TX		
SAI Denver B, Inc.	CO		BMW of Denver Downtown Bodyworks Murray Motorworks
SAI Denver C, Inc.	CO		
SAI Denver M, Inc.	CO		Mercedes-Benz of Denver
SAI Fairfax B, LLC	VA		BMW of Fairfax
SAI FL HC1, Inc.	FL		
SAI FL HC2, Inc.	FL		
SAI FL HC3, Inc.	FL		
SAI FL HC4, Inc.	FL		
SAI FL HC7, Inc.	FL		
SAI Fort Myers B, LLC	FL		BMW of Fort Myers MINI of Fort Myers
SAI Fort Myers H, LLC	FL		Honda of Fort Myers
SAI Fort Myers M, LLC	FL		Mercedes-Benz of Fort Myers
SAI Fort Myers VW, LLC	FL		Volkswagen of Fort Myers
SAI GA HC1, LLC	GA		
SAI Irondale Imports, LLC	AL		Audi Birmingham BMW of Birmingham Jaguar Birmingham Land Rover Birmingham MINI of Birmingham Porsche Birmingham
SAI Irondale L, LLC	AL		Lexus of Birmingham
SAI Long Beach B, Inc.	CA		Long Beach BMW Long Beach MINI
SAI McKinney M, LLC	TX		Mercedes-Benz of McKinney

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ENTITY	Domestic	Foreign	ASSUMED NAME
SAI MD HC1, Inc.	MD		
SAI Monrovia B, Inc.	CA		BMW of Monrovia MINI of Monrovia
SAI Montgomery B, LLC	AL		BMW of Montgomery
SAI Montgomery BCH, LLC	AL		Classic Dodge Classic Cadillac Classic Buick GMC
SAI Montgomery CH, LLC	AL		Capitol Chevrolet Capitol Hyundai
SAI Nashville CSH, LLC	TN		Crest Cadillac
SAI Nashville H, LLC	TN		Crest Honda
SAI Nashville M, LLC	TN		Mercedes-Benz of Nashville
SAI Nashville Motors, LLC	TN		Audi Nashville Porsche of Nashville
SAI OK HC1, Inc.	OK		
SAI Oklahoma City C, LLC	OK		
SAI Oklahoma City H, LLC	OK		
SAI Oklahoma City T, LLC	OK		
SAI Orlando CS, LLC	FL		Massey Cadillac
SAI Peachtree, LLC	GA		
SAI Pensacola A, LLC	FL		Audi Pensacola
SAI Philpott T, LLC	TX		Philpott Toyota Philpott Scion
SAI Riverside C, LLC	OK		
SAI Roaring Fork LR, Inc.	CO		Land Rover Roaring Fork
SAI Rockville Imports, LLC	MD		Porsche Bethesda Rockville Audi
SAI Rockville L, LLC	MD		Lexus of Rockville
SAI S. Atlanta JLR, LLC	GA		Jaguar South Atlanta Land Rover South Atlanta Jaguar Land Rover South Atlanta
SAI Santa Clara K, Inc.	CA		
SAI SIC, Inc.	GA		

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ENTITY	Domestic	Foreign	ASSUMED NAME
SAI Stone Mountain T, LLC	GA		
SAI TN HC1, LLC	TN		
SAI TN HC2, LLC	TN		
SAI TN HC3, LLC	TN		
SAI Tulsa N, LLC	OK		
SAI Tulsa T, LLC	OK		
SAI Tysons Corner H, LLC	VA		Honda of Tysons Corner
SAI Tysons Corner I, LLC	VA		Infiniti of Tysons Corner
SAI VA HC1, Inc.	VA		
SAI Vehicle Subscription, Inc.	DE		
SAI VS GA, LLC	GA		
SAI VS TX, LLC	TX		
SAI West Houston B, LLC	TX		BMW of West Houston
Sonic 2185 Chapman Rd., Chattanooga, LLC	TN		Economy Honda Superstore
Sonic Advantage PA, LP	TX		Porsche of West Houston Momentum Luxury Cars Audi West Houston
Sonic – Buena Park H, Inc.	CA		Buena Park Honda
Sonic – Cadillac D, LP	TX		Massey Cadillac
Sonic – Calabasas A, Inc.	CA		
Sonic Calabasas M, Inc.	CA		Mercedes-Benz of Calabasas
Sonic – Calabasas V, Inc.	CA		
Sonic – Camp Ford, LP	TX		
Sonic – Capitol Cadillac, Inc.	MI		
Sonic – Capitol Imports, Inc.	SC		
Sonic – Carrollton V, LP	TX		
Sonic – Carson F, Inc.	CA		

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ENTITY	Domestic	Foreign	ASSUMED NAME
Sonic – Carson LM, Inc.	CA		
Sonic – Clear Lake N, LP	TX		
Sonic – Clear Lake Volkswagen, LP	TX		Momentum Volkswagen of Clear Lake
Sonic – Denver T, Inc.	CO		Mountain States Toyota
Sonic Development, LLC	NC	AL CA CO FL GA MD MI NV OH OK SC TN TX VA	Mountain States Toyota and Scion
Sonic Divisional Operations, LLC	NV	AL AZ CA CO FL GA MD MI NC OH OK SC TN TX VA WI	
Sonic – Downey Cadillac, Inc.	CA		
Sonic eStore, Inc.	NC		
Sonic FFC 1, Inc.	DE	TX	
Sonic FFC 2, Inc.	DE	TX	
Sonic FFC 3, Inc.	DE	TX	
Sonic – Fort Mill Chrysler Jeep, Inc.	SC		
Sonic – Fort Mill Dodge, Inc.	SC		
Sonic – Fort Worth T, LP	TX		Toyota of Fort Worth Scion of Fort Worth
Sonic – Frank Parra Autoplex, LP	TX		
Sonic Fremont, Inc.	CA		
Sonic – Harbor City H, Inc.	CA		Carson Honda
Sonic Houston JLR, LP	TX		Jaguar Houston North Land Rover Houston North
Sonic Houston LR, LP	TX		Land Rover Houston Central Jaguar Houston Central

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ENTITY	Domestic	Foreign	ASSUMED NAME
Sonic – Houston V, LP	TX		
Sonic – Integrity Dodge LV, LLC	NV		
Sonic – Jersey Village Volkswagen, LP	TX		Momentum Volkswagen of Jersey Village
Sonic – Lake Norman Chrysler Jeep, LLC	NC		
Sonic – Las Vegas C West, LLC	NV		Cadillac of Las Vegas
Sonic – Lloyd Nissan, Inc.	FL		
Sonic – Lloyd Pontiac – Cadillac, Inc.	FL		
Sonic – Lone Tree Cadillac, Inc.	CO		Don Massey Collision Center
Sonic – LS Chevrolet, LP	TX		Lone Star Chevrolet
Sonic – LS, LLC	DE	TX	
Sonic – Lute Riley, LP	TX		Lute Riley Honda
Sonic – Massey Cadillac, LP	TX		
Sonic – Massey Chevrolet, Inc.	CA		
Sonic – Mesquite Hyundai, LP	TX		
Sonic Momentum B, LP	TX		Momentum Collision Center Momentum BMW Momentum MINI
Sonic Momentum JVP, LP	TX		Momentum Porsche Momentum Volvo Cars Land Rover Southwest Houston Jaguar Southwest Houston
Sonic Momentum VWA, LP	TX		Audi Central Houston Momentum Volkswagen
Sonic – Newsome Chevrolet World, Inc.	SC		
Sonic – Newsome of Florence, Inc.	SC		
Sonic – North Charleston Dodge, Inc.	SC		
Sonic – North Charleston, Inc.	SC		
Sonic of Texas, Inc.	TX		
Sonic – Plymouth Cadillac, Inc.	MI		

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ENTITY	Domestic	Foreign	ASSUMED NAME
Sonic Resources, Inc.	NV		
Sonic – Richardson F, LP	TX		North Central Ford
Sonic – Sanford Cadillac, Inc.	FL		
Sonic Santa Monica M, Inc.	CA		W.I. Simonson
Sonic Santa Monica S, Inc.	CA		
Sonic – Shottenkirk, Inc.	FL		Pensacola Honda
Sonic – Stevens Creek B, Inc.	CA		Stevens Creek BMW
Sonic – Volvo LV, LLC	NV		Volvo Cars of Las Vegas
Sonic Walnut Creek M, Inc.	CA		Mercedes-Benz of Walnut Creek
Sonic – West Covina T, Inc.	CA		
Sonic – Williams Cadillac, Inc.	AL		
Sonic Wilshire Cadillac, Inc.	CA		
Sonic Automotive – 1495 Automall Drive, Columbus, Inc.	OH		
Sonic Automotive – 1720 Mason Ave., DB, Inc.	FL		
Sonic Automotive - 1720 Mason Ave., DB, LLC	FL		
Sonic Automotive – 2490 South Lee Highway, LLC	TN		
Sonic Automotive – 3401 N. Main, TX, LP	TX		Baytown Auto Collision Center Ron Craft Cadillac Ron Craft Chevrolet
Sonic Automotive – 4701 I-10 East, TX, LP	TX		Baytown Ford
Sonic Automotive – 6008 N. Dale Mabry, FL, Inc.	FL		
Sonic Automotive – 9103 E. Independence, NC, LLC	NC		Infiniti of Charlotte
Sonic Automotive 2424 Laurens Rd., Greenville, Inc.	SC		
Sonic Automotive 2752 Laurens Rd., Greenville, Inc.	SC		Century BMW Century MINI
Sonic Automotive Aviation, LLC	NC		

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ENTITY	Domestic	Foreign	ASSUMED NAME
Sonic Automotive F&I, LLC	NV		
Sonic Automotive of Chattanooga, LLC	TN		BMW of Chattanooga
Sonic Automotive of Nashville, LLC	TN		MINI of Nashville BMW of Nashville BMW Certified Pre-Owned Nashville
Sonic Automotive of Nevada, Inc.	NV		
Sonic Automotive of Texas, LP	TX		Lone Star Ford
Sonic Automotive Support, LLC	NV		
Sonic Automotive West, LLC	NV		
SRE Alabama – 2, LLC	AL		
SRE Alabama – 5, LLC	AL		
SRE Alabama – 6, LLC	AL		
SRE California – 1, LLC	CA		
SRE California – 2, LLC	CA		
SRE California – 3, LLC	CA		
SRE California – 4, LLC	CA		
SRE California – 5, LLC	CA		
SRE California – 6, LLC	CA		
SRE California – 7 SCB, LLC	CA		
SRE California – 8 SCH, LLC	CA		
SRE California – 9 BHB, LLC	CA		
SRE California 10 LBB, LLC	CA		
SRE California 11 PH, LLC	CA		
SRE Colorado – 1, LLC	CO		
SRE Colorado – 2, LLC	CO		
SRE Colorado – 3, LLC	CO		
SRE Colorado – 4 RF, LLC	CO		

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ENTITY	Domestic	Foreign	ASSUMED NAME
SRE Colorado – 5 CC, LLC	CO		
SRE Florida – 1, LLC	FL		
SRE Florida – 2, LLC	FL		
SRE Georgia 4, LLC	GA		
SRE Georgia 5, LLC	GA		
SRE Georgia 6, LLC	GA		
SRE Holding, LLC	NC		AL AZ CO TX
SRE Maryland – 1, LLC	MD		
SRE Nevada – 2, LLC	NV		
SRE North Carolina – 2, LLC	NC		
SRE North Carolina – 3, LLC	NC		
SRE Ohio 1, LLC	OH		
SRE Ohio 2, LLC	OH		
SRE Oklahoma – 1, LLC	OK		
SRE Oklahoma – 2, LLC	OK		
SRE Oklahoma – 5, LLC	OK		
SRE South Carolina – 2, LLC	SC		
SRE South Carolina – 3, LLC	SC		
SRE South Carolina – 4, LLC	SC		
SRE Tennessee – 1, LLC	TN		
SRE Tennessee – 2, LLC	TN		
SRE Tennessee – 3, LLC	TN		
SRE Tennessee – 4, LLC	TN		
SRE Tennessee – 5, LLC	TN		
SRE Tennessee 6, LLC	TN		
SRE Tennessee 7, LLC	TN		
SRE Texas – 1, LP	TX		

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ENTITY	Domestic	Foreign	ASSUMED NAME
SRE Texas – 2, LP	TX		
SRE Texas – 3, LP	TX		
SRE Texas – 4, LP	TX		
SRE Texas – 5, LP	TX		
SRE Texas – 6, LP	TX		
SRE Texas – 7, LP	TX		
SRE Texas – 8, LP	TX		
SRE Texas 9, LLC	TX		
SRE Texas 10, LLC	TX		
SRE Texas 11, LLC	TX		
SRE Texas 12, LLC	TX		
SRE Texas 13, LLC	TX		
SRE Texas 14, LLC	TX		
SRE Texas 15, LLC	TX		
SRE Texas 16, LLC	TX		
SRE Virginia - 1, LLC	VA	MD	
SRE Virginia – 2, LLC	VA		



**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Sonic Automotive, Inc.:

We consent to the incorporation by reference in the Registration Statements Nos. 333-82615, 333-71803, 333-68183, 333-96023, 333-50430, 333-50430-01 through 333-50430-G7, 333-160452, 333-160452-01 through 333-160452-277, 333-161519, 333-161519-01 through 333-161519-277) on Form S-3, (No. 333-77407) on Form S-3MEF, (Nos. 333-51978, 333-165718, 333-165718-01 through 333-165718-277, 333-182307, 333-183709, 333-183709-001 through 333-183709-284, and 333-218382-01 through 333-218382-233) on Form S-4 and (Nos. 333-81059, 333-81053, 333-69907, 333-69899, 333-65447, 333-49113, 333-69901, 333-95791, 333-46272, 333-46274, 333-102052, 333-102053, 333-109411, 333-117065, 333-124370, 333-142435, 333-142436, 333-159674, 333-159675, 333-180814, 333-180815, 333-204027, 333-217504, 333-232177) on Form S-8 of Sonic Automotive, Inc. of our reports dated February 21, 2020, with respect to the consolidated balance sheets of Sonic Automotive, Inc. and subsidiaries as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of December 31, 2019, which reports appear in the December 31, 2019 Annual Report on Form 10-K of Sonic Automotive, Inc.

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standards Codification (ASC) Topic 842, *Leases* and revenue as of January 1, 2018, due to the adoption of ASC Topic 606, *Revenue from Contracts with Customers*.

/s/ KPMG LLP

Charlotte, North Carolina  
February 21, 2020

CERTIFICATION

I, Heath R. Byrd, certify that:

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

Date: February 21, 2020

By: /s/ HEATH R. BYRD

Heath R. Byrd

Executive Vice President and Chief Financial Officer

CERTIFICATION

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

Date: February 21, 2020

By: /s/ DAVID BRUTON SMITH

David Bruton Smith  
Chief Executive Officer

**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 year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Heath R. Byrd, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

/s/ HEATH R. BYRD

Heath R. Byrd

Executive Vice President and Chief  
Financial Officer

February 21, 2020

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

In connection with the Annual Report of Sonic Automotive, Inc. (the Company) on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, David Bruton Smith, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

/s/ DAVID BRUTON SMITH

David Bruton Smith  
Chief Executive Officer  
February 21, 2020