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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 1998

OR

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

Commission file number 1-13395

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

DELAWARE	56-201079
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5401 E Independence Blvd, Charlotte, North Carolina 28212
(Address of principal executive offices) (Zip Code)

(704) 532-3320
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| No |_|

As of May 14, 1998, there were 5,027,452 shares of Class A Common Stock, par value $.01 per share, and 6,250,000 shares of Class B Common Stock, par value $.01 per share, outstanding.

INDEX TO FORM 10-Q

PART I - FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars and shares in thousands except per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	1997	1998
REVENUES:		
Vehicle sales	$ 85,605	$228,569
Parts, service and collision repair	10,979	28,965
Finance and insurance	2,201	6,247
Total revenues	98,785	263,781
COST OF SALES	87,557	228,600
GROSS PROFIT	11,228	35,181
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	8,748	26,640
DEPRECIATION AND AMORTIZATION	218	815
OPERATING INCOME	2,262	7,726
OTHER INCOME AND EXPENSE:		
Interest expense, floor plan	1,338	3,235
Interest expense, other	132	1,061
Other income	134	44
Total other expense	1,336	4,252
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	926	3,474
PROVISION FOR INCOME TAXES	339	1,338
INCOME BEFORE MINORITY INTEREST	587	2,136
MINORITY INTEREST IN EARNINGS OF SUBSIDIARY	46	--
NET INCOME	$ 541	$ 2,136
BASIC NET INCOME PER SHARE		$ 0.19
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		11,250
DILUTED NET INCOME PER SHARE		$ 0.19
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES OUTSTANDING		11,374

See notes to unaudited consolidated financial statements.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 1997	March 31, 1998 (Unaudited)
	(in thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 18,304	$ 23,391
Marketable equity securities	270	247
Receivables (net of allowance for doubtful accounts of $523,000 and $554,000 at December 31, 1997 and March 31, 1998, respectively)	19,784	22,128
Inventories (Note 3)	156,514	150,819
Deferred income taxes	405	405
Due from affiliates	1,047	1,014
Other current assets	1,048	1,969
Total current assets	197,372	199,973
PROPERTY AND EQUIPMENT, NET	19,081	19,796
GOODWILL, NET (Note 2)	74,362	86,072
OTHER ASSETS	635	651

TOTAL ASSETS	$291,450	$306,492

See notes to unaudited consolidated financial statements.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 1997	March 31, 1998 (Unaudited)
	(in thousands)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable - floor plan	$ 133,236	$ 128,152
Trade accounts payable	6,612	7,554
Accrued interest	1,071	1,445
Other accrued liabilities	10,748	12,893
Payable to affiliates	445	445
Current maturities of long-term debt (Note 4)	584	584
Total current liabilities	152,696	151,073
LONG-TERM DEBT (NOTE 4)	38,640	49,982
PAYABLE TO THE COMPANY'S CHAIRMAN	5,500	5,500
PAYABLE TO AFFILIATES	4,394	4,192
DEFERRED INCOME TAXES	1,079	1,079
INCOME TAX PAYABLE	4,776	4,822
COMMITMENTS AND CONTINGENCIES (Note 5)		
STOCKHOLDERS' EQUITY:		
Preferred Stock, $.10 par, 3.0 million shares authorized; 3,960 shares issued and outstanding at March 31, 1998	--	3,366
Class A Common Stock, $.01 par, 50.0 million shares authorized; 5.0 million shares issued and outstanding	50	50
Class B Common Stock, $.01 par, 15.0 million shares authorized; 6.3 million shares issued and outstanding	63	63
Paid-in capital	68,045	68,045
Retained earnings	16,186	18,322
Unrealized gain (loss) on marketable equity securities	21	(2)
Total stockholders' equity	84,365	89,844
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 291,450	$ 306,492

See notes to unaudited consolidated financial statements.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Dollars and shares in thousands)
(Unaudited)

<TABLE>
<CAPTION>

	Preferred Stock		Class A Common Stock		Class B Common Stock		Paid-In Capital	Retained Earnings	Unrealized Gain/(Loss) on Marketable Securities	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 1997	--	$ --	5,000	$ 50	6,250	$ 63	$ 68,045	$ 16,186	$ 21	$ 84,365

Issuance of Preferred Stock (Note 2)	3,960	3,366	--	--	--	--	--	--	-- 3,366
Net unrealized loss on marketable equity securities	--	--	--	--	--	--	--	--	(23) (23)
Net income	--	--	--	--	--	--	--	2,136	-- 2,136
BALANCE AT MARCH 31,1998	3,960	$ 3,366	5,000	$ 50	6,250	$ 63	$ 68,045	$ 18,322	$ (2) $ 89,844

See notes to unaudited consolidated financial statements.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31, 1997	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 541	$ 2,136
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	218	815
Minority interest	46	--
Gain on sale of marketable equity securities	(134)	--
Changes in assets and liabilities that relate to operations:		
Receivables	1,155	(1,203)
Inventories	10,956	14,910
Other assets	17	(665)
Notes payable - floor plan	(10,211)	(13,405)
Accounts payable and other current liabilities	(534)	1,323
Income tax payable	--	46
Total adjustments	1,513	1,821
Net cash provided by operating activities	2,054	3,957
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of businesses, net of cash acquired (Note 2)	--	(9,422)
Purchases of property and equipment	(830)	(622)
Net cash used in investing activities	(830)	(10,044)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	--	19,688
Payments of long-term debt	(129)	(8,346)
Receipts from (advances to) affiliate companies	389	(168)
Net cash provided by financing activities	260	11,174
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,484	5,087
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,679	18,304
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 8,163	$ 23,391
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Preferred Stock issued pursuant to acquisition (Note 2)	$ --	$ 3,366

See notes to unaudited consolidated financial statements.

The following Notes to Unaudited Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations contain estimates and forward-looking statements as indicated herein by the use of such terms as "estimated", "expects", "approximate" or "projected". Such statements reflect management's current views, are based on certain assumptions and are subject to risks and uncertainties. No assurance can

be given that actual results or events will not differ materially from those projected, estimated, assumed, or anticipated in any such forward-looking statements. Important factors that could cause actual results to differ from those projected or estimated are discussed herein.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation -- The accompanying unaudited financial information for the three months ended March 31, 1997 and 1998 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. All significant intercompany accounts and transactions have been eliminated. These unaudited consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state the financial position and the results of operations for the periods presented. The results for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year. These interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 1997.

New Accounting Standards -- In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This Standard establishes standards of reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The Company adopted the interim-period reporting requirements of this standard for the three months ended March 31, 1998. Comprehensive income amounted to $656,000 and $2.1 million for the three months ended March 31, 1997 and March 31, 1998, respectively.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." This Standard redefines how operating segments are determined and requires disclosure of certain financial and descriptive information about a company's operating segments. This Statement will be effective for the Company's fiscal year ending December 31, 1998, and need not be applied to interim financial statements in the initial year of its application. The Company has not yet completed its' analysis of which operating segments it will disclose, if any.

Per Share Data - The calculation of diluted net income per share considers the potential dilutive effect of options to purchase 798,000 shares of Class A Common Stock at a price ranging from $12-$14.50 per share under both the Sonic Automotive, Inc. Formula Stock Option Plan for Independent Directors and the Sonic Automotive, Inc. 1997 Stock Option Plan. The calculation also considers the potential dilutive effect of the Sonic Automotive, Inc. Employee Stock Purchase Plan, a warrant to purchase 44,000 shares of common stock at $12 per share and conversion of the 3,960 outstanding shares of Series III Preferred Stock.

2. BUSINESS ACQUISITIONS

Pending Acquisitions

The Company has entered into agreements to acquire four dealerships and two dealership groups. The estimated aggregate purchase price for these acquisitions, $80.2 million, is payable in cash, Class A Convertible Preferred Stock and warrants to purchase shares of Class A Common Stock. In addition, the Company may be required to make additional payments contingent on the future performance of the dealerships and the dealership groups.

Acquisitions Completed During the Three Months ended March 31, 1998

During the first three months of 1998, the Company completed its previously announced acquisitions of Clearwater Toyota, Clearwater Mitsubishi and Clearwater Collision Center (the "Clearwater Acquisition") located in Clearwater, Florida for a total purchase price of $14.9 million. The acquisition was financed with $11.5 million in cash borrowed under a revolving credit facility (See Note 4) and $3.4 million in Series III Convertible Preferred Stock. In addition, by April 30, 1999 the Company will be required to pay an additional amount equal to 50% of the combined pre-tax earnings of the entities acquired, such amount not to exceed $1.8 million. The amount paid will be accounted for as goodwill.

2. BUSINESS ACQUISITIONS -- Continued

(All tables in thousands except per share amounts)

The Clearwater Acquisition was accounted for using the purchase method of accounting and the results of operations of the Clearwater Acquisition have been included in the accompanying consolidated financial statements from January 1, 1998, the effective date of acquisition. The purchase price of the acquisition has been allocated to the assets and liabilities acquired based on their estimated fair market value at the acquisition date as follows:

Working capital	$ 2,681
Property and equipment	364
Goodwill	11,808
Total purchase price	$ 14,853

The following unaudited pro forma financial information presents a summary of consolidated results of operations as if the Clearwater Acquisition and the dealership groups acquired in 1997 had occurred as of January 1, 1997 after giving effect to certain adjustments, including amortization of goodwill, interest expense on acquisition debt and related income tax effects. The pro forma financial information does not give effect to adjustments relating to net reductions in floor plan interest expense resulting from re-negotiated floor plan financing agreements or to reductions in salaries and fringe benefits of former owners or officers of acquired dealerships who have not been retained by the Company or whose salaries have been reduced pursuant to employment agreements with the Company. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results of operations that would have occurred had the acquisitions been completed on January 1, 1997. These results are also not necessarily indicative of the results of future operations.

	Three Months Ending March 31, 1997
Total revenues	$ 260,776
Gross profit	$ 31,206
Net Income	$ 2,067
Diluted net income per share	$ 0.18

3. INVENTORIES

Inventories consist of the following:

	December 31, 1997	March 31, 1998
New vehicles	$118,751	$110,970
Used vehicles	27,990	29,216
Parts and accessories	9,085	10,019
Other	688	614
Total	$156,514	$150,819

4. LONG-TERM DEBT

The Company has a secured, revolving acquisition line of credit (the "Revolving Facility") from Ford Motor Credit Company ("Ford Motor Credit") with a maximum lending commitment of $75 million bearing interest at prime rate (8.5% at March 31, 1998). The Revolving Facility will mature in two years, unless the Company requests that such term be extended, at the option of Ford Motor Credit, for a number of additional one year terms to be negotiated by the parties. As of March 31, 1998, a total of $44.8 million was outstanding under the Revolving Facility. The Revolving Facility currently contains certain negative covenants. The Company did not meet the debt to tangible equity ratio at March 31, 1998 and has obtained a waiver with regard to such requirement from Ford Motor Credit.

5. COMMITMENTS AND CONTINGENCIES

The Company is involved in various legal proceedings. Management believes that the outcome of such proceedings will not have a materially adverse effect on the Company's financial position or future results of operations and cash flows.

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

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with the Unaudited Consolidated Financial Statements and the related notes thereto.

Results of Operations

The following table summarizes, for the periods presented, the percentages of total revenues represented by certain items reflected in the Company's Consolidated Statements of Income.

	Percentage of Total Revenues for Three Months Ended March 31,	
	1997	1998
Revenues:		
New vehicle sales	63.7%	58.3%
Used vehicle sales	23.0%	28.4%
Parts, service and collision repair	11.1%	11.0%
Finance and insurance	2.2%	2.3%
Total revenues	100.0%	100.0%
Cost of sales	88.6%	86.7%
Gross profit	11.4%	13.3%
Selling, general and administrative	9.1%	10.4%
Operating income	2.3%	2.9%
Interest expense	1.5%	1.6%
Income before income taxes	0.9%	1.3%

Three Months Ended March 31, 1998 Compared to Three Months Ended March 31, 1997

Revenues. Revenues grew in each of the Company's primary revenue areas for the first three months of 1998 as compared with the first three months of 1997, causing total revenues to increase 167.0% to $263.8 million. New vehicle sales revenue increased 144.5% to $153.7 million in the first three months of 1998, compared with $62.9 million in the first three months of 1997. The increase was due primarily to an increase in new vehicle unit sales of 119.1% to 6,617, as compared with 3,020 in the first three months of 1997 resulting principally from additional unit sales contributed by the acquisitions of Jeff Boyd Chrysler-Plymouth-Dodge in June 1997, Lake Norman Dodge and Affiliates in September 1997, Ken Marks Ford in October 1997, Dyer Volvo and the Bowers Dealerships and Affiliated Companies in November 1997, and Clearwater Toyota, Clearwater Mitsubishi, and Clearwater Collision Center effective January 1998 (the "Acquisitions"). The remainder of the increase was due to a 11.6% increase in the average selling price of new vehicles resulting principally from sales of higher priced import vehicles contributed by the Acquisitions.

Used vehicle revenues from retail sales increased 263.0% to $56.5 million in the first three months of 1998 from $15.6 million in the first three months of 1997. The increase was primarily due to an increase in used vehicle unit sales of 241.5% to 4,333, as compared with 1,269 in the first three months of 1997, resulting from additional unit sales contributed by the Acquisitions.

The Company's parts, service and collision repair revenue increased 163.8% to $29.0 million in the first three months of 1998 compared to $11.0 million in the first three months of 1997, principally due to the Acquisitions. Finance and insurance revenue increased $4.0 million, or 183.9%, principally due to increased new vehicle sales and related financing.

Gross Profit. Gross profit increased 213.3% to $35.2 million in the first three months of 1998 from $11.2 million in the first three months of 1997 principally due to increases in revenues contributed by dealerships acquired. Gross profit as a percentage of sales increased to 13.3% from 11.4% due to increases in new vehicle gross margins resulting from sales of higher margin import vehicles contributed by acquired dealerships, as well as improved gross margins of used vehicles resulting from efforts made to improve management of used vehicle inventories.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, including depreciation and amortization, increased 206.2% to $27.5 million in the first three months of 1998 from $9.0 million in the first three months of 1997. Such expenses as a percentage of revenues increased to 10.4% from 9.1% principally due to expenses inherent with growth and the Acquisitions.

Interest Expense. Interest expense increased 192.2% to $4.3 million from $1.5 million. The increase was primarily due to a $1.9 million increase in floor plan interest incurred by the Acquisitions. The remaining increase was due to $0.9 million in interest incurred on acquisition related indebtedness.

Net Income. As a result of the factors noted above, the Company's net income increased by $1.6 million in the first three months of 1998 compared to the first three months of 1997.

Liquidity and Capital Resources :

The Company's principal needs for capital resources are to finance acquisitions, service debt and fund working capital requirements. Historically, the Company has relied primarily upon internally generated cash flows from operations, borrowings under its various credit facilities, borrowings and capital contributions from its stockholders, and proceeds generated from its Initial Public Offering to finance its operations and expansion.

The Company currently has a global floor plan credit facility with Ford Motor Credit Company ("Ford Motor Credit") for all its dealership subsidiaries (the "Floor Plan Facility"). As of March 31, 1998, there was an aggregate of $128.2 million outstanding under the Floor Plan Facility. The Floor Plan Facility at March 31, 1998 had an effective rate of prime less 0.9%, subject to certain incentives. Typically new vehicle floor plan indebtedness exceeds the related inventory balances. The inventory balance is generally reduced by the manufacturer's purchase discounts, and such reduction is not reflected in the related floor plan liability. These manufacturer purchase discounts are standard in the industry, typically occur on all new vehicle purchases, and are not used to offset the related floor plan liability. These discounts are aggregated and generally paid to the Company by the manufacturer on a quarterly basis.

The Company makes monthly interest payments on the amount financed under the Floor Plan Facility but is not required to make loan principal repayments prior to the sale of the vehicles. The underlying notes are due when the related vehicles are sold and are collateralized by vehicle inventories and other assets of the Company. The Floor Plan Facility contains a number of covenants, including among others, covenants restricting the Company with respect to the creation of liens and changes in ownership, officers and key management personnel.

During the first three months of 1998, the Company generated net cash of $4.0 million from operating activities, compared to $2.1 million in the first three months of 1997. The increase was attributable principally to a decrease in inventory levels and increased net income.

Cash used for investing activities, excluding amounts paid in acquisitions, was approximately $622,000 for the first three months of 1998 and related primarily to acquisitions of property and equipment.

Cash provided by financing activities for the first three months of 1998 of $11.2 primarily reflects amounts borrowed under the Revolving Facility to finance the purchase of the Clearwater Dealerships.

The Company has a secured, revolving acquisition line of credit (the "Revolving Facility") from Ford Motor Credit with a maximum lending commitment of $75 million bearing interest at prime rate. The Revolving Facility will mature in two years, unless the Company requests that such term be extended, at the option of Ford Motor Credit, for a number of additional one year terms to be negotiated by the parties. Amounts to be drawn under the Revolving Facility are to be used for the acquisition of additional dealerships and to provide general working capital needs of the Company not to exceed $10 million. As of March 31, 1998, a total of $44.8 million was outstanding under the Revolving Facility. The Revolving Facility currently contains certain negative covenants. The Company did not meet the specified debt to tangible equity ratio at March 31, 1998 and has obtained a waiver with regard to such requirement from Ford Motor Credit.

Capital expenditures, excluding amounts paid in acquisitions, were $0.8 million and $0.6 million for the three months ended March 31, 1997 and 1998, respectively. The Company's principal capital expenditures typically include building improvements and equipment for use in the Company's dealerships. During the first three months of 1998, the Company completed its previously announced acquisitions of Clearwater Toyota, Clearwater Mitsubishi, and Clearwater Collision Center located in Clearwater, Florida for a total purchase price of $14.9 million. The acquisition was financed with $11.5 million in cash borrowed under a revolving credit facility and $3.4 million in convertible preferred stock. In addition, by April 30, 1999 the Company will be required to pay an additional amount equal to 50% of the combined pre-tax earnings of the entities acquired, such amount not to exceed $1.8 million.

The Company has entered into agreements to acquire four dealerships and two dealership groups. The estimated aggregate purchase price for these acquisitions, $80.2 million, is payable in cash, Class A Convertible Preferred Stock and warrants to purchase

shares of Class A Common Stock. In addition, the Company may be required to make additional payments contingent on the future performance of the dealerships and the dealership groups.

The Company believes that funds generated through future operations and availability of borrowings under its floor plan financing (or any replacements thereof) and its other credit arrangements will be sufficient to fund its debt service and working capital requirements and any seasonal operating requirements, including its currently anticipated internal growth, for the foreseeable future. The Company incurred a tax liability of approximately $7.0 million in connection with the change in its tax basis of accounting for inventory from LIFO to FIFO, which is payable over a six-year period beginning in January 1998. As of March 31, 1998, the remaining balance of this liability was $5.8 million. The Company expects to be pay such obligation with cash provided by operations. The Company expects to fund any future acquisitions from its future cash flow from operations, additional debt financing (including the Revolving Facility) or the issuance of Class A Common Stock or issuance of other convertible instruments.

New Accounting Standards

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This standard establishes standards of reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The Company adopted the interim-period reporting requirements of this standard for the three months ended March 31, 1998. Comprehensive income amounted to $656,000 and $2.1 million for the three months ended March 31, 1997 and March 31, 1998, respectively.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures and Segments of an Enterprise and Related Information". This Standard redefines how operating segments are determined and requires disclosure of certain financial and descriptive information about a company's operating segments. This Statement will be effective for the Company's fiscal year ending December 31, 1998, and need not be applied to interim financial statements in the initial year of its application. The Company has not yet completed its analysis of which operating segments it will disclose, if any.

PART II - OTHER INFORMATION

Item 6. Exhibits

(a) Exhibits:

4.1 Certificate of Designation, Preferences and Rights of Class A Convertible Preferred Stock.

10.1* Asset Purchase Agreement dated December 30, 1997 between Sonic Automotive, Inc., as buyer, and M&S Resources, Inc. .Clearwater Auto Resources, Inc. and Clearwater Collision Center, Inc., as sellers and Scott Fink, Michael Cohen, Jeffrey Schuman, and Timothy McCabe as shareholders of the sellers (incorporated by reference to Exhibit 99.1 to the Company's Current Report of Form 8-K dated March 30, 1998 (the "March 1998 Form 8-K")).

10.2* Amendment No. 1 and Supplement to Asset Purchase Agreement dated as of March 24, 1998 between Sonic Automotive, Inc., as buyer, and M&S Resources, Inc., Clearwater Auto Resources, Inc., and Clearwater Collision Center, Inc., as sellers and Scott Fink, Michael Cohen, Jeffrey Schuman, and Timothy McCabe as shareholders of the sellers (incorporated by reference to Exhibit 99.2 to the March 1998 Form 8-K).

10.3 Asset Purchase Agreement dated as of February 4, 1998 between Sonic Automotive, Inc., as buyer, and Hatfield Jeep Eagle, Inc., Hatfield Lincoln Mercury, Inc., Trader Bud's Westside Dodge, Inc., Toyota West, Inc., and Hatfield Hyundai Inc., as sellers and Bud C. Hatfield, Dan E. Hatfield and Dan E. Hatfield, as Trustee of the Bud C. Hatfield, Sr. Special Irrevocable Trust as shareholders of the sellers.

10.4 Agreement and Plan of Merger dated as of February 10, 1998 between Sonic Automotive, Inc., as buyer, and Capitol Chevrolet, Inc., Capitol Imports, LTD., and Frank E. McGough, Jr., as sellers.

10.5 Stock Purchase Agreement dated as of March 16, 1998 between Sonic Automotive, Inc., as buyer, and Freeman Smith, as stockholder and the other stockholders named therein.

10.6* Sonic Automotive, Inc. Formula Stock Option Plan for Independent Directors

(incorporated by reference to Exhibit 10.69 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).

27 Financial data schedule for the three month period ended March 31, 1998 (filed electronically).

(b) Reports on Form 8-K.

On March 30, 1998, the Company filed a Current Report on Form 8-K, dated March 24, 1998, pursuant to Item 2 of such form, reporting the Clearwater Acquisition and containing Unaudited Pro Forma Financial Statements Reflecting the Business Combination of Sonic Automotive, Inc. and Clearwater Dealerships.

* Filed Previously

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SONIC AUTOMOTIVE, INC.
(Registrant)

Date: May 14, 1998

By: /s/ O. Bruton Smith
O. Bruton Smith
Chairman and Chief Executive Officer

Date: May 14, 1998

By: /s/ Theodore M. Wright
Theodore M. Wright
Vice President-Finance, Chief Financial Officer, Treasurer, Secretary and Director

INDEX TO EXHIBITS TO
QUARTERLY REPORT ON FORM 10-Q FOR
SONIC AUTOMOTIVE, INC.
FOR THE QUARTER ENDED March 31, 1998

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
4.1	Certificate of Designation, Preferences and Rights of Class A Convertible Preferred Stock.
10.1*	Asset Purchase Agreement dated December 30, 1997 between Sonic Automotive, Inc., as buyer, and M&S Resources, Inc. .Clearwater Auto Resources, Inc. and Clearwater Collision Center, Inc., as sellers and Scott Fink, Michael Cohen, Jeffrey Schuman, and Timothy McCabe as shareholders of the sellers (incorporated by reference to Exhibit 99.1 to the Company's Current Report of Form 8-K dated March 30, 1998 (the "March 1998 Form 8-K")).
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* Filed Previously

Exhibit 4.1

State of Delaware PAGE 1
Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF DESIGNATION OF "SONIC AUTOMOTIVE, INC.", FILED IN THIS OFFICE ON THE TWENTY-THIRD DAY OF MARCH, A.D. 1998, AT 10 O'CLOCK A.M.

(SEAL APPEARS HERE WITH THE FOLLOWING INFORMATION:)

GREAT SEAL OF THE STATE OF DELAWARE

1793 1847 1907

(Shield appears here) /s/ Edward J. Freel
Edward J. Freel, Secretary of State

2714319 8100 AUTHENTICATION:

DATE: 8986068

981109787 03-23-98

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

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

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

SONIC AUTOMOTIVE, INC.

By: BRYAN SCOTT SMITH

Name: Bryan Scott Smith
Title: President

By: THEODORE M. WRIGHT

Name: Theodore M. Wright
Title: Secretary

EXHIBIT A

RESOLUTIONS CREATING CLASS A CONVERTIBLE PREFERRED STOCK

RESOLVED, that, pursuant to the authority expressly granted to and vested in the Board of Directors of the Corporation by Section 4.06 of the Amended and Restated Certificate of Incorporation of the Corporation, there is hereby created a class of 300,000 shares of preferred stock, designated as Class A Convertible Preferred Stock, par value $0.10 per share, which shall be divided into 100,000 shares of Series I Convertible Preferred Stock, par value $0.10 per share (the "Series I Preferred Stock"), 100,000 shares of Series II Convertible Preferred Stock, par value $0.10 per share (the "Series II Preferred Stock"), and 100,000 shares of Series III Convertible Preferred Stock, par value $0.10 per share (the "Series III Preferred Stock" and,

together with the Series I Preferred Stock and the Series II Preferred Stock, collectively, the "Class A Preferred Stock"). The Board of Directors reserves the right, at any time and from time to time, subject to the filing of a further Certificate or Certificates of Designation with respect thereto and to compliance with any other applicable legal requirements, to redivide or reclassify the Class A Preferred Stock into different numbers of shares of Series I Preferred Stock, Series II Preferred Stock and/or Series III Preferred Stock, or into other classes of preferred stock; provided, however, that no such redivision or reclassification shall affect any shares of Series I Preferred Stock, Series II Preferred Stock or Series III Preferred Stock, as the case may be, then issued and outstanding. All capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Amended and Restated Certificate of Incorporation of the Corporation as in effect on the date hereof.

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

Section 1. Liquidation Rights.

(a) Treatment at Liquidation, Dissolution or Winding Up. In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, the holders of each share of the Class A Preferred Stock shall, subject to the preferential rights, if any, of the holders of preferred stock other than the Class A Preferred Stock, be entitled to be paid first out of the assets of the Corporation available for distribution to holders of the Corporation's capital stock of all classes an amount, and no other amount, equal to $1,000 per share of Class A Preferred Stock. If the assets of the Corporation shall be insufficient to permit the payment in full to the holders of the Class A Preferred Stock of all amounts distributable to them under this Subsection 1(a) and to all other holders of preferred stock, if any, entitled to share in such assets with the holders of the Class A Preferred Stock, then the entire assets of the Corporation available for such distribution shall be distributed ratably among the holders of the Class A Preferred Stock and such other holders of preferred stock in proportion to the full preferential amount each such holder is otherwise entitled to receive. After such payments shall have been made in full to the holders of the Class A Preferred Stock and such other holders of preferred stock or funds necessary for such payments shall have been set aside by the Corporation in trust for the account of holders of Class A Preferred Stock and such other holders of preferred stock so as to be available for such payments, the remaining assets available for distribution shall be distributed among the holders of the Common Stock ratably in proportion to the number of shares of Common Stock held by them. Upon conversion of shares of Class A Preferred Stock into shares of Class A Common Stock pursuant to Section 2 below, the holder of such Class A Common Stock shall not be entitled to any preferential payment or distribution in case of any liquidation, dissolution or winding up, but shall share ratably as a holder of Class A Common Stock in any distribution of the assets of the Corporation to all the holders of Common Stock.

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

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

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

(i) Definitions. As used herein, the term "Market Price" shall mean the average of the daily closing prices for one share of Class A Common Stock for the twenty (20) consecutive trading days ending one (1) trading day immediately prior to the date of determination. The closing price for each day shall be the last regularly reported sales price, or in case no such reported sales took place on such day, the average of the last regularly reported bid and asked prices, in either case on the New York Stock Exchange or, if the shares of the Class A Common Stock are not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which such shares are listed or admitted to trading,

or, if such shares are not so listed or admitted to trading, the average of the highest reported bid and lowest reported asked prices as furnished by the National Association of Securities Dealers, Inc. through NASDAQ or through a similar organization if NASDAQ is no longer reporting such information. If shares of the Class A Common Stock are not listed or admitted to trading on any exchange or quoted through NASDAQ or any similar organization, the Market Price shall be deemed to be the fair value thereof determined in good faith by the

Corporation's board of directors as expressed by a resolution of such board as of a date which is within fifteen days of the date as of which the determination is to be made, which determination shall be final. As used herein, the term "Applicable Conversion Amount" shall mean the Series I Conversion Amount, the Series II Conversion Amount or the Series III Conversion Amount (each as hereafter defined), as the case may be. As used herein, the term "business day" shall mean a day other than a Saturday, a Sunday or a day in which banks are required to be closed in the State of North Carolina.

(ii) Series I Preferred Stock. Subject to the other provisions of this Section 2, each share of Series I Preferred Stock shall be convertible, without the payment of any additional consideration by the holder thereof and at the option of the holder thereof, on any business day after the date of issuance of such share, at the principal executive office of the Corporation or the designated office of any transfer agent for the Class A Preferred Stock, into such number (rounded to four decimal places) of fully paid and nonassessable shares of Class A Common Stock as is determined by dividing $1,000 by the Market Price as of the date of conversion provided in the last sentence of Section 2(b) below (such number of shares being the "Series I Conversion Amount"). The right of conversion with respect to any shares of Series I Preferred Stock which shall have been called for redemption under Section 5 shall terminate at the close of business on the date of the mailing of the notice of redemption with respect thereto; provided, however, if the Corporation shall default in the payment of the redemption price on the redemption date fixed in such notice of redemption, such right of conversion shall continue.

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

(iv) Series III Preferred Stock. Subject to the other provisions of this Section 2, each share of Series III Preferred Stock shall be convertible, without the payment of any additional consideration by the holder thereof and at the option of the holder thereof, on any business day after the date of issuance of such share, at the principal executive office of the Corporation or the designated office of any transfer agent for the Class A Preferred Stock, into such number (rounded to four decimal places) of fully paid and nonassessable shares of Class A Common Stock as is determined by dividing $1,000 by the Market Price as of the date of issuance of such shares of Series III Preferred Stock (such number of shares being the "Series III Conversion Amount"), subject to adjustment as provided in the following two sentences. If the Market Price as of the date of conversion (as provided in the last sentence of Section 2(b) below) of such share of Series III Preferred Stock is less than the Market Price as of the date of issuance of such share of Series III Preferred Stock, the Series III Conversion Amount shall be multiplied by a fraction, the numerator of which shall be an amount equal to such Market Price as of such date of issuance and the denominator of which shall be such Market Price as of such date of conversion, and the product obtained thereby shall be the Series III Conversion Amount. If the Market Price as of the date of conversion (as provided in the last sentence of Section 2(b) below) of such share of Series III Preferred Stock is more than one hundred ten percent (110%)

of the Market Price as of the date of issuance of such share of Series III Preferred Stock, the Series III Conversion Amount shall be multiplied by a fraction, the numerator of which shall be an amount equal to one hundred ten percent (110%) of such Market Price as of such date of issuance and the denominator of which shall be such Market Price as of such date of conversion, and the product obtained thereby shall be the Series III Conversion Amount. The right of conversion with respect to any shares of Series III Preferred Stock which shall have been called for redemption under Section 5 shall terminate at the close of business on the date of the mailing of the notice of redemption with respect thereto; provided, however, if the Corporation shall default in the payment of the redemption price on the redemption date fixed in such notice of redemption, such right of conversion shall continue.

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

(vi) Conversion During First Year. The right of any holder to convert any of such holder's shares of the Class A Preferred Stock during the one (1) year period commencing with the date of issuance of such Class A Preferred Stock shall be subject to the Corporation's right of optional redemption under Section 5 hereof. The holder of such share of Class A Preferred Stock shall not exercise such holder's right to convert such share of Class A Preferred Stock during such one (1) year period unless such holder shall have first delivered to the Corporation, at its address at 5401 E. Independence Boulevard, Charlotte, North Carolina 28212, Attention: Chief Financial Officer, or at such other address as the Corporation may notify the holder in writing, written notice of such holder's intention to convert a specified number of shares of Class A Preferred Stock. For a period of ten (10) business days after receipt by the Corporation of such notice, the Corporation shall have the right to exercise its right of optional redemption under Section 5 hereof with respect to some or all of the shares of Class A Preferred Stock proposed to be converted by such holder. In the event that the Corporation shall not have exercised such right of redemption within such ten (10) business day period, such holder shall be entitled to convert such shares of Class A Preferred Stock in accordance with the mechanics set forth in Subsection 2(b) below.

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

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

accordance with the provisions of Subsection 2(d) below, the certificate or certificates evidencing the shares of Class A Preferred Stock so converted shall be deemed to represent the applicable number of shares of Class A Common Stock into which such shares of Class A Preferred Stock have been so converted.

(d) Mechanics of Mandatory Conversion. Upon mandatory conversion pursuant to Subsection 2(c) above, the Corporation shall not be obligated to issue certificates evidencing the shares of Class A Common Stock issuable upon such conversion unless the certificate or certificates evidencing such share or shares of the Class A Preferred Stock being converted are either delivered to the Corporation or its designated transfer agent for the Class A Preferred Stock, or the holder notifies the Corporation or such transfer agent that such certificate or certificates have been lost, stolen, or destroyed and executes an agreement satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection therewith and, if the Corporation so elects, provides an appropriate indemnity bond. Upon the mandatory conversion of one or more shares of the Class A Preferred Stock, the holder or holders of such Class A Preferred Stock shall surrender the certificates representing such shares at the principal executive office of the Corporation or of its designated transfer agent for the Class A Preferred Stock. Thereupon, there shall be issued and delivered to such holder or holders, promptly at such office and in the name or names as shown on such surrendered certificate or certificates, a certificate or certificates for the number of shares of Class A Common Stock into which the shares of the Class A Preferred Stock surrendered were convertible as of the date of the applicable Mandatory Conversion Notice. No fractional shares of Class A Common Stock shall be issued upon such mandatory conversion of the Class A Preferred Stock. In lieu of any fractional share to which the holder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the Market Price as of the date of conversion. The right of the Corporation to effectuate mandatory conversion of the Class A Preferred Stock may be exercised by the Corporation, in its discretion, as to any or all shares of Class A Preferred Stock held by any or all of the holders of the Class A Preferred Stock; and the exercise (or non-exercise) of such right by the Corporation with respect to any shares of Class A Preferred Stock held by one holder shall not in any way imply any obligation or duty of the Corporation to exercise (or not to exercise) such right with respect to any shares of Class A Preferred Stock held by any other holder.

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

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

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

the end that the provisions set forth in this Section 2 (including provisions with respect to changes in and other adjustments of the Applicable Conversion Amount) shall thereafter be applicable, as nearly as reasonably may be, in relation to any shares of stock or other property thereafter deliverable upon the conversion of the Class A Preferred Stock.

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

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

Section 3. Voting Rights.

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

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

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

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

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

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

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

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

redemption.

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

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

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

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

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

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

Exhibit 10.3

FINAL 2/4/98

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (this "Agreement") is made and entered into as of this 4th day of February, 1998, by and among: SONIC AUTOMOTIVE, INC., a Delaware corporation (the "Buyer"), HATFIELD JEEP EAGLE, INC., an Ohio corporation d/b/a Volkswagen West, Jeep Eagle West, Hatfield KIA and Trader Bud's Westside Chrysler Plymouth, HATFIELD LINCOLN MERCURY, INC., an Ohio corporation d/b/a Hatfield Lincoln Mercury, TRADER BUD'S WESTSIDE DODGE, INC., an Ohio corporation d/b/a Trader Bud's Westside Dodge, TOYOTA WEST, INC., an Ohio corporation d/b/a Toyota West, and HATFIELD HYUNDAI, INC., an Ohio corporation d/b/a Hatfield Hyundai, Hatfield Isuzu and Hatfield Subaru (collectively, the "Sellers" and each, individually, a "Seller"); and Bud C. Hatfield, Dan E. Hatfield and Dan E. Hatfield, as Trustee of the Bud C. Hatfield, Sr. Special Irrevocable Trust (collectively, the "Shareholders" and each, individually, a "Shareholder").

W I T N E S S E T H:

In consideration of the mutual representations, warranties, covenants and agreements hereinafter set forth, the parties hereto hereby agree as follows:

ARTICLE 1
PURCHASE AND SALE OF ASSETS; ASSUMPTION OF LIABILITIES

1.1 Agreement of Purchase and Sale. On the terms and subject to the conditions of this Agreement, at the Closing (as defined in Article 2 hereof), the Sellers shall sell, transfer, convey, assign and deliver (or cause to be sold, transferred, conveyed, assigned and delivered) to the Buyer, and the Buyer shall purchase and accept delivery of, all of the Sellers' right, title and interest in and to all of the assets of the Sellers of every kind, character and description, tangible or intangible, real, personal or mixed, and wherever located, including, without limitation, the assets described on Schedule 1.1(a), but excluding, however, the assets described on Schedule 1.1(b) (the "Excluded Assets"); said assets, other than the Excluded Assets, are hereinafter called the "Purchased Assets". The Purchased Assets will be sold free and clear of all mortgages, deeds of trust, liens, pledges, charges, security interests, contractual restrictions, claims or encumbrances of any kind or character (collectively, "Encumbrances"), other than the Encumbrances set forth on Schedule 1.1(c) (the "Permitted Encumbrances").

1.2 Assumed Liabilities; Inducement Fee.

(a) Assumed Liabilities. On the terms and subject to the conditions of this Agreement and in reliance upon the representations and warranties contained herein, at the Closing the Buyer shall assume and undertake to perform all of the liabilities and obligations of the Sellers specifically described on Schedule 1.2 (the "Assumed Liabilities"). Except for the Assumed Liabilities, the Buyer shall not assume, and the Sellers shall retain and remain responsible for, any and all liabilities and obligations of the Sellers of any nature whatsoever, whether past, current or

future, whether accrued, contingent, known or unknown (such retained liabilities and obligations being hereinafter called the "Retained Liabilities").

(b) Inducement Fee. As an inducement to the Buyer to negotiate and enter into this Agreement and to undertake the further cost and expense of conducting its due diligence investigation and preparing to satisfy its obligations at the Closing, the Sellers hereby agree, jointly and severally, to pay to Sonic Automotive, Inc., not later than April 30, 1998, the sum of $500,000 (the "Inducement Fee"). The Inducement Fee will be an Assumed Liability and will become an obligation of the Buyer or any other person (including any holder of a right of first refusal, preemptive right or other similar right, with respect to any of the Purchased Assets) who purchases the Purchased Assets, or any portion thereof, based upon the terms of this Agreement. The Inducement Fee will be reflected as a liability in the Closing Balance Sheet (as defined in Section 1.3(c) below), but will not be taken into account in determining the Net Current Assets (as defined in Section 1.3(a) below), notwithstanding the provisions of said Section 1.3(c). The Inducement Fee will be canceled if this Agreement is terminated for any reason other than the exercise of a right of first refusal, preemptive right or other similar right, by an applicable automobile manufacturer or distributor or any person claiming by, through or under it.

1.3 Purchase Price; Allocation.

(a) Purchase Price. In addition to the assumption by the Buyer of the Assumed Liabilities, as the full consideration to be paid by the Buyer for the Purchased Assets, the Buyer shall pay to the Sellers the aggregate a purchase price of $46,750,000, consisting of $8,000,000, subject to adjustment

as provided in Section 1.3(c) below, as the purchase price for the Sellers' Net Current Assets (as hereinafter defined) and $38,750,000 as the purchase price for all of the other Purchased Assets (collectively, the "Purchase Price"). As used in this Agreement, the term "Net Current Assets" shall mean (i) all of the Purchased Assets as of the close of business on the last day of the calendar month immediately preceding the calendar month in which the Closing occurs (the "Effective Closing Date") which would, in conformity with generally accepted accounting principles applied in a manner consistent with those used in the preparation of the Financial Statements referred to in Section 3.4 below ("GAAP"), be included under current assets on a balance sheet as at such date, MINUS (ii) all of the Assumed Liabilities as of the close of business on the Effective Closing Date which would, in conformity with GAAP, be included under current liabilities on a balance sheet as at such date.

(b) Payment of Purchase Price. The Purchase Price shall be paid as follows:

(1) (A) $32,725,000 of the Purchase Price plus (B) interest on such amount from and including the first day of the calendar month in which the Closing occurs to the date of payment at the Interest Rate (as defined in Section 1.3(c) below) (the "Closing Payment") shall be payable to the Sellers at Closing by wire transfer of immediately available funds to the account or accounts of the Sellers, which shall be designated by Bud Hatfield, as agent for the Sellers (the "Sellers' Agent"), in writing at least one full Business Day prior to the Closing Date, in the respective amounts specified in Part I of Schedule 1.3(e). For purposes of this Agreement, a "Business Day" is a day other than a Saturday, a Sunday or a day on which banks are required or authorized to be closed in the State of North Carolina.

(2) (A) At the Closing, the Buyer shall issue to the Sellers, in the respective amounts specified in Part I of Schedule 1.3(d) hereto, 14,025 shares of the Buyer's Convertible Preferred Stock (the "Preferred Stock"). The Preferred Stock will be convertible into shares of the Buyer's Class A Common Stock having an aggregate market value at the time of conversion equal to $14,025,000, as more specifically provided in the Summary of Rights and Preferences attached as Exhibit A hereto. At the Closing, 11,525 shares of the Preferred Stock (the "Closing Shares") will be delivered to the Sellers in the respective amounts specified in Part I of Schedule 1.3(d) hereto and 2,500 shares of the Preferred Stock (the "Escrow Shares") shall be placed in escrow with First Union National Bank (the "Escrow Agent") by the Buyer in accordance with the escrow agreement in the form of Exhibit B hereto, with such other changes thereto as the Escrow Agent shall reasonably request (the "Escrow Agreement").

(B) The term of the Escrow Agreement shall be for (I) ninety days (or such longer period of time (not to exceed an additional 60 days) as shall be necessary to complete the determination of Net Current Assets pursuant to Section 1.3(c) below) with respect to 500 of the Escrow Shares and (II) one year with respect to 2,000 of the Escrow Shares. If, at the end of ninety days from the Closing Date (or such later date (not to exceed an additional 60 days) as shall be necessary to complete the determination of the Net Current Assets), the Buyer shall have made no claims in respect of any Net Current Assets Shortfall (as defined in Section 1.3(c) below) or for indemnification pursuant to the terms of this Agreement, the Buyer will execute a joint instruction pursuant to the Escrow Agreement to instruct the Escrow Agent to pay 500 of the Escrow Shares to the Sellers pursuant to the terms of the Escrow Agreement. If, at the end of one year from the Closing Date, the Buyer shall have made no claims for indemnification pursuant to the terms of this Agreement, the Buyer will execute a joint instruction pursuant to the Escrow Agreement to instruct the Escrow Agent to pay 2,000 of the Escrow Shares to the Sellers pursuant to the terms of the Escrow Agreement.

(C) The Buyer shall use its reasonable best efforts to make available current public information with respect to the Buyer within the meaning of Subsection (c)(1) of Securities and Exchange Commission Rule 144 ("Rule 144") to the extent necessary to facilitate public resales by the Sellers of the Buyer's Class A Common Stock issuable upon conversion of the Preferred Stock, pursuant to Rule 144. The Buyer shall remove any and all stop transfer instructions and shall remove any restrictive legend on the certificates with respect to the Preferred Stock and any such Class A Common Stock then owned by the Sellers to the extent that either (i) such Preferred Stock or Class A Common stock may hereafter be registered under the Securities Act of 1933, as amended, and under any applicable state securities or blue sky laws, or (ii) the Buyer has received an opinion of counsel reasonably satisfactory to the Buyer, in form and substance reasonably satisfactory to the Buyer, that such registration is not required. Upon receipt of reasonable evidence that the requirements of Rule 144(k) have been complied with (including an opinion of counsel reasonably satisfactory to the Buyer to such effect), the Buyer shall remove any and all stop transfer instructions and shall remove any restrictive legend on such certificates.

(c) Adjustment Procedures.

(1) Not later than 60 days after the Closing Date (as defined in Article 2 hereof), the Buyer will prepare and deliver to the Sellers' Agent an unaudited balance sheet (the "Closing Balance Sheet") of the Sellers as of the Effective Closing Date, consisting of computations

of (A) the Net Current Assets, and (B) the tangible book value as of the Effective Closing Date of the Purchased Assets (excluding goodwill and other intangible assets) less the book value as of the Effective Closing Date of the Assumed Liabilities, all as determined in accordance with GAAP; provided, however, that: new vehicle inventories shall be valued at factory invoice less factory holdback, dealer rebates, and any other factory incentives; used vehicle inventories shall include those vehicles of the respective Sellers chosen by the Buyer on an "all or nothing" basis, meaning that, as to each Seller, the Buyer shall be free to choose either all or none (but not some) of such Seller's used vehicles, it being understood that the Buyer shall not be required, in any case, to choose any used vehicles of the Seller which have been in such Seller's used vehicle inventory for more than 60 days as of the Closing Date; no 1997 or older vehicles (other than up to a total of 15 1997 new vehicles acceptable to the Buyer) shall be included in new vehicle inventory; and there shall be included appropriate reserves and/or write-offs for doubtful accounts receivable and bad debts and for damaged, spoiled, obsolete, defective or slow-moving inventory. As used herein, the term "slow moving" means (i) with respect to returnable parts, returnable parts older than twelve months, (ii) with respect to new vehicles, new vehicles older than 300 days, and (iii) with respect to other inventory (excluding used vehicles), as may be reasonably determined by the Buyer, the Sellers having a right to arbitrate disputes with respect to such other inventory. If within 30 days following delivery of the Closing Balance Sheet (or the next Business Day if such 30th day is not a Business Day), the Sellers' Agent has not given the Buyer notice of the Sellers' objection to the computations of the Net Current Assets as set forth in the Closing Balance Sheet (such notice to contain a statement in reasonable detail of the nature of the Sellers' objection), then the Net Current Assets reflected in the Closing Balance Sheet will be deemed mutually agreed by the Buyer and the Sellers. If the Sellers' Agent shall have given such notice of objection in a timely manner, then the issues in dispute will be submitted to a "Big Six" accounting firm mutually acceptable to the Buyer and the Sellers' Agent (the "Accountants") for resolution. If issues in dispute are submitted to the Accountants for resolution, (i) each party will furnish to the Accountants such workpapers and other documents and information relating to the disputed issues as the Accountants may request and are available to the party or its subsidiaries (or its independent public accountants), and will be afforded the opportunity to present to the Accountants any material relating to the determination and to discuss the determination with the Accountants; (ii) the Accountants will be instructed to determine the Net Current Assets based upon their resolution of the issues in dispute; (iii) such determination by the Accountants of the Net Current Assets, as set forth in a notice delivered to the parties by the Accountants, will be binding and conclusive on the parties; and (iv) the Buyer and the Sellers shall each bear 50% of the fees and expenses of the Accountants for such determination.

(2) To the extent that the Net Current Assets, as deemed mutually agreed by the parties or as determined by the Accountants, as aforesaid, is less than $8,000,000 (the "Net Current Assets Shortfall"), the Sellers shall be obligated, jointly and severally, to pay the amount of the Net Current Assets Shortfall, together with interest on such amount at a rate equal to the Buyer's floor plan financing rate from time to time in effect (the "Interest Rate") from and including the first day of the calendar month in which the Closing occurs to the date of payment, promptly to the Buyer. In furtherance of (but not by way of limitation of) the Sellers' obligation in the immediately preceding sentence, the Sellers' Agent and the Buyer shall execute and deliver to the Escrow Agent a joint instruction to deliver up to 500 of the Escrow Shares to the Buyer, with the balance of such 500 of the Escrow Shares to be delivered to the Sellers so long as no claim by the Buyer for indemnification shall then be pending pursuant to this Agreement. To the extent that the Net Current Assets, as deemed mutually agreed by the parties or as determined by the Accountants,

as aforesaid, is at least equal to $8,000,000, the Buyer shall be obligated to execute and deliver to the Escrow Agent a joint instruction to deliver 500 of the Escrow Shares to the Sellers pursuant to the Escrow Agreement (except to the extent of any pending claim by the Buyer for indemnification pursuant to this Agreement). To the extent that the Net Current Assets, as deemed mutually agreed by the parties or as determined by the Accountants, as aforesaid, is greater than $8,000,000 (the "Net Current Assets Excess"), the Buyer shall be obligated to pay the amount of the Net Current Assets Excess in cash promptly to the Sellers, together with interest thereon at the Interest Rate from and including the first day of the calendar month in which the Closing occurs to the date of payment.

(d) Allocation. The allocation of the Purchase Price and the Assumed Liabilities as among the respective Sellers and as among the Purchased Assets shall be as set forth in Part II of Schedule 1.3(d).

1.4 Instruments of Conveyance and Transfer; Dealership Leases.

(a) Instruments of Conveyance and Transfer. At the Closing, each of the Sellers shall deliver to the Buyer a Bill of Sale and Assignment, substantially in the form of Exhibit C (the "Bills of Sale"), and such other instruments of assignment, conveyance and transfer, as shall be necessary to vest in the Buyer good title to the Purchased Assets in accordance herewith. Simultaneously therewith, the Sellers shall take all steps as may be required to transfer to the Buyer actual possession and exclusive operating control of the Purchased Assets.

(b) Dealership Leases. At the Closing, certain of the Shareholders or their affiliates will enter into leases with the Buyer or a permitted assignee of the Buyer, as lessee, regarding the Leased Premises (as defined in Section 3.8(a) below) owned by them (the "Dealership Leases"). The Dealership Leases will each be for a term of ten years with two five-year renewal options in the tenant, and will otherwise be substantially in the form of Exhibit D hereto. For purposes of this Agreement, the term "affiliate" shall mean any entity directly or indirectly controlling, controlled by or under common control with the specified person, whether by stock ownership, agreement or otherwise, or any parent, child or sibling of such specified person and the concept of "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such person or entity, whether through the ownership of voting securities, by contract or otherwise.

(c) Non-Competition Agreement. At the Closing, the Sellers and the Shareholders will enter into a non-competition agreement with the Buyer (the "Non-Competition Agreement"). The Non-Competition Agreement shall be for a term of three years, will cover the Standard Metropolitan Statistical Areas served by the Sellers and by the Buyer and its affiliates as of the Closing, and will otherwise be substantially in the form of Exhibit E hereto.

(d) Further Assurances. The Sellers further agree that, from and after the Closing, they will execute and deliver to the Buyer such additional instruments and documents and take such further action as the Buyer may reasonably request in order to more fully vest, record and/or perfect the Buyer's title to, or interest in, the Purchased Assets.

(e) Shareholders' Covenant to Close. The Shareholders further covenant and agree to take all necessary officer, director and stockholder, partner or member actions to cause the Sellers to perform their obligations at and prior to the Closing, as contemplated by this Agreement.

1.5 Offers of Employment to Sellers' Employees. On or before the Closing Date, the Buyer may offer employment to such of the Sellers' employees as the Buyer shall select, in its sole discretion, such employment to begin on or after the date of the Closing and to be upon such terms and conditions as determined by the Buyer in its sole discretion, but the parties hereto acknowledge and agree that the Buyer has no obligation to employ any person.

ARTICLE 2
CLOSING

The sale and purchase of the Purchased Assets contemplated hereby shall take place at a closing (the "Closing") at the offices of Kemp, Schaeffer, Rowe & Lardiere Co., L.P.A., 88 West Mound Street, Columbus, Ohio 43215, at 10:00 a.m. local time on the fifth (5th) Business Day, or such shorter period as the Buyer may choose, following the date the Buyer gives notice of the Closing to the Sellers, but in no event later than March 17, 1998 (the "Closing Date Deadline"); provided, however, if as of the Closing Date Deadline, the consents or approvals of all applicable automobile manufacturers and distributors contemplated in Section 7.10 shall not have been obtained and/or the audited financial statements contemplated in Section 7.17 shall not have been completed, the Buyer may, so long as it is using its reasonable best efforts to obtain such consents or approvals and/or to complete such audited financial statements, elect to extend the Closing Date Deadline for up to an additional 60 days. The date on which the Closing actually occurs is hereinafter referred to as the "Closing Date".

ARTICLE 3
REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE SELLERS

The Sellers, jointly and severally, hereby represent and warrant to the Buyer as follows:

3.1 Organization; Good Standing; Qualifications. Each of the Sellers is a corporation duly organized, validly existing and in good standing under the laws

of the State of Ohio. Each of the Sellers is qualified as a foreign corporation and is in good standing in the jurisdictions listed with respect to it on Schedule 3.1, which jurisdictions are the only jurisdictions where the nature of such Seller's business and its assets require such qualification.

3.2 Authority; Consent. Each of the Sellers has full corporate power and authority to carry on its business as now conducted, to execute and deliver this Agreement and the other agreements, documents and instruments contemplated hereby, to consummate the transactions contemplated hereby and thereby and to perform its obligations hereunder and thereunder. The execution and delivery by each of the Sellers of this Agreement and the other agreements, documents and instruments contemplated hereby, the consummation by each of the Sellers of the transactions contemplated hereby and thereby and the performance by each of the Sellers of its obligations hereunder and thereunder: (i) have been duly and validly authorized by all necessary corporate

action, including, without limitation, all necessary shareholder action; and (ii) do not and will not, except as set forth on Schedule 3.2, (A) conflict with or violate any of the provisions of the certificate of incorporation or by-laws, each as amended, with respect to any of the Sellers, (B) violate any law, ordinance, rule or regulation or any judgment, order, writ, injunction or decree or similar command of any court, administrative or governmental agency or other body applicable to any of the Sellers, the Purchased Assets or the Assumed Liabilities, (C) violate or conflict with the terms of, or result in the acceleration of, any indebtedness or obligation of any of the Sellers under, or violate or conflict with or result in a breach of, or constitute a default under, any material instrument, agreement or indenture or any mortgage, deed of trust or similar contract to which any of the Sellers is a party or by which any of the Sellers or any of the Purchased Assets or Assumed Liabilities are bound or affected, (D) result in the creation or imposition of any Encumbrance upon any of the Purchased Assets, or (E) require the consent, authorization or approval of, or notice to, or filing or registration with, any governmental body or authority, or any other third party.

3.3 Ownership; Investments.

(a) Ownership. All issued and outstanding shares of capital stock of the Sellers are held of record and beneficially by the Shareholders, free and clear of any Encumbrances. No Seller has any outstanding securities or other instruments, agreements or arrangements of any character or nature whatsoever under which such Seller is or may be obligated to issue any shares of its capital stock.

(b) Investments. Except as set forth on Schedule 3.3, the Sellers do not own, directly or indirectly, any shares of capital stock or other equity ownership or proprietary or membership interest in any corporation, limited liability company, partnership, association, trust, joint venture or other entity, and they do not have any commitment to contribute to the capital of, make loans to, or share in the losses of, any enterprise.

3.4 Financial Statements. The Sellers have delivered to the Buyer prior to the date hereof: (a) unaudited balance sheets of the Sellers as of December 31, 1996 and December 31, 1997, together with related statements of income for the years then ended (collectively, the "Annual Financial Statements"); and (b) unaudited balance sheets of the Sellers as of January 31, 1998, together with related statements of income for the one month period then ended (collectively, the "Interim Financial Statements") (the Annual Financial Statements and the Interim Financial Statements are hereinafter collectively referred to as the "Financial Statements"). The Financial Statements (i) are in accordance with the books and records of the Sellers, which books and records are true, correct and complete, (ii) fully and fairly present the financial condition and results of the operations of the Sellers as of and for the periods indicated, and (iii) have been prepared in accordance with generally accepted accounting principles consistently applied, except as set forth on Schedule 3.4.

3.5 Absence of Certain Changes. Since December 31, 1997 the Sellers have operated their businesses in the ordinary course, consistent with past practices and, except as set forth on Schedule 3.5, there has not been incurred, nor has there occurred: (a) Any damage, destruction or loss (whether or not covered by insurance) adversely affecting the Purchased Assets or the business of any of the Sellers in excess of $100,000; (b) Any sale, transfer, pledge or other disposition of any tangible or intangible assets of any of the Sellers (except sales of vehicle and parts inventory in the

ordinary course of business) having an aggregate book value of $100,000 or more; (c) Any termination, amendment, cancellation or waiver of any Material Contract (as defined in Section 3.6 hereof) or any termination, amendment, cancellation or waiver of any rights or claims of any of the Sellers under any Material Contract (except in each case in the ordinary course of business and consistent

with past practices); (d) Any change in the accounting methods, procedures or practices followed by any of the Sellers or any change in depreciation or amortization policies or rates theretofore adopted by the Sellers; (e) Any material change in policies, operations or practices with respect to business operations followed by any of the Sellers, including, without limitation, with respect to selling methods, returns, discounts or other terms of sale, or with respect to the policies, operations or practices of the Sellers concerning the employees of the Sellers or the employee benefit plans of the Sellers; (f) Any capital appropriation or expenditure or commitment therefor on behalf of the Sellers in excess of $100,000 individually, or $200,000 in the aggregate; (g) Any general uniform increase, other than in the ordinary course of business, in the cash or other compensation of employees of any of the Sellers, or any increase in excess of $50,000 in any such compensation payable to any individual officer, director, consultant or agent thereof, or any loans or commitments therefor made by any of the Sellers to any persons, including any officers, directors, stockholders, employees, consultants or agents of the Sellers or any of their affiliates; (h) Any account receivable in excess of $100,000 or note receivable in excess of $100,000 owing to any of the Sellers which (i) has been written off as uncollectible, in whole or in part, (ii) has had asserted against it any claim, refusal or right of setoff, or (iii) the account or note debtor has refused to, or threatened not to, pay for any reason, or such account or note debtor has become insolvent or bankrupt; (i) any write-down or write-up of the value of any inventory or equipment of the Sellers or any increase in inventory levels in excess of historical levels for comparable periods; (j) Any other change in the condition (financial or otherwise), business operations, assets, earnings, business or prospects of any of the Sellers which has, or could reasonably be expected to have, a material adverse effect on the Purchased Assets or the business or operations of the Sellers; or (k) Any agreement, whether in writing or otherwise, by any of the Sellers to take or do any of the actions enumerated in this Section 3.5.

3.6 Material Contracts.

(a) List of Material Contracts. Set forth on Schedule 3.6(a) is a list of all contracts, agreements, documents, instruments, guarantees, plans, understandings or arrangements, written or oral, which require the payment of $50,000 or more in any twelve-month period, or do not require payment but which are otherwise material to the business of the Sellers, as currently conducted, or to the Purchased Assets or the Assumed Liabilities (collectively, the "Material Contracts"). True copies of all written Material Contracts and written summaries of all oral Material Contracts described or required to be described on Schedule 3.6(a) have been furnished to the Buyer.

(b) Performance, Defaults, Enforceability. The Sellers have in all material respects performed all of their obligations required to be performed by them to the date hereof, and are not in default or alleged to be in default in any material respect, under any Material Contract, and there exists no event, condition or occurrence which, after notice or lapse of time or both, would constitute such a default. To the knowledge of the Sellers, no other party to any Material Contract is in default in any respect of any of its obligations thereunder. Each of the Material Contracts is valid and in full force and effect and enforceable against the parties thereto in accordance with their respective terms, and, except as set forth in Schedule 3.6(b), the transfer and assignment to the

Buyer of all of the Material Contracts, will not (i) require the consent of any party thereto or (ii) constitute an event permitting termination thereof.

3.7 Title to Purchased Assets and Related Matters. The Sellers have good and valid title to all of the Purchased Assets, free and clear of all Encumbrances, except those described on Schedule 3.7. Except as set forth in Schedule 3.7, the Purchased Assets (including, without limitation, the Material Contracts) and the Leased Premises (as defined in Section 3.8 below) include all properties and assets (real, personal and mixed, tangible and intangible, and all leases, licenses and other agreements) utilized by the Sellers in carrying on their business in the ordinary course. Except as set forth on Schedule 3.7, the Purchased Assets (i) are in the exclusive possession and control of the Sellers and no person or entity other than the Sellers are entitled to possession of any portion of the Purchased Assets; and (ii) do not include any contracts for future services, prepaid items or deferred charges the full value or benefit of which will not be usable by or transferable to the Buyer, or any goodwill, organizational expense or other similar intangible asset.

3.8 Real Property of the Sellers.

(a) Leased Premises. Schedule 3.8(a) contains a complete list and description (including buildings and other structures thereon and the name of the owner thereof) of all real property which is used by the Sellers in their respective businesses and operations, indicating which parcels of such real property are to be leased under the Dealership Leases to the Buyer and which parcels are subject to existing leases which are to be assigned to the Buyer (such existing leases being hereinafter called the "Existing Leases"). All such

real property on Schedule 3.8(a) is hereinafter collectively called either the "Real Property" or the "Leased Premises". True, correct and complete copies of all Existing Leases have been delivered to the Buyer.

(b) Easements, etc. The Real Property enjoys all easements and rights of way over the property of others necessary for the operation of the Sellers' businesses. No portion of the Real Property has been condemned or otherwise taken by any public authority, and the Sellers have no knowledge of any pending or threatened condemnation or taking thereof. None of the buildings or improvements on the Real Property encroaches on any adjoining property or on any easements or rights of way. The Sellers have no knowledge of any event or condition which currently exists which would create a legal or other impediment to the use of the Real Property as currently used, or would increase the additional charges or other sums payable by the tenant under any of the Dealership Leases or Existing Leases (including, without limitation, any pending tax reassessment or other special assessment affecting the Real Property). The buildings and improvements (including building systems) which comprise a part of the Real Property are in good condition, maintenance and repair, ordinary wear and tear excepted. There is no person or entity other than the Sellers in or entitled to possession of the Real Property.

(c) Owned Real Property. None of the Sellers owns any real property.

3.9 Machinery, Equipment, Etc. Schedule 3.9 sets forth a list of all material machinery, equipment, tools, motor vehicles, furniture and fixtures owned by each of the Sellers and included in the Purchased Assets, including which items are owned by the Sellers and which items are leased to the Sellers (collectively, the "Equipment"). With respect to Equipment which is leased, Schedule 3.9 also contains a list of all leases or other agreements, whether written or oral, relating

thereto. The Equipment is in good operating condition, maintenance and repair in accordance with industry standards taking into account the age thereof and ordinary wear and tear excepted.

3.10 Inventories of the Sellers. All inventories of the Sellers included in the Purchased Assets consist of items that, to the Sellers' knowledge, are of a quality and quantity usable and salable in the normal course of their businesses, are generally sufficient to do business in the ordinary course, and the levels of inventories are consistent with the levels maintained by the Sellers in the ordinary course consistent with past practices and the Sellers' obligations under their agreements with all applicable vehicle manufacturers or distributors. The values at which such inventories are carried are based on the FIFO method and are stated in accordance with generally accepted accounting principles consistently applied by the Sellers at the lower of historic cost or market. An adequate reserve has been established for damaged, spoiled, obsolete, defective or slow-moving goods and such reserve is consistent with both the operation of the Sellers' businesses in the ordinary course and past practice.

3.11 Accounts Receivable of the Sellers. All accounts receivable of the Sellers included in the Purchased Assets are collectible at the aggregate recorded amounts thereof, subject to the reserve for doubtful accounts, in the ordinary course of the Sellers' business, and are not subject to any known offsets or counterclaims. An adequate reserve for doubtful accounts has been established and such reserve is consistent with both the operations of the Sellers' business in the ordinary course and its past practices.

3.12 Approvals, Permits and Authorizations. Set forth on Schedule 3.12 is a list of all governmental licenses, permits, certificates of inspection, other authorizations, filings and registrations which are necessary for the Sellers to own the Purchased Assets and to operate their businesses as presently conducted (collectively, the "Authorizations"). All Authorizations have been duly and lawfully secured or made by the Sellers and are in full force and effect. There is no proceeding pending or, to the Sellers' knowledge, threatened or probable of assertion, to revoke or limit any Authorization. Except as indicated on Schedule 3.12, all Authorizations may be lawfully transferred to the Buyer as contemplated by this Agreement and, except as indicated on Schedule 3.12, none of the transactions contemplated by this Agreement will terminate, violate or limit the effectiveness, either by virtue of the terms thereof or because of the non-assignability thereof, of any Authorization.

3.13 Compliance with Laws. The Sellers have conducted their operations and businesses in compliance with, and all of the Purchased Assets and Leased Premises comply with (i) all applicable laws, rules, regulations and codes (including, without limitation, any laws, rules, regulations and codes relating to anticompetitive practices, contracts, discrimination, employee benefits, employment, health, safety, fire, building and zoning, but excluding Environmental Laws which are the subject of Section 3.29 hereof) and (ii) all applicable orders, rules, writs, judgments, injunctions, decrees and ordinances. The Sellers have not received any notification of any asserted present or past failure by them to comply with such laws, rules or regulations, or such orders, rules, writs, judgments, injunctions, decrees or ordinances. Set forth on

Schedule 3.13 are all orders, writs, judgments, injunctions, decrees and other awards of any court or any governmental instrumentality applicable to the Purchased Assets or the Sellers or their businesses and operations. The Sellers have delivered to the Buyer copies of all reports, if any, of the Sellers required under the Federal Occupational Safety and Health Act of 1970, as amended, and under all other applicable health and

safety laws and regulations. The deficiencies, if any, noted on such reports or any deficiencies noted by inspection through the Closing Date have been corrected by the Sellers.

3.14 Insurance.

(a) Schedule 3.14(a) of this Agreement sets forth a list of all policies of liability, theft, fidelity, life, fire, product liability, workmen's compensation, health and any other insurance and bonds maintained by, or on behalf of, the Sellers on their properties, operations, inventories, assets, businesses or personnel (specifying the insurer, amount of coverage, type of insurance, policy number and any pending claims in excess of $5,000 thereunder). Each such insurance policy identified therein is and shall remain in full force and effect on and as of the Closing Date and the Sellers are not in default with respect to any provision contained in any such insurance policy and have not failed to give any notice or present any claim under any such insurance policy in a due and timely fashion. To the best of the Sellers' knowledge, the insurance maintained by, or on behalf of, the Sellers is adequate in accordance with the standards of business of comparable size in the industry in which the Sellers operate. No notice of cancellation or termination has been received with respect to any such policy. The Sellers have not, during the last three (3) fiscal years, been denied or had revoked or rescinded any policy of insurance.

(b) Set forth on Schedule 3.14(b) is a summary of information pertaining to property damage and personal injury claims in excess of $10,000 against any of the Sellers during the past three (3) years, all of which are fully satisfied or are being defended by the insurance carrier and involve no exposure to the Sellers.

3.15 Taxes. All federal, state and local tax returns and reports required as of the date hereof to be filed by the Sellers for taxable periods ending prior to the date hereof have been duly and timely filed by the Sellers with the appropriate governmental agencies, and all such returns and reports are true, correct and complete. All federal, state and local income, profits, franchise, sales, use, occupation, property, excise, payroll, withholding, employment, estimated and other taxes of any nature, including interest, penalties and other additions to such taxes ("Taxes"), payable by, or due from, the Sellers for all periods arising on or prior to the Closing Date have been fully paid or adequately reserved for by the Sellers or, with respect to Taxes required to be accrued, the Sellers have properly accrued or will properly accrue such Taxes in the ordinary course of business consistent with past practice of the Sellers. Each of the Sellers has made a valid election to be treated as an "S Corporation" for federal income tax purposes which election has been continuously in effect since the first day of the first tax year of each Seller.

3.16 Litigation. Except as set forth in Schedule 3.16, there are no actions, suits, claims, investigations or legal or administrative or arbitration proceedings pending, or to the Sellers' knowledge, threatened or probable of assertion, against any of the Sellers with respect to the Purchased Assets or the Assumed Liabilities or the businesses of the Sellers. The Sellers know of no basis for the institution of any such suit or proceeding. None of the Sellers is now under any judgment, order, writ, injunction, decree, award or other similar command of any court, administrative agency or other governmental authority applicable to the businesses of the Sellers or any of the Purchased Assets or Assumed Liabilities.

3.17 Powers of Attorney. Except as set forth in Schedule 3.17, there are no persons, firms, associates, corporations, business organizations or other entities holding general or special powers of attorney from any of the Sellers.

3.18 Broker's and Finder's Fees. Except as disclosed to the Buyer, none of the Sellers or the Shareholders has incurred any liability to any broker, finder or agent or any other person or entity for any fees or commissions with respect to the transactions contemplated by this Agreement, and the Sellers hereby, jointly and severally, agree to assume all liability to any such broker, finder or agent or any other person or entity claiming any such fee or commission.

3.19 Employee Relations. The Sellers employ a total of [INSERT NUMBER] employees as of December 31, 1997. Except as set forth in Schedule 3.19: (a) none of the Sellers is delinquent in the payment (i) to or on behalf of any past or present employees of any cash or other compensation for all periods prior to the date hereof or the date of the Closing, as the case may be, or (ii) of any

amount which is due and payable to any state or state fund pursuant to any workers' compensation statute, rule or regulation or any amount which is due and payable to any workers' compensation claimant; (b) there are no collective bargaining agreements currently in effect between the Sellers and labor unions or organizations representing any employees of the Sellers; (c) no collective bargaining agreement is currently being negotiated by the Sellers; (d) there are no union organizational drives in progress and there has been no formal or informal request to any of the Sellers for collective bargaining or for an employee election from any union or from the National Labor Relations Board; and (e) no dispute exists between any of the Sellers and any of their sales representatives or, to the knowledge of the Sellers, between any such sales representatives with respect to territory, commissions, products or any other terms of their representation.

3.20 Compensation. Schedule 3.20 contains a schedule of all employees (including sales representatives) and consultants of the Sellers whose individual cash compensation for the year ended December 31, 1997, is in excess of $100,000, together with the amount of total compensation paid to each such person for the twelve month period ended December 31, 1997 and the current aggregate base salary or hourly rate (including any bonus or commission) for each such person.

3.21 Patents; Trademarks; Trade Names; Copyrights; Licenses, Etc. Except as set forth on Schedule 3.21, there are no patents, trademarks, trade names, service marks, service names and registered copyrights which are material to the Sellers' businesses, and there are no applications therefor or licenses thereof, inventions, computer software, logos or slogans, which are owned or leased by the Sellers or used in the conduct of the Sellers' business. The Sellers are not individually or jointly a party to, nor pay a royalty to anyone under, any license or similar agreement. There is no existing claim, or, to the knowledge of the Sellers, any basis for any claim, against any of the Sellers that any of their operations, activities or products infringe the patents, trademarks, trade names, copyrights or other property rights of others or that any of the Sellers is wrongfully or otherwise using the property rights of others. The Sellers are the owners of the names set forth on Schedule 3.21 (the "Proprietary Names") in the State of Ohio and, to the knowledge of the Sellers, no person uses, or has the right to use, such name or any derivation thereof in connection with the manufacture, sale, marketing or distribution of products or services commonly associated with an automobile dealership.

3.22 Accounts Payable; Other Indebtedness. All accounts payable of the Sellers to third parties as of the date hereof arose in the ordinary course of business and none are delinquent or past due. Schedule 3.22 hereto sets forth a list of all indebtedness of the Sellers, other than accounts payable, as of the close of business on the day preceding the date hereof, including, without limitation, money borrowed, indebtedness of the Sellers owed to stockholders and former stockholders, the deferred purchase price of assets, letters of credit and capitalized leases, indicating, in each case, the name or names of the lender, the date of maturity, the rate of interest, any prepayment penalties or premiums, whether (and to what extent) such indebtedness is secured, and the unpaid principal amount of such indebtedness as of such date.

3.23 No Undisclosed Liabilities. The Sellers do not have any material liabilities or obligations of any nature, known or unknown, fixed or contingent, matured or unmatured, other than those (a) reflected in the Financial Statements, (b) incurred in the ordinary course of business since the date of the Financial Statements and of the type and kind reflected in the Financial Statements, or (c) disclosed specifically on Schedule 3.23.

3.24 Certain Transactions. Except as set forth in Schedule 3.24, there are no contracts, agreements or other arrangements between the Sellers and any of the Shareholders (including the Shareholders' affiliates), or the Sellers' or Shareholders' (including the Shareholders' affiliates) directors, officers or salaried employees, or the family members or affiliates of any of the above (other than for services in the ordinary course as employees, officers and directors).

3.25 Business Generally. The Sellers are not aware of the existence of any conditions, including, without limitation, any actual or potential competitive factors in the markets in which the Sellers participate, which have not been disclosed to the Buyer and which could reasonably be expected to have a material adverse effect on the businesses and operations of any of the Sellers, other than business and economic conditions generally affecting the industry and markets in which the Sellers participate.

3.26 Employee Benefits.

(a) The Sellers have listed on Schedule 3.26 and have delivered to the Buyer true and complete copies of all Employee Plans (as defined below) and related documents, established, maintained or contributed to by the Seller (which shall include for this purpose and for the purpose of all of the representations in this Section 3.26, the Shareholders and all employers,

whether or not incorporated, that are treated together with the Sellers as a single employer within the meaning of Section 414 of the Internal Revenue Code of 1986, as amended (the "Code")). The term "Employee Plan" shall include all plans described in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and also shall include, without limitation, any deferred compensation, stock, employee or retiree pension benefit, welfare benefit or other similar fringe or employee benefit plan, program, policy, contract or arrangement, written or oral, qualified or nonqualified, funded or unfunded, foreign or domestic, covering employees or former employees of the Sellers and maintained or contributed to by the Sellers.

(b) Where applicable, each Employee Plan (i) has been administered in material compliance with the terms of such Employee Plan and the requirements of ERISA and the Code; and (ii) is in material compliance with the reporting and disclosure requirements of ERISA and the Code.

The Sellers do not maintain or contribute to, and have never maintained or contributed to, an Employee Plan subject to Title IV of ERISA or a "multiemployer plan." There are no facts relating to any Employee Plan that (i) have resulted in a "prohibited transaction" of a material nature or have resulted or is reasonably likely to result in the imposition of a material excise tax, penalty or liability pursuant to Section 4975 of the Code, (ii) have resulted in a material breach of fiduciary duty or violation of Part 4 of Title I of ERISA, or (iii) have resulted or could result in any material liability (whether or not asserted as of the date hereof) of the Sellers or any ERISA affiliate pursuant to Section 412 of the Code arising under or related to any event, act or omission occurring on or prior to the date hereof. Each Employee Plan that is intended to qualify under Section 401(a) or to be exempt under Section 501(c)(g) of the Code is so qualified or exempt as of the date hereof in each case as such Employee Plan has received favorable determination letters from the Internal Revenue Service with respect thereto. To the knowledge of the Sellers, the amendments to and operation of any Employee Plan subsequent to the issuance of such determination letters do not adversely affect the qualified status of any such Employee Plan. No Employee Plan has an "accumulated funding deficiency" as of the date hereof, whether or not waived, and no waiver has been applied for. The Sellers have made no promises or incurred any liability under any Employee Plan or otherwise to provide health or other welfare benefits to former employees of the Sellers, except as specifically required by law. There are no pending or, to the best knowledge of the Sellers, threatened claims (other than routine claims for benefit) or lawsuits with respect to any of Sellers' Employee Plans. As used in this Section 3.26, all technical terms enclosed in quotation marks shall have the meaning set forth in ERISA.

3.27 Sellers and Shareholders Not Foreign Persons. Neither the Sellers nor any of the Shareholders is a "foreign person" as that term is defined in the Code and the regulations promulgated pursuant thereto, and the Buyer has no obligation under Section 1445 of the Code to withhold or pay over to the IRS any part of the "amount realized" (as such term is defined in the regulations issued under Section 1445 of the Code) by the Sellers and/or the Shareholders in the transactions contemplated hereby.

3.28 Suppliers and Customers. The Sellers are not required to provide bonding or any other security arrangements in connection with any transactions with any of its respective customers or suppliers. To the knowledge of the Sellers, no such supplier, customer or creditor intends or has threatened, or reasonably could be expected, to terminate or modify any of their respective relationships with the Sellers.

3.29 Environmental Matters.

(a) For purposes of this Section 3.29, the following terms shall have the following meaning: (i) "Environmental Law" means all present and future federal, state and local laws, statutes, regulations, rules, ordinances and common law, and all judgments, decrees, orders, agreements, or permits, issued, promulgated, approved or entered thereunder by any government authority relating to pollution, Hazardous Materials, worker safety or protection of human health or the environment. (ii) "Hazardous Materials" means any waste, pollutant, chemical, hazardous material, hazardous substance, toxic substance, hazardous waste, special waste, solid waste, petroleum or petroleum-derived substance or waste (regardless of specific gravity), or any constituent or decomposition product of any such pollutant, material, substance or waste, including,

but not limited to, any hazardous substance or constituent contained within any waste and any other pollutant, material, substance or waste regulated under or as defined by any Environmental Law.

(b) The Sellers have obtained all permits, licenses and other authorizations or approvals required under Environmental Laws for the conduct and operation of the Purchased Assets ("Environmental Permits"). All such

Environmental Permits are in good standing, the Sellers are and have been in compliance with the terms and conditions of all such Environmental Permits, and no appeal or any other action is pending or threatened to revoke any such Environmental Permit.

(c) The Sellers and the Purchased Assets are and have been in compliance with all Environmental Laws.

(d) Neither the Sellers nor the Shareholders have received any written or oral order, notice, complaint, request for information, claim, demand or other communication from any government authority or other person, whether based in contract, tort, implied or express warranty, strict liability, or any other common law theory, or any criminal or civil statute, arising from or with respect to (i) the presence, release or threatened release of any Hazardous Material or any other environmental condition on, in or under the Real Property or any other property formerly owned, used or leased by any of the Sellers, (ii) any other circumstances forming the basis of any actual or alleged violation by the Sellers of any Environmental Law or any liability of any of the Sellers under any Environmental Law, (iii) any remedial or removal action required to be taken by any of the Sellers under any Environmental Law, or (iv) any harm, injury or damage to real or personal property, natural resources, the environment or any person alleged to have resulted from the foregoing, nor are the Sellers aware of any facts which might reasonably give rise to such notice or communication. None of the Sellers has entered into any agreements concerning any removal or remediation of Hazardous Materials

(e) No lawsuits, claims, civil actions, criminal actions, administrative proceedings, investigations or enforcement or other actions are pending or threatened under any Environmental Law with respect to any of the Sellers or the Real Property.

(f) None of the Sellers has released, discharged, spilled or disposed of Hazardous Materials onto the Real Property and, to the knowledge of the Sellers, no Hazardous Materials are or have been released, discharged, spilled or disposed of by any other person onto, or have migrated onto, the Real Property or any other property previously owned, operated or leased by any of the Sellers, and, to the knowledge of the Sellers, no environmental condition exists (including, without limitation, the presence, release, threatened release or disposal of Hazardous Materials) related to the Real Property, to any property previously owned, operated or leased by any of the Sellers, or to the Sellers' past or present operations, which would constitute a violation of any Environmental Law or otherwise give rise to costs, liabilities or obligations under any Environmental Law.

(g) None of the Sellers nor, to the Sellers' knowledge, any of their predecessors in interest has transported or disposed of, or arranged for the transportation or disposal of, any Hazardous Materials to any location (i) which is listed on the National Priorities List, the CERCLIS list under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or any similar federal, state or local list, (ii) which is the subject of any federal, state or local enforcement action or other investigation, or (iii) about which any of the Sellers or the

Shareholders have received or have reason to expect to receive a potentially responsible party notice or other notice under any Environmental Law.

(h) To the knowledge of the Sellers, no environmental lien has attached or is threatened to be attached to the Real Property.

(i) To the knowledge of the Sellers, no employee of any of the Sellers in the course of his or her employment with the Sellers has been exposed to any Hazardous Materials or other substance, generated, produced or used by any of the Sellers which could give rise to any claim (whether or not such claim has been asserted) against any of the Sellers.

(j) Except as set forth on Schedule 3.29(j), the Real Property does not contain any: (i) septic tanks into which process wastewater or any Hazardous Materials have been disposed; (ii) asbestos; (iii) polychlorinated biphenyls (PCBs); (iv) underground injection or monitoring wells; or (v) underground storage tanks.

(k) None of the Sellers has agreed to assume, defend, undertake, guarantee, or provide indemnification for, any liability, including, without limitation, any obligation for corrective or remedial action, of any other person under any Environmental Law for environmental matters or conditions.

(l) Except as set forth on Schedule 3.29(l), to the Sellers' knowledge, there have been no environmental studies or reports made relating to the Real Property or any other property or facility previously owned, operated or leased by any of the Sellers.

3.30 Bank Accounts and Safe Deposit Boxes. Schedule 3.30 lists all bank

accounts, credit cards and safe deposit boxes in the name of, or controlled by, any of the Sellers, and details about the persons having access to or authority over such accounts, credit cards and safe deposit boxes.

3.31 Warranties. Set forth on Schedule 3.31 are descriptions or copies of the forms of all express warranties and disclaimers of warranty made by any of the Sellers (separate and distinct from any applicable manufacturers', suppliers' or other third-parties' warranties or disclaimers of warranties) during the past five (5) years to customers or users of the vehicles, parts, products or services of any of the Sellers. There have been no breach of warranty or breach of representation claims against any of the Sellers during the past five (5) years which have resulted in any cost, expenditure or exposure to any of the Sellers of more than $100,000 individually or in the aggregate.

3.32 Interest in Competitors and Related Entities. Except as set forth on Schedule 3.32, no Shareholder and no affiliate of any Shareholder (i) has any direct or indirect interest in any person or entity engaged or involved in any business which is competitive with the business of the Sellers, (ii) has any direct or indirect interest in any person or entity which is a lessor of assets or properties to, material supplier of, or provider of services to, any of the Sellers, or (iii) has a beneficial interest in any contract or agreement to which any of the Sellers are a party; provided, however, the foregoing representation and warranty shall not apply to any person or entity, or any interest or agreement with any person or entity, which is a publicly held corporation in which the Shareholders individually and collectively own less than 3% of the issued and outstanding voting stock.

3.33 Availability of Sellers' Employees. There have been no actions taken by the Sellers, their affiliates, or any of their respective shareholders, officers, directors, members, partners, managers or employees, to discourage, or in any way prevent, any of the employees of the Sellers from being hired by the Buyer after Closing, and as of the Closing each of the Sellers' employees will be available without penalty for employment by the Buyer.

3.34 Misstatements and Omissions. No representation or warranty made by the Sellers in this Agreement, and no statement contained in any certificate or Schedule furnished or to be furnished by the Sellers or any of the Shareholders pursuant hereto, contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make such representation or warranty or such statement not misleading.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF THE BUYER

The Buyer hereby represents and warrants to the Sellers as follows:

4.1 Organization and Good Standing. The Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

4.2 Authority; Consents; Enforceability.

(a) Authority. The Buyer has full corporate power and authority to execute and deliver the Agreement and the other agreements and documents and instruments contemplated hereby, to consummate the transactions contemplated hereby and thereby and to perform its obligations hereunder and thereunder. The execution and delivery by the Buyer of this Agreement and the other agreements, documents and instruments contemplated hereby, the consummation by the Buyer of the transactions contemplated hereby and thereby and the performance by the Buyer of its obligations hereunder and thereunder: (i) have been duly and validly authorized by all necessary corporate action on the part of the Buyer; and (ii) do not and will not, except as set forth on Schedule 4.2(a), (A) conflict with or violate any of the provisions of the Certificate of Incorporation or By-laws of the Buyer, (B) violate any law, ordinance, rule or regulation or any judgment, order, writ, injunction or decree or similar command of any court administrative or governmental agency or other body applicable to the Buyer or any of its assets, or (C) violate or conflict with the terms of, or result in the acceleration of, any indebtedness or obligation of the Buyer under, or violate or conflict with or result in a breach by the Buyer of, or constitute a default under, any material instrument, agreement or indenture or any mortgage, deed of trust or similar contract to which the Buyer is a party or by which the Buyer or any of its assets may be otherwise bound or affected; or (D) require the consent, authorization or approval of, or notice to, or filing or registration with, any governmental body or authority, or any other third party.

4.3 Broker's and Finder's Fees. The Buyer has not incurred any liability to any broker, finder or agent or any other person or entity for any fees or commissions with respect to the transactions contemplated by this Agreement, and the Buyer hereby agrees to assume all liability to any such broker, finder or agent or any other person or entity claiming any such fee or commission.

4.4 Litigation. There are no actions, suits, claims, investigations or legal or administrative or arbitration proceedings pending or, to the Buyer's knowledge, threatened or probable of assertion, against the Buyer before any court, governmental or administrative agency or other body relating to this Agreement and/or the transactions contemplated hereby. The Buyer is not now under any judgment, order, writ, injunction, decree or other similar command of any court, administrative agency or other governmental agency which relate to this Agreement and/or the transactions contemplated hereby.

4.5 Financing. As of the date hereof and as of the Closing Date, the Buyer has sufficient funds, or sources of financing available to it, to enable it to perform its obligations at the Closing.

4.6 Misstatements or Omissions. No representation or warranty made by the Buyer in this Agreement, and no statement contained in any certificate or Schedule furnished or to be furnished by the Buyer to the Sellers and/or the Shareholders pursuant hereto, contains or will contain an untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make such representation or warranty or such statement not misleading.

ARTICLE 5
PRE-CLOSING COVENANTS
OF THE SELLERS AND THE SHAREHOLDERS

The Sellers and the Shareholders hereby covenant and agree that from and after the date hereof until the Closing:

5.1 Provide Access to Information; Cooperation with Buyer.

(a) Access. The Sellers shall afford to the Buyer, its attorneys, accountants, and such other representatives of the Buyer as the Buyer shall designate to the Sellers, free and full access at all reasonable times, and upon reasonable prior notice, to the Purchased Assets and the properties, books and records of the Sellers, and to interview personnel, suppliers and customers of the Sellers, in order that the Buyer may have full opportunity to make such investigation as it shall reasonably desire of the Purchased Assets, Assumed Liabilities and the businesses and operations of the Sellers. In addition, the Sellers shall provide to the Buyer and its representatives such additional financial and operating data and other information in respect of the Purchased Assets, Assumed Liabilities and the business and properties of the Sellers as the Buyer shall from time to time reasonably request.

(b) Cooperation in Obtaining Consents. The Sellers and Shareholders shall use reasonable best efforts in cooperating with the Buyer in the preparation of and delivery to all applicable automobile manufacturers or distributors, as soon as practicable after the date hereof, of an application and other information necessary to obtain such automobile manufacturer's or distributor's consent to or the approval of the transactions contemplated by this Agreement as contemplated by Section 7.10.

5.2 Operation of Business of the Sellers. At all times before the Closing, the Sellers shall (a) maintain their corporate existence in good standing, (b) operate their businesses substantially as

presently operated and only in the ordinary course and consistent with past operations and their obligations under any existing agreements with all applicable automobile manufacturers or distributors, (c) use their reasonable best efforts to preserve intact their present business organizations and employees and their relationships with persons having business dealings with them, including, but not limited to, all applicable automobile manufacturers or distributors and any floor plan financing creditors, (d) comply in all respects with all applicable laws, rules and regulations, (e) maintain their insurance coverages, (f) pay all Taxes, charges and assessments when due, subject to any valid objection or contest of such amounts asserted in good faith and adequately reserved against, (g) make all debt service payments when contractually due and payable, (h) pay all accounts payable and other current liabilities when due, (i) maintain the Employee Plans, (j) maintain the property, plant and equipment included in the Purchased Assets in good operating condition in accordance with industry standards taking into account the age thereof, (k) maintain their books and records of account in the usual, regular and ordinary manner, and (l) use their reasonable best efforts to encourage such personnel of the Sellers as the Buyer may designate in writing to become employees of the Buyer after the date of the Closing.

5.3 Certain Prohibitions. The Sellers shall not, without the prior written consent of the Buyer (a) engage or take part in, or agree to engage or take part in, any reorganization or similar transaction, (b) enter into any contract, agreement, undertaking or commitment which would have been required to be set forth in Schedule 3.6(a) if in effect on the date hereof or enter in to any

contract, agreement, undertaking or commitment which cannot be assigned to the Buyer or a permitted assignee of the Buyer, (c) sell or otherwise dispose of any of their respective assets, other than sales of inventory in the ordinary course of business, (d) take, cause, agree to take or cause, or permit to occur any of the actions or events set forth in Section 3.5 of this Agreement, or (e) declare or make payment of any dividend or other distribution of cash or other property in respect of any of their capital stock, or redeem, purchase or otherwise acquire any such capital stock; provided, however, the Buyer's consent to the payment of dividends by the Sellers will not be withheld so long as the Sellers shall have demonstrated, to the reasonable satisfaction of the Buyer, that such dividends (A) are only out of retained earnings for periods ending prior to January 1, 1998, and (B) will not result in the Net Current Assets falling below $8,000,000.

5.4 Additional Information. The Sellers shall furnish to the Buyer such additional information with respect to any matters or events arising or discovered subsequent to the date hereof which, if existing or known on the date hereof, would have rendered any representation or warranty made by the Sellers or any information contained in any Schedule hereto or in other information supplied in connection herewith then inaccurate or incomplete. The receipt of such additional information by the Buyer shall not operate as a waiver by the Buyer of the obligation of the Sellers to satisfy the conditions to Closing set forth in Section 7.1 hereof; provided, however, if such information shall be furnished to the Buyer in a writing which shall also specifically refer to one or more representations and warranties of the Sellers contained herein which in the absence of such information is inaccurate or incomplete, then if the Buyer waives in writing the condition to Closing set forth in said Section 7.1 hereof and elects to close the transactions contemplated hereunder, the furnishing of such additional information shall be deemed to have amended as of the Closing any such representation and warranty so specifically referred to by the Sellers.

5.5 Publicity. Except as may be required by law or as necessary in connection with the transactions contemplated hereby, the Sellers and the Shareholders shall not (i) make any press

release or other public announcement relating to this Agreement or the transactions contemplated hereby, without the prior written approval of the Buyer and (ii) otherwise disclose the existence and nature of their discussions or negotiations regarding the transactions contemplated hereby to any person or entity other than their accountants, attorneys and similar professionals, all of whom shall be subject to this nondisclosure obligation as agents of the Sellers and the Shareholders, as the case may be. The Sellers and the Shareholders shall cooperate with the Buyer in the preparation and dissemination of any public announcements of the transactions contemplated by this Agreement.

5.6 Other Negotiations. Neither the Sellers nor any of the Shareholders shall pursue, initiate, encourage or engage in any negotiations or discussions with, or provide any information to, any person or entity (other than the Buyer and its representatives and affiliates) regarding the sale of the assets, capital stock or membership interests of any of the Sellers or any merger or consolidation or similar transaction involving any of the Sellers.

5.7 Closing Conditions. The Sellers shall use all reasonable best efforts to satisfy promptly the conditions to Closing set forth in Article 7 hereof required herein to be satisfied by the Sellers.

5.8 Environmental Audit. The Sellers shall allow an environmental consulting firm selected by the Buyer (the "Environmental Auditor") to have prompt access to the Property in order to conduct an environmental investigation, satisfactory to the Buyer in scope (such scope being sufficient to result in a Phase I environmental audit report and a Phase II environmental audit report, if desired by the Buyer), of, and to prepare a report with respect to, the Property (the "Environmental Audit"). The Sellers shall provide to the Environmental Auditor: (i) reasonable access to all of their existing records concerning the matters which are the subject of the Environmental Audit; and (ii) reasonable access to the employees of the Sellers and the last known addresses of former employees of the Sellers who are most familiar with the matters which are the subject of the Environmental Audit (the Sellers agreeing to use reasonable efforts to have such former employees respond to any reasonable requests or inquiries by the Environmental Auditor). The Sellers shall otherwise cooperate with the Environmental Auditor in connection with the Environmental Audit. The Buyer shall bear 100% of the costs, fees and expenses in connection with any Phase I environmental audit report; if, based upon such Phase I environmental audit report, a Phase II environmental report is warranted, the Buyer, on the one hand, and the Sellers, on the other hand, shall each bear 50% of the costs, fees and expenses in connection with the preparation of such Phase II environmental audit report; provided however, the Sellers shall have the right to require that a different environmental consulting firm, selected by the Sellers and reasonably acceptable to the Buyer, be the "Environmental Auditor" for such Phase II environmental audit report; and provided further, that the maximum payment obligations of the Sellers with respect to their share of the costs, fees and expenses of the Phase II

environmental audit shall be $10,000 per location.

5.9 Hart-Scott-Rodino Compliance. Subject to the determination by the Buyer that any of the following actions is not required, the Sellers shall promptly prepare and file Notification and Report Forms under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") with the Federal Trade Commission (the "FTC") and the Antitrust Division of the Department of Justice (the "Antitrust Division") and respond as promptly as practicable to all inquiries received from the FTC or the Antitrust Division for additional information or documentation. The filing fees with respect to the filing under the HSR Act shall be borne solely by the Buyer.

5.10 Audit of Sellers at Buyer's Expense. The Sellers shall allow, cooperate with and assist Buyer's accountants, and shall instruct the Seller's accountants to cooperate, in the preparation of audited financial statements of the Sellers as necessary for any required filings by the Buyer with the Securities and Exchange Commission or with the Buyer's lenders; provided, however, that the expense of such audit shall be borne by the Buyer.

ARTICLE 6
PRE-CLOSING COVENANTS OF THE BUYER

The Buyer hereby covenants and agrees that, from and after the date hereof until the Closing:

6.1 Publicity; Disclosure. Except as may be required by law or by the rules of the New York Stock Exchange, or as necessary in connection with the transactions contemplated hereby, the Buyer shall not (i) make any press release or other public announcement relating to this Agreement or the transactions contemplated hereby, without the prior written approval of the Sellers' Agent, or (ii) otherwise disclose the existence and nature of its discussions or negotiations regarding the transactions contemplated hereby to any person or entity other than its accountants, attorneys and similar professionals, all of whom shall be subject to this nondisclosure obligation as agents of the Buyer. The Buyer shall cooperate with the Sellers and the Shareholders in the preparation and dissemination of any public announcements of the transactions contemplated by this Agreement.

6.2 Closing Conditions. The Buyer shall use all reasonable best efforts to satisfy promptly the conditions to Closing set forth in Article 8 hereof required herein to be satisfied by the Buyer.

6.3 Application to Automobile Manufactures and Distributors. Subject to the reasonable cooperation of the Sellers, the Buyer shall provide to all applicable automobile manufacturers and distributors as promptly as possible after the execution and delivery of this Agreement any application or other information with respect to such application necessary in connection with the seeking of the consents of such manufacturers and distributors contemplated by Section 7.10.

6.4 Hart-Scott-Rodino Compliance. Subject to the determination by the Buyer that any of the following actions is not required, the Buyer shall promptly prepare and file Notification and Report Forms under the HSR Act with the FTC and respond as promptly as practicable to all inquiries received from the FTC or the Antitrust Division for additional information or documentation, and Buyer shall pay all filing fees in connection therewith. In addition, the Buyer shall pay the Sellers' reasonable out-of-pocket expenses in connection with responding to any "second request" of the FTC, so long as the Buyer shall not have terminated this Agreement pursuant to Section 11.1(c) below.

ARTICLE 7
CONDITIONS PRECEDENT TO OBLIGATIONS OF THE BUYER

The obligations of the Buyer under this Agreement at the Closing and the consummation by the Buyer of the transactions contemplated hereby are subject to the satisfaction or fulfillment by the Sellers, prior to or at the Closing, of each of the following conditions, unless waived in writing by the Buyer:

7.1 Representations and Warranties. The representations and warranties made by the Sellers in this Agreement shall be true and correct in all material respects at and as of the date of this Agreement and at and as of the Closing Date as though such representations and warranties were made at and as of such times.

7.2 Performance of Obligations of the Sellers and the Shareholders. The Sellers and the Shareholders shall have performed and complied with all their covenants, agreements, obligations and restrictions pursuant to this Agreement required to be performed or complied with prior to or at the Closing.

7.3 Closing Certificate. The Sellers shall have delivered a certificate, signed by each of the Sellers' respective Presidents, and dated the Closing Date, certifying to the satisfaction of the conditions set forth in Sections 7.1 and 7.2 hereof.

7.4 Opinion of Counsel. The Buyer shall have received an opinion of Kemp, Schaeffer, Rowe & Lardiere Co., L.P.A., counsel to the Sellers and the Shareholders, dated the Closing Date, substantially in the form of Exhibit F hereto.

7.5 Supporting Documents. The Buyer shall have received from the Sellers the following:

(a) One or more certificates of the Secretary of State of the State of Ohio dated as of a recent date as to the due incorporation or organization and good standing of the Sellers;

(b) To the extent applicable, one or more certificates of officials from the jurisdictions listed on Schedule 3.1 hereto as to the good standing of the Sellers in such jurisdictions;

(c) A certificate of the Secretary or an Assistant Secretary of each of the Sellers dated the Closing Date and certifying (i) that attached thereto are true, complete and correct copies of the certificates of incorporation and by-laws of the Sellers, each as amended to and as in effect on the date of such certification, (ii) that attached thereto are true, complete and correct copies of the resolutions duly adopted by the Boards of Directors and shareholders of the Sellers, approving the transactions contemplated hereby and authorizing the execution, delivery and performance by the Sellers of this Agreement and the sale and transfer of the Purchased Assets, as in effect on the date of such certification, and (iii) as to the incumbency and signatures of those officers of the Sellers executing any instrument or other document delivered in connection with such transactions;

(d) Uniform Commercial Code Search Reports on Form UCC-11 with respect to each of the Sellers from the states and local jurisdictions where the principal places of business of the Sellers and the Purchased Assets are located; and

(e) Such reasonable additional supporting documents and other information as the Buyer or its counsel may reasonably request.

7.6 Bills of Sale, Etc. The Buyer shall have received from the respective Sellers duly executed Bills of Sale and all necessary deeds, assignments, documents and instruments to effect the transfers, conveyances and assignments to the Buyer referred to in Article 1 hereof, and the Sellers shall have taken such action as shall be necessary to put the Buyer in actual possession and exclusive control of each of the Purchased Assets (including, without limitation, the delivery of keys).

7.7 Dealership Leases, Non-Competition Agreement, and Escrow Agreement. The Buyer shall have received the Dealership Leases, the Non-Competition Agreement and the Escrow Agreement, duly executed by the parties thereto other than the Buyer.

7.8 Books and Records. The Buyer shall have received all books and records of, or pertaining to, the businesses of the Sellers and the Purchased Assets and Assumed Liabilities, except to the extent included in the Excluded Assets.

7.9 Change of Name of Sellers; Use of Sellers' Name by Buyer. The Sellers shall have delivered to the Buyer all documents, including, without limitation, resolutions of the respective Boards of Directors and the shareholders of each of the Sellers, necessary to effect a change of names of each of the Sellers after the Closing to names other than the Proprietary Names or any variation thereof, which names shall be sufficiently different from the name of the Buyer and the Proprietary Names as to distinguish them upon the records in the office of the Secretary of State of Ohio from such names. The Sellers shall also have delivered to the Buyer a written consent to the use by the Buyer or any parent, subsidiary or affiliate of the Buyer, or any successor or assignee of any thereof, of the Proprietary Names or any variant thereof and an agreement satisfactory to the Buyer that the Sellers will not use the Proprietary Names or any variant thereof, except as may be necessary for the winding up of the affairs of the Sellers.

7.10 Consents. The Buyer shall have received duly executed copies of all consents, authorizations, approvals, notices, registrations and filings referred to in Schedules 3.2 and 3.6(b), which are required for the Sellers to consummate the transactions contemplated hereby, and including, but not limited to, the consents of all applicable automobile manufacturers and distributors.

7.11 No Litigation. No action, suit or other proceeding shall be pending or threatened before any court, tribunal or governmental authority seeking or

threatening to restrain or prohibit the consummation of the transactions contemplated by this Agreement, or seeking to obtain damages in respect thereof, or involving a claim that consummation thereof would result in a violation of any law, rule, decree or regulation of any governmental authority having appropriate jurisdiction, and no order, decree or ruling of any governmental authority or court shall have been entered challenging the legality, validity or propriety of this Agreement or the transactions contemplated hereby or prohibiting, restraining or otherwise preventing the consummation of the transactions contemplated hereby.

7.12 Authorizations. The Buyer shall have received evidence of the transfer to the Buyer of all Authorizations referred to in Section 3.12 of this Agreement or, to the extent the Authorizations are not transferrable, the Sellers shall have effectively obtained or made on behalf of the Buyer, or assisted the Buyer in obtaining or making, all such Authorizations.

7.13 No Material Adverse Change or Undisclosed Liability. There shall have been no material adverse change or development in the business, prospects, properties, earnings, results of operations or financial condition of any of the Sellers or any of the Purchased Assets or Assumed Liabilities.

7.14 Approval of Legal Matters. The form of all instruments, certificates and documents to be executed and delivered by the Sellers to the Buyer pursuant to this Agreement and all legal matters in respect of the transactions as herein contemplated shall be reasonably satisfactory to the Buyer and its counsel, none of whose approval shall be unreasonably withheld or delayed.

7.15 Adverse Laws. No statute, rule, regulation or order shall have been adopted or promulgated which materially adversely affects the Purchased Assets, the Assumed Liabilities or the businesses of the Sellers.

7.16 Hart-Scott-Rodino Waiting Period. All applicable waiting periods under the HSR Act shall have expired without any indication by the Antitrust Division or the FTC that either of them intends to challenge the transactions contemplated hereby or, if any such challenge or investigation is made or commenced, the conclusion of such challenge or investigation permits the transactions contemplated hereby in all material respects.

7.17 Audited Financial Statements. The Buyer shall have completed preparation of such audited financial statements of the Sellers as may be required by applicable regulations of the Securities and Exchange Commission.

ARTICLE 8
CONDITIONS PRECEDENT TO OBLIGATIONS OF THE SELLERS

The obligations of the Sellers under this Agreement at the Closing and the consummation by the Sellers of the transactions contemplated hereby are subject to the satisfaction or fulfillment by the Buyer, prior to or at the Closing, of each of the following conditions, unless waived in writing by the Sellers:

8.1 Representations and Warranties. The representations and warranties made by the Buyer in this Agreement shall be true and correct in all material respects at and as of the date of this Agreement and at and as of the Closing Date as though such representations and warranties were made at and as of such times.

8.2 Performance of Obligations of the Buyer. The Buyer shall have performed and complied with all its covenants, agreements, obligations and restrictions pursuant to this Agreement required to be performed or complied with prior to or at the Closing.

8.3 Closing Certificate. The Buyer shall have delivered a certificate, signed by the Buyer's President or a Vice President and dated the Closing Date, certifying to the satisfaction of the conditions set forth in Sections 8.1 and 8.2 hereto.

8.4 Payment of Purchase Price. The Buyer shall have (a) tendered to the Sellers the Closing Payment and the Closing Shares, and (b) placed into escrow the Escrow Shares, as contemplated by Section 1.3(b) above.

8.5 Opinion of Counsel. The Sellers shall have received an opinion of Parker, Poe, Adams & Bernstein L.L.P., counsel to the Buyer, dated the Closing Date, substantially in the form of Exhibit G hereto.

8.6 Supporting Documents. The Sellers shall have received the following:

(a) A certificate of the Secretary of State of the State of Delaware dated as of a recent date as to the due incorporation and good standing of the

Buyer;

(b) A certificate of the Secretary or an Assistant Secretary of the Buyer dated the Closing Date, and certifying (i) that attached thereto is a true, complete and correct copy of the certificate of incorporation and by-laws of the Buyer, as amended and as in effect on the date of such certification, (ii) that attached thereto are true, complete and correct copies of the resolutions duly adopted by the Board of Directors of the Buyer approving the transactions contemplated hereby and authorizing the execution, delivery and performance by the Buyer of this Agreement, as in effect on the date of such certification, and (iii) as to the incumbency and signatures of certain officers of the Buyer executing any instrument or other document delivered in connection with such transactions; and

(c) Copies of all authorizations, consents, approvals, notices, filings and registrations referred to in Section 4.2(a) hereof.

8.7 Approval of Legal Matters. The form of all certificates, instruments and documents to be executed and/or delivered by the Buyer to the Sellers pursuant to this Agreement and all legal matters in respect of the transactions as herein contemplated shall be reasonably satisfactory to the Sellers and its counsel, none of whose approval shall be unreasonably withheld or delayed.

8.8 Dealership Leases and Escrow Agreement. The Sellers' Agent shall have received the Dealership Leases, duly executed by the Buyer or a permitted assignee of the Buyer, and the Escrow Agreement, duly executed by the parties thereto other than the Sellers.

8.9 No Litigation. No action, suit or other proceeding shall be pending or threatened before any court, tribunal or governmental authority seeking or threatening to restrain or prohibit the consummation of the transactions contemplated by this Agreement, or seeking to obtain damages in respect thereof, or involving a claim that consummation thereof would result in a violation of any law, rule, decree or regulation of any governmental authority having appropriate jurisdiction, and no order, decree or ruling of any governmental authority or court shall have been entered challenging the legality, validity or propriety of this Agreement or the transactions contemplated

hereby or prohibiting, restraining or otherwise preventing the consummation of the transactions contemplated hereby.

8.10 Hart-Scott-Rodino Waiting Period. All applicable waiting periods under the HSR Act shall have expired without any indication by the Antitrust Division or the FTC that either of them intends to challenge the transactions contemplated hereby, or, if any such challenge or investigation is made or commenced, the conclusion of such challenge or investigation permits the transactions contemplated hereby in all material respects.

ARTICLE 9
TRANSFER TAXES; PRORATION OF CHARGES

9.1 Certain Taxes and Fees. All sales, transfer, documentary, stamp, recording and other similar taxes and/or fees and Taxes which may be due or payable in connection with the sale of the Purchased Assets pursuant hereto shall be borne by the Sellers.

9.2 Proration of Certain Charges. The following taxes, charges and payments ("Charges") shall, to the extent not reflected in the Closing Balance Sheet, be prorated on a per diem basis and apportioned between the Sellers and the Buyer as of the date of the Closing: personal property, use, intangible taxes, utility charges, rental or lease charges, license fees, general assessments imposed with respect to the Purchased Assets, employee payrolls and insurance premiums. The Sellers shall be liable for that portion of the Charges relating to, or arising in respect of, periods on or prior to the Closing Date and the Buyer shall be liable for that portion of the Charges relating to, or arising in respect of, any period after the Closing Date.

ARTICLE 10
SURVIVAL OF REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION

10.1 Survival of Representations and Warranties. All statements contained in any schedule or certificate delivered hereunder or in connection herewith by or on behalf of any of the parties pursuant to this Agreement shall be deemed representations and warranties by the respective parties hereunder unless otherwise expressly provided herein. The representations and warranties of the Sellers and the Buyer contained in this Agreement, including those contained in any Schedule or certificate delivered hereunder or in connection herewith, shall survive the Closing for a period of three years with the exception of the representations and warranties of the Sellers contained in Sections 3.7, 3.15, 3.23 and 3.29, which shall survive the Closing until the expiration of the applicable statutes of limitation. As to each representation and warranty of the

parties hereto, the date to which such representation and warranty shall survive is hereinafter referred to as the "Survival Date."

10.2 Agreement to Indemnify by the Sellers and Shareholders. Subject to the terms and conditions of Sections 10.4 and 10.5 hereof, each of the Sellers and the Shareholders hereby agrees, jointly and severally, to indemnify and save the Buyer, its affiliates, and their respective shareholders, officers, directors, employees, successors and assigns (each, a "Buyer Indemnitee")

harmless from and against, for and in respect of, any and all demands, judgments, injuries, penalties, fines, damages, losses, obligations, liabilities, claims, actions or causes of action, encumbrances, costs, expenses (including, without limitation, reasonable attorneys' fees, consultants' fees and expert witness fees), suffered, sustained, incurred or required to be paid by any Buyer Indemnitee (collectively, "Buyer's Damages") arising out of, based upon, in connection with or as a result of:

(a) the untruth, inaccuracy or breach of any representation and warranty of the Sellers contained in or made pursuant to this Agreement, including in any Schedule or certificate delivered hereunder or in connection herewith; provided, however, the Sellers and the Shareholders shall have no obligation to pay Buyer's Damages pursuant to this Subsection 10.2(a) unless and until (and only to the extent that) all claims in respect of Buyer's Damages exceed a cumulative aggregate total of $100,000 (the parties hereby acknowledge that the above stated figure of $100,000 was established to facilitate the administration of claims for indemnification by the Buyer; accordingly, such figure is not intended by any of the parties as, and shall not be construed or interpreted as, an expression or understanding of the parties in respect of the term "material" or the concept of materiality as used in this Agreement);

(b) the breach or nonfulfillment of any covenant or agreement of any of the Sellers or the Shareholders contained in this Agreement or in any other agreement document or instrument delivered hereunder or pursuant hereto;

(c) the assertion against any Buyer Indemnitee or any of the Purchased Assets of any liability or obligation arising out of or based upon the ownership or operation, prior to the Closing, of the Purchased Assets and the Leased Premises including, without limitation, any of the Retained Liabilities, but excluding, however, any of the Assumed Liabilities; or

(d) all claims of creditors asserted by reason of the parties' non-compliance with any applicable bulk sales laws.

With respect to the Sellers' and the Shareholders' obligations to pay Buyer's Damages pursuant to Section 10.2 of this Agreement: (1) the Buyer, on behalf of any Buyer Indemnitee, shall be entitled (but shall not be obligated) to make demand for payment under the Escrow Agreement; and (2) the aggregate amount of Buyer's Damages required to be paid by the Sellers and the Shareholders hereunder shall not exceed the Purchase Price. To the extent that the Buyer shall make a demand for payment of Buyer's Damages under the Escrow Agreement, the number of Escrow Shares payable to the Buyer shall be that number shares of Preferred Stock which, if converted on the date of payment, would be convertible into that number of shares of the Buyer's Class A Common Stock having an aggregate market value (based upon the average closing price per share of the Buyer's Class A Common Stock on the New York Stock Exchange for the twenty consecutive trading days immediately preceding the date of conversion) equal to the amount of Buyer's Damages so demanded by the Buyer.

10.3 Agreement to Indemnify by the Buyer. Subject to the terms and conditions of Sections 10.4 and 10.5 hereof, the Buyer hereby agrees to indemnify and save the Sellers and the Shareholders (each, a "Seller Indemnitee") harmless from and against, for and in respect of, any and all demands, judgments, injuries, penalties, damages, losses, obligations, liabilities, claims, actions or causes of action, encumbrances, costs and expenses (including, without limitation, reasonable

attorneys' fees and expert witness fees) suffered, sustained, incurred or required to be paid by any Seller Indemnitee arising out of, based upon, in connection with or as a result of:

(a) the untruth, inaccuracy or breach of any representation and warranty of the Buyer contained in or made pursuant to this Agreement, including in any Schedule or certificate delivered hereunder or in connection herewith;

(b) the breach or nonfulfillment of any covenant or agreement of the Buyer contained in this Agreement or in any other agreement, document or instrument delivered hereunder or pursuant hereto;

(c) the assertion against any Seller Indemnitee of any of the

Assumed liabilities; or

(d) the assertion against any Seller Indemnitee of any claims, liabilities, or obligations arising from the Buyer's operation of the Purchased Assets and the Leased Premises after the Closing Date, except to the extent that such claims, liabilities or obligations arise out of or are based upon the Retained Liabilities.

10.4 Claims for Indemnification. No claim for indemnification with respect to a breach of a representation and warranty shall be made under this Agreement after the applicable Survival Date unless prior to such Survival Date the Buyer Indemnitee or the Seller Indemnitee, as the case may be, shall have given the Sellers or the Buyer, as the case may be, written notice of such claim for indemnification based upon actual loss sustained, or potential loss anticipated, as a result of the existence of any claim, demand, suit or cause of action against such Buyer Indemnitee or Seller Indemnitee, as the case may be.

10.5 Procedures Regarding Third Party Claims. The procedures to be followed by the Buyer and the Sellers and the Shareholders with respect to indemnification hereunder regarding claims by third persons shall be as follows:

(a) Promptly after receipt by any Buyer Indemnitee or Seller Indemnitee, as the case may be, of notice of the commencement of any action or proceeding (including, without limitation, any notice relating to a tax audit) or the assertion of any claim by a third person, which the person receiving such notice has reason to believe may result in a claim by it for indemnity pursuant to this Agreement, such person (the "Indemnified Party") shall give notice of such action, proceeding or claim to the party against whom indemnification pursuant hereto is sought (the "Indemnifying Party"), setting forth in reasonable detail the nature of such action or claim, including copies of any written correspondence from such third person to such Indemnified Party.

(b) The Indemnifying Party shall be entitled, at its own expense, to participate in the defense of such action, proceeding or claim, and, if (i) the action, proceeding or claim involved seeks (and continues to seek) solely monetary damages, (ii) the Indemnifying Party confirms, in writing, its obligation hereunder to indemnify and hold harmless the Indemnified Party with respect to such damages in their entirety pursuant to Sections 10.2 or 10.3 hereof, as the case may be, and (iii) the Indemnifying Party shall have made provision which, in the reasonable judgment of the Indemnified Party, is adequate to satisfy any adverse judgment as a result of its indemnification obligation with respect to such action, proceeding or claim, then the Indemnifying Party shall be

entitled to assume and control such defense with counsel chosen by the Indemnifying Party and approved by the Indemnified Party, which approval shall not be unreasonably withheld or delayed. The Indemnified Party shall be entitled to participate therein after such assumption, the costs of such participation following such assumption to be at its own expense. Upon assuming such defense, the Indemnifying Party shall have full rights to enter into any monetary compromise or settlement which is dispositive of the matters involved; provided that such settlement is paid in full by the Indemnifying Party and will not have any direct or indirect continuing material adverse effect upon the Indemnified Party.

(c) With respect to any action, proceeding or claim as to which (i) the Indemnifying Party does not have the right to assume the defense or (ii) the Indemnifying Party shall not have exercised its right to assume the defense, the Indemnified Party shall assume and control the defense of and contest such action, proceeding or claim with counsel chosen by it and approved by the Indemnifying Party, which approval shall not be unreasonably withheld. The Indemnifying Party shall be entitled to participate in the defense of such action, the cost of such participation to be at its own expense. The Indemnifying Party shall be obligated to pay the reasonable attorneys' fees and expenses of the Indemnified Party to the extent that such fees and expenses relate to claims as to which indemnification is due under Sections 10.2 or 10.3 hereof, as the case may be. The Indemnified Party shall have full rights to dispose of such action and enter into any monetary compromise or settlement; provided, however, in the event that the Indemnified Party shall settle or compromise any claims involved in the action insofar as they relate to, or arise out of, the same facts as gave rise to any claim for which indemnification is due under Sections 10.2 or 10.3 hereof, as the case may be, it shall act reasonably and in good faith in doing so.

(d) Both the Indemnifying Party and the Indemnified Party shall cooperate fully with one another in connection with the defense, compromise or settlement of any such claim, proceeding or action, including, without limitation, by making available to the other party all pertinent information and witnesses within its control.

10.6 Effectiveness. The provisions of this Article 10 shall be effective upon consummation of the Closing, and prior to the Closing, shall have no force

and effect.

ARTICLE 11
TERMINATION

11.1 Termination. Notwithstanding any other provision herein contained to the contrary, this Agreement may be terminated at any time prior to the Closing Date:

(a) By written consent of the parties hereto;

(b) At any time after the Closing Date Deadline, by written notice by the Buyer or the Sellers to the other party(ies) hereto if the Closing shall not have been completed on or before the Closing Date Deadline; provided, however, no party may terminate this Agreement pursuant to this Section 11.1(b) if such party is in breach of any material representation, warranty or covenant of such party contained in this Agreement;

(c) By the Buyer if, after any initial HSR Act filing, the FTC makes a "second request" for information, or the FTC or the Antitrust Division challenges the transactions contemplated hereby; provided that the Buyer delivers a written notice to the Sellers of its termination hereunder within 15 days of the Buyer's receipt of such second request or of notice of such challenge;

(d) By the Buyer, by written notice to the Sellers, in the event that approval by any applicable automobile manufacturer or distributor of the transaction contemplated by this Agreement is not received at least 10 Business Day prior to the Closing Date Deadline;

(e) By the Buyer, by written notice to the Seller, in the event that any automobile manufacturer or distributor shall exercise any right of first refusal, preemptive right or other similar right, with respect to any of the Purchased Assets; or

(f) By the Buyer within 60 days of _____, 1998 if, and only if, the Buyer is not satisfied, in its discretion, with the results of the Buyer's due diligence investigation.

11.2 Procedure and Effect of Termination. In the event of termination pursuant to Section 11.1, this Agreement shall be of no further force or effect; provided, however, that any termination pursuant to Section 11.1 shall not relieve any party hereto of any liability for breach of any representation and warranty, covenant or agreement hereunder occurring prior to such termination. In the event of any termination pursuant to Section 11.1, all filings, applications and other submissions made pursuant to this Agreement or prior to the execution of this Agreement in contemplation thereof shall, to the extent practicable, be withdrawn from the agency or other entity to which made.

ARTICLE 12
MISCELLANEOUS PROVISIONS

12.1 Access to Books and Records after Closing. The Buyer shall, following the Closing, give, and shall cause to be given, to the Sellers and its authorized representatives such access, during normal business hours and upon prior notice, to such books and records constituting part of the Purchased Assets as shall be reasonably necessary for the Sellers in connection with the preparation and filing of the Sellers' tax returns for periods prior to the Closing, and to make extracts and copies of such books and records at the expense of the Sellers.

12.2 Notices. All notices, claims, certificates, requests, demands and other communications hereunder shall be given in writing and shall be delivered personally or sent by telecopier or by a nationally recognized overnight courier, postage prepaid, and shall be deemed to have been duly given when so delivered personally or sent by telecopier, with receipt confirmed, or one (1) Business Day after the date of deposit with such nationally recognized overnight courier. All such notices, claims, certificates, requests, demands and other communications shall be addressed to the respective parties at the addresses set forth below or to such other address as the person to whom notice is to be given may have furnished to the others in writing in accordance herewith.

If to the Buyer, to:

Sonic Automotive, Inc.
5401 East Independence Boulevard
P.O. Box 18747
Charlotte, North Carolina 28218
Telecopier No.: (704) 532-3312

Attention: Theodore Wright

with a copy to:

Parker, Poe, Adams & Bernstein L.L.P.
2500 Charlotte Plaza
Charlotte, North Carolina 28244
Telecopier No.: (704) 334-4706
Attention: Edward W. Wellman, Jr.

If to the Sellers, to the Sellers' Agent at the following address:

Bud C. Hatfield
c/o Toyota West
1500 Automall Drive
P.O. Box 28668
Columbus, Ohio 43228

Telecopier No.: [TO BE SUPPLIED]
Attention: Bud C. Hatfield

If to the Shareholders, to:

Mr. Bud C. Hatfield
c/o Toyota West
1500 Automall Drive
P.O. Box 28668
Columbus, Ohio 43228

Telecopier No.: [TO BE SUPPLIED]

Mr. Dan E. Hatfield
c/o Toyota West
1500 Automall Drive
P.O. Box 28668
Columbus, Ohio 43228

Telecopier No.: [TO BE SUPPLIED]

Mr. Dan E. Hatfield, as Trustee of the
Bud C. Hatfield, Sr. Special Irrevocable
Trust
c/o Toyota West
1500 Automall Drive
P.O. Box 28668
Columbus, Ohio 43228

Telecopier No: [TO BE SUPPLIED]

in either case, with a copy to:

Kemp, Schaeffer, Rowe & Lardiere Co., L.P.A.
88 West Mound Street
Columbus, Ohio 43215

Telecopier No.: (614) 469-7170
Attention: Michael N. Schaeffer, Esq.

The Buyer, the Sellers or the Shareholders may change the address or telecopier number to which such communications are to be directed by giving written notice to the others in the manner provided in this Agreement.

12.3 Parties in Interest; No Third Party Beneficiaries.

(a) Subject to Section 12.4 hereof, this Agreement shall be binding upon, inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto.

(b) Nothing in this Agreement, expressed or implied, is intended or shall be construed to confer upon or give to any employee of the Sellers, or any other person, firm, corporation or legal entity, other than the parties hereto and their successors and permitted assigns, any rights, remedies or other benefits under or by reason of this Agreement.

12.4 Assignability. This Agreement shall not be assignable by any party hereto without the prior written consent of the other parties, provided that Buyer may assign its rights under this Agreement to any affiliate of Buyer presently existing or hereafter formed and to any person or entity that shall acquire all or substantially all of the assets of the Buyer; provided, however, that no such assignment by the Buyer shall release it from its obligations hereunder without the consent of the Sellers. Nothing contained in this Agreement shall prohibit its assignment by the Buyer as collateral security and

the Sellers hereby agree to execute any acknowledgment of such assignment by the Buyer as may be required by any lender to the Buyer.

12.5 Entire Agreement; Amendment. This Agreement and the other writings referred to herein or delivered pursuant hereto contain the entire understanding of the parties hereto and supersedes all prior agreements and understandings between the parties hereto with respect to its subject matter. This Agreement may be amended or modified only by a written instrument duly executed by the parties hereto.

12.6 Headings. The article, section and paragraph headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

12.7 Counterparts. This Agreement may be executed in any number of counterparts, and each such counterpart hereof shall be deemed to be an original instrument, and all such counterparts together shall constitute but one agreement.

12.8 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Ohio, without giving effect to its principles of conflicts of law.

12.9 Knowledge. Whenever any representation or warranty of the Sellers contained herein or in any other document executed and delivered in connection herewith is based upon the knowledge of the Sellers, (i) such knowledge shall be deemed to include (A) the best actual knowledge, information and belief of any of the Sellers or the Shareholders and (B) any information which any Shareholder would reasonably be expected to be aware of in the prudent discharge of his or her duties in the ordinary course of business (including consultation with legal counsel) on behalf of any Seller, and (ii) the knowledge of any Seller or Shareholder shall be deemed to be the knowledge of all the Sellers and Shareholders.

12.10 Jurisdiction; Arbitration.

(a) Subject to the other provisions of this Section 12.10, any judicial proceeding brought with respect to this Agreement must be brought in any court of competent jurisdiction in the State of Ohio, and, by execution and delivery of this Agreement, each party (i) accepts, generally and unconditionally, the exclusive jurisdiction of such courts and any related appellate court, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement, and (ii) irrevocably waives any objection it may now or hereafter have as to the venue of any such suit, action or proceeding brought in such court or that such court is an inconvenient forum.

(b) Any dispute, claim or controversy arising out of or relating to this Agreement, or the interpretation or breach hereof (including, without limitation, any of the foregoing based upon a claim to any termination fee hereunder), shall be resolved by binding arbitration under the commercial arbitration rules of the American Arbitration Association (the "AAA Rules") to the extent such AAA Rules are not inconsistent with this Agreement. Judgment upon the award of the arbitrators may be entered in any court having jurisdiction thereof or such court may be asked to judicially confirm the award and order its enforcement, as the case may be. The demand for arbitration shall be made by any party hereto within a reasonable time after the claim, dispute or other matter in question has arisen, and in any event shall not be made after the date when institution of legal proceedings, based on such claim, dispute or other matter in question, would be barred by the applicable statute of limitations. The arbitration panel shall consist of three (3) arbitrators, one of whom shall be appointed by each party hereto within thirty (30) days after any request for arbitration hereunder. The two arbitrators thus appointed shall choose the third arbitrator within thirty (30) days after their appointment; provided, however, that if the two arbitrators are unable to agree on the appointment of the third arbitrator within 30 days after their appointment, either arbitrator may petition the American Arbitration Association to make the appointment. The place

of arbitration shall be Columbus, Ohio. The arbitrators shall be instructed to render their decision within sixty (60) days after their selection and to allocate all costs and expenses of such arbitration (including legal and accounting fees and expenses of the respective parties) to the parties in the proportions that reflect their relative success on the merits (including the successful assertion of any defenses).

(c) Nothing contained in this Section 12.10 shall prevent any party hereto from seeking any equitable relief to which it would otherwise be entitled from a court of competent jurisdiction in the State of North Carolina; nothing contained in this Section 12.10 shall prevent the Buyer from enforcing the

Non-Competition Agreement in any court of competent jurisdiction.

12.11 Waivers. Any party to this Agreement may, by written notice to the other parties hereto, waive any provision of this Agreement from which such party is entitled to receive a benefit. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of such provision or any other provision of this Agreement.

12.12 Severability. In the event that any provision, or part thereof, of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions, or parts thereof, shall not in any way be affected or impaired thereby.

12.13 Expenses. Except as otherwise set forth herein, each party shall be responsible for its own legal fees and other costs and expenses incurred in connection with this Agreement and the negotiation and consummation of the transactions contemplated hereby.

[Signatures begin on following page]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed all as of the day, month and year first above written.

THE BUYER: SONIC AUTOMOTIVE, INC.

By: /s/ O. Bruton Smith

Name: O. Bruton Smith
Title: Chief Executive Officer

THE SELLERS:

HATFIELD JEEP EAGLE, INC.

By: /s/ Dan E. Hatfield

Name: Dan E. Hatfield
Title: President

HATFIELD LINCOLN MERCURY, INC.

By: /s/ Dan E. Hatfield

Name: Dan E. Hatfield
Title: President

TRADER BUD'S WESTSIDE DODGE, INC.

By: /s/ Bud C. Hatfield

Name: Bud C. Hatfield
Title: President

TOYOTA WEST, INC.

By: /s/ Dan E. Hatfield

Name: Dan E. Hatfield
Title: President

HATFIELD HYUNDAI, INC.

By: /s/ Dan E. Hatfield

Name: Dan E. Hatfield
Title: President

THE SHAREHOLDERS: /s/ Bud C. Hatfield (SEAL)

BUD C. HATFIELD

/s/ Dan E, Hatfield (SEAL)

DAN E. HATFIELD

/s/ Dan E. Hatfield (SEAL)

DAN E. HATFIELD, AS TRUSTEE
OF THE BUD C. HATFIELD, SR.
SPECIAL IRREVOCABLE TRUST

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Exhibit F	-	Form of Legal Opinion of Counsel for the Sellers and the Shareholders
Exhibit G	-	Form of Legal Opinion of Counsel for the Buyer

Schedule 1.1(a)

Purchased Assets

The Purchased Assets shall include, without limitation, the following, all to the extent not included in the Excluded Assets:

(a) all machinery, equipment (both mobile and non-mobile), computers, computer programs, databases and related manuals and other materials necessary for the development, use, installation, maintenance and modification of such computer programs and databases, tapes, tools, furniture, furnishings, automobiles, trucks, vehicles, tools, dies, molds, signs, supplies and parts and other tangible personal property (including any of the foregoing purchased subject to any conditional sales or title retention agreement in favor of any third party), whether owned, leased or subleased;

(b) all accounts and notes receivable, advances held by the Sellers, and all debts and obligations due to the Sellers from their customers and others, howsoever evidenced, and whether or not previously written-off by the Sellers, and all obligations and loans, if any, due to the Sellers as of the Closing from any and all employees of the Sellers;

(c) all inventories, including, without limitation, all new and used vehicle and parts inventories, goods, supplies, fuel oil, spare parts, packing containers, replacement and component parts, and office and other supplies, including all such inventories held at any location controlled by the Sellers and all such inventories previously purchased and in transit to the Sellers at such locations;

(d) all rights to products sold or leased and to any products under research or development prior to or on the Closing;

(e) all security, utility or similar deposits and prepaid expenses of the Sellers;

(f) all of the rights of the Sellers under all contracts, arrangements, commitments, sales orders, purchase orders, invoices, license and technology agreements, leases and agreements and all warranties, claims and causes of action against third parties and under insurance policies, including any of the Sellers' right to receive goods and services pursuant to such contracts and to assert claims and take other rightful actions in respect of breaches, defaults and other violations of such contracts and otherwise;

(g) all designs, plans, non-marketing trade secrets, inventions, processes, procedures, research records, manufacturing know-how and manufacturing formulae, wherever located;

(h) all books, records, manuals and other materials, including, without limitation, all records and materials maintained at any and all offices and other locations of the Sellers, all accounting and financial records, files, computer tapes, advertising matter, catalogues,

brochures, price lists, correspondence, mailing lists, lists of customers and suppliers, distribution lists, art work, photographs, production data, sales and promotional materials and records, purchasing materials and records, personnel records, credit records, manufacturing and quality control records and procedures, blueprints, research and development files, records, data and laboratory books, patent disclosures, media materials and plates, sales order files and litigation files, stationary and business forms;

(i) all interest of the Sellers in and to their telephone and telex numbers and all listings pertaining to the Sellers in all telephone books and directories;

(j) to the extent their transfer is permitted by law, all governmental licenses, permits, approvals, license applications, license amendment applications and product registrations;

(k) all bank accounts;

(l) all cash paid by customers of the Sellers, or otherwise, whether or not deposited with a trustee or other depository;

(m) all goodwill of the Sellers;

(n) all trademarks, service marks and trade names and registered user names, all rights to the Proprietary Names (as defined in the Agreement) and all logos, tradestyles and variants thereof, of the Seller, and all existing and pending registrations or applications in connection with the foregoing; and

(o) all insurance policies.

Schedule 1.1(b)

Excluded Assets

The Sellers will retain and not sell, convey, assign, transfer or deliver to the Buyer, and the Buyer shall not purchase or acquire, the following Excluded Assets:

(a) all real property owned by the Sellers;

(b) the minute books, stock ledgers and other related corporate books and records of the Sellers;

(c) refunds for Taxes of the Sellers, except for Taxes accrued for or reserved against in the Closing Balance Sheet, and all claims therefor;

(d) all segregated funds and other assets of the Sellers corresponding to Employee Plans of the Sellers that are not assumed by the Buyer according to Schedule 1.2;

(e) all governmental licenses, permits, approvals, license applications, license amendment applications and product registrations the transfer of which is not permitted by law;

(f) any loans or advances to employees or to the Sellers, their affiliates, or their respective officers, directors or shareholders.

Schedule 1.1(c)

Permitted Encumbrances

Those Encumbrances listed on Schedule 3.7 which secure only the payment of indebtedness included in the Assumed Liabilities.

Schedule 1.2

Assumed Liabilities

The Buyer shall assume the following liabilities and obligations of the Sellers:

(a) all liabilities and obligations (i) set forth in the balance sheets included in the Financial Statements, (ii) of the type and kind set forth in such balance sheets and incurred by the Sellers in the ordinary course of business from the date of such balance sheets to the Closing Date, and (iii) set forth in the Closing Balance Sheet;

(b) the Inducement Fee; and

(c) all continuing obligations under the Material Contracts listed on Schedule 3.6 arising after the Closing in the ordinary course of business and not as a result of any breach or default of the Sellers thereunder.

* * * * * * * * * * * * *

Notwithstanding the foregoing and without limiting the generality of the definition of "Retained Liabilities" set forth in the Agreement, the Buyer shall not assume, and the Sellers shall retain and be responsible for, the following Retained Liabilities, unless specifically included in the Assumed Liabilities:

(i) those liabilities payable to the Sellers, their affiliates, or their respective officers, directors or shareholders;

(ii) all real property mortgage indebtedness owed by any of the Sellers;

(iii) all liabilities and obligations under lines of credit, long and short term indebtedness to financial institutions and other similar financings, except for new and used vehicle "floor planning" lines;

(iv) all liabilities and obligations for Taxes, except to the extent accrued for or reserved against in the Closing Balance Sheet;

(v) all liabilities and obligations under any contract or agreement which is not fully and effectively assigned to the Buyer (including any required consent or approval as specified in Schedule 3.2 or 3.6(b) and such consent or approval has not been obtained by the Sellers or waived by the Buyer);

(vi) all liabilities for any and all pending or threatened litigation existing at the time of the Closing;

(vii) all known or unknown environmental liabilities and claims arising out of the ownership or operation of the Purchased Assets prior to the Closing, including, without limitation, the presence, release or threatened release of Hazardous Materials and any liabilities or obligations arising under any Environmental Law, including but not limited to the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), as amended;

(viii) all known or unknown product liabilities and claims arising out of the sale of products or the furnishing of services prior to the Closing;

(ix) all liabilities and obligations relating to the Excluded Assets; and

(x) all employment related liabilities.

Exhibit 10.4

F I N A L
2/10/98

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER dated as of February 10, 1998 (this "Agreement") among SONIC AUTOMOTIVE, INC., a Delaware corporation (the "Buyer"), CAPITOL CHEVROLET, INC., an Alabama corporation (the "Corporation"), CAPITOL IMPORTS, LTD., an Alabama limited partnership (the "Partnership" and, together with the Corporation, collectively, the "Companies"), and FRANK E. McGOUGH, JR. (the "Seller").

W I T N E S S E T H:

WHEREAS, as of the Closing (as defined in Article 2 below), the Seller will own (i) all of the issued and outstanding shares of common stock of the Corporation which shares (the "Shares") represent all of the issued and outstanding shares of capital stock of the Corporation, and (ii) all of the issued and outstanding partnership interests of the Partnership (the "Partnership Interests"); and

WHEREAS, the Buyer desires to acquire the Shares and the Partnership Interests from the Seller, and the Seller is willing to sell the Shares and the Partnership Interests to the Buyer, upon the terms and conditions hereinafter set forth; and

WHEREAS, the acquisition by the Buyer of the Shares and the Partnership Interests is to be accomplished by the merger (the "Merger") of the Companies with and into a wholly-owned Alabama subsidiary (the "Sub"), to be formed by the Buyer prior to the Closing, on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and representations hereinafter stated, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE 1

The Merger

1.1 The Merger.

(a) Subject to the provisions of this Agreement and the Certificate of Merger substantially in the form of Exhibit A attached hereto (the "Certificate of Merger"), the Companies shall be merged with and into the Sub in accordance with the provisions of the Alabama Business Corporation Act and the Alabama Limited Partnership Act (collectively, the "Merger Law"), whereupon the separate existence of the Companies shall cease and the Sub shall be the surviving corporation (the Sub and the Companies are sometimes herein referred to as the "Constituent Companies" and the Sub after the Merger is sometimes herein referred to as the "Surviving Company").

(b) As soon as practicable after satisfaction or, to the extent permitted hereunder, waiver of all conditions to the Merger, the Constituent Companies shall execute and file the Certificate of Merger with the Secretary of State of the State of Alabama in accordance with the Merger Law, and shall otherwise make all other filings or recordings required by the Merger Law in connection with the Merger. The Merger shall become effective at such date and time as the Certificate of Merger is duly filed with, and accepted by, the Secretary of State of the State of Alabama (the "Effective Time").

(c) At the Effective Time, the separate existence of the Companies shall cease and the Companies shall be merged with and into the Sub and the Sub shall be the Surviving Company, whose name thereafter shall be "CAPITOL CHEVROLET AND IMPORTS, INC.".

(d) From and after the Effective Time: (i) the Articles of Incorporation of the Surviving Company shall be the Articles of Incorporation of the Sub; (ii) the Bylaws of the Sub, as in effect immediately prior to the Effective Time, shall be the Bylaws of the Surviving Company, until thereafter amended in accordance with applicable law; (iii) the directors of the Sub at the Effective Time shall become the directors of the Surviving Company, until their respective successors are duly elected or appointed and qualified in accordance with applicable law; and (iv) the officers of the Sub at the Effective Time shall become the initial officers of the Surviving Company, to serve at the pleasure of the board of directors of the Surviving Company.

(e) At the Effective Time by virtue of the Merger and the applicable provisions of the Merger Law and without any further action on the part of the Constituent Companies or on the part of the Companies' shareholders and partners:

(1) each share of common stock of the Sub outstanding immediately prior to the Effective Time shall, automatically and without any action on the part of the holder thereof, be converted into one share of common stock of the Surviving Company;

(2) all of the Shares and all of the Partnership Interests (collectively, the "Company Securities") shall, automatically and without any action on the part of the Seller, cease to be outstanding and shall be converted into the right to receive the Merger Consideration (as defined in Section 1.2 below) in accordance with the provisions of said Section 1.2. All Company Securities, when so converted, shall no longer be outstanding and shall automatically be canceled and retired and shall cease to exist, and the Seller holding Company Securities shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration in accordance with provisions of said Section 1.2.

1.2 The Merger Consideration.

(a) Definitions. As used in this Agreement, (i) the term "Basic Consideration" shall mean $7,325,000, adjusted as provided in Section 1.4 below, (ii) the term "Contingent Consideration" shall have the meaning given to it in Section 1.2(d) below, (iii) the term "Merger Consideration" shall mean the Basic Consideration and the Contingent Consideration, and (iv) the term "Escrow Amount" shall mean the sum of $500,000, which shall be withheld from the Basic Consideration and placed in escrow, as more fully provided in Section 1.2(c)(2) below.

(b) Entitlement to Merger Consideration. The Seller shall, after the Effective Time and provided the Seller shall have surrendered to the Surviving Company any certificate or certificates for the Company Securities, or other reasonably satisfactory evidence thereof, in accordance with the provisions of Section 1.5 below, or shall have otherwise complied with said Section 1.5, be entitled to receive payment of the Merger Consideration, subject to the terms and conditions of this Article 1.

(c) Payment of Basic Consideration. Payment to the Seller of the Basic Consideration shall be made as follows:

(1) An amount equal to $3,039,000 less the Escrow Amount, shall be paid to the Seller, in immediately available funds by wire transfer to an account designated in writing to the Buyer, on the first full Business Day (as hereinafter defined) after such surrender of such certificate or certificates, or other evidence, and designation of such account (which Business Day will be the Closing Date provided the certificate or certificates, or other evidence, together with applicable wire transfer instructions, shall have been received by the Buyer at or before the Closing). The sum of $275,000 shall be paid on each of the first and second anniversaries of the Closing Date, by wire transfer as aforesaid. In the event that the Buyer shall have failed to pay all or any portion of such $275,000 sum and such failure shall have continued for a period of 10 Business Days from the due date thereof, such sum shall bear interest at the Interest Rate (as defined in Section 1.4(b) below) until paid and the Buyer shall also be obligated, upon demand of the Seller, to pay any remaining such $275,000 sum, together with interest at such Interest Rate from the date of such demand to the date of payment. For purposes of this Agreement, a "Business Day" means any day, other than a Saturday, Sunday or legal holiday, on which banks in the State of Alabama are generally open for business.

(2) The Escrow Amount shall be placed in escrow with First Union National Bank (the "Escrow Agent") by the Buyer in accordance with the Escrow Agreement in substantially the form of Exhibit B hereto, with such other changes thereto as the Escrow Agent shall reasonably request (the "Escrow Agreement"). The term of the Escrow Agreement will be for 90 days from the Closing Date (or such longer period of time as shall be necessary to determine the Net Book Value pursuant to Section 1.4(b) below), except to the extent that the Buyer shall have made claims during such period for payment from the Escrow Amount in respect of the adjustment to the Basic Consideration contemplated by Section 1.4 of this Agreement or for indemnification pursuant to the terms of this Agreement. At the end of such 90-day (or longer) period, the Buyer will execute a joint instruction with the Seller, pursuant to the Escrow Agreement instructing the Escrow Agent to pay the Escrow Amount, less the amount of any such claims by the Buyer, to the Seller pursuant to the terms of the Escrow Agreement.

(3) The Buyer shall issue and deliver to the Seller 3,736 shares of the Buyer's Convertible Preferred Stock (the "Preferred Stock"). The Preferred Stock will be convertible into that number of shares of the Buyer's Class A Common Stock (the "Common Stock") having an aggregate market value at the time of conversion (based upon the average closing price per share of Common

Stock on the New York Stock Exchange for the 20 consecutive trading days immediately preceding the Closing Date) of not less than $3,362,400 and not more than $4,109,600, as more fully set forth in the Summary of Rights and Preferences attached as Exhibit C hereto. The Buyer shall use its reasonable best efforts to make available current public information with respect to the Buyer within the meaning of Subsection (c)(1) of Securities and Exchange Commission Rule 144 ("Rule 144") to the extent necessary to facilitate public resales by the Seller of such shares of Common Stock pursuant to Rule 144. The Buyer shall remove all stop transfer instructions and shall remove any restrictive legend on the certificates with respect to any shares of the Preferred Stock or the Common Stock then owned by the Seller to the extent that either (i) the Preferred Stock or the Common Stock may hereafter be registered under the Securities Act of 1933, as amended, and under any applicable state securities or blue sky laws, or (ii) the Buyer has received an opinion of counsel satisfactory to the Buyer, in form and substance satisfactory to the Buyer, that such registration is not required.

(4) Notwithstanding the foregoing, should any shares of Common Stock comprising part of the Basic Consideration or the Contingent Consideration include any fractional share of the Common Stock, the Buyer shall not be obligated to deliver any certificate with respect to such fractional share; in lieu thereof, the Buyer shall pay to the Seller an amount of cash (rounded to the nearest whole cent) equal to the product of (i) such fraction multiplied by (ii) the average closing price per share of Common Stock on the New York Stock Exchange for the 20 consecutive trading days immediately preceding the date of payment.

(d) Payment of Contingent Consideration.

(1) As used in this Agreement, (i) the term "Contingent Consideration" shall mean an amount, not to exceed an aggregate total of $3,250,000, equal to

4.75 times the Earnings Before Taxes of the Buyer or any successor to or assignee of the Buyer between $1,368,421 and $2,052,632 during the Overall Calculation Period, as more fully provided in paragraph (2) below, (ii) the term "Subject Businesses" shall mean the businesses of the Companies acquired pursuant to this Agreement, (iii) the term "Calculation Period" shall mean each of the four consecutive twelve calendar month periods which collectively comprise the Overall Calculation Period; (iv) the "Overall Calculation Period" shall mean the forty-eight consecutive calendar month period beginning with the first full calendar month after the Closing Date, (v) the term "Earnings Before Taxes" shall mean the combined earnings before taxes of the Buyer or any successor to or assignee of the Buyer from the Subject Businesses, as more fully provided in paragraph (3) below; and (vi) the term "Qualified Earnings Before Taxes" shall mean, for any Calculation Period, Earnings Before Taxes for such Calculation Period of $1,368,421 up to and including $2,052,632.

(2) Subject to the provisions of Section 9.7 below, not later than 120 days after each of the first through the fourth anniversaries of the Closing Date, the Buyer shall pay to the Seller an installment of the Contingent Consideration, calculated as follows:

(i) The installment of Contingent Consideration for the first Calculation Period shall be calculated based upon the excess, if any, of Qualified Earnings Before Taxes, for such Calculation Period over $1,368,421 (any such excess being called the "First Period Excess");

(ii) The installment of Contingent Consideration for the second Calculation Period shall be calculated based upon the excess, if any, of Qualified Earnings Before Taxes for such Calculation Period over the sum of (A) $1,368,421 plus (B) the First Period Excess (any such excess being called the "Second Period Excess");

(iii) The installment of Contingent Consideration for the third Calculation Period shall be calculated based upon the excess, if any, of Qualified Earnings Before Taxes for such Calculation Period over the sum of (A) $1,368,421, plus (B) the First Period Excess, plus (C) the Second Period Excess (any such excess being called the "Third Period Excess"); and

(iv) The installment of Contingent Consideration for the fourth Calculation Period shall be calculated based upon the excess, if any, of Qualified Earnings Before Taxes, for such Calculation Period over the sum of (A) $1,368,421, plus (B) the First Period Excess, plus (C) the Second Period Excess, plus (D) the Third Period Excess,

provided, however, the Contingent Consideration payable in respect of all four Calculation Periods shall not exceed an aggregate total of $3,250,000.

An amount equal to 49% of each installment to Contingent Consideration shall be paid to the Seller in cash by wire transfer of immediately available funds to the account of the Seller, which shall be designated by the Seller in

writing at least one (1) Business Day prior to the date

of payment, and the balance of such installment of Contingent Consideration shall be paid by the issuance and delivery to the Seller of shares of Preferred Stock at the rate of one share of Preferred Stock for every $1,000 of such Contingent Consideration. Fractional shares of Preferred Stock may be issued under this Agreement; however, no fractional shares of Common Stock shall be issued upon conversion of the Preferred Stock. If any installment of Contingent Consideration shall not be paid when due and such failure shall continue for a period of 10 Business Days, such installment shall bear interest at the Interest Rate (as defined in Section 1.4(b) below) until paid.

(3) For purposes of calculating Earnings Before Taxes, the following rules shall apply:

(i) no deduction shall be taken for federal and state income taxes owed by the Subject Businesses;

(ii) no deduction shall be taken for any interest expenses of the Subject Businesses other than floor plan financing interest attributable to the Subject Businesses and other interest expenses directly attributable to the operation of the Subject Businesses;

(iii) Earnings Before Taxes shall be determined before any expense chargeable with respect to the Non-Competition Agreement (as defined in Section 1.7(c) below) or any management fee expense allocation from the Buyer in respect of management fees payable to the Buyer;

(iv) For purposes of calculating Earnings Before Taxes, each of the three $275,000 installments of Basic Consideration shall be treated as an expense;

(v) No deduction shall be taken for any amortization of goodwill included in the Purchase Price;

(vi) Earnings Before Taxes shall not reflect any income associated with collection of the Acceptance Receivables (as defined in Section 1.4(c) below);

(vii) overhead expenses (including, without limitation, accounting fees, data processing fees, third party management and consulting fees, salaries and bonuses of persons previously employed by Buyer and any of its Affiliates other than the Surviving Company, and the like) or other expenses which have been incurred by any of the Subject Businesses which are allocated to such Subject Business but do not directly relate to the operation of such Subject Business, or that portion so allocated which is not reasonably related to the operation of such Subject Business, shall not be deducted in determining Earnings Before Taxes; and

(viii)Earnings Before Taxes shall be determined without reference to any income or expense attributable to business operations of the Surviving

Company other than the Subject Businesses.

At the time of the making of the payment of an installment of the Contingent Consideration, the Buyer shall deliver to the Seller a statement in writing setting forth in reasonable detail the manner in which the respective payment of Contingent Consideration was determined. The Seller shall have a period of 30 days after the payment of such installment of Contingent Consideration to object in writing to the Buyer's calculation of the respective Earnings Before Taxes. If the Buyer and the Seller are unable to reach agreement on the Buyer's objections, the matter shall be submitted to binding resolution by the Accountants (as defined in Section 1.4(a) below). For purposes of such resolution process, the procedural provisions of the last sentence of said Section 1.4(a) shall be applicable, except that the Seller shall pay 100% of the fees and expenses of the Accountants in determining such Earnings Before Taxes unless such Earnings Before Taxes, as determined by the Accountants, is more than 110% of such Earnings Before Taxes as determined by the Buyer, in which case the Buyer shall pay 100% of such fees and expenses of the Accountants. Until such time as the Contingent Consideration shall have been paid in full, the Buyer shall furnish to the Seller its regularly prepared monthly dealer financial statements, such financial statements to be furnished within 30 days after their preparation by the Buyer.

(e) Concerning Certain Shares of Preferred Stock.

If, pursuant to this Agreement, the Buyer shall issue any shares of Preferred Stock after the second anniversary of the Closing Date, the

Buyer will grant to the Seller "piggyback" registration rights with respect to the shares of Common Stock issuable on conversion of such shares of Preferred Stock. Such piggyback registration rights shall be subject to customary limitations such as underwriter cutbacks and registration rights, if any, of others.

1.3 Certain Divestitures Prior to Closing. Prior to the Closing, the Companies will distribute to the Seller the following assets, as more fully described on Exhibit D hereto (collectively, the "Distributed Assets"): land; buildings and improvements; leasehold improvements; life insurance; certain notes receivable; GMAC contract for Frank McGough's benefit; and employee receivables. In connection with such distribution, the Companies shall also distribute to the Seller the following liabilities, also as more fully described on Exhibit D hereto (collectively, the "Distributed Liabilities"): GMAC payables for the benefit of Frank McGough; obligations with respect to the life insurance included in the Distributed Assets; payables to Frank McGough's family; any loans secured by real estate; and all liabilities to Frank McGough for personal funds invested in GMAC cash management.

1.4 Basic Consideration Adjustment Procedures.

(a) Not later than 60 days after the Closing Date (as defined in Article 2), the Buyer will prepare and deliver to the Seller a consolidated balance sheet (the "Closing Balance Sheet") of the Companies as of the Closing Date, consisting of a computation of the consolidated book value of the tangible assets of the Companies as of the Closing Date (excluding the

Distributed Assets), less the consolidated book value of the liabilities of the Companies as of the Closing Date (excluding the Distributed Liabilities), but including (i) the present value of the tax liabilities of the Companies associated with the conversion to the FIFO method of accounting for inventories (utilizing a discount factor equal to the Interest Rate applied to the longest payment period permitted by the Internal Revenue Service without imposition of penalties or interest), and (ii) the tax liabilities of the Companies, if any, associated with the distribution of the Distributed Assets and Distributed Liabilities (in the case of the distribution of any real property, utilizing a fair market value for such property which is mutually agreed to by the Buyer and the Seller or, failing such agreement, determined by a nationally recognized appraisal firm selected by the Buyer and reasonably acceptable to the Seller). In addition, the Closing Balance Sheet shall reflect as a liability the unpaid amount payable to Van McGough in consideration of a covenant not to compete given by him, such liability to be reflected at its present value utilizing a discount factor equal to the Interest Rate. The Closing Balance Sheet and the accounts reflected therein shall be determined in accordance with tax basis accounting principles applied consistently with the preparation of the tax basis balance sheet included in the Annual Financial Statements (as defined in Section 3.13(a)); provided, however, that (A) used vehicle inventories shall be valued as mutually agreed by the Buyer and the Seller based upon a physical inventory to be conducted by them as of such date (the "Valuation Date"), not more than 20 days after the date the Buyer shall have a representative of the Buyer (the "Buyer's Representative") on site full time at the Companies' premises; with respect to all used vehicles in the Companies' inventory as of the Valuation Date, if any of such vehicles shall not have been sold within ninety days after the Valuation Date, the value of such vehicle on the Closing Balance Sheet shall be reduced by $500; for all used vehicles acquired after the Valuation Date with the approval of the Buyer's Representative or his designee, such vehicles shall be valued at cost; (B) parts which are returnable under the respective manufacturers' returnable parts plans shall be valued at their respective return values under such plans; (C) there shall be included appropriate reserves and/or write-offs for doubtful accounts receivable and bad debts and for damaged, spoiled, obsolete or slow-moving inventory (excluding new cars, used cars and returnable parts to the extent they qualify for return under the relevant manufacturer's parts return plans or policies); provided, however, new demonstrator vehicles with more than 5,000 miles on their odometers shall be reduced in value by $.32 per mile for each mile shown on the odometer in excess of $5,000. The tangible net book value reflected on the Closing Balance Sheet is hereinafter called the "Net Book Value." If within 30 days following delivery of the Closing Balance Sheet (or the next Business Day if such 30th day is not a Business Day), the Seller has not given the Buyer notice of the Seller's objection to the computation of the Net Book Value as set forth in the Closing Balance Sheet (such notice to contain a statement in reasonable detail of the nature of the Seller's objection), then the Net Book Value reflected in the Closing Balance Sheet will be deemed mutually agreed by the Buyer and the Seller. If the Seller shall have given such notice of objection in a timely manner, then the issues in dispute will be submitted to a "Big Six" accounting firm mutually acceptable to the Buyer and the Seller (the "Accountants") for resolution. If issues in dispute are submitted to the Accountants for resolution, (1) each party will furnish to the Accountants such work papers and other documents and information relating to the disputed issues as the Accountants may request and are available to the party or its subsidiaries (or its independent public accountants), and will be afforded the opportunity to

present to the Accountants any material relating to the determination and to discuss the determination with the Accountants; (2) the Accountants will be instructed to determine the Net Book Value based upon their resolution of the issues in dispute; (3) such determination by the Accountants of the Net Book Value, as set forth in a notice delivered to both parties by the Accountants, will be binding and conclusive on the parties; and (4) the Buyer and the Seller shall each bear 50% of the fees and expenses of the Accountants for such determination.

(b) If the Net Book Value, as deemed mutually agreed by the parties or as determined by the Accountants, as aforesaid, equals or exceeds $4,300,000, the parties shall execute and deliver to the Escrow Agent a joint instruction to pay the entire Escrow Amount to the Seller. To the extent that the Net Book Value, as deemed mutually agreed by the parties or as determined by the Accountants, as aforesaid, exceeds $4,300,000 (the "Net Book Value Excess"), the Buyer shall be obligated to pay the Net Book Value Excess promptly to the Seller, together with interest on the amount of the Net Book Value Excess at the Buyer's floor plan financing rate (which currently is 90 basis points below prime rate) from time to time in effect (the "Interest Rate") from the Closing Date to the date of such payment. To the extent that the Net Book Value, as deemed mutually agreed by the parties or as determined by the Accountants, as aforesaid, is less than $4,300,000 (the "Net Book Value Shortfall"), the Seller shall be obligated to pay the amount of the Net Book Value Shortfall, up to the entire amount of the Escrow Amount, promptly to the Buyer, with any remaining balance of the Escrow Amount to be paid to the Seller. In furtherance of such obligation of the Seller, the parties shall execute and deliver to the Escrow Agent a joint instruction to pay such amount of the Net Book Value Shortfall to the Buyer. To the extent that the Net Book Value Shortfall exceeds the Escrow Amount, the Seller shall be obligated to pay the amount of such excess over the Escrow Amount promptly to the Buyer, together with interest on the amount of such excess over the Escrow Amount at the Interest Rate from the Closing Date to the date of such payment. Any interest earned on the Escrow Amount shall be paid to the Buyer or the Seller, as the case may be, in proportion to the respective principal amounts of the Escrow Amount paid to each of them. Any Net Book Value Excess shall be paid to the Seller 49% in cash and 51% in shares of Preferred Stock at the rate of one share of Preferred Stock for every $1,000 in value of such percentage of Net Book Value Excess. Interest thereon shall be paid in cash.

(c) It is intended that the Closing Balance Sheet shall include a reserve for uncollectibility of amounts payable to the Companies by Credit Acceptance Corporation and Auto Acceptance (collectively, the "Acceptance Receivables") as of the Closing Date. To the extent that actual collections by the Companies of the unreserved portion of the Acceptance Receivables during the 6 year period after the Closing Date shall exceed an amount equal to such unreserved portion plus interest thereon from the Closing Date to the date of collection of the respective Acceptance Receivables, the Buyer shall promptly notify the Seller thereof and pay the amount of such excess to the Seller. The Buyer may elect to defer payment of such excess on an annual basis, in which case the Buyer shall pay interest at the Interest Rate on the amount so deferred. To the extent that actual collections by the Companies of the unreserved portion of the Acceptance Receivables during the 6 year period after the Closing Date shall be less than such unreserved portion, the Buyer shall notify the Seller and the Seller shall promptly pay the

Buyer the shortfall in such unreserved portion together with interest thereon at the Interest Rate from the Closing Date to the date of payment. Any write-offs by the Buyer after the Closing Date of the Acceptance Receivables shall be applied first against such reserve and, to the extent such write-offs are applied against such reserve, the Buyer shall pay to the Seller an amount equal to any net tax benefit to the Buyer (computed based upon the Buyer's applicable tax rates) resulting from such write-off. Any payments by the Buyer under this Section 1.4(c) shall be made 49% in cash and 51% in shares of Preferred Stock at the rate of one share of Preferred Stock for each $1,000 in value of such payment percentage. The Seller shall have the right, upon prior notice to the Buyer and during normal business hours, to inspect the Buyer's books and records with respect to the collection of the Acceptance Receivables.

1.5 Surrender of Company Securities

(a) At the Closing, the Seller shall surrender to the Surviving Company the certificate or certificates, or other reasonably satisfactory evidence, representing Company Securities to be exchanged for the Merger Consideration pursuant to Section 1.2, duly endorsed to the Surviving Company (in the case of certificates), with all transfer taxes duly paid, where applicable. If such certificate or certificates or other evidence cannot, after a diligent search, be located, in lieu of such certificate or certificates or other evidence the Seller shall provide an affidavit of lost certificate and indemnity in a form reasonably satisfactory to the Buyer. Upon such surrender,

the Seller shall be entitled to the Merger Consideration, as more fully provided in Section 1.2 above. Until surrendered in accordance with Section 1.5, each such certificate or other evidence of the Company Securities shall be deemed for all purposes to evidence only the right to receive the Merger Consideration payable pursuant to Section 1.2 (subject to any taxes required to be withheld).

(b) The Company Securities, when surrendered to the Surviving Company pursuant to Section 1.5(a) above, shall be surrendered free and clear of all liens, pledges, encumbrances, claims, security interests, charges, voting trusts, voting agreements, other agreements, rights, options, warrants or restrictions or claims of any kind, nature or description (collectively, "Encumbrances").

1.6 Appraisal/Dissenters' Rights. It shall be a condition to the Buyer's obligations at the Closing that all Company Securities shall have been voted in favor of the Merger, such that no appraisal or dissenters rights under applicable law shall be available to the Seller.

1.7 Dealership Leases; Employment Agreement; Non-Competition Agreement.

(a) Dealership Leases. At the Closing, the Seller and/or his Affiliates (as hereinafter defined), as lessors, will enter into lease agreements (the "Dealership Leases") with the Buyer, as lessee, regarding the Leased Premises (as defined in Section 3.16(b) below) owned by them. The Dealership Leases: shall be for ten year terms with two 5-year renewal options in tenant; shall be "triple net" with aggregate total monthly lease payments of $56,500, subject to CPI adjustment upon completion of the fifth year of the initial lease term and again upon the

commencement of each renewal option period; shall contain options to purchase the respective Leased Premises at fair market value; and shall otherwise be substantially in the form of Exhibit E hereto. For purposes of this Agreement, the term "Affiliate" shall mean any entity directly or indirectly controlling, controlled by or under common control with the specified person, whether by stock ownership, agreement or otherwise, or any parent, child or sibling of such specified person and the concept of "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such person or entity, whether through the ownership of voting securities, by contract or otherwise.

(b) Employment Agreement. At the Closing, Frank McGough will enter into an employment agreement with the Buyer (the "Employment Agreement"). The Employment Agreement: shall be for a three year term; shall provide for a $25,000 annual salary, standard employee benefits (health care, etc.), the use of two demonstrator vehicles, payment of club dues of up to $500 per month and a $75,000 bonus upon closing of each dealership acquired by the Buyer or its Affiliates and first brought to the attention of the Buyer as an acquisition target; and shall otherwise be substantially in the form of Exhibit F hereto.

(c) Non-Competition Agreement. At the Closing, Frank McGough will enter into a non-competition agreement with the Buyer and the Surviving Company (the "Non-Competition Agreement"). The Non-Competition Agreement: shall be for a three year term; shall cover the Montgomery, Alabama Metropolitan Statistical Area (as compiled by the United States Office of Management and Budget), with the exception of Dothan, Alabama; and shall otherwise be substantially in the form of Exhibit G hereto.

1.8 Seller's Covenant to Close. The Seller further covenants and agrees to vote all of the Company Securities held by him in favor of the Merger, and otherwise to take all officer, director, shareholder or partner actions necessary to cause the Companies to adopt and approve, and to consummate, the Merger.

ARTICLE 2

Closing

The Closing of the Merger shall take place at the offices of Sirote & Permutt, P.C., One Commerce Street, Montgomery, Alabama, at 9:30 a.m., local time on the fifth (5th) Business Day, or such shorter period as the Buyer may choose, following the date the Buyer gives notice of the Closing to the Seller, but in no event later than March 31, 1998 (the "Closing Date Deadline"); provided, however, if as of March 31, 1998, the consents or approvals of all applicable automobile manufacturers and distributors contemplated by Section 7.3(d) hereof shall not have been obtained and/or the audited financial statements contemplated by Section 7.15 hereof shall not have been completed, the Closing Date Deadline shall be extended for an additional 60 days. The date upon which the Closing shall take place is hereinafter called the "Closing Date."

ARTICLE 3

Representations and Warranties of the Seller and the Companies

The Seller and the Companies, jointly and severally, hereby represent and warrant to the Buyer as follows:

3.1 Ownership of Company Securities. As of the Closing, the Seller will own of record and beneficially the Company Securities, free and clear of all Encumbrances.

3.2 Seller's Power and Authority; Consents and Approvals.

(a) The Seller has full capacity, right, power and authority to execute and deliver this Agreement and the other agreements, documents and instruments to be executed and delivered by the Seller in connection herewith, to consummate the transactions contemplated hereby and thereby and to perform its obligations hereunder and thereunder.

(b) Except as set forth on Schedule 3.2(b) hereto, no authorization, approval or consent of, or notice to or filing or registration with, any governmental agency or body, or any other third party, is required in connection with the execution and delivery by the Seller of this Agreement and the other agreements, documents and instruments to be executed and delivered by the Seller in connection therewith, the consummation of the transactions contemplated hereby and thereby and the performance by the Seller of the Seller's obligations hereunder and thereunder.

3.3 Execution and Enforceability. This Agreement and the other agreements, documents and instruments to be executed by the Seller in connection herewith, and the consummation by the Seller of the transactions contemplated hereby and thereby, have been duly authorized, executed and delivered by the Seller and constitute, and the other agreements, documents and instruments contemplated hereby, when executed and delivered by the Seller, shall constitute, the legal, valid and binding obligations of the Seller, enforceable against the Seller in accordance with their respective terms, except to the extent that enforceability may be limited by bankruptcy, insolvency and other similar laws affecting the enforcement of creditors' rights generally or by general equitable principles.

3.4 Litigation Regarding Seller. There are no actions, suits, claims, investigations or legal, administrative or arbitration proceedings pending or, to the Seller's knowledge, threatened or probable of assertion, against the Seller relating to the Company Securities, this Agreement or the transactions contemplated hereby before any court, governmental or administrative agency or other body. The Seller knows of no basis for the institution of any such suit or proceeding. No judgment, order, writ, injunction, decree or other similar command of any court or governmental or administrative agency or other body has been entered against or served upon the Seller relating to the Company Securities, this Agreement or the transactions contemplated hereby.

3.5 Interest in Competitors and Related Entities; Certain Transactions.

(a) Except as set forth on Schedule 3.5 hereto, neither the Seller nor any Affiliate of the Seller (i) has any direct or indirect interest in any person or entity engaged or involved in any business which is competitive with any business of the Companies, (ii) has any direct or indirect interest in any person or entity which is a lessor of assets or properties to, material supplier of, or provider of services to, either of the Companies, or (iii) has a beneficial interest in any contract or agreement to which either of the Companies is a party; provided, however, that the foregoing representation and warranty shall not apply to any person or entity, or any interest or agreement with any person or entity, which is a publicly held corporation in which the Seller individually owns less than 3% of the issued and outstanding voting stock.

(b) Except as set forth in Schedule 3.5 hereto, there are no transactions between either of the Companies and the Seller (including the Seller's Affiliates), or any of the directors, officers or salaried employees of either of the Companies, or the family members or Affiliates of any of the above (other than for services as employees, officers and directors), including, without limitation, any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from, the Seller, or any such officer, director or salaried employee, family member, or Affiliate or any corporation, partnership, trust or other entity in which such family member, Affiliate, officer, director or employee has a substantial interest or is a shareholder, officer, director, trustee or partner.

3.6 Seller Not Foreign Person. The Seller is a "United States person" as that term is defined in Section 7701(a)(30) of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder.

3.7 Organization; Good Standing; Qualifications; and Power.

(a) The Corporation is a corporation duly organized, validly existing and in good standing under the laws of the State of Alabama and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now being conducted. The Partnership is a limited partnership duly organized, validly existing and in good standing under the laws of the State of Alabama and has all requisite partnership power and authority to own, lease and operate its properties and to carry on its business as now being conducted. Each of the Companies is qualified to do business as a foreign corporation or partnership, as the case may be, and is in good standing in each of the jurisdictions listed on Schedule 3.7 hereto, which are the only jurisdictions where the nature of its business and assets requires such qualification.

(b) This Agreement and the other agreements, documents and instruments to be executed by the Companies in connection herewith, and the consummation by each of the Companies of the transactions contemplated hereby and thereby, have been duly authorized by

all necessary corporate or partnership, as the case may be, action of the Companies including, without limitation, all necessary shareholder or partner, as the case may be, action and have been duly executed and delivered by each of the Companies and constitute, and the other agreements, documents and instruments contemplated hereby, when executed and delivered by each of the Companies, shall constitute, the legal, valid and binding obligations of the Companies, enforceable against the Companies in accordance with their respective terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, and other similar laws affecting the enforcement of creditors' rights generally, or by general equitable principles.

3.8 Capitalization. The authorized capital stock of the Corporation is as set forth in Schedule 3.8 hereto, of which the number of shares indicated on Schedule 3.8 hereto are issued and outstanding and constitute the Shares. All of the Shares are duly authorized, validly issued, fully paid and non-assessable and are held by the Seller. All of the Partnership Interests have been duly authorized and are validly issued and are held by the persons indicated on Schedule 3.8 hereto. All capital contributions required to be made with respect to the Partnership Interests have been made and no requirement for a capital contribution with respect thereto remains outstanding or unperformed. Except as set forth on Schedule 3.8 hereto, there are no preemptive rights, whether at law or otherwise, to purchase any of the securities of the Companies and there are no outstanding options, warrants, "phantom" stock plans, subscriptions, agreements, plans or other commitments pursuant to which either of the Companies is or may become obligated to sell or issue any shares of its debt or equity securities, and there are no outstanding securities convertible into any other debt or equity security of the Companies.

3.9 Subsidiaries and Investments. The Companies do not own or maintain, directly or indirectly, any capital stock of or other equity or ownership or proprietary interest in any other corporation, partnership, association, trust, joint venture or other entity and do not have any commitment to contribute to the capital of, make loans to, or share in the losses of, any such entity.

3.10 No Violation; Conflicts. Except as set forth on Schedule 3.10 hereto, the execution and delivery by the Companies of this Agreement and the other agreements, documents and instruments to be executed and delivered by the Companies in connection herewith, the consummation by the Companies of the transactions contemplated hereby and thereby and the performance by the Companies of their respective obligations hereunder and thereunder do not and will not (a) conflict with or violate any of the terms of the Articles of Incorporation or Bylaws of the Corporation or the Agreement of Limited Partnership of the Partnership, (b) violate or conflict with any law, ordinance, rule or regulation, or any judgment, order, writ, injunction, decree or similar command of any court, administrative or governmental agency or other body, applicable to either of the Companies, (c) violate or conflict with the terms of, or result in the acceleration of, any indebtedness or obligation of either of the Companies under, or violate or conflict with or result in a breach of, or constitute a default under, any indenture, mortgage, deed of trust, agreement or instrument to which either of the Companies is a party or by which either of the Companies or any of its assets or properties is bound or affected, (d) result in the creation or imposition of any Encumbrance of any nature upon any of

the assets or properties of either of the Companies, (e) constitute an event permitting termination of any agreement, license or other right of either of the Companies, or (f) require any authorization, approval or consent of, or any notice to or filing or registration with, any governmental agency or body, or any other third party, applicable to either of the Companies or any of its

properties or assets.

3.11 Title to Assets; Related Matters. Each of the Companies has good and valid title to all assets, rights, interests and other properties, real, personal and mixed, tangible and intangible, owned by it, other than the Distributed Assets (collectively, the "Assets"), free and clear of all Encumbrances, except those specified on Schedule 3.11 and liens for taxes not yet due and payable. The Assets (a) include all properties and assets (real, personal and mixed, tangible and intangible) owned by the Companies; (b) do not include (i) any contracts for future services, prepaid items or deferred charges the full value or benefit of which will not be usable by or transferable to the Buyer, or (ii) any goodwill, organizational expense or other similar intangible asset.

3.12 Possession. The tangible assets included within the Assets are in the possession or control of the Companies and no other person or entity has a right to possession or claims possession of all or any part of such Assets, except the rights of lessors of Leased Equipment and Leased Premises (each as defined in Section 3.16 hereof) under their respective contracts and leases.

3.13 Financial Statements.

(a) The Seller has delivered to the Buyer prior to the date hereof:

(1) the consolidated audited tax basis balance sheets of the Companies as of December 31, 1996 and the related audited statements of income, owners' equity and changes in cash flows for the fiscal years then ended (including the notes thereto and any other information included therein), accompanied, in each case, by the opinion of Cherry, Bekaert & Holland, independent certified public accountants of the Companies (collectively, the "Annual Financial Statements"), together with the consent of such auditors to the use of their reports contained in the Annual Financial Statements by the Buyer (or any Affiliate of the Buyer) in any filing of such Annual Financial Statements with any governmental entity; and

(2) the consolidated unaudited balance sheet of the Companies as of December 31, 1997 and the related unaudited statements of income and owners' equity for the 12 month period then ended (collectively, the "Interim Financial Statements"); (the Annual Financial Statements and the Interim Financial Statements are hereinafter collectively referred to as the "Financial Statements").

(b) The Financial Statements (i) are in accordance with the books and records of the Companies, which books and records are true, correct and complete in all material respects, (ii) fully and fairly present the financial position of the Companies as of the dates

indicated and the results of operation, owners' equity and changes in cash flows of the Companies for the periods indicated, and (iii) except as set forth in Schedule 3.13, have been prepared in accordance with generally accepted accounting principles consistently applied ("GAAP").

3.14 Accounts Receivable. All accounts receivable of the Companies are collectible at the aggregate recorded amounts thereof, subject to the reserve for doubtful accounts maintained by the Companies in the ordinary course of business, and are not subject to any known counterclaims or setoffs. An adequate reserve for doubtful accounts for the Companies has been established and such reserve is consistent with both the operation of the Companies in the ordinary course of business and past practice.

3.15 Inventories. All inventories of the Companies consist of items of a quality and quantity usable and saleable in the ordinary course of business of the Companies, and the levels of inventories are consistent with the levels maintained by the Companies in the ordinary course consistent with past practice and the Companies' obligations under its agreements with all applicable vehicle manufacturers and distributors. The values at which such inventories are carried are based on the LIFO method and are stated in accordance with generally accepted accounting principles consistently applied by the Companies at the lower of historic cost or market. An adequate reserve has been established by the Companies for damaged, spoiled, obsolete, defective, or slow-moving goods (excluding returnable parts to the extent they qualify for return under the relevant manufacturer's parts return plans or policies) and such reserve is consistent with both the operation of the Companies in the ordinary course of business and past practice.

3.16 Real Property; Machinery and Equipment.

(a) Owned Real Property. Schedule 3.16(a) hereto contains a complete list and brief description of all real property owned by the Companies and a summary description of the improvements (including buildings and other structures) located thereon (collectively, the "Owned Real Property"). True and correct copies of the deeds with respect to the Owned Real Property have been

delivered to the Buyer. The Companies are the sole owners of the Owned Real Property and hold the Owned Real Property in fee simple or its equivalent under local law, free and clear of all building use restrictions, exceptions, variances, limitations or other title defects of any nature whatsoever, except those set forth in Schedule 3.16(a) hereto (the "Permitted Encumbrances"). There are no leases, written or oral, affecting all or any part of the Owned Real Property. The only real property (other than the Leased Premises) used by the Companies in connection with the Companies' business is the Owned Real Property. To the knowledge of the Seller, the Owned Real Property is structurally sound and in good operating condition, maintenance and repair in accordance with customary industry standards, taking into account the age thereof.

(b) Leased Premises. Schedule 3.16(b) hereto contains a complete list and description (including buildings and other structures thereon and the name of the owner thereof)

of all real property which is used by the Companies in their business and operations (herein referred to as the "Leased Premises" and, together with the Owned Real Property, sometimes collectively referred to as the "Real Property"). True, correct and complete copies of all leases of all Leased Premises (the "Leases") have been delivered to the Buyer. To the knowledge of the Seller, the Leased Premises are in good physical condition, normal wear and tear excepted, and, with respect to each Lease, no event or condition currently exists which would give rise to a material repair or restoration obligation if such Lease were to terminate. To the knowledge of the Seller, the improvements and building systems which comprise a part of the Leased Premises as to which the Companies are responsible for the maintenance and repair thereof are in good condition, maintenance and repair, normal wear and tear excepted. There is no person or entity other than the Companies in or entitled to possession of the Leased Premises.

(c) Easements, Etc. The Real Property enjoys all easements and rights of way over the property of others necessary for the operation of the Companies' business. No portion of the Real Property has been condemned or otherwise taken by any public authority, and the Seller has no knowledge of any pending or threatened condemnation or taking thereof. None of the buildings or improvements on the Real Property encroaches on any adjoining property or on any easements or rights of way. The Seller has no knowledge of any event or condition which currently exists which would create a legal or other impediment to the use of the Real Property as currently used, or would increase the additional charges or other sums payable by the Companies under any leases of the Leased Premises (including, without limitation, any pending tax reassessment or other special assessment affecting the Real Property). There has been no work performed, services rendered or materials furnished in connection with repairs, improvements, construction, alteration, demolition or similar activities with respect to the Owned Real Property or, to the knowledge of the Seller, the Leased Premises, for at least ninety (90) days before the date hereof; there are no outstanding claims or persons entitled to any claim or right to a claim for a mechanic's or materialman's lien against the Owned Real Property or, to the knowledge of Seller, the Leased Premises.

(d) Owned Equipment. Schedule 3.16(d) hereto sets forth a list of all material machinery, equipment, tools, motor vehicles, furniture and fixtures owned by the Companies (collectively, the "Owned Equipment").

(e) Leased Equipment. Schedule 3.16(e) hereto contains a list of all leases or other agreements, whether written or oral, under which either of the Companies is lessee of or holds or operates any items of machinery, equipment, tools, motor vehicles, furniture and fixtures or other property (other than real property) owned by any third party (collectively, the "Leased Equipment").

(f) Maintenance of Equipment. To the knowledge of the Seller, the Owned Equipment and the Leased Equipment are in good operating condition, maintenance and repair in accordance with industry standards taking into account the age thereof and ordinary wear and tear excepted.

3.17 Patents; Trademarks; Trade Names; Copyrights; Licenses, Etc.

(a) Except as set forth on Schedule 3.17 hereto, there are no patents, trademarks, trade names, service marks, service names and copyrights, and there are no applications therefor or licenses thereof, inventions, trade secrets, computer software, logos, slogans, proprietary processes and formulae and all other proprietary information, know-how and intellectual property rights, whether patentable or unpatentable, that are owned or leased by the Companies or used in the conduct of the Companies' business. Neither of the Companies is a party to, or pays a royalty to anyone under, any license or similar agreement. There is no existing claim, or, to the knowledge of the Seller, any basis for any claim, against either of the Companies that any of its operations, activities or products infringe the patents, trademarks, trade

names, copyrights or other property rights of others or that either of the Companies is wrongfully or otherwise using the property rights of others.

(b) The Companies have the right to use their respective corporate and partnership names and the other names listed on Schedule 3.17 hereto in the State of Alabama and, to the knowledge of the Seller, no person uses, or has the right to use, such name or any derivation thereof in connection with the manufacture, sale, marketing or distribution of products or services commonly associated with an automobile dealership.

3.18 Certain Liabilities.

(a) All accounts payable by the Companies to third parties as of the date hereof arose in the ordinary course of business and none are delinquent or past-due.

(b) Schedule 3.18 hereto sets forth a list of all indebtedness of the Companies, other than accounts payable, as of the close of business on the day preceding the date hereof, including, without limitation, money borrowed, indebtedness of the Corporation owed to stockholders or partners and former stockholders or partners, the deferred purchase price of assets, letters of credit and capitalized leases, indicating, in each case, the name or names of the lender, the date of maturity, the rate of interest, any prepayment penalties or premiums and the unpaid principal amount of such indebtedness as of such date.

3.19 No Undisclosed Liabilities. Neither of the Companies has any material liabilities or obligations of any nature, known or unknown, fixed or contingent, matured or unmatured, other than those (a) reflected in the Financial Statements, (b) incurred in the ordinary course of business since the date of the Financial Statements and of the type and kind reflected in the Financial Statements, or (c) disclosed specifically on Schedule 3.19 hereto.

3.20 Absence of Changes. Since December 31, 1996, the business of the Companies has been operated in the ordinary course, consistent with past practices and, except as set forth on Schedule 3.20 hereto, there has not been incurred, nor has there occurred:

(a) Any damage, destruction or loss (whether or not covered by insurance), adversely affecting the business or assets of either of the Companies in excess of $50,000; (b) Any strikes, work stoppages or other labor disputes involving the employees of either of the Companies; (c) Any sale, transfer, pledge or other disposition of any of the Assets of either of the Companies having an aggregate book value of $50,000 or more (except sales of vehicles and parts inventory in the ordinary course of business); (d) Any amendment, termination, waiver or cancellation of any Material Agreement (as defined in Section 3.29 hereof) or any termination, amendment, waiver or cancellation of any material right or claim of either of the Companies under any Material Agreement (except in each case in the ordinary course of business and consistent with past practice); (e) Any (1) general uniform increase in the compensation of the employees of either of the Companies (including, without limitation, any increase pursuant to any bonus, pension, profit-sharing, deferred compensation or other plan or commitment), (2) increase in any such compensation payable to any individual officer, director, consultant or agent thereof, or (3) loan or commitment therefor made by either of the Companies to any officer, director, stockholder, partner, employee, consultant or agent of either of the Companies; (f) Any change in the accounting methods, procedures or practices followed by either of the Companies or any change in depreciation or amortization policies or rates theretofore adopted by either of the Companies; (g) Any material change in policies, operations or practices of either of the Companies with respect to business operations followed by either of the Companies, including, without limitation, with respect to selling methods, returns, discounts or other terms of sale, or with respect to the policies, operations or practices of either of the Companies concerning the employees of either of the Companies; (h) Any capital appropriation or expenditure or commitment therefor on behalf of either of the Companies in excess of $50,000 individually or $100,000 in the aggregate; (i) Any write-down or write-up of the value of any inventory or equipment of either of the Companies or any increase in inventory levels in excess of historical levels for comparable periods; (j) Any account receivable in excess of $50,000 or note receivable in excess of $50,000 owing to either of the Companies which (1) has been written off as uncollectible, in whole or in part, (2) has had asserted against it any claim, refusal or right of setoff, or (3) the account or note debtor has refused to, or threatened not to, pay for any reason, or such account or note debtor has become insolvent or bankrupt; (k) Any other change in the condition (financial or otherwise), business operations, assets, earnings, business or prospects of either of the Companies which, in the judgment of the Seller, has, or could reasonably be expected to have, a material adverse effect on the assets, business or operations of either of the Companies; or (l) Any agreement, whether in writing or otherwise, for either of the Companies to take any of the actions enumerated in this Section 3.20.

3.21 Tax Matters.

(a) All federal, state and local tax returns and tax reports required as of the date hereof to be filed by the Companies for taxable periods ending prior to the date hereof have been duly and timely filed prior to the due date thereof (as such due date may have been lawfully extended) by the Companies with the appropriate governmental agencies, and all such returns and reports are true, correct and complete.

(b) All federal, state and local income, profits, franchise, sales, use, occupation, property, excise, payroll, withholding, employment, estimated and other taxes of any nature, including interest, penalties and other additions to such taxes ("Taxes"), payable by, or due from, the Companies for all periods prior to the date hereof have been fully paid or adequately reserved for by the respective Companies or, with respect to Taxes required to be accrued, the respective Companies have properly accrued or will properly accrue such Taxes in the ordinary course of business consistent with past practice of the respective Companies. The Corporation has made a valid election to be treated as an "S Corporation" for federal income tax purposes which election has been continuously in effect since the date listed on Schedule 3.21 hereto.

(c) The federal income tax returns of the Companies have not been examined by the Internal Revenue Service ("IRS") for the years indicated on Schedule 3.21 hereto. Except as set forth on Schedule 3.21 hereto, neither of the Companies has received any notice of any assessed or proposed claim or deficiency against it in respect of, or of any present dispute between it and any governmental agency concerning, any Taxes. Except as set forth on Schedule 3.21 hereto, no examination or audit of any tax return or report of either of the Companies by any applicable taxing authority is currently in progress and there are no outstanding agreements or waivers extending the statutory period of limitation applicable to any tax return or report of either of the Companies. Copies of all federal, state and local tax returns and reports required to be filed by the Companies for the years ended 1996, 1995, 1994, 1993 and 1992, together with all schedules and attachments thereto, have been delivered by the Seller to the Buyer.

(d) Neither of the Companies is now, and neither of the Companies has ever been, a member of a consolidated group for federal income tax purposes or a consolidated, combined or similar group for state tax purposes. No consent under Code Section 341 has been made affecting either of the Companies. Neither of the Companies is a party to any agreement or arrangement that would result in the payment of any "excess parachute payments" under Code Section 280G. Neither of the Companies is required to make any adjustment under Code Section 481(a). No power of attorney relating to Taxes is currently in effect affecting either of the Companies.

3.22 Compliance with Laws, Etc. The Companies have conducted their operations and businesses in compliance in all material respects with, and all of the Assets (including all of the Real Property) comply in all material respects with, (i) all applicable laws, rules, regulations and codes (including, without limitation, any laws, rules, regulations and codes relating to anticompetitive practices, contracts, discrimination, employee benefits, employment, health, safety, fire, building and zoning, but excluding Environmental Laws which are the subject of Section 3.36 hereof) and (ii) all applicable orders, rules, writs, judgments, injunctions, decrees and ordinances. The Companies have not received any notification of any asserted present or past failure by them to comply with such laws, rules or regulations, or such orders, writs, judgments, injunctions, decrees or ordinances. Set forth on Schedule 3.22 hereto are all orders, writs, judgments, injunctions, decrees and other awards of any court or governmental agency applicable to the Companies or their respective businesses or operations. The Seller has

delivered to the Buyer copies of all reports, if any, of the Companies required to be submitted under the Federal Occupational Safety and Health Act of 1970, as amended, and under all other applicable health and safety laws and regulations. The deficiencies, if any, noted on such reports have been corrected by the Companies and any deficiencies noted by inspection through the Closing Date will have been corrected by the Companies by the Closing Date.

3.23 Litigation Regarding the Companies. Except as set forth on Schedule 3.23 hereto, there are no actions, suits, claims, investigations or legal, administrative or arbitration proceedings pending, or, to the Seller's knowledge, threatened or probable of assertion, against the Companies or relating to their assets, businesses or operations or the transactions contemplated by this Agreement, and the Seller does not know of any basis for the institution of any such suit or proceeding. No order, writ, judgment, injunction, decree or similar command of any court or any governmental or administrative agency or other body has been entered against or served upon either of the Companies relating to the Companies or their respective assets,

businesses or operations.

3.24 Permits, Etc. Set forth on Schedule 3.24 hereto is a list of all governmental licenses, permits, approvals, certificates of inspection and other authorizations, filings and registrations that are necessary for the Companies to own and operate their businesses as presently conducted (collectively, the "Permits"). All such Permits have been duly and lawfully secured or made by the Companies and are in full force and effect. There is no proceeding pending, or, to the Seller's knowledge, threatened or probable of assertion, to revoke or limit any such Permit. None of the transactions contemplated by this Agreement will terminate, violate or limit the effectiveness of any such Permit.

3.25 Employees; Labor Relations. As of December 31, 1997, the Companies employed the number of employees stated on Schedule 3.26 hereto. As of the date hereof, (a) neither of the Companies is delinquent in the payment (i) to or on behalf of its past or present employees of any wages, salaries, commissions, bonuses, benefit plan contributions or other compensation for all periods prior to the date hereof, or (ii) of any amount which is due and payable to any state or state fund pursuant to any workers' compensation statute, rule or regulation or any amount which is due and payable to any workers' compensation claimant; (b) there are no collective bargaining agreements currently in effect between either of the Companies and labor unions or organizations representing any employees of either of the Companies; (c) no collective bargaining agreement is currently being negotiated by either of the Companies; (d) to the knowledge of the Seller, there are no union organizational drives in progress and there has been no formal or informal request to either of the Companies for collective bargaining or for an employee election from any union or from the National Labor Relations Board; and (e) no dispute exists between either of the Companies and any of its sales representatives or, to the knowledge of the Seller, between any such sales representatives with respect to territory, commissions, products or any other terms of their representation.

3.26 Compensation. Schedule 3.26 contains a statement of the total number of employees of the Companies as of December 31, 1997, as well as a schedule of all employees

(including sales representatives) and consultants of the Companies whose individual cash compensation for the year ended December 31, 1997, or projected for the year ended December 31 , 1998, is in excess of $100,000, together with the amount of total compensation paid to each such person for the twelve month period ended December 31, 1997 and the current aggregate base salary or hourly rate (including any bonus or commission) for each such person.

3.27 Employee Benefits.

(a) The Seller has listed on Schedule 3.27 and has delivered to the Buyer true and complete copies of all Employee Plans (as defined below) and related documents, established, maintained or contributed to by the Companies (which shall include for this purpose and for the purpose of all of the representations in this Section 3.27, the Seller and all employers, whether or not incorporated, that are treated together with the Companies as a single employer with the meaning of Section 414 of the Code). The term "Employee Plan" shall include all plans described in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and also shall include, without limitation, any deferred compensation, stock, employee or retiree pension benefit, welfare benefit or other similar fringe or employee benefit plan, program, policy, contract or arrangement, written or oral, qualified or nonqualified, funded or unfunded, foreign or domestic, covering employees or former employees of the Companies and maintained or contributed to by the Companies.

(b) Where applicable, each Employee Plan (i) has been administered in material compliance with the terms of such Employee Plan and the requirements of ERISA and the Code; and (ii) is in material compliance with the reporting and disclosure requirements of ERISA and the Code. The Companies do not maintain or contribute to, and have never maintained or contributed to, an Employee Plan subject to Title IV of ERISA or a "multiemployer plan." There are no facts relating to any Employee Plan that (i) have resulted in a "prohibited transaction" of a material nature or have resulted or is reasonably likely to result in the imposition of a material excise tax, penalty or liability pursuant to Section 4975 of the Code, (ii) have resulted in a material breach of fiduciary duty or violation of Part 4 of Title I of ERISA, or (iii) have resulted or could result in any material liability (whether or not asserted as of the date hereof) of either of the Companies or any ERISA affiliate pursuant to Section 412 of the Code arising under or related to any event, act or omission occurring on or prior to the date hereof. Each Employee Plan that is intended to qualify under Section 401(a) or to be exempt under Section 501(c)(g) of the Code is so qualified or exempt as of the date hereof in each case as such Employee Plan has received favorable determination letters from the Internal Revenue Service with respect thereto. To the knowledge of the Seller, the amendments to and operation of any Employee Plan subsequent to the issuance of such determination letters do not adversely affect the qualified status of any

such Employee Plan. No Employee Plan has an "accumulated funding deficiency" as of the date hereof, whether or not waived, and no waiver has been applied for. The Companies have made no promises or incurred any liability under any Employee Plan or otherwise to provide health or other welfare benefits to former employees of the Companies, except as specifically required by law. There are no pending or, to the best knowledge of the Seller, threatened claims (other than routine claims for benefit) or lawsuits with respect to any of

Companies's Employee Plans. As used in this Section 3.27, all technical terms enclosed in quotation marks shall have the meaning set forth in ERISA.

3.28 Powers of Attorney. There are no persons, firms, associations, corporations or business organizations or entities holding general or special powers of attorney from either of the Companies.

3.29 Material Agreements.

(a) List of Material Agreements. Set forth on Schedule 3.29(a) hereto is a list or, where indicated, a brief description of all contracts, agreements, documents, instruments, guarantees, plans, understandings or arrangements, written or oral, which are material to the Companies or their respective businesses or assets (collectively, the "Material Agreements"). True copies of all written Material Agreements and written summaries of all oral Material Agreements described or required to be described on Schedule 3.29(a) have been furnished to the Buyer.

(b) Performance, Defaults, Enforceability. Each of the Companies has in all material respects performed all of its obligations required to be performed by it to the date hereof, and is not in default or alleged to be in default in any material respect, under any Material Agreement, and there exists no event, condition or occurrence which, after notice or lapse of time or both, would constitute such a default. To the knowledge of the Seller, no other party to any Material Agreement is in default in any respect of any of its obligations thereunder. Each of the Material Agreements is valid and in full force and effect and enforceable against the parties thereto in accordance with their respective terms, and, except as set forth in Schedule 3.29(b) hereto, the consummation of the transactions contemplated by this Agreement will not (i) require the consent of any party thereto or (ii) constitute an event permitting termination thereof.

3.30 Brokers' or Finders' Fees, Etc. No agent, broker, investment banker, person or firm acting on behalf of either of the Companies or the Seller or any person, firm or corporation affiliated with any of the Seller or under their authority is or will be entitled to any brokers' or finders' fee or any other commission or similar fee directly or indirectly from any of the parties hereto in connection with the Merger contemplated hereby, other than any such fee or commission the entire cost of which will be borne by the Seller.

3.31 Bank Accounts, Credit Cards, Safe Deposit Boxes and Cellular Telephones. Schedule 3.31 hereto lists all bank accounts, credit cards and safe deposit boxes in the name of, or controlled by, either of the Companies, and all cellular telephones provided and/or paid for by either of the Companies, and details about the persons having access to or authority over such accounts, credit cards, safe deposit boxes and cellular telephones.

3.32 Insurance.

(a) Schedule 3.32(a) hereto contains a list of all policies of liability, theft, fidelity, life, fire, product liability, workmen's compensation, health and any other insurance and bonds maintained by, or on behalf of, the Companies on their respective properties, operations, inventories, assets, businesses or personnel (specifying the insurer, amount of coverage, type of insurance, policy number and any pending claims in excess of $5,000 thereunder). Each such insurance policy identified therein is and shall remain in full force and effect on and as of the Closing Date and neither of the Companies is in default with respect to any provision contained in any such insurance policy and has not failed to give any notice or present any claim under any such insurance policy in a due and timely fashion. The insurance maintained by, or on behalf of, the Companies is adequate in accordance with the standards of business of comparable size in the industry in which the Companies operate and no notice of cancellation or termination has been received with respect to any such policy. Neither of the Companies has, during the last three (3) fiscal years, been denied or had revoked or rescinded any policy of insurance.

(b) Set forth on Schedule 3.32(b) hereto is a summary of information pertaining to material property damage and personal injury claims in excess of $5,000 against either of the Companies during the past five (5) years, all of which are fully satisfied or are being defended by the insurance carrier and

involve no exposure to the Companies.

3.33 Warranties. Set forth on Schedule 3.33 hereto are descriptions or copies of the forms of all express warranties and disclaimers of warranty made by the Companies (separate and distinct from any applicable manufacturers', suppliers' or other third-parties' warranties or disclaimers of warranties) during the past five (5) years to customers or users of the vehicles, parts, products or services of the Companies. Except as set forth on Schedule 3.33, there have been no breach of warranty or breach of representation claims against either of the Companies during the past five (5) years which have resulted in any cost, expenditure or exposure to either of the Companies of more than $50,000 individually or in the aggregate.

3.34 Directors and Officers. Set forth on Schedule 3.34 hereto is a true and correct list of the names and titles of each director and officer of the Companies.

3.35 Suppliers and Customers. The Companies are not required to provide bonding or any other security arrangements in connection with any transactions with any of their respective customers and suppliers. To the knowledge of the Seller, no such supplier, customer or creditor intends or has threatened, or reasonably could be expected, to terminate or modify any of its relationships with either of the Companies.

3.36 Environmental Matters.

(a) For purposes of this Section 3.36, the following terms shall have the following meaning: (i) "Environmental Law" means all present and future federal, state and

local laws, statutes, regulations, rules, ordinances and common law, and all judgments, decrees, orders, agreements, or permits, issued, promulgated, approved or entered thereunder by any government authority relating to pollution, Hazardous Materials, worker safety or protection of human health or the environment. (ii) "Hazardous Materials" means any waste, pollutant, chemical, hazardous material, hazardous substance, toxic substance, hazardous waste, special waste, solid waste, petroleum or petroleum-derived substance or waste (regardless of specific gravity), or any constituent or decomposition product of any such pollutant, material, substance or waste, including, but not limited to, any hazardous substance or constituent contained within any waste and any other pollutant, material, substance or waste regulated under or as defined by any Environmental Law.

(b) The Companies have obtained all permits, licenses and other authorizations or approvals required under Environmental Laws for the conduct and operation of the respective Assets and the businesses of the Companies ("Environmental Permits"). All such Environmental Permits are in good standing, the Companies are and have been in compliance with the terms and conditions of all such Environmental Permits, and no appeal or any other action is pending or threatened to revoke any such Environmental Permit.

(c) Each of the Companies and its business, operations and assets are and have been in compliance with all Environmental Laws.

(d) Neither of the Companies nor the Seller has received any written or oral order, notice, complaint, request for information, claim, demand or other communication from any government authority or other person, whether based in contract, tort, implied or express warranty, strict liability, or any other common law theory, or any criminal or civil statute, arising from or with respect to (i) the presence, release or threatened release of any Hazardous Material or any other environmental condition on, in or under the Real Property or any other property formerly owned, used or leased by the Companies, (ii) any other circumstances forming the basis of any actual or alleged violation by either of the Companies or the Seller of any Environmental Law or any liability of either of the Companies or the Seller under any Environmental Law, (iii) any remedial or removal action required to be taken by either of the Companies or the Seller under any Environmental Law, or (iv) any harm, injury or damage to real or personal property, natural resources, the environment or any person alleged to have resulted from the foregoing, nor is the Seller aware of any facts which might reasonably give rise to such notice or communication. Neither of the Companies nor the Seller has entered into any agreements concerning any removal or remediation of Hazardous Materials.

(e) No lawsuits, claims, civil actions, criminal actions, administrative proceedings, investigations or enforcement or other actions are pending or threatened under any Environmental Law with respect to the Companies, the Seller or the Real Property.

(f) None of the Companies has released, discharged, spilled or disposed of Hazardous Materials onto the Real Property and, to the knowledge of the Seller, no Hazardous Materials are or have been released, discharged, spilled or disposed of onto, or migrated onto,

the Real Property or any other property previously owned, operated or leased by either of the Companies, except for spills of petroleum products in the ordinary course of business which spills do not violate any Environmental Law and, alone or in conjunction with other such spills, do not under applicable law require cleanup or remediation. To the knowledge of the Seller, no environmental condition exists (including, without limitation, the presence, release, threatened release or disposal of Hazardous Materials) related to the Real Property, to any property previously owned, operated or leased by either of the Companies, or to the Companies' past or present operations, which would constitute a violation of any Environmental Law or otherwise give rise to costs, liabilities or obligations under any Environmental Law.

(g) Neither of the Companies or the Seller, nor, to the knowledge of the Seller, any of their respective predecessors in interest, has transported or disposed of, or arranged for the transportation or disposal of, any Hazardous Materials to any location (i) which is listed on the National Priorities List, the CERCLIS list under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or any similar federal, state or local list, (ii) which is the subject of any federal, state or local enforcement action or other investigation, or (iii) about which either of the Companies or the Seller has received or has reason to expect to receive a potentially responsible party notice or other notice under any Environmental Law.

(h) To the knowledge of the Seller, no environmental lien has attached or is threatened to be attached to the Real Property.

(i) To the knowledge of the Seller, no employee of either of the Companies in the course of his or her employment with either of the Companies has been exposed to any Hazardous Materials or other substance, generated, produced or used by either of the Companies which could give rise to any claim (whether or not such claim has been asserted) against either of the Companies.

(j) Except as set forth on Schedule 3.36 hereto, the Real Property does not contain any: (i) septic tanks into which process wastewater or any Hazardous Materials have been disposed; (ii) asbestos; (iii) polychlorinated biphenyls (PCBs); (iv) underground injection or monitoring wells; or (v) underground storage tanks.

(k) Except as set forth on Schedule 3.36, there have been no environmental studies or reports made relating to the Real Property or any other property or facility previously owned, operated or leased by either of the Companies.

(l) Neither of the Companies has agreed to assume, defend, undertake, guarantee, or provide indemnification for, any liability, including, without limitation, any obligation for corrective or remedial action, of any other person under any Environmental Law for environmental matters or conditions.

3.37 Business Generally. The Seller is not aware of the existence of any conditions,

including, without limitation, any actual or potential competitive factors in the markets in which the Companies participate, which have not been disclosed in writing to the Buyer and which could reasonably be expected to have an adverse effect on the business and operations of either of the Companies, other than general business and economic conditions generally affecting the industry and markets in which the Companies participate.

3.38 Misstatements and Omissions. No representation and warranty by the Seller or the Companies contained in this Agreement, and no statement contained in any certificate or Schedule furnished or to be furnished by the Seller or the Companies to the Buyer in connection with this Agreement, contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make such representation and warranty or such statement not misleading.

ARTICLE 4

Representations and Warranties of the Buyer

The Buyer hereby represents and warrants to the Seller and the Companies as follows:

4.1 Organization and Good Standing. The Buyer is a corporation duly organized and validly existing and in good standing under the laws of the state of Delaware.

4.2 Buyer's Power and Authority; Consents and Approvals.

(a) The Buyer has all requisite corporate power and authority to execute and deliver this Agreement and the other agreements, documents and instruments to be executed and delivered by it in connection herewith, to consummate the transactions contemplated hereby and thereby and to perform its obligations hereunder and thereunder.

(b) Except as set forth in Schedule 4.2(b) hereto, no authorization, approval or consent of, or notice to or filing or registration with, any governmental agency or body, or any other third party, is required in connection with the execution and delivery by the Buyer of this Agreement and the other agreements, documents and instruments to be executed by the Buyer and the Sub in connection herewith, the consummation by the Buyer and the Sub of the transactions contemplated hereby or thereby or the performance by the Buyer and the Sub of their respective obligations hereunder and thereunder.

4.3 Execution and Enforceability. This Agreement and the other agreements, documents and instruments to be executed and delivered by the Buyer in connection herewith, and the consummation by the Buyer and the Sub of the transactions contemplated hereby and thereby, have been duly and validly authorized, executed and delivered by all necessary corporate action on the part of the Buyer and this Agreement constitutes, and the other agreements, documents and instruments to be executed and delivered by the Buyer and the Sub

in connection herewith, when executed and delivered by the Buyer and the Sub, shall constitute the legal, valid and binding obligations of the Buyer and the Sub, as the case may be, enforceable against the Buyer and the Sub in accordance with their respective terms, except to the extent that enforceability may be limited by bankruptcy, insolvency and other similar laws affecting the enforcement of creditors' rights generally and general equity principles.

4.4 Litigation Regarding Buyer. There are no actions, suits, claims, investigations or legal, administrative or arbitration proceedings pending or, to the Buyer's knowledge, threatened or probable of assertion against the Buyer or the Sub relating to this Agreement or the transactions contemplated hereby before any court, governmental or administrative agency or other body, and no judgment, order, writ, injunction, decree or other similar command of any court or governmental or administrative agency or other body has been entered against or served upon the Buyer or the Sub relating to this Agreement or the transactions contemplated hereby.

4.5 No Violation; Conflicts. The execution and delivery by the Buyer of this Agreement and the other agreements, documents and instruments to be executed and delivered by the Buyer and the Sub in connection herewith, the consummation by the Buyer and the Sub of the transactions contemplated hereby and thereby and the performance by the Buyer and the Sub of their respective obligations hereunder and thereunder do not and will not (a) conflict with or violate any of the terms of the Certificate of Incorporation or By-Laws of the Buyer or the Sub, or (b) violate or conflict with any domestic law, ordinance, rule or regulation, or any judgement, order, writ, injunction or decree of any court, administrative or governmental agency or other body, material to the Buyer or the Sub.

4.6 Brokers' or Finders' Fees, Etc. No agent, broker, investment banker, person or firm acting on behalf of the Buyer or the Sub or any person, firm or corporation affiliated with the Buyer or the Sub or under their authority, is or will be entitled to any brokers' or finders' fee or any other commission or similar fee directly or indirectly from any of the parties hereto in connection with the Merger contemplated hereby.

4.7 Misstatements and Omissions. No representation and warranty by the Buyer contained in this Agreement, and no statement contained in any certificate or Schedule furnished or to be furnished by the Buyer or the Sub to the Seller in connection with this Agreement, contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make such representation and warranty or such statement not misleading.

ARTICLE 5

Pre-Closing Covenants of the Seller and the Companies

The Seller and the Companies hereby jointly and severally covenant and agree that, from and after the date hereof until the Closing:

5.1 Provide Access to Information; Cooperation with Buyer.

(a) Access. The Seller and the Companies shall afford to the Buyer, its attorneys, accountants, and representatives, free and full access at all

reasonable times, and upon reasonable prior notice, to the properties, books and records of the Companies, and to interview personnel, suppliers and customers of the Companies, in order that the Buyer may have a full opportunity to make such investigation (including the Environmental Audit contemplated by Section 5.11 below) as it shall reasonably desire of the assets, business and operations of the Companies (including, without limitation, any appraisals or inspections thereof), and provide to the Buyer and its representatives such additional financial and operating data and other information as to the business and properties of the Companies as the Buyer shall from time to time reasonably request.

(b) Cooperation in Obtaining Consents. The Seller and the Companies shall use reasonable best efforts in cooperating with the Buyer in the preparation of and delivery to all applicable automobile manufacturers or distributors, as soon as practicable after the date hereof, of an application and other information necessary to obtain such automobile manufacturer's or distributor's consent to or the approval of the transactions contemplated by this Agreement.

5.2 Operation of Business of the Companies. The Seller shall cause each of the Companies to, and each of the Companies shall, (a) maintain its corporate or partnership, as the case may be, existence in good standing, (b) operate its business substantially as presently operated and only in the ordinary course and consistent with past operations and its obligations under any existing agreements with all applicable automobile manufacturers or distributors, (c) use its best efforts to preserve intact its present business organizations and employees and its relationships with persons having business dealings with them, including, but not limited to, all applicable automobile manufacturers or distributors and any floor plan financing creditors, (d) comply in all respects with all applicable laws, rules and regulations, (e) maintain its insurance coverages, (f) pay all Taxes, charges and assessments when due, subject to any valid objection or contest of such amounts asserted in good faith and adequately reserved against, (g) make all debt service payments when contractually due and payable, (h) pay all accounts payable and other current liabilities when due, (i) maintain the Employee Plans and each plan, agreement and arrangement listed on Schedule 3.27, and (j) maintain its property, plant and equipment in the ordinary course in accordance with all past practices.

5.3 Books of Account. The Seller shall cause each of the Companies to, and each of the Companies shall, maintain its books and records of account in the usual, regular and ordinary

manner.

5.4 Employees. The Seller and the Companies shall (i) use their reasonable best efforts to encourage such personnel of the Companies as the Buyer may designate in writing to remain employees of the Companies after the date of the Closing, and (ii) not take any action, or permit the Companies to take any action, to encourage any of the personnel of the Companies to leave their positions with the Companies.

5.5 Certain Prohibitions. The Seller shall not permit the Companies to, and the Companies shall not, (i) issue any equity or debt security or any options or warrants, (ii) enter into any subscriptions, agreements, plans or other commitments pursuant to which either of the Companies is or may become obligated to issue any of its debt or equity securities, (iii) otherwise change or modify its capital structure, (iv) engage in any reorganization or similar transaction, (v) sell or otherwise dispose of any of their assets, other than sales of inventory in the ordinary course of business, (vi) declare or make payment of any dividend or other distribution in respect of the Company Securities or redeem, repurchase or acquire any of the Company Securities, or (vii) agree to take any of the foregoing actions.

5.6 Other Changes. The Seller shall not permit the Companies to, and the Companies shall not, take, cause, agree to take or cause to occur any of the actions or events set forth in Section 3.20 of this Agreement.

5.7 Additional Information. The Seller and the Companies shall furnish to the Buyer such additional information with respect to any matters or events arising or discovered subsequent to the date hereof which, if existing or known on the date hereof, would have rendered any representation or warranty made by the Seller and/or the Companies or any information contained in any Schedule hereto or in other information supplied in connection herewith then inaccurate or incomplete. The receipt of such additional information by the Buyer shall not operate as a waiver by the Buyer of the obligations of the Seller to satisfy the conditions to Closing set forth in Section 7.1 hereof.

5.8 Publicity. Except as may be required by law or the applicable rules or regulations of any securities exchange, the Companies and the Seller shall not (i) make any press release or other public announcement relating to this Agreement or the transactions contemplated hereby, without the prior written approval of the Buyer, and (ii) otherwise disclose the existence and nature of

their discussions or negotiations regarding the transactions contemplated hereby to any person or entity other than their accountants, attorneys and similar professionals, all of whom shall be subject to this nondisclosure obligation as agents of the Companies and the Seller, as the case may be. The Companies and the Seller shall cooperate with the Buyer in the preparation and dissemination of any public announcements of the transactions contemplated by this Agreement.

5.9 Other Negotiations. Neither of the Companies nor the Seller shall pursue, initiate, encourage or engage in, nor shall any of their respective Affiliates or agents pursue, initiate,

encourage or engage in, and the Seller and the Companies shall cause their respective Affiliates, directors, officers, employees, and agents not to pursue, initiate, encourage or engage in, any negotiations or discussions with, or provide any information to, any other person or entity (other than the Buyer and its representatives and Affiliates) regarding the sale of the assets or securities of either of the Companies or any merger or similar transaction involving either of the Companies.

5.10 Closing Conditions. The Seller and the Companies shall use all reasonable best efforts to satisfy promptly the conditions to Closing set forth in Article 7 hereof required herein to be satisfied by the Seller and the Companies prior to the Closing.

5.11 Environmental Audit. The Seller shall cause the Companies to allow, and the Companies shall allow, an environmental consulting firm selected by the Buyer (the "Environmental Auditor") to have prompt access to the Real Property in order to conduct an environmental investigation, satisfactory to the Buyer in scope (such scope being sufficient to result in a Phase I environmental audit report and a Phase II environmental audit report, if desired by the Buyer), of, and to prepare a report with respect to, the Real Property (the "Environmental Audit"). The Seller shall cause the Companies to, and the Companies shall, provide to the Environmental Auditor: (i) reasonable access to all its existing records concerning the matters which are the subject of the Environmental Audit; and (ii) reasonable access to the employees of the Companies and the last known addresses of former employees of the Companies who are most familiar with the matters which are the subject of the Environmental Audit (the Seller and the Companies agreeing to use reasonable efforts to have such former employees respond to any reasonable requests or inquiries by the Environmental Auditor). The Seller shall otherwise cause the Companies to cooperate, and the Companies shall cooperate, with the Environmental Auditor in connection with the Environmental Audit. The Buyer and the Seller shall each bear 50% of the costs, fees and expenses incurred in connection with the preparation of the Environmental Audit.

5.12 Audited Financial Statements. The Seller and the Companies shall allow, cooperate with and assist Buyer's accountants, and shall instruct the Companies' accountants to cooperate, in the preparation of audited financial statements of the Companies as necessary for any required filings by the Buyer with the Securities and Exchange Commission or with the Buyer's lenders; provided that the expense of such audits shall be borne by the Buyer.

5.13 Hart-Scott-Rodino. Subject to the determination by the Buyer that any of the following actions is not required, the Seller and the Companies shall promptly prepare and file Notification and Report Forms under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") with the Federal Trade Commission (the "FTC") and the Antitrust Division of the Department of Justice (the "Antitrust Division"), and respond as promptly as practicable to all inquiries received from the FTC or the Antitrust Division for additional information or documentation.

ARTICLE 6

Pre-Closing Covenants of the Buyer

The Buyer hereby covenants and agrees that, from and after the date hereof until the Closing:

6.1 Publicity. Except as may be required by law or by the rules of the New York Stock Exchange, neither the Buyer nor the Sub shall (i) make any press release or other public announcement relating to this Agreement or the transactions contemplated hereby, without the prior written approval of the Seller, or (ii) otherwise disclose the existence and nature of its discussions or negotiations regarding the transactions contemplated hereby to any person or entity other than its accountants, attorneys and similar professionals, all of whom shall be subject to this nondisclosure obligation as agents of the Buyer and the Sub.

6.2 Closing Conditions. The Buyer and the Sub shall use all reasonable

best efforts to satisfy promptly the conditions to Closing set forth in Article 8 hereof required herein to be satisfied by the Buyer and the Sub prior to the Closing.

6.3 Application to Automobile Manufacturers and Distributors. Subject to the reasonable cooperation of the Seller, the Buyer shall provide to all applicable automobile manufacturers and distributors promptly after the execution and delivery of this Agreement any application or other information with respect to such application necessary in connection with the seeking of the consents of such manufacturers and distributors to the transactions contemplated by this Agreement.

6.4 Hart-Scott-Rodino. Subject to the determination by the Buyer that any of the following actions is not required, the Buyer shall promptly prepare and file Notification and Report Forms under the HSR Act with the FTC and the Antitrust Division, and respond as promptly as practicable to all inquiries received from the FTC or the Antitrust Division for additional information or documentation, and the Buyer shall pay all filing fees in connection therewith.

ARTICLE 7

Conditions to Obligations of the Buyer and the Sub at the Closing

The obligations of the Buyer and the Sub to perform this Agreement at the Closing are subject to the satisfaction at or prior to the Closing of the following conditions, unless waived in writing by the Buyer:

7.1 Representations and Warranties. The representations and warranties made by the Seller and the Companies in this Agreement shall be true and correct in all material respects at

and as of the date of this Agreement and at and as of the Closing as though made at and as of the Closing.

7.2 Performance of Obligations of the Seller and the Companies. The Seller and the Companies shall have performed all obligations required to be performed by them under this Agreement, and complied with all covenants for which compliance by them is required under this Agreement, prior to or at the Closing.

7.3 Closing Documentation. The Buyer shall have received the following documents, agreements and instruments from the Seller:

(a) a certificate signed by the Seller and by the President of the Corporation and a duly authorized officer of the Managing Partner of the Partnership and dated the date of the Closing certifying as to the satisfaction of the conditions set forth in Sections 7.1 and 7.2 hereof;

(b) the certificates, or other evidence satisfactory to the Buyer, evidencing the Company Securities described in Section 1.5 hereof;

(c) an opinion of Sirote & Permutt, P.C., counsel for the Seller, and the Companies dated the date of the Closing and addressed to the Buyer, in the form of Exhibit H annexed hereto;

(d) copies of all authorizations, approvals, consents, notices, registrations and filings referred to in Schedules 3.2(b), 3.10 and 3.29(b) hereof, including, but not limited to, the consents of all applicable automobile manufacturers and distributors;

(e) certificates dated as of a recent date from (i) the Secretary of State of the State of Alabama to the effect that the Corporation and the Partnership are in existence in such state and stating that the Corporation is in good standing and owes no franchise taxes in such state and listing all documents of the Corporation and the Partnership on file with said Secretary of State, and (ii) one or more certificates of officials from the jurisdictions listed on Schedule 3.7 hereto to the effect that the Corporation and the Partnership are duly qualified as a foreign corporation and a foreign partnership, as the case may be, and are in good standing in such jurisdictions;

(f) a copy of the Corporation's Articles of Incorporation, including all amendments thereto, certified as of a recent date by the Secretary of State of the State of Alabama, a copy of the Corporation's Bylaws, including all amendments thereto, certified as of a recent date by the Secretary of the Corporation, and a copy of the Partnership's limited partnership agreement, certified as of a recent date by a duly authorized officer of the Managing Partner of the Partnership;

(g) evidence, reasonably satisfactory to the Buyer, of the authority and

incumbency of the persons acting on behalf of the Companies in connection with the execution of any document delivered in connection with this Agreement;

(h) Uniform Commercial Code Search Reports on Form UCC-11 with respect to the Companies from the states and local jurisdictions where the principal places of business of the Companies and their respective assets are located;

(i) a certificate of the Seller as to the Seller's non-foreign status in appropriate form;

(j) the corporate minute books and stock record books of the Companies, and all other books and records of, or pertaining to, the business and operations of the Companies;

(k) estoppel letter[s] of landlord[s] other than the Seller or their Affiliates under the Lease[s], in form and substance reasonably satisfactory to the Buyer;

(l) estoppel letter[s] of lender[s] to the Companies, in form and substance reasonably satisfactory to the Buyer, with respect to amounts owing by the Companies as of the Closing; and

(m) such other instruments and documents as the Buyer shall reasonably request not inconsistent with the provisions hereof.

7.4 Approval of Legal Matters. The form of all instruments, certificates and documents to be executed and delivered by the Seller and the Companies to the Buyer pursuant to this Agreement and all legal matters in respect of the transactions as herein contemplated shall be reasonably satisfactory to the Buyer and its counsel, none of whose approval shall be unreasonably withheld or delayed.

7.5 No Litigation. No action, suit or other proceeding shall be pending or threatened before any court, tribunal or governmental authority seeking or threatening to restrain or prohibit the consummation of the transactions contemplated by this Agreement, or seeking to obtain damages in respect thereof, or involving a claim that consummation thereof would result in the violation of any law, decree or regulation of any governmental authority having appropriate jurisdiction, and no order, decree or ruling of any governmental authority or court shall have been entered challenging the legality, validity or propriety of, or otherwise relating to, this Agreement or the transactions contemplated hereby, or prohibiting, restraining or otherwise preventing the consummation of the transactions contemplated hereby.

7.6 No Material Adverse Change or Undisclosed Liability. There shall have been no material adverse change or development in the business, prospects, properties, earnings, results of operations or financial condition of either of the Companies, or any of their assets, other than general business and economic conditions generally affecting the industry and markets in which the Companies participate.

7.7 No Adverse Laws. There shall not have been enacted, adopted or promulgated any statute, rule, regulation or order which materially adversely affects the business or assets of either of the Companies.

7.8 Affiliate Transactions. All amounts owing to the Companies from the Seller or any Affiliate thereof shall have been paid in full and any indebtedness of the Companies to the Seller or any Affiliate thereof shall have been paid or discharged.

7.9 Escrow Agreement. The Seller and the Escrow Agent shall have duly executed and delivered to the Buyer the Escrow Agreement.

7.10 Execution of Dealership Leases. The Seller shall have duly delivered to the Buyer the Dealership Leases, duly executed by the respective lessors thereunder, each with a corresponding memorandum of lease in a form suitable for recording.

7.11 Employment Agreement. Frank McGough shall have duly executed and delivered to the Buyer the Employment Agreement.

7.12 Non-Competition Agreement. Frank McGough shall have duly executed and delivered to the Buyer and the Companies the Non-Competition Agreement.

7.13 Cancellation of Stock Options. All outstanding options, warrants, "phantom" stock options and other plans, agreements or arrangements of the Companies with respect to the purchase, or the issuance of, any securities of the Companies shall have been canceled and terminated prior to the Closing at no expense to the Buyer, and the Buyer shall have received reasonably satisfactory evidence thereof.

7.14 Appraisal/Dissenters' Rights. No holder of any of the Company Securities shall have any appraisal or dissenters' rights under applicable law.

7.15 Audited Financial Statements. The Buyer shall have completed preparation of such audited financial statements of the Companies as may be required by applicable regulations of the Securities and Exchange Commission or by any of the Buyer's lenders.

7.16 Hart-Scott-Rodino Waiting Period. All applicable waiting periods under the HSR Act shall have expired without any indication by the Antitrust Division or the Federal Trade Commission that either of them intends to challenge the transactions contemplated hereby or, if any such challenge or investigation is made or commenced, the conclusion of such challenge or investigation permits the transactions contemplated hereby in all material respects.

ARTICLE 8

Conditions to Obligations of the Seller and the Companies at the Closing

The obligations of the Seller and the Companies to perform this Agreement at the Closing are subject to the satisfaction at or prior to the Closing of the following conditions, unless waived in writing by the Seller:

8.1 Representations and Warranties. The representations and warranties made by the Buyer in this Agreement shall be true and correct in all material respects at and as of the date of this Agreement and at and as of the Closing as though made at and as of the Closing.

8.2 Performance of Obligations of the Buyer. The Buyer and the Sub shall have performed all obligations required to be performed by them under this Agreement, and complied with all covenants for which compliance by them is required under this Agreement, prior to or at the Closing.

8.3 Closing Documentation. The Seller shall have received the following documents, agreements and instruments from the Buyer and the Sub:

(a) a certificate signed by duly authorized signatories of each of the Buyer and the Sub and dated as of the Closing Date certifying as to the satisfaction of the conditions set forth in Sections 8.1 and 8.2 hereof;

(b) payment of the Basic Consideration pursuant to Section 1.2 hereof;

(c) an opinion of Parker, Poe, Adams & Bernstein L.L.P., counsel for the Buyer, dated as of the Closing Date and addressed to the Seller, in the form of Exhibit I annexed hereto; and

(d) such resolutions of the Buyer, as sole shareholder of the Companies, and the directors of the Companies electing directors and appointing officers, respectively, of the Companies, effective upon the Closing;

(e) certificates dated as of a recent date from the Secretary of State of the State of Delaware to the effect that the Buyer is duly incorporated and in good standing in such state;

(f) a copy of each of the Buyer's Certificate of Incorporation and the Sub's Articles of Incorporation, including all amendments thereto, certified by the Secretary of State of the State of Delaware (in the case of the Buyer) and the Secretary of State of the State of Alabama (in the case of the Sub);

(g) evidence, reasonably satisfactory to the Seller, of the authority and

incumbency of the persons acting on behalf of the Buyer and the Sub in connection with the execution of any document delivered in connection with this Agreement; and

(h) such other instruments and documents as the Seller shall reasonably request not inconsistent with the provisions hereof.

8.4 Approval of Legal Matters. The form of all certificates, instruments and documents to be executed or delivered by the Buyer and the Sub to the Seller pursuant to this Agreement and all legal matters in respect of the transactions as herein contemplated shall be reasonably satisfactory to the Seller and its counsel, none of whose approval shall be unreasonably withheld or delayed.

8.5 No Litigation. No action, suit or other proceeding shall be pending or

threatened before any court, tribunal or governmental authority seeking or threatening to restrain or prohibit the consummation of the transactions contemplated by this Agreement, or seeking to obtain substantial damages in respect thereof, or involving a claim that consummation thereof would result in the violation of any law, decree or regulation of any governmental authority having appropriate jurisdiction, and no order, decree or ruling of any governmental authority or court shall have been entered challenging the legality, validity or propriety of, or otherwise relating to, this Agreement or the transactions contemplated hereby, or prohibiting, restraining or otherwise preventing the consummation of the transactions contemplated hereby.

8.6 Execution of Dealership Leases. The Buyer shall have duly executed and delivered to the Seller the Dealership Leases.

8.7 Escrow Agreement. The Buyer and the Escrow Agent shall have duly executed and delivered the Escrow Agreement.

8.8 Employment Agreement. The Buyer shall have duly executed and delivered the Employment Agreement to Frank McGough.

8.9 Hart-Scott-Rodino Waiting Period. All applicable waiting periods under the HSR Act shall have expired without any indication of the Antitrust Division or the Federal Trade Commission that either of them intends to challenge the transactions contemplated hereby, or, if any such challenge or investigation is made or commenced, the conclusion of such challenge or investigation permits the transactions contemplated hereby in all material respects.

ARTICLE 9

Survival of Representations and Warranties; Indemnification, Etc.

9.1 Survival. All statements contained in any Schedule or certificate delivered hereunder or in connection herewith by or on behalf of any of the parties pursuant to this Agreement shall be deemed representations and warranties by the respective parties hereunder unless otherwise expressly provided herein. The representations and warranties of the Seller and the Companies contained in this Agreement, including those contained in any Schedule or certificate delivered hereunder or in connection herewith, shall survive the Closing for a period of two years with the exception of (i) the representations and warranties of the Seller and the Companies contained in Section 3.21, which shall survive the Closing until the expiration of the applicable tax statutes of limitation plus a period of sixty (60) days, and (ii) the representations and warranties of the Seller and the Companies contained in Sections 3.11, 3.19 and 3.36, which shall survive the Closing for a period of five years. As to each representation and warranty of the parties hereto, the date to which such representation and warranty shall survive is hereinafter referred to as the "Survival Date."

9.2 Agreement to Indemnify by the Seller. Subject to the terms and conditions of Sections 9.4 and 9.5 hereof, the Seller hereby agrees to indemnify and save the Buyer, the Surviving Company and their respective shareholders, officers, directors, employees, successors and assigns (each, a "Buyer Indemnitee") harmless from and against, for and in respect of, any and all damages, losses, obligations, liabilities, demands, judgments, injuries, penalties, claims, actions or causes of action, encumbrances, costs, and expenses (including, without limitation, reasonable attorneys' fees and expert witness fees), suffered, sustained, incurred or required to be paid by any Buyer Indemnitee (collectively, "Buyer's Damages") arising out of, based upon, in connection with, or as a result of:

(a) the untruth, inaccuracy or breach of any representation and warranty of the Seller or the Companies contained in or made pursuant to this Agreement, including in any Schedule or certificate delivered hereunder or in connection herewith, excluding any breach of representation and warranty contained in Section 3.19; provided, however, that with respect to the foregoing indemnification obligation of the Seller contained in this paragraph (a), the Seller shall not have any indemnification obligation until (and only to the extent that) Buyer's Damages in respect of all claims for indemnity pursuant to this paragraph (a) shall exceed a cumulative aggregate total of $75,000;

(b) the untruth, inaccuracy or breach of any representation and warranty of the Seller or the Companies contained in or made pursuant to Section 3.19, including in any Schedule or certificate delivered hereunder in connection therewith;

(c) the breach or nonfulfillment of any covenant or agreement of the Seller or either of the Companies contained in this Agreement or in any other agreement, document or

instrument delivered hereunder or pursuant hereto;

(d) any loss of life, injury to persons or property, or damage to natural resources caused by the actual, alleged, or threatened release, storage, transportation, treatment or generation, of Hazardous Materials generated, stored, used, disposed of, treated, handled or shipped by either of the Companies on or before the Closing Date;

(e) any cleanup of Hazardous Materials released, disposed of or discharged: (i) on, beneath or adjacent to the Real Property prior to or on the Closing Date; or (ii) at any other location if such substances were generated, used, stored, treated, transported or released by either of the Companies prior to or on the Closing Date;

(f) any and all costs of installing pollution control equipment or other equipment to bring any of the Real Property into compliance with any Environmental Law if such equipment is installed because any of the Real Property was not in compliance with any Environmental Laws as of the Closing Date;

(g) any and all Taxes arising out of or based upon the Distributed Assets or the Distributed Liabilities or the distribution thereof contemplated by Section 1.3; or

(h) any purchase or redemption prior to the Closing, by the Seller or the Companies, of any capital stock or partnership interest held by any other person or entity.

With respect to the Seller's obligations to pay Buyer's Damages pursuant to Section 9.2 of this Agreement, the Buyer shall be entitled (but shall not be obligated) to make demand for payment under the Escrow Agreement and/or to postpone, offset and reduce the Contingent Consideration, as provided in Section 9.7 below.

9.3 Agreement to Indemnify by the Buyer. Subject to the terms and conditions of Sections 9.4 and 9.5 hereof, the Buyer hereby agrees to indemnify and save the Seller and its successors and assigns (each, a "Seller Indemnitee") harmless from or against, for and in respect of, any and all damages, losses, obligations, liabilities, demands, judgments, injuries, penalties, claims, actions or causes of action, encumbrances, costs, and expenses (including, without limitation, reasonable attorneys' fees and expert witness fees) suffered, sustained, incurred or required to be paid by any Seller Indemnitee arising out of, based upon or in connection with or as a result of:

(a) the untruth, inaccuracy or breach of any representation and warranty of the Buyer contained in or made pursuant to this Agreement, including in any Schedule or certificate delivered hereunder or in connection herewith; or

(b) the breach or nonfulfillment of any covenant or agreement of the Buyer contained in this Agreement or in any other agreement, document or instrument delivered hereunder or pursuant hereto.

9.4 Claims for Indemnification. No claim for indemnification with respect to a breach of a representation and warranty shall be made under this Agreement after the applicable Survival Date unless prior to such Survival Date the Buyer Indemnitee or the Seller Indemnitee, as the case may be, shall have given the Seller or the Buyer, as the case may be, written notice of such claim for indemnification based upon actual loss sustained, or potential loss anticipated, as a result of the existence of any claim, demand, suit, or cause of action against such Buyer Indemnitee or Seller Indemnitee, as the case may be.

9.5 Procedures Regarding Third Party Claims. The procedures to be followed by the Buyer and the Seller with respect to indemnification hereunder regarding claims by third persons which could give rise to an indemnification obligation hereunder shall be as follows:

(a) Promptly after receipt by any Buyer Indemnitee or Seller Indemnitee, as the case may be, of notice of the commencement of any action or proceeding (including, without limitation, any notice relating to a tax audit) or the assertion of any claim by a third person which the person receiving such notice has reason to believe may result in a claim by it for indemnity pursuant to this Agreement, such person (the "Indemnified Party") shall give a written notice of such action, proceeding or claim to the party against whom indemnification pursuant hereto is sought (the "Indemnifying Party"), setting forth in reasonable detail the nature of such action, proceeding or claim, including copies of any documents and written correspondence from such third person to such Indemnified Party.

(b) The Indemnifying Party shall be entitled, at its own expense, to participate in the defense of such action, proceeding or claim, and, if (i) the action, proceeding or claim involved seeks (and continues to seek) solely monetary damages, (ii) the Indemnifying Party confirms, in writing, its

obligation hereunder to indemnify and hold harmless the Indemnified Party with respect to such damages in their entirety pursuant to Sections 9.2 or 9.3 hereof, as the case may be, and (iii) the Indemnifying Party shall have made provision which, in the reasonable judgment of the Indemnified Party, is adequate to satisfy any adverse judgment as a result of its indemnification obligation with respect to such action, proceeding or claim, then the Indemnifying Party shall be entitled to assume and control such defense with counsel chosen by the Indemnifying Party and approved by the Indemnified Party, which approval shall not be unreasonably withheld or delayed. The Indemnified Party shall be entitled to participate therein after such assumption, the costs of such participation following such assumption to be at its own expense. Upon assuming such defense, the Indemnifying Party shall have full rights to enter into any monetary compromise or settlement which is dispositive of the matters involved; provided, that such settlement is paid in full by the Indemnifying Party and will not have any direct or indirect continuing material adverse effect upon the Indemnified Party.

(c) With respect to any action, proceeding or claim as to which (i) the Indemnifying Party does not have the right to assume the defense or (ii) the Indemnifying Party shall not have exercised its right to assume the defense, the Indemnified Party shall assume and control the defense of and contest such action, proceeding or claim with counsel chosen by it and

approved by the Indemnifying Party, which approval shall not be unreasonably withheld. The Indemnifying Party shall be entitled to participate in the defense of such action, proceeding or claim, the cost of such participation to be at its own expense. The Indemnifying Party shall be obligated to pay the reasonable attorneys' fees and expenses of the Indemnified Party to the extent that such fees and expenses relate to claims as to which indemnification is due under Sections 9.2 or 9.3 hereof, as the case may be. The Indemnified Party shall have full rights to dispose of such action, proceeding or claim and enter into any monetary compromise or settlement; provided, however, in the event that the Indemnified Party shall settle or compromise any action, proceeding or claim for which indemnification is due under Sections 9.2 or 9.3 hereof, as the case may be, it shall act reasonably and in good faith in doing so.

(d) Both the Indemnifying Party and the Indemnified Party shall cooperate fully with one another in connection with the defense, compromise or settlement of any such action, proceeding or claim, including, without limitation, by making available to the other all pertinent information and witnesses within its control.

9.6 Effectiveness. The provisions of this Article 9 shall be effective upon consummation of the Closing, and prior to the Closing, shall have no force and effect.

9.7 Postponement, Offset and Reduction of Contingent Consideration. If, as of the date of the payment of an installment of Contingent Consideration (hereinafter called a "Contingent Payment Date"), any Buyer Indemnitee shall have previously made a claim or claims for Buyer's Damages and such claim or claims shall not have been resolved prior to such Contingent Payment Date, either by mutual written agreement between the Seller and the Buyer or by a decision of the arbitrators pursuant to Section 12.13 below, then the amount of such installment of Contingent Consideration shall only be paid to the extent it (together with any prior installments of Contingent Consideration which have been postponed pursuant to this Section 9.7) exceeds the aggregate total of Buyer's Damages as to which claims for indemnification shall have been made on or prior to such Contingent Payment Date and not resolved on or prior thereto, and payment of the remainder of the Contingent Consideration which would otherwise be payable on or before such Contingent Payment Date shall be postponed until the resolution of all such claims for indemnification. The Seller hereby acknowledges and agrees that the Buyer shall be entitled to set off against and to reduce the amount of the Contingent Consideration by the amount of Buyer's Damages which is either agreed to in writing by the Seller and the Buyer or determined pursuant to a decision of the arbitrators referred to in Section 12.13 below. To the extent that such arbitrators shall determine that the postponement of any portion of the Contingent Consideration by the Buyer was not warranted, the Buyer shall promptly pay such portion to the Seller, together with interest thereon at the Interest Rate (as defined in Section 1.4 above) from the applicable Contingent Payment Date. Any amount of postponement, setoff and reduction of the Contingent Consideration contemplated by this Section 9.7 shall be allocated 49% to the cash portion of such Contingent Consideration and 51% to the Preferred Stock portion of such Contingent Consideration.

ARTICLE 10

Termination

10.1 Termination. Notwithstanding any other provision herein contained to

the contrary, this Agreement may be terminated at any time prior to the Closing Date:

(a) by the written mutual consent of the Buyer and the Seller;

(b) At any time after the Closing Date Deadline, by written notice by the Buyer or the Seller to the other party(ies) hereto if the Closing shall not have been completed on or before the Closing Date Deadline; provided, however, no party may terminate this Agreement based upon a failure by the other party of Section 7.2 or Section 8.2, as the case may be, unless the terminating party shall have first given the failing party written notice of such failure and a reasonable period of time (not to exceed 30 days) to cure such failure, and provided, further, no party may terminate this Agreement pursuant to this Section 10.1(b) if such terminating party is in breach of any material misrepresentation, warranty, or covenant of such party contained in this Agreement;

(c) By the Buyer if, after any initial HSR Act filing, the FTC makes a "second request" for information, or the FTC or the Antitrust Division challenges the transactions contemplated hereby; provided, that the Buyer delivers a written notice to the Seller of its termination hereunder within 30 days of the Buyer's receipt of such second request or of notice of such challenge;

(d) By the Buyer, by written notice to the Seller, in the event that approval by the applicable automobile manufacturer of the transactions contemplated by this Agreement is not received at least 10 Business Days prior to the Closing Date Deadline; or

(e) By the Buyer, by written notice to the Seller, in the event that any applicable automobile manufacturer or distributor (or any person claiming by, through or under it) shall exercise any right of first refusal, preemptive right or other similar right, with respect to the dealership business of the Corporation; or

(f) By the Buyer within 30 days after _____, 1998 if, and only if, the Buyer is not satisfied, in its discretion, with the results of the Buyer's due diligence investigation contemplated by Section 5.1(a) hereof.

10.2 Procedure and Effect of Termination. In the event of termination pursuant to Section 10.1, this Agreement shall be of no further force or effect; provided, however, that, except as expressly set forth below, any termination pursuant to Section 10.1 shall not relieve (i) the Buyer of any liability under Section 10.3 below, (ii) the Seller of any liability under Section 10.4 below, or (iii) any party hereto of any liability for breach of any representation and warranty, covenant or agreement hereunder occurring prior to such termination. In addition, in

the event of any such termination, all filings, applications and other submissions made pursuant to this Agreement or prior to the execution of this Agreement in contemplation thereof shall, to the extent practicable, be withdrawn from the agency or other entity to which made. Except as specifically provided in Section 10.5 below, nothing contained in this Agreement shall prevent any party from seeking any equitable relief, including specific performance, to which it would otherwise be entitled in the event of breach by any other party.

10.3 Payment of Buyer's Termination Fee. If this Agreement is terminated by the Seller pursuant to Section 10.1(b) above and the failure to complete the Closing on or before the Closing Date Deadline shall have been due to the Buyer's breach of its material representations and warranties or its material covenants or obligations under this Agreement, then the Buyer shall, upon demand of the Seller, promptly pay to the Seller in immediately available funds, as liquidated damages for the loss of the transaction, a termination fee of $1,000,000 (the "Buyer's Termination Fee").

10.4 Payment of Seller's Termination Fee. If this Agreement is terminated by the Buyer pursuant to Section 10.1(b) above and the failure to complete the Closing on or before the Closing Date Deadline shall have been due to the Seller's or the Companies' breach of any of their material representations and warranties or any of their material covenants or obligations under this Agreement, then the Seller and the Companies, jointly and severally, shall, upon demand of the Buyer, promptly pay to the Buyer in immediately available funds, as liquidated damages for the loss of the transaction, a termination fee of $1,000,000 (the "Seller's Termination Fee").

10.5 Termination Fees Exclusive Remedies for Damages. The respective rights of the parties to terminate this Agreement under Section 10.1(b) and to be paid the Seller's Termination Fee or the Buyer's Termination Fee, as the case may be, shall be the respective parties' sole and exclusive remedies for damages; in the event of such termination by either party, such party shall have no right to equitable relief for any breach or alleged breach of this Agreement,

other than for specific performance for the payment of the Seller' Termination Fee or the Buyers' Termination Fee, as the case may be.

ARTICLE 11

Certain Taxes and Expenses

11.1 Certain Taxes and Expenses.

(a) All sales, use, transfer, intangible, excise, documentary stamp, recording, gross income, gross receipts and other similar taxes or fees which may be due or payable in connection with the consummation of the transactions contemplated hereby shall be paid by the Seller.

(b) Except as otherwise herein provided, the Seller and the Buyer shall be responsible for the payment of their respective fees, costs and expenses incurred in connection with the negotiation and consummation of the transactions contemplated hereby and shall not be liable to the other party or parties for the payment of any such fees, costs and expenses.

ARTICLE 12

Miscellaneous

12.1 Certain Tax Returns. The Seller shall cooperate with and provide assistance to the Buyer and the Surviving Company in connection with the preparation and filing of all federal, state, local and foreign income tax returns which relate to the Companies and to periods prior to Closing but which are not required to be filed until after the Closing.

12.2 Parties in Interest; No Third-Party Beneficiaries. Subject to Section 12.4 hereof, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the respective successors and assigns of the parties hereto. Nothing in this Agreement, expressed or implied, is intended or shall be construed to confer upon or give to any employee of either of the Companies or the Buyer, or any other person, firm, corporation or legal entity, other than the parties hereto and their successors and assigns, any rights, remedies or other benefits under or by reason of this Agreement.

12.3 Entire Agreement; Amendments. This Agreement (including all Exhibits and Schedules hereto) and the other writings referred to herein or delivered pursuant hereto contain the entire understanding of the parties hereto with respect to its subject matter. There are no representations, promises, warranties, covenants or undertakings other than as expressly set forth herein or therein. This Agreement supersedes all prior agreements and understandings between the parties hereto with respect to its subject matter. This Agreement may be amended or modified only by a written instrument duly executed by the parties hereto.

12.4 Assignment. This Agreement shall not be assignable by any party hereto without the prior written consent of the other parties; provided, however, the Buyer may assign its rights and obligations hereunder to any Affiliate of the Buyer presently existing or hereafter formed and to any person or entity that shall acquire all or substantially all of the assets of the Buyer or the Companies; provided, further, that no such assignment shall release the Buyer from its obligations hereunder without the consent of the Seller. Nothing contained in this Agreement shall prohibit its assignment by the Buyer as collateral security and the Seller hereby agrees to execute any acknowledgment of such assignment by the Buyer as may be required by any lender to the Buyer.

12.5 Remedies. Except as expressly provided in this Agreement to the contrary, each of the parties to this Agreement is entitled to all remedies in the event of breach provided at law or in equity, specifically including, but not limited to, specific performance.

12.6 Headings. The Article and Section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

12.7 Notices. All notices, claims, certificates, requests, demands and other communications hereunder shall be given in writing and shall be delivered personally or sent by a nationally recognized overnight courier, postage prepaid, and shall be deemed to have been duly given when so delivered personally or one (1) business day after the date of deposit with such nationally recognized overnight courier. All such notices, claims, certificates, requests, demands and other communications shall be addressed to the respective parties at the addresses set forth below or to such other address as the person to whom notice is to be given may have furnished to the others in writing in accordance herewith.

If to the Buyer, to:

Sonic Automotive, Inc.
5401 E. Independence Boulevard
Charlotte, North Carolina 28212
Attention: Theodore M. Wright, Chief Financial Officer

With a copy to:

Parker, Poe, Adams & Bernstein L.L.P.
2500 Charlotte Plaza
Charlotte, North Carolina 28244
Attention: Edward W. Wellman, Jr., Esq.

If to the Seller, to:

Frank E. McGough, Jr.
8549 Old Marsh Way
Montgomery, Alabama 36117

With a copy to:

Sirote & Permutt, P.C.
1401 Peachtree Street, Suite 500
Atlanta, Georgia 30309
Attention: Jeff Kohn, Esq.

12.8 Counterparts. This Agreement may be executed in any number of counterparts, and each such counterpart hereof shall be deemed to be an original instrument, and all such

counterparts together shall constitute but one agreement.

12.9 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Alabama, without giving effect to its rules governing conflict of laws.

12.10 Waivers. Any party to this Agreement may, by written notice to the other parties hereto, waive any provision of this Agreement from which such party is entitled to receive a benefit. The waiver by any party hereto of a breach by another party of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by such other party of such provision or any other provision of this Agreement.

12.11 Severability. In the event that any provision, or part thereof, in this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions, or parts thereof, shall not in any way be affected or impaired thereby.

12.12 Knowledge. Whenever any representation or warranty of the Seller contained herein or in any other document executed and delivered in connection herewith is based upon the knowledge of the Seller, such knowledge shall be deemed to include (A) the best actual knowledge, information and belief of the Seller and (B) any information which the Seller would reasonably be expected to be aware of in the prudent discharge of his duties in the ordinary course of business (including consultation with legal counsel) on behalf of either of the Companies.

12.13 Arbitration.

(a) Any dispute, claim or controversy arising out of or relating to this Agreement (except for accounting matters provided for in Section 1.4 hereto), or the interpretation or breach hereof, shall be resolved by binding arbitration under the commercial arbitration rules of the American Arbitration Association (the "AAA Rules") to the extent such AAA Rules are not inconsistent with this Agreement. Judgment upon the award of the arbitrators may be entered in any court having jurisdiction thereof or such court may be asked to judicially confirm the award and order its enforcement, as the case may be. The demand for arbitration shall be made by any party hereto within a reasonable time after the claim, dispute or other matter in question has arisen, and in any event shall not be made after the date when institution of legal proceedings, based on such claim, dispute or other matter in question, would be barred by the applicable statute of limitations. The arbitration panel shall consist of three (3) arbitrators, one of whom shall be appointed by each party hereto within thirty (30) days after any request for arbitration hereunder. The two arbitrators thus appointed shall choose the third arbitrator within thirty (30) days after their appointment; provided, however, that if the two arbitrators are unable to agree on the appointment of the third arbitrator within 30 days after their appointment, either arbitrator may petition the American Arbitration Association to make the appointment. The place of arbitration shall be Atlanta, Georgia. The arbitrators shall be instructed to render their decision within

sixty (60) days after their selection and to allocate all

costs and expenses of such arbitration (including legal and accounting fees and expenses of the respective parties) to the parties in the proportions that reflect their relative success on the merits (including the successful assertion of any defenses).

(b) Nothing contained in this Section 12.13 shall prevent any party hereto from seeking any equitable relief to which it would otherwise be entitled from a court of competent jurisdiction.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered on the date first above written.

SONIC AUTOMOTIVE, INC.

By: /s/ O. Bruton Smith

Name: O. BRUTON SMITH
Title: CHIEF EXECUTIVE OFFICER

CAPITOL CHEVROLET, INC.

By: /s/ Frank E. McGough, Jr.

Name: FRANK E. MCGOUGH, JR.
Title: PRESIDENT

CAPITOL IMPORTS, LTD.

MCGOUGH MANAGEMENT COMPANY, INC., its General Partner

By: /s/ Frank E. McGough, Jr.

Name: FRANK E. MCGOUGH, JR.
Title: PRESIDENT

/s/ Frank E. McGough, Jr.

FRANK E. MCGOUGH, JR., as Seller

EXHIBITS

Exhibit A	-	Certificate of Merger
Exhibit B	-	Form of Escrow Agreement
Exhibit C	-	Preferred Stock Summary of Rights and Preferences
Exhibit D	-	Distributed Assets and Distributed Liabilities
Exhibit E	-	Form of Dealership Leases
Exhibit F	-	Form of Employment Agreement
Exhibit G	-	Form of Non-Competition Agreement
Exhibit H	-	Opinion of Seller' Counsel
Exhibit I	-	Opinion of Buyer's Counsel

SCHEDULES

Schedule 3.2(b)	Consents and Approvals for the Seller
Schedule 3.5	Interest in other Entities
Schedule 3.7	Qualification
Schedule 3.8	Capitalization
Schedule 3.10	No Violation; Conflicts
Schedule 3.11	Encumbrances
Schedule 3.13	Financial Statements

Schedule 3.16(a)	Owned Real Property
Schedule 3.16(b)	Leased Premises
Schedule 3.16(d)	Owned Equipment
Schedule 3.16(e)	Leased Equipment
Schedule 3.17	Intellectual Property
Schedule 3.18	Certain Liabilities
Schedule 3.19	No Undisclosed Liabilities
Schedule 3.20	Absence of Changes
Schedule 3.21	Tax Matters
Schedule 3.22	Compliance with Laws
Schedule 3.23	Litigation Regarding Companies
Schedule 3.24	Permits, Etc.
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Schedule 3.29(a)	Material Agreements
Schedule 3.29(b)	Required Consents for Transfers of Material Agreements
Schedule 3.31	Bank Accounts, Credit Cards and Safe Deposit Boxes
Schedule 3.32(a)	Insurance Policies
Schedule 3.32(b)	Property Damage and Personal Injury Claims
Schedule 3.33	Warranties
Schedule 3.34	Directors and Officers
Schedule 3.36	Environmental Matters
Schedule 4.2(b)	Consents and Approvals for the Buyer

Exhibit 10.5

PPAB 3/12/98

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT dated as of March 16, 1998 (this "Agreement") among SONIC AUTOMOTIVE, INC., a Delaware corporation (the "Buyer"), and FREEMAN SMITH and the other stockholders named on the signature page of this Agreement (the "Sellers").

W I T N E S S E T H:

WHEREAS, the Sellers own all of the issued and outstanding shares of capital stock of Economy Cars, Inc., a Tennessee corporation (the "Corporation"), and all of such shares (the "Shares") are owned of record and beneficially by the Sellers in the amounts set forth opposite their respective names on Exhibit A hereto;

WHEREAS, the Corporation owns and operates a Honda automobile dealership franchise pursuant to certain dealership arrangements with American Honda Motor Co., Inc. ("Honda"); and

WHEREAS, the Buyer desires to purchase the Shares from the Sellers, and the Sellers are willing to sell the Shares to the Buyer, upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and representations hereinafter stated, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE 1
PURCHASE AND SALE

1.1 Agreement of Purchase and Sale. On the terms and subject to the conditions of this Agreement and in reliance upon the representations and warranties of the parties herein, at the closing referred to in Article 2 hereof (the "Closing"), the Sellers shall sell, transfer, convey and deliver to the Buyer, and the Buyer shall purchase from the Sellers, the Shares.

1.2 Purchase Price.

(a) Purchase Price. As the full purchase price to be paid by the Buyer for the Shares, the Buyer shall pay to the Sellers the sum of (i) $7,500,000, plus (ii) the Net Book Value (as defined in Section 1.2(c) below)(collectively, the "Purchase Price").

(b) Payment of Purchase Price. The Purchase Price shall be paid as follows:

(1) At the Closing, the Sellers shall deliver to the Buyer a certificate signed by the Sellers setting forth their good faith estimate of the Net Book Value as of the Closing Date (as defined in Article 2 hereof), which estimate (the "Estimated Net Book Value") shall be reasonably acceptable to the Buyer. At the Closing, an amount equal to the Purchase Price (for this purpose only, calculated based upon the Estimated Net Book Value), less the Preferred Stock (as defined in Section 1.2(b)(2) below), shall be payable in cash by the Buyer to the Sellers by wire transfer of immediately available funds to the account or accounts of the Sellers, which shall be designated by the Sellers in writing at least one full Business Day prior to the Closing Date, pro rata according to the percentages set forth opposite their respective names on Exhibit A hereto. For purposes of this Agreement, a "Business Day" is a day other than a Saturday, a Sunday or a day on which banks are required to be closed in the State of Tennessee.

(2) (I) At the Closing, the Buyer shall issue to the Sellers, pro rata according to the respective percentages specified opposite their names on Exhibit A hereto, that number of shares of the Buyer's Convertible Preferred Stock obtained by dividing 51% of the Purchase Price (for this purpose only, calculated based upon the Estimated Net Book Value) by $1,000, but in no event more than 5,100 shares (the "Preferred Stock"). The Preferred Stock will be convertible into shares of the Buyer's Class A Common Stock (the "Common Stock") having an aggregate market value at the time of conversion equal to the number of shares of Preferred Stock multiplied by $1,000, as more specifically provided in the Statement of Rights and Preferences attached as Exhibit C-1 hereto. At the Closing, all but 1,000 shares of the Preferred Stock will be delivered to the Sellers pro rata according to the respective percentages specified opposite their names on Exhibit A hereto and 1,000 shares of the Preferred Stock (the "Pledged Shares") shall be retained and held by the Buyer in accordance with the pledge agreement in the form of Exhibit B hereto (the "Pledge Agreement"). The Preferred Stock may include fractional shares (rounded to the nearest four decimal points); provided, however, upon conversion of the Preferred Stock, no fractional shares of Common Stock shall be issued. At the Closing, the Buyer

will deliver to the Sellers the agreement of Sonic Financial Corporation, guaranteed by O. Bruton Smith, in the form of Exhibit C-2 hereto (the "Liquidity Agreement").

(II) The Buyer shall use its reasonable best efforts to make available current public information with respect to the Buyer within the meaning of Subsection (c)(1) of Securities and Exchange Commission Rule 144 ("Rule 144") to the extent necessary to facilitate public resales by the Sellers of the Buyer's Common Stock issuable upon conversion of the Preferred Stock, pursuant to Rule 144. The Buyer shall remove any and all stop transfer instructions and shall remove any restrictive legend on the certificates with respect to any such Common Stock then owned by the Sellers to the extent that either (i) such Common Stock may hereafter be registered under the Securities Act of 1933, as amended, and under any applicable state securities or blue sky laws, or (ii) the Buyer has received an opinion of counsel satisfactory to the Buyer, in form and substance satisfactory to the Buyer, that such registration is not required.

(III) The Buyer will pay to the respective Sellers a conversion forbearance fee on each share of the Preferred Stock, or portion thereof, at the annual rate of $60.00 per whole share of Preferred Stock. Such fee shall accrue on a daily basis (based upon a 365 day year) until the earlier of (A) the receipt by the respective Sellers of the net proceeds of the sale of

the Common Stock issued upon conversion of the respective shares of the Preferred Stock, plus any amounts required to be paid pursuant to the Liquidity Agreement with respect thereto, or (B) the termination of the Liquidity Agreement with respect to such shares of Preferred Stock and/or the shares of Common Stock issued on conversion thereof, or (C) two (2) years and ninety (90) days from the Closing Date. Such fee shall be payable quarterly in arrears on each January 1, April 1, July 1 and October 1 for the fee accrued for the quarter, or portion thereof, immediately preceding such payment date.

(c) Net Book Value Determination.

(1) Not later than 60 days after the Closing Date, the Sellers, acting through Freeman Smith (the "Sellers' Agent"), will prepare and deliver to the Buyer an unaudited balance sheet (the "Closing Balance Sheet") of the Corporation as of the Closing Date, consisting of a computation of the tangible net book value of the tangible assets of the Corporation as of the Closing Date, including accounts receivable, notes receivable and prepaid expenses of an ordinary and recurring nature (excluding amounts receivable from the Sellers and their Affiliates (as defined in Section 1.4(a) below) as of the Closing Date), less the book value of the liabilities of the Corporation as of the Closing Date (excluding amounts payable by the Corporation to the Sellers and their Affiliates), all as determined in accordance with the same accounting principles utilized in preparing the Corporation's tax basis balance sheet as at December 31, 1997 included in the Financial Statements (as defined in Section 3.13(a)); provided, however, that (A) new vehicles shall be valued at actual invoice cost, plus dealer installed options, less factory holdback and any and all reserves reflected on the Closing Balance Sheet relating to the use of the last-in, first out (LIFO) method of accounting will be added to book value, (B) used vehicle inventories shall be valued as mutually agreed by the Buyer and the Sellers' Agent, based upon a physical inventory to be conducted by them not later than the Business Day immediately preceding the Closing Date, with any used vehicles as to which the Buyer and the Sellers' Agent cannot reach agreement as to value being valued by a mutually acceptable third party appraiser not later than the Closing Date, (C) parts inventories shall include only Honda returnable parts, which shall be valued based on the value of such returnable parts under applicable returnable parts plans with Honda prior to the deduction by Honda of any charge in the nature of a restocking charge, and salable non-Honda parts shall be valued at net book value, (D) no real property and related mortgage indebtedness of the Corporation shall be included in the computation of the tangible net book value of the assets and liabilities of the Corporation, it being understood by the parties that the Sellers will cause the Corporation to distribute to the Sellers all of the real property owned by the Corporation and related mortgage indebtedness immediately prior to, and in anticipation of, the Closing, (E) the assets of the Corporation shall reflect the dividend(s) contemplated by Schedule 5.5 hereto, (F) the liabilities of the Corporation shall include any tax liabilities associated with (i) such distribution of such real property to the Sellers utilizing a fair market value for such property which is mutually agreed to by the Sellers' Agent and the Buyer or, failing such agreement, determined by a nationally recognized appraisal firm selected by the Buyer and reasonably acceptable to the Sellers' Agent, and (ii) the conversion from the LIFO method of accounting to the first-in, first-out (FIFO) method of accounting, and (G) there shall be included appropriate write-offs for doubtful accounts receivable and bad debts and for damaged, spoiled, obsolete or slow-moving inventory. To the extent that any write down of value of any used vehicle would ultimately result in a tax benefit to the Corporation when such vehicle was sold, such tax benefit will be

reflected in the Closing Balance Sheet. The tangible net book value reflected on the Closing Balance Sheet is hereinafter called the "Net Book Value". The Buyer shall give to the Sellers' Agent and its authorized agents and representatives full access, during normal business hours and on reasonable prior notice, to the books and records of the Corporation to enable the Sellers' Agent to prepare the Closing Balance Sheet. The out-of-pocket fees and expenses of the Sellers' Agent incurred in the preparation of the Closing Balance Sheet (but not in connection with any dispute under Section 1.2(c)(2) below) shall be paid by the Buyer.

(2) If within 30 days following delivery of the Closing Balance Sheet (or the next Business Day if such 30th day is not a Business Day), the Buyer has not given the Sellers' Agent notice of the Buyer's objection to the computation of the Net Book Value as set forth in the Closing Balance Sheet (such notice to contain a statement in reasonable detail of the nature of the Buyer's objection), then the Net Book Value reflected in the Closing Balance Sheet will be deemed mutually agreed by the Buyer and the Sellers. During such 30 day period, the Sellers' Agent shall give to the Buyer and its authorized agents and representatives full access, during normal business hours and on reasonable prior notice, to the books and records of the Sellers' Agent and the work papers of its accountants to enable the Buyer to determine the manner in which the Closing Balance Sheet was prepared. If the Buyer shall have given such notice of objection in a timely manner, then the issues in dispute will be submitted to a "Big Six" accounting firm mutually acceptable to the Buyer and the Sellers' Agent (the "Accountants") for resolution. If issues in dispute are submitted to the Accountants for resolution, (1) each party will furnish to the Accountants such workpapers and other documents and information relating to the disputed issues as the Accountants may request and are available to the party or its subsidiaries (or its independent public accountants), and will be afforded the opportunity to present to the Accountants any material relating to the determination and to discuss the determination with the Accountants; (2) the Accountants will be instructed to determine the Net Book Value based upon their resolution of the issues in dispute; (3) such determination by the Accountants of the Net Book Value, as set forth in a notice delivered to both parties by the Accountants, will be binding and conclusive on the parties; and (4) the Buyer and the Sellers shall each bear 50% of the fees and expenses of the Accountants for such determination.

(3) If the Net Book Value, as deemed mutually agreed by the parties or as determined by the Accountants, as aforesaid, equals or exceeds the Estimated Net Book Value, the Buyer shall deliver 500 of the Pledged Shares to the Sellers pursuant to the Pledge Agreement (except to the extent of any pending claim by the Buyer for indemnification pursuant to this Agreement). To the extent that the Net Book Value, as deemed mutually agreed by the parties or as determined by the Accountants, as aforesaid, exceeds the Estimated Net Book Value (the "Net Book Value Excess"), the Buyer shall be obligated to pay in cash, in immediately available funds, the Net Book Value Excess promptly to the Sellers, together with interest on the amount of the Net Book Value Excess at the Buyer's floor plan financing rate from time to time in effect (the "Interest Rate") from the Closing Date to the date of such payment. As of the date hereof, the Interest Rate is prime rate less ninety (90) basis points. To the extent that the Net Book Value, as deemed mutually agreed by the parties or as determined by the Accountants, as aforesaid, is less than the Estimated Net Book Value (the "Net Book Value Shortfall"), the Sellers shall be obligated, jointly and severally, to pay the amount of the Net Book Value Shortfall, together with interest on such amount at the Interest Rate from the Closing Date to the date of such payment, promptly to the Buyer. In furtherance of (but not by way of limitation of)

such obligation of the Sellers, the Buyer shall be entitled to transfer into its own name and retain up to 500 of the Escrow Shares, with any remaining balance of such 500 of the Pledged Shares to be delivered to the Sellers pursuant to the Pledge Agreement (except to the extent of any pending claim by the Buyer for indemnification pursuant to this Agreement).

1.3 Delivery of the Shares.

(a) At the Closing, each Seller shall deliver to the Buyer a certificate or certificates representing the number of Shares set forth opposite such Seller's name on Exhibit A hereto, duly endorsed in blank or with a fully executed stock power attached, all in proper form for transfer with all transfer taxes, if any, paid by such Seller.

(b) The Shares shall be delivered to the Buyer free and clear of all liens, pledges, encumbrances, claims, security interests, charges, voting trusts, voting agreements, other agreements, rights, options, warrants or restrictions or claims of any kind, nature or description (collectively, "Encumbrances").

1.4 Dealership Leases; Non-Competition Agreement.

(a) Dealership Leases. At the Closing, Freeman Smith and/or his Affiliates (as hereinafter defined), as lessors, will enter into lease agreements with the Buyer, as lessee, regarding the Leased Premises (as defined in Section 3.16(b) below) owned by them, such lease agreements to be substantially in the form of Exhibit D hereto (the "Dealership Leases"). For purposes of this Agreement, the term "Affiliate" shall mean any entity directly or indirectly controlling, controlled by or under common control with the specified person, whether by stock ownership, agreement or otherwise, or any parent, child or sibling of such specified person and the concept of "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such person or entity, whether through the ownership of voting securities, by contract or otherwise.

(b) Non-Competition Agreement. At the Closing, the Sellers will enter into a non-competition agreement with the Buyer and the Corporation, such non-competition agreement to be substantially in the form of Exhibit E hereto (the "Non-Competition Agreement"). The parties hereto agree that the amount of the Purchase Price allocated to the Non-Competition Agreement is $10,000.

ARTICLE 2
CLOSING

The Closing shall take place at the offices of Baker, Donelson, Bearman & Caldwell, 1800 Republic Centre, 633 Chestnut Street, Chattanooga, Tennessee at 11:00 a.m., local time, on the Closing Date. The Closing Date shall be the fifth (5th) Business Day, or such shorter period as the Buyer may choose, following the date the Buyer gives notice of the Closing to the Sellers, but in no event later than sixty (60) calendar days after the date of this Agreement (the "Closing Date Deadline"); provided, however, if as of the Closing Date Deadline, the consents or

approvals of Honda (or any subsidiary or affiliate of Honda, as may be required) to the sale of the Shares pursuant hereto shall not have been obtained and/or the audited financial statements contemplated by Section 7.13 shall not have been completed, the Buyer may, so long as it is using its reasonable best efforts to obtain such consents or approvals and/or to complete such financial statements, elect to extend the Closing Date Deadline for up to an additional 60 days. The date upon which the Closing shall take place is hereinafter called the "Closing Date".

ARTICLE 3
Representations and Warranties of the Sellers

Each of the Sellers hereby represents and warrants to the Buyer, severally with respect to the matters set forth in Sections 3.1 through 3.6, inclusive, and jointly and severally with respect to all other matters set forth in this Article 3, as follows:

3.1 Ownership of Shares. Each Seller owns of record and beneficially the number of Shares set forth opposite such Seller's name on Exhibit A hereto. Each Seller has, and will have at the time of the Closing, good and valid title to the Shares to be sold by such Seller hereunder, free and clear of all Encumbrances.

3.2 Sellers' Power and Authority; Consents and Approvals.

(a) Each Seller has full capacity, right, power and authority to execute and deliver this Agreement and the other agreements, documents and instruments to be executed and delivered by each Seller in connection herewith, to consummate the transactions contemplated hereby and thereby and to perform its obligations hereunder and thereunder.

(b) Except as set forth on Schedule 3.2(b) hereto, no authorization, approval or consent of, or notice to or filing or registration with, any governmental agency or body, or any other third party, is required in connection with the execution and delivery by each Seller of this Agreement and the other agreements, documents and instruments to be executed and delivered by each Seller in connection herewith, the consummation of the transactions contemplated hereby and thereby and the performance by each Seller of his obligations hereunder and thereunder.

3.3 Execution and Enforceability. This Agreement and the other agreements, documents and instruments to be executed by the Sellers in connection herewith, and the consummation by each Seller of the transactions contemplated hereby and thereby, have been duly authorized, executed and delivered by each Seller and constitute, and the other agreements, documents and instruments contemplated hereby, when executed and delivered by each Seller, shall constitute, the legal, valid and binding obligations of each Seller, enforceable against each such Seller in accordance with their respective terms, except to the extent that enforceability may be limited by bankruptcy, insolvency and other similar laws affecting the enforcement of creditors' rights generally.

3.4 Litigation Regarding Sellers. There are no actions, suits, claims, investigations or legal, administrative or arbitration proceedings pending or, to each Sellers' knowledge,

threatened or probable of assertion, against any Seller relating to the Shares, this Agreement or the transactions contemplated hereby before any court, governmental or administrative agency or other body. None of the Sellers knows of any basis for the institution of any such suit or proceeding. No judgment, order, writ, injunction, decree or other similar command of any court or governmental or administrative agency or other body has been entered against or served upon any Seller relating to the Shares, this Agreement or the transactions contemplated hereby.

3.5 Interest in Competitors and Related Entities; Certain Transactions.

(a) Except as set forth on Schedule 3.5 hereto, no Seller and no Affiliate of any Seller has any direct or indirect interest in any person or entity engaged or involved in any business which is competitive with the business of the Corporation; provided, however, that the foregoing representation and warranty shall not apply to any person or entity, or any interest or agreement with any person or entity, which is a publicly held corporation in which such Seller individually owns less than 3% of the issued and outstanding voting stock.

(b) Except as set forth in Schedule 3.5 hereto, there are no contracts, agreements or other arrangements between the Corporation and any of (i) the Sellers (including the Sellers' Affiliates), (ii) the directors, officers or salaried employees of the Corporation, or (iii) the family members or Affiliates of any of such directors and officers (other than for services as employees, officers and directors), providing for the furnishing of services to or by, or the rental of real or personal property to or from, or otherwise requiring payments to or from, (x) any of the Sellers, (y) any such officer, director, salaried employee, family member or Affiliate, or (z) any corporation, partnership, trust or other entity in which such family member, Affiliate, officer, director or employee has a substantial interest or is a shareholder, officer, director, trustee or partner.

3.6 Sellers Not Foreign Persons. Each Seller is a "United States person" as that term is defined in Section 7701(a)(30) of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder.

3.7 Organization; Good Standing; Qualifications; and Power. The Corporation is a corporation duly organized, validly existing and in good standing under the laws of the State of Tennessee and has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted. The Corporation is qualified to do business as a foreign corporation and is in good standing in each of the jurisdictions listed on Schedule 3.7 hereto, which are the only jurisdictions where the nature of its business and assets requires such qualification.

3.8 Capitalization. The authorized capital stock of the Corporation is as set forth on Schedule 3.8 hereto. All of the Shares are duly authorized, validly issued, fully paid and non-assessable and are held by the Sellers in the amounts indicated on Exhibit A hereto. Except as set forth on Schedule 3.8 hereto, there are no preemptive rights, whether at law or otherwise, to purchase any of the securities of the Corporation and there are no outstanding options, warrants, "phantom" stock plans, subscriptions, agreements, plans or other commitments pursuant to which the Corporation is or may become obligated to sell or issue any shares of its capital stock or any other debt or equity security, and there are no outstanding securities convertible into

shares of such capital stock or any other debt or equity security.

3.9 Subsidiaries and Investments. The Corporation does not own or maintain, directly or indirectly, any capital stock of or other equity or ownership or proprietary interest in any other corporation, partnership, association, trust, joint venture or other entity and does not have any commitment to contribute to the capital of, make loans to, or share in the losses of, any such entity.

3.10 No Violation; Conflicts. Except as set forth on Schedule 3.10 hereto, the execution and delivery by the Sellers of this Agreement and the other agreements, documents and instruments to be executed and delivered by the Sellers in connection herewith, the consummation by the Sellers of the transactions contemplated hereby and thereby and the performance by the Sellers of their respective obligations hereunder and thereunder do not and will not (a) conflict with or violate any of the terms of the Articles of Incorporation or By-Laws of the Corporation, (b) violate or conflict with any law, ordinance, rule or regulation, or any judgment, order, writ, injunction, decree or similar

command of any court, administrative or governmental agency or other body, applicable to the Corporation, (c) violate or conflict with the terms of, or result in the acceleration of, any indebtedness or obligation of the Corporation under, or violate or conflict with or result in a breach of, or constitute a default under, any indenture, mortgage, deed of trust, agreement or instrument to which the Corporation is a party or by which the Corporation or any of its assets or properties is bound or affected, (d) result in the creation or imposition of any Encumbrance of any nature upon any of the assets or properties of the Corporation, (e) constitute an event permitting termination of any agreement, license or other right of the Corporation, or (f) require any authorization, approval or consent of, or any notice to or filing or registration with, any governmental agency or body, or any other third party, applicable to the Corporation or any of its properties or assets.

3.11 Title to Assets; Related Matters. The Corporation has, and, except as set forth on Schedule 3.11 hereto, on the Closing Date will have, good and valid title to all assets, rights, interests and other properties, real, personal and mixed, tangible and intangible, owned by it, including the real property which will become the Leased Premises as of the Closing Date (collectively, the "Assets"), free and clear of all Encumbrances, except those specified on Schedule 3.11 and liens for taxes not yet due and payable. The Assets (a) include all properties and assets (real, personal and mixed, tangible and intangible) owned by the Corporation; (b) do not include (i) any contracts for future services, prepaid items or deferred charges the full value or benefit of which will not be usable by or transferable to the Buyer, or (ii) any goodwill, organizational expense or other similar intangible asset.

3.12 Possession. The tangible assets included within the Assets are in the possession or control of the Corporation and no other person or entity has a right to possession or claims possession of all or any part of such Assets, except the rights of lessors of Leased Equipment and Leased Premises (each as defined in Section 3.16 hereof) under their respective contracts and leases.

3.13 Financial Statements.

(a) The Sellers have delivered to the Buyer prior to the date hereof:

(i) the Corporation's federal income tax returns on Form 1120 for the years ended December 31, 1995, 1996 and 1997 (the balance sheets and income statements included in such tax returns being hereinafter collectively called the "Annual Financial Statements"); and

(ii) the monthly and year to date financial statements provided to Honda through the date hereof (collectively, the "Interim Financial Statements") (the Annual Financial Statements and the Interim Financial Statements are hereinafter collectively referred to as the "Financial Statements").

(b) Except as set forth on Schedule 3.13 hereto, (i) the Annual Financial Statements are in accordance with the books and records of the Corporation, which books and records are true, correct and complete in all material respects, (ii) the Financial Statements fairly present the financial position of the Corporation as of the dates indicated and the results of operation of the Corporation for the periods indicated in the form prescribed by Honda except that the Interim Financial Statements contain estimates that are subject to year end adjustment, and (iii) the Financial Statements have been prepared in accordance with the income tax basis of accounting consistently applied. The Corporation maintains its books and records, and prepares its financial statements, in accordance with the income tax basis of accounting. Schedule 3.13 sets forth certain material differences between the income tax basis of accounting and generally accepted accounting principles.

3.14 Accounts Receivable. The accounts receivable of the Corporation are collectible in the aggregate recorded amounts thereof and are not subject to any known counterclaims or setoffs.

3.15 Inventories. Except as set forth on Schedule 3.15 hereto, all inventories of the Corporation consist of items of a quality and quantity usable and saleable in the ordinary course of business of the Corporation, and the levels of inventories are consistent with the levels maintained by the Corporation in the ordinary course consistent with past practice and the Corporation's obligations under its agreements with all applicable vehicle manufacturers and distributors. The values at which such inventories are carried are based on the LIFO method in the case of new vehicle inventories and the FIFO method in the case of all other inventories. All such values are stated in accordance with tax basis accounting principles consistently applied by the Sellers.

3.16 Real Property; Machinery and Equipment.

(a) Owned Real Property. As of the Closing Date, the Corporation

will own no real property.

(b) Leased Premises. Schedule 3.16(b) hereto contains a complete list and description of all real property (including buildings and other structures thereon) which the Corporation uses in the conduct of its business. Except as set forth on Schedule 3.16(b) hereto, all of such real property (herein collectively referred to as the "Leased Premises" or the "Real Property") will be leased to the Corporation pursuant to the Dealership Leases. As of the date hereof, the Corporation does not, and as of the Closing Date the Corporation will not (except for the Dealership Leases), lease any real property from any person. To the knowledge of the Sellers, except as set forth on Schedule 3.16(b) hereto, the Leased Premises are in good physical condition, ordinary wear and tear excepted. Except as set forth on Schedule 3.16(b) hereto, the Sellers have no knowledge of any event or condition which currently exists which (i) would create a material legal or other impediment to the continued use by the Corporation of the Leased Premises as currently used or the lease of the Leased Premises to the Corporation pursuant to the Dealership Leases, or (ii) would materially increase the additional charges or other sums payable by the Corporation under the Dealership Leases (including, without limitation, any pending tax reassessment or other special assessment affecting the Leased Premises). The improvements and building systems which comprise a part of the Leased Premises as to which the Corporation is responsible for the maintenance and repair thereof are in good condition, maintenance and repair, ordinary wear and tear excepted.

(c) Easements, Condemnation, Etc. Except as set forth on Schedule 3.16(c), the Real Property enjoys all easements and rights, including, but not limited to, easements for power lines, water lines, sewers, roadways and other means of ingress and egress, necessary to conduct the business the Corporation now conducts, all such easements and rights are unconditional appurtenant rights to the Real Property, which are for at least the applicable lease terms (including renewals and extensions) under the Dealership Leases, and none of such easements or rights are subject to any forfeiture or divestiture rights. Except as set forth on Schedule 3.16(c), none of the Real Property is in the process of being condemned, expropriated, ordered to be sold or otherwise taken by any public authority, with or without payment or compensation therefor, and the Sellers have no knowledge of any such threatened condemnation, expropriation, sale or taking.

(d) Zoning, Etc. Except as set forth on Schedule 3.16(d) hereto, none of the Real Property is in violation in any material respect of any public or private restriction or any law or any building, zoning, health, safety, fire or other law, ordinance, code or regulation, and no notice from any governmental body has been served upon the Corporation or upon any of the Real Property claiming any violation of any such law, ordinance, code or regulation or requiring or calling to the attention of the Corporation the need for any work, repair, construction, alterations or installation on or in connection with said properties which has not been complied with. Except as set forth on Schedule 3.16(d) hereto, all improvements which comprise a part of the Real Property are located within the record lines of the Real Property and none of the improvements located on the Real Property encroach upon any adjoining property or any easements or rights of way and no improvements located on any adjoining property encroach upon any of the Real Property or any easements or rights of way servicing the Real Property.

(e) Owned Equipment. Schedule 3.16(e) hereto sets forth a list of all material machinery, equipment, motor vehicles (other than inventory), furniture and fixtures owned by the Corporation (collectively, the "Owned Equipment").

(f) Leased Equipment. Schedule 3.16(f) hereto contains a list of all leases or other agreements, whether written or oral, under which the Corporation is lessee of or holds or operates any items of machinery, equipment, motor vehicles, furniture and fixtures or other property (other than real property) owned by any third party (collectively, the "Leased Equipment").

(g) Maintenance of Equipment. Except as set forth on Schedule 3.16(g) hereto, the Owned Equipment and the Leased Equipment are in good operating condition, maintenance and repair in accordance with industry standards taking into account the age thereof.

3.17 Patents; Trademarks; Trade Names; Copyrights; Licenses, Etc.

(a) Except as set forth on Schedule 3.17 hereto, there are no patents, trademarks, trade names, service marks, service names and copyrights, and there are no applications therefor or licenses thereof, inventions, trade secrets, computer software, logos, slogans, proprietary processes and formulae and all other proprietary information, know-how and intellectual property rights, whether patentable or unpatentable, that are owned or leased by the

Corporation or used in the conduct of the Corporation's business. The Corporation is not a party to, nor pays a royalty to anyone under, any license or similar agreement. There is no existing claim, or, to the knowledge of the Sellers, any basis for any claim, against the Corporation that any of its operations, activities or products infringe the patents, trademarks, trade names, copyrights or other property rights of others or that the Corporation is wrongfully or otherwise using the property rights of others.

(b) The Corporation has the right to use the name "Economy Honda" and the other names listed on Schedule 3.17 hereto in the State of Tennessee and, to the knowledge of the Sellers, no person uses, or has the right to use, such name or any derivation thereof in connection with the manufacture, sale, marketing or distribution of products or services commonly associated with an automobile dealership.

3.18 Certain Liabilities.

(a) All accounts payable by the Corporation to third parties as of the date hereof arose in the ordinary course of business and none are delinquent or past-due.

(b) Schedule 3.18 hereto sets forth a list of all indebtedness of the Corporation, other than accounts payable and accrued liabilities in the ordinary course, as of the close of business on the day preceding the date hereof, including, without limitation, money borrowed, indebtedness of the Corporation owed to stockholders and former stockholders, the deferred purchase price of assets, letters of credit and capitalized leases, indicating, in each case, the name or names of the lender, the date of maturity, the rate of interest, any prepayment

penalties or premiums and the unpaid principal amount of such indebtedness as of such date.

3.19 No Undisclosed Liabilities. The Corporation does not have any material liabilities or obligations of any nature, known or unknown, fixed or contingent, matured or unmatured, other than those (a) reflected in the Financial Statements, (b) incurred in the ordinary course of business since the date of the Financial Statements and of the type and kind reflected in the Financial Statements, or (c) disclosed specifically on Schedule 3.18 or Schedule 3.19 hereto.

3.20 Absence of Changes. Since December 31, 1997, the business of the Corporation has been operated in the ordinary course, consistent with past practices and, except as set forth on Schedule 3.20 hereto, there has not been incurred, nor has there occurred: (a) Any damage, destruction or loss (whether or not covered by insurance), adversely affecting the business or assets of the Corporation in excess of $100,000; (b) Any strikes, work stoppages or other labor disputes involving the employees of the Corporation; (c) Any sale, transfer, pledge or other disposition of any of the Assets of the Corporation having an aggregate book value of $100,000 or more (except sales of vehicles and parts inventory in the ordinary course of business); (d) Any amendment, termination, waiver or cancellation of any Material Agreement (as defined in Section 3.29 hereof) or any termination, amendment, waiver or cancellation of any material right or claim of the Corporation under any Material Agreement (except in each case in the ordinary course of business and consistent with past practice); (e) Any (1) general uniform increase in the compensation of the employees of the Corporation (including, without limitation, any increase pursuant to any bonus, pension, profit-sharing, deferred compensation or other plan or commitment), (2) increase in any such compensation payable to any individual officer, director, consultant or agent thereof, or (3) loan or commitment therefor made by the Corporation to any officer, director, stockholder, employee, consultant or agent of the Corporation; (f) Any change in the accounting methods, procedures or practices followed by the Corporation or any change in depreciation or amortization policies or rates theretofore adopted by the Corporation; (g) Any material change in policies, operations or practices of the Corporation with respect to business operations followed by the Corporation, including, without limitation, with respect to selling methods, returns, discounts or other terms of sale, or with respect to the policies, operations or practices of the Corporation concerning the employees of the Corporation; (h) Any capital appropriation or expenditure or commitment therefor on behalf of the Corporation in excess of $50,000 individually or $100,000 in the aggregate; (i) Any write-down or write-up of the value of any inventory or equipment of the Corporation or any increase in inventory levels in excess of historical levels for comparable periods; (j) Any account receivable in excess of $50,000 or note receivable in excess of $50,000 owing to the Corporation which (1) has been written off as uncollectible, in whole or in part, (2) has had asserted against it any claim, refusal or right of setoff, or (3) the account or note debtor has refused to, or threatened not to, pay for any reason, or such account or note debtor has become insolvent or bankrupt; (k) Any other change in the condition (financial or otherwise), business operations, assets, earnings, business or prospects of the Corporation which, in the judgment of the Sellers, has, or could reasonably be expected to have, a material adverse effect

on the assets, business or operations of the Corporation; (l) Any declaration or payment of any dividend or distribution of the Corporation's assets or any redemption, repurchase or other acquisition by the Corporation of any shares of its capital stock; or (m) Any agreement, whether in writing or otherwise, for the Corporation to take any of the actions enumerated in this Section 3.20.

3.21 Tax Matters.

(a) Except as set forth on Schedule 3.21 hereto, all federal, state and local tax returns and tax reports required as of the date hereof to be filed by the Corporation for taxable periods ending prior to the date hereof have been duly and timely filed prior to the due date thereof (as such due date may have been lawfully extended) by the Corporation with the appropriate governmental agencies, and all such returns and reports are true, correct and complete.

(b) Except as set forth on Schedule 3.21 hereto, all federal, state and local income, profits, franchise, sales, use, occupation, property, excise, payroll, withholding, employment, estimated and other taxes of any nature, including interest, penalties and other additions to such taxes ("Taxes"), payable by, or due from, the Corporation for all periods prior to the date hereof have been fully paid or adequately reserved for by the Corporation or, with respect to Taxes required to be accrued, the Corporation has properly accrued or will properly accrue such Taxes in the ordinary course of business consistent with past practice of the Corporation.

(c) The federal income tax returns of the Corporation have not been examined by the Internal Revenue Service ("IRS") for the years listed on Schedule 3.21 hereto. Except as set forth on Schedule 3.21 hereto, the Corporation has not received any notice of any assessed or proposed claim or deficiency against it in respect of, or of any present dispute between it and any governmental agency concerning, any Taxes. Except as set forth on Schedule 3.21 hereto, no examination or audit of any tax return or report of the Corporation by any applicable taxing authority is currently in progress and there are no outstanding agreements or waivers extending the statutory period of limitation applicable to any tax return or report of the Corporation. Copies of all federal, state and local tax returns and reports required to be filed by the Corporation for the years ended 1997, 1996, 1995, 1994, 1993 and 1992, together with all schedules and attachments thereto, have been delivered by the Sellers to the Buyer.

(d) Except as set forth on Schedule 3.21 hereto, the Corporation is not now, and has never been, a member of a consolidated group for federal income tax purposes or a consolidated, combined or similar group for state tax purposes. No consent under Code Section 341 has been made affecting the Corporation. The Corporation is not a party to any agreement or arrangement that would result in the payment of any "excess parachute payments" under Code Section 280G. The Corporation is not required to make any adjustment under Code Section 481(a). No power of attorney relating to Taxes is currently in effect affecting the Corporation.

3.22 Compliance with Laws, Etc. The Corporation has conducted its operations and business in compliance in all material respects with, and all of the Assets (including all of the Real Property) comply in all material respects with, (i) all applicable laws, rules, regulations and codes (including, without limitation, any laws, rules, regulations and codes relating to anticompetitive practices, contracts, discrimination, employee benefits, employment, health, safety, fire, building and zoning, but excluding Environmental Laws which are the subject of Section 3.36 hereof) and (ii) all applicable orders, rules, writs, judgments, injunctions, decrees and ordinances. The Corporation has not received any notification of any asserted present or past failure by it to comply with such laws, rules or regulations, or such orders, writs, judgments, injunctions, decrees or ordinances. Set forth on Schedule 3.22 hereto are all orders, writs,

judgments, injunctions, decrees and other awards of any court or governmental agency applicable to the Corporation or its business or operations. The Sellers have delivered to the Buyer copies of all reports, if any, of the Corporation required to be submitted during the period from January 1, 1995 to the date hereof under the Federal Occupational Safety and Health Act of 1970, as amended, and under all other applicable health and safety laws and regulations. Except as set forth on Schedule 3.22 hereto, the deficiencies, if any, noted on such reports have been corrected by the Corporation and any deficiencies noted by inspection through the Closing Date will have been corrected by the Corporation by the Closing Date.

3.23 Litigation Regarding the Corporation. Except as set forth on Schedule 3.23 hereto, there are no actions, suits, claims, investigations or legal, administrative or arbitration proceedings pending, or, to the Sellers' knowledge, threatened or probable of assertion, against the Corporation or

relating to its assets, business or operations or the transactions contemplated by this Agreement, and the Sellers do not know of any reasonable basis for the institution of any such suit or proceeding. Except as set forth on Schedule 3.22 hereto, no order, writ, judgment, injunction, decree or similar command of any court or any governmental or administrative agency or other body has been entered against or served upon the Corporation relating to the Corporation or its assets, business or operations.

3.24 Permits, Etc. Set forth on Schedule 3.24 hereto is a list of all governmental licenses, permits, approvals, certificates of inspection and other authorizations, filings and registrations that are necessary for the Corporation to own and operate its business as presently conducted in all material respects (collectively, the "Permits"). Except as set forth on Schedule 3.24 hereto, all such Permits have been duly and lawfully secured or made by the Corporation and are in full force and effect. Except as set forth on Schedule 3.24 hereto, there is no proceeding pending, or, to the Sellers' knowledge, threatened or probable of assertion, to revoke or limit any such Permit. None of the transactions contemplated by this Agreement will terminate, violate or limit the effectiveness of any such Permit.

3.25 Employees; Labor Relations. As of the date hereof, the Corporation employs the total number of employees set forth on Schedule 3.25 hereto. As of the date hereof, except as set forth on Schedule 3.25 hereto (a) the Corporation is not delinquent in the payment (i) to or on behalf of its past or present employees of any wages, salaries, commissions, bonuses, benefit plan contributions or other compensation for all periods prior to the date hereof, or (ii) of any amount which is due and payable to any state or state fund pursuant to any workers' compensation statute, rule or regulation or any amount which is due and payable to any workers' compensation claimant; (b) there are no collective bargaining agreements currently in effect between the Corporation and labor unions or organizations representing any employees of the Corporation; (c) no collective bargaining agreement is currently being negotiated by the Corporation; (d) to the knowledge of the Sellers, there are no union organizational drives in progress and there has been no formal or informal request to the Corporation for collective bargaining or for an employee election from any union or from the National Labor Relations Board; and (e) no dispute exists between the Corporation and any of its sales representatives or, to the knowledge of the Sellers, between any such sales representatives with respect to territory, commissions, products or any other terms of their representation.

3.26 Compensation. Schedule 3.26 contains a schedule of all employees (including

sales representatives) and consultants of the Corporation whose individual cash compensation for the year ended December 31, 1996, or projected for the year ended December 31, 1997, is in excess of $100,000, together with the amount of total compensation paid to each such person for the twelve month period ended December 31, 1996 and the current aggregate base salary or hourly rate (including any bonus or commission) for each such person.

3.27 Employee Benefits.

(a) The Sellers have listed on Schedule 3.27 and have delivered to the Buyer true and complete copies of all Employee Plans (as defined below) and related documents, established, maintained or contributed to by the Corporation (which shall include for this purpose and for the purpose of all of the representations in this Section 3.27, the Sellers and all employers, whether or not incorporated, that are treated together with the Corporation as a single employer with the meaning of Section 414 of the Code). The term "Employee Plan" shall include all plans described in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and also shall include, without limitation, any deferred compensation, stock, employee or retiree pension benefit, welfare benefit or other similar fringe or employee benefit plan, program, policy, contract or arrangement, written or oral, qualified or nonqualified, funded or unfunded, foreign or domestic, covering employees or former employees of the Corporation and maintained or contributed to by the Corporation.

(b) Where applicable, each Employee Plan (i) has been administered in material compliance with the terms of such Employee Plan and the requirements of ERISA and the Code; and (ii) is in material compliance with the reporting and disclosure requirements of ERISA and the Code. The Corporation does not maintain or contribute to, and has never maintained or contributed to, an Employee Plan subject to Title IV of ERISA or a "multiemployer plan" or a plan subject to Section 412 of the Code. There are no facts relating to any Employee Plan that (i) have resulted in a "prohibited transaction" of a material nature or have resulted or is reasonably likely to result in the imposition of a material excise tax, penalty or liability pursuant to Section 4975 of the Code, or (ii) have resulted in a material breach of fiduciary duty or violation of Part 4 of Title I of ERISA. To the Sellers' knowledge, each Employee Plan that is intended to qualify under Section 401(a) or to be exempt under Section 501(c)(g) of the Code is so qualified or exempt as of the date hereof in each case as such

Employee Plan has received favorable determination letters from the Internal Revenue Service with respect thereto. To the knowledge of the Sellers, the amendments to and operation of any Employee Plan subsequent to the issuance of such determination letters do not adversely affect the qualified status of any such Employee Plan. No Employee Plan has an "accumulated funding deficiency" as of the date hereof, whether or not waived, and no waiver has been applied for. The Corporation has made no promises or incurred any liability under any Employee Plan or otherwise to provide health or other welfare benefits to former employees of the Corporation, except as specifically required by law. There are no pending or, to the best knowledge of the Sellers, threatened claims (other than routine claims for benefit) or lawsuits with respect to any of Corporation's Employee Plans. As used in this Section 3.27, all technical terms enclosed in quotation marks shall have the meaning set forth in ERISA.

(c) Sections 3.27(a) and 3.27(b) above shall not apply with respect to any Employee Plan in connection with any events occurring or facts arising after the Closing Date,

except to the extent such events or facts could reasonably have been prevented by any notice to the Buyer or other reasonable action of the Sellers prior to the Closing Date.

3.28 Powers of Attorney. Except as set forth on Schedule 3.28 hereto, there are no persons, firms, associations, corporations or business organizations or entities holding general or special powers of attorney from the Corporation.

3.29 Material Agreements.

(a) List of Material Agreements. Set forth on Schedule 3.29(a) hereto is a list or, where indicated, a brief description of all contracts, agreements, documents, instruments, guarantees, plans, understandings or arrangements, written or oral, which are material to the Corporation or its business or assets (collectively, the "Material Agreements"). True copies of all written Material Agreements and written summaries of all oral Material Agreements described or required to be described on Schedule 3.29(a) have been furnished to the Buyer.

(b) Performance, Defaults, Enforceability. The Corporation has in all material respects performed all of its obligations required to be performed by it to the date hereof, and is not in default or alleged to be in default in any material respect, under any Material Agreement, and there exists no event, condition or occurrence which, after notice or lapse of time or both, would constitute such a default. To the knowledge of the Sellers, no other party to any Material Agreement is in default in any respect of any of its obligations thereunder. Each of the Material Agreements is valid and in full force and effect and enforceable against the parties thereto in accordance with their respective terms, and, except as set forth in Schedule 3.29(b) hereto, the consummation of the transactions contemplated by this Agreement will not (i) require the consent of any party thereto or (ii) constitute an event permitting termination thereof.

3.30 Brokers' or Finders' Fees, Etc. No agent, broker, investment banker, person or firm acting on behalf of the Corporation or any of the Sellers or any person, firm or corporation affiliated with any of the Sellers or under their authority is or will be entitled to any brokers' or finders' fee or any other commission or similar fee directly or indirectly from any of the parties hereto in connection with the sale of the Shares contemplated hereby, other than any such fee or commission the entire cost of which will be borne by the Sellers.

3.31 Bank Accounts, Credit Cards, Safe Deposit Boxes and Cellular Telephones. Schedule 3.31 hereto lists all bank accounts, credit cards and safe deposit boxes in the name of, or controlled by, the Corporation, and all cellular telephones provided and/or paid for by the Corporation, and details about the persons having access to or authority over such accounts, credit cards, safe deposit boxes and cellular telephones.

3.32 Insurance.

(a) Schedule 3.32(a) hereto contains a list of all policies of liability, theft, fidelity, life, fire, product liability, workmen's compensation, health and any other insurance and bonds maintained by, or on behalf of, the Corporation on its properties, operations, inventories, assets, business or personnel (specifying the insurer, amount of coverage, type of insurance,

policy number and any pending claims in excess of $5,000 thereunder). Except as set forth on Schedule 3.32(a), each such insurance policy identified therein is and shall remain in full force and effect on and as of the Closing Date and the

Corporation is not in default with respect to any provision contained in any such insurance policy and has not failed to give any notice or present any claim under any such insurance policy in a due and timely fashion. The insurance maintained by, or on behalf of, the Corporation is adequate in accordance with the standards of business of comparable size in the industry in which the Corporation operates and no notice of cancellation or termination has been received with respect to any such policy. The Corporation has not, during the last three (3) fiscal years, been denied or had revoked or rescinded any policy of insurance.

(b) Set forth on Schedule 3.32(b) hereto is a summary of information pertaining to material property damage and personal injury claims in excess of $5,000 against the Corporation during the past five (5) years, all of which are fully satisfied or are being defended by the insurance carrier and involve no exposure to the Corporation.

3.33 Warranties. Set forth on Schedule 3.33 hereto are descriptions or copies of the forms of all express warranties and disclaimers of warranty made by the Corporation (separate and distinct from any applicable manufacturers', suppliers' or other third-parties' warranties or disclaimers of warranties) during the past five (5) years to customers or users of the vehicles, parts, products or services of the Corporation. Except as set forth on Schedule 3.33, there have been no breach of warranty or breach of representation claims against the Corporation during the past five (5) years which have resulted in any cost, expenditure or exposure to the Corporation of more than $100,000 individually or in the aggregate.

3.34 Directors and Officers. Set forth on Schedule 3.34 hereto is a true and correct list of the names and titles of each director and officer of the Corporation.

3.35 Suppliers and Customers. The Corporation is not required to provide bonding or any other security arrangements in connection with any transactions with any of its respective customers and suppliers. To the knowledge of the Sellers, no such supplier, customer or creditor intends or has threatened, or reasonably could be expected, to terminate or modify any of its relationships with the Corporation.

3.36 Environmental Matters.

(a) For purposes of this Agreement, the following terms shall have the following meaning: (i) "Environmental Law" means all present federal, state and local laws, statutes, regulations, rules, ordinances and common law, and all judgments, decrees, orders, agreements, or permits, issued, promulgated, approved or entered thereunder by any government authority relating to pollution, Hazardous Materials, worker safety or protection of human health or the environment; (ii) "Hazardous Materials" means any pollutant, hazardous material, hazardous substance, toxic substance, hazardous waste, special waste, solid waste, petroleum or petroleum-derived substance or waste (regardless of specific gravity), or any constituent or decomposition product of any such pollutant, material, substance or waste, including, but not limited to, any hazardous substance or hazardous constituent contained within any waste and any other pollutant, material, substance or waste, as regulated under or as defined by any applicable

Environmental Law.

(b) Except as set forth on Schedule 3.36, the Corporation has obtained all permits, licenses and other authorizations or approvals required under Environmental Laws for the conduct and operation of the Assets and the business of the Corporation ("Environmental Permits"). Except as set forth on Schedule 3.36, all such Environmental Permits are in good standing, the Corporation is and has been in compliance in all material respects with the terms and conditions of all such Environmental Permits, and no appeal or any other action is pending or, to the knowledge of the Sellers, threatened to revoke any such Environmental Permit.

(c) Except as disclosed on Schedule 3.36, the Corporation and its business, operations and the Assets are and have been in compliance in all material respects with all applicable Environmental Laws.

(d) Except as disclosed on Schedule 3.36, neither the Corporation nor any of the Sellers has received any written or oral order, notice, complaint, request for information, claim, demand or other communication from any government authority or other person, whether based in contract, tort, implied or express warranty, strict liability, or any other common law theory, or any criminal or civil statute, arising from or with respect to (i) the presence, release or threatened release of any Hazardous Material or any other environmental condition on, in or under the Real Property or any other property formerly owned, used or leased by the Corporation, (ii) any other circumstances forming the basis of any actual or alleged violation by the Corporation or the Sellers of any Environmental Law or any liability of the Corporation or the

Sellers under any applicable Environmental Law, (iii) any remedial or removal action required to be taken by the Corporation or the Sellers under any applicable Environmental Law, or (iv) any harm, injury or damage to real or personal property, natural resources, the environment or any person alleged to have resulted from the foregoing, nor are the Sellers aware of any facts which might reasonably give rise to such notice or communication. Except as disclosed on Schedule 3.36, the Corporation has not entered into any agreements concerning any removal or remediation of Hazardous Materials.

(e) Except as set forth on Schedule 3.36, no lawsuits, claims, civil actions, criminal actions, administrative proceedings, investigations or enforcement or other actions are pending or, to the knowledge of the Sellers, threatened under any applicable Environmental Law with respect to the Corporation or the Real Property.

(f) Except as disclosed on Schedule 3.36, no environmental condition exists (including, without limitation, the presence, release, threatened release, migration or disposal of Hazardous Materials) related to the Real Property, to any property previously owned, operated or leased by the Corporation, or to the Corporation's past or present operations, which would constitute a material violation of any applicable Environmental Law or otherwise give rise to costs, liabilities or obligations of the Corporation under any applicable Environmental Law.

(g) Except as disclosed on Schedule 3.36, neither the Corporation nor the Sellers, nor, to the knowledge of the Sellers, any of their respective predecessors in interest, has transported or disposed of, or arranged for the transportation or disposal of, any Hazardous Materials to any location (i) which is listed on the National Priorities List or, to the knowledge of

the Sellers, the CERCLIS list under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or any similar federal, state or local list, (ii) which is the subject of any federal, state or local enforcement action or other investigation under any Environmental Law, or (iii) about which either the Corporation or the Sellers has received or has reason to expect to receive a potentially responsible party notice or other notice under any Environmental Law.

(h) No environmental lien has attached or, to the knowledge of the Sellers, is threatened to be attached to the Real Property.

(i) To the knowledge of the Sellers, no employee of the Corporation in the course of his or her employment with the Corporation has been exposed to any Hazardous Materials or other substance, generated, produced or used by the Corporation which could give rise to any claim (whether or not such claim has been asserted) against the Corporation.

(j) Except as set forth on Schedule 3.36 hereto, the Real Property does not contain any: (i) septic tanks into which process wastewater or any Hazardous Materials have been disposed; (ii) asbestos; (iii) polychlorinated biphenyls (PCBs); (iv) underground injection or monitoring wells; or (v) underground storage tanks.

(k) Except as set forth on Schedule 3.36, there have been no environmental studies or reports made relating to the Real Property or, to the knowledge of the Sellers, any other property or facility previously owned, operated or leased by the Corporation.

(l) Except as described on Schedule 3.36, the Corporation has not agreed to assume, defend, undertake, guarantee, or provide indemnification for, any liability, including, without limitation, any obligation for corrective or remedial action, of any other person under any Environmental Law for environmental matters or conditions.

3.37 Business Generally. The Sellers are not selling the Shares to the Buyer based in whole or in part on the actual knowledge of the Sellers of any information concerning the Corporation's business which has or could reasonably be expected to have a material adverse effect on the Corporation or its business and which has not been disclosed to the Buyer hereunder.

3.38 Misstatements and Omissions. No representation and warranty by the Sellers contained in this Agreement, and no statement contained in any certificate or Schedule furnished or to be furnished by the Sellers to the Buyer in connection with this Agreement, contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make such representation and warranty or such statement not misleading.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF THE BUYER

The Buyer hereby represents and warrants to the Sellers as follows:

4.1 Organization and Good Standing. The Buyer is a corporation duly organized and validly existing and in good standing under the laws of the State of Delaware.

4.2 Buyer's Power and Authority; Consents and Approvals.

(a) The Buyer has all requisite corporate power and authority to execute and deliver this Agreement and the other agreements, documents and instruments to be executed and delivered by the Buyer in connection herewith, to consummate the transactions contemplated hereby and thereby and to perform its obligations hereunder and thereunder.

(b) Except as set forth in Schedule 4.2(b) hereto, no authorization, approval or consent of, or notice to or filing or registration with, any governmental agency or body, or any other third party, is required in connection with the execution and delivery by the Buyer of this Agreement and the other agreements, documents and instruments to be executed by the Buyer in connection herewith, the consummation by the Buyer of the transactions contemplated hereby or thereby or the performance by the Buyer of its obligations hereunder and thereunder.

4.3 Execution and Enforceability. This Agreement and the other agreements, documents and instruments to be executed and delivered by the Buyer in connection herewith, and the consummation by the Buyer of the transactions contemplated hereby and thereby, have been duly and validly authorized, executed and delivered by all necessary corporate action on the part of the Buyer and this Agreement constitutes, and the other agreements, documents and instruments to be executed and delivered by the Buyer in connection herewith, when executed and delivered by the Buyer, shall constitute the legal, valid and binding obligations of the Buyer, enforceable against the Buyer in accordance with their respective terms, except to the extent that enforceability may be limited by bankruptcy, insolvency and other similar laws affecting the enforcement of creditors' rights generally and general equity principles.

4.4 Litigation Regarding Buyer. There are no actions, suits, claims, investigations or legal, administrative or arbitration proceedings pending or, to the Buyer's knowledge, threatened or probable of assertion against the Buyer relating to this Agreement or the transactions contemplated hereby before any court, governmental or administrative agency or other body, and no judgment, order, writ, injunction, decree or other similar command of any court or governmental or administrative agency or other body has been entered against or served upon the Buyer relating to this Agreement or the transactions contemplated hereby.

4.5 No Violation; Conflicts. The execution and delivery by the Buyer of this Agreement and the other agreements, documents and instruments to be executed and delivered by the Buyer in connection herewith, the consummation by the Buyer of the transactions contemplated hereby and thereby and the performance by the Buyer of its obligations hereunder and thereunder do not and will not (a) conflict with or violate any of the terms of the Certificate of Incorporation or By-Laws of the Buyer, or (b) violate or conflict with any domestic law, ordinance, rule or regulation, or any judgement, order, writ, injunction or decree of any court, administrative or governmental agency or other body, material to the Buyer.

4.6 Brokers' or Finders' Fees, Etc. No agent, broker, investment banker, person or firm acting on behalf of the Buyer or any person, firm or corporation affiliated with the Buyer or

under its authority is or will be entitled to any brokers' or finders' fee or any other commission or similar fee directly or indirectly from any of the parties hereto in connection with the sale of the Shares contemplated hereby.

4.7 Misstatements and Omissions. No representation and warranty by the Buyer contained in this Agreement, and no statement contained in any certificate or Schedule furnished or to be furnished by the Buyer to the Sellers in connection with this Agreement, contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make such representation and warranty or such statement not misleading. The Buyer has delivered to the Sellers copies of the Prospectus dated November 10, 1997 and the Form 10-Q of the Buyer for the quarterly period ended September 30, 1997 (collectively, the "Buyer's Disclosure Materials"). None of the Buyer's Disclosure Materials contained, at the time of the filing thereof with the Securities and Exchange Commission, any untrue statement of any material fact or omitted to state a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances in which they were made, not misleading.

PRE-CLOSING COVENANTS OF THE SELLERS

The Sellers hereby jointly and severally covenant and agree that, from and after the date hereof until the Closing:

5.1 Provide Access to Information; Cooperation with Buyer.

(a) Access. The Sellers shall afford, and cause the Corporation to afford, to the Buyer, its attorneys, accountants, and representatives, free and full access at all reasonable times, and upon reasonable prior notice, to the properties, books and records of the Corporation, and to interview personnel, suppliers and customers of the Corporation, in order that the Buyer may have a full opportunity to make such investigation (including the Environmental Audit contemplated by Section 5.11 below) as it shall reasonably desire of the assets, business and operations of the Corporation (including, without limitation, any appraisals or inspections thereof), and provide to the Buyer and its representatives such additional financial and operating data and other information as to the business and properties of the Corporation as the Buyer shall from time to time reasonably request.

(b) Cooperation in Obtaining Consents. The Sellers shall use reasonable best efforts in cooperating with the Buyer in the preparation of and delivery to all applicable automobile manufacturers or distributors, as soon as practicable after the date hereof, of an application and other information necessary to obtain such automobile manufacturer's or distributor's consent to or the approval of the transactions contemplated by this Agreement.

5.2 Operation of Business of the Corporation. The Sellers shall cause the Corporation to (a) maintain its corporate existence in good standing, (b) operate its business substantially as presently operated and only in the ordinary course and consistent with past

operations and its obligations under any existing agreements with all applicable automobile manufacturers or distributors, (c) use its best efforts to preserve intact its present business organizations and employees and its relationships with persons having business dealings with them, including, but not limited to, all applicable automobile manufacturers or distributors and any floor plan financing creditors, (d) comply in all respects with all applicable laws, rules and regulations, (e) maintain its insurance coverages, (f) pay all Taxes, charges and assessments when due, subject to any valid objection or contest of such amounts asserted in good faith and adequately reserved against, (g) make all debt service payments when contractually due and payable, (h) pay all accounts payable and other current liabilities when due, (i) maintain the Employee Plans and each plan, agreement and arrangement listed on Schedule 3.27, and (j) maintain its property, plant and equipment in good operating condition in accordance with industry standards taking into account the age thereof.

5.3 Books of Account. The Sellers shall cause the Corporation to maintain its books and records of account in the usual, regular and ordinary manner.

5.4 Employees. The Sellers shall (i) use their reasonable best efforts to encourage such personnel of the Corporation as the Buyer may designate in writing to remain employees of the Corporation after the date of the Closing, and (ii) not take any action, or permit the Corporation to take any action, to encourage any of the personnel of the Corporation to leave their positions with the Corporation.

5.5 Certain Prohibitions. The Sellers shall not permit the Corporation to (i) issue any equity or debt security or any options or warrants, (ii) enter into any subscriptions, agreements, plans or other commitments pursuant to which the Corporation is or may become obligated to issue any of its debt or equity securities, (iii) otherwise change or modify its capital structure, (iv) engage in any reorganization or similar transaction, (v) sell or otherwise dispose of any of its assets, other than sales of inventory in the ordinary course of business and the distribution of all real property owned by the Corporation as contemplated by Section 1.2(c) above, (vi) declare or make payment of any dividend or other distribution in respect of the Shares or redeem, repurchase or acquire any of the Shares, except that the Corporation may pay dividends as provided in Schedule 5.5 hereto and such dividends shall not, as of the Closing, constitute a breach of the Sellers' representations and warranties contained in Section 3.20(l), or (vii) agree to take any of the foregoing actions.

5.6 Other Changes. The Sellers shall not permit the Corporation to take, cause, agree to take or cause to occur any of the actions or events set forth in Section 3.20 of this Agreement.

5.7 Additional Information. The Sellers shall furnish and cause the Corporation to furnish to the Buyer such additional information with respect to any matters or events arising or discovered subsequent to the date hereof which, if existing or known on the date hereof, would have rendered any representation or warranty made by the Sellers or any information contained in any Schedule hereto or in other information supplied in connection herewith then inaccurate

or incomplete. The receipt of such additional information by the Buyer shall not operate as a waiver by the Buyer of the obligations of the Sellers to satisfy the conditions to Closing set forth in Section 7.1 hereof.

5.8 Publicity. Except as may be required by law or the applicable rules or regulations of any securities exchange, the Sellers shall not (i) make or permit the Corporation to make any press release or other public announcement relating to this Agreement or the transactions contemplated hereby, without the prior written approval of the Buyer, and (ii) otherwise disclose the existence and nature of their discussions or negotiations regarding the transactions contemplated hereby to any person or entity other than their accountants, attorneys and similar professionals, all of whom shall be subject to this nondisclosure obligation as agents of the Sellers, as the case may be. The Sellers shall cooperate with the Buyer in the preparation and dissemination of any public announcements of the transactions contemplated by this Agreement.

5.9 Other Negotiations. The Sellers shall not pursue, initiate, encourage or engage in, nor shall any of their respective Affiliates or agents pursue, initiate, encourage or engage in, and the Sellers shall cause the Corporation and its Affiliates, directors, officers and agents not to pursue, initiate, encourage or engage in, any negotiations or discussions with, or provide any information to, any other person or entity (other than the Buyer and its representatives and Affiliates) regarding the sale of the assets or capital stock of the Corporation or any merger or similar transaction involving the Corporation.

5.10 Closing Conditions. The Sellers shall use all reasonable best efforts to satisfy promptly the conditions to Closing set forth in Article 7 hereof required herein to be satisfied by the Sellers prior to the Closing.

5.11 Environmental Audit. The Sellers shall cause the Corporation to allow an environmental consulting firm selected by the Buyer (the "Environmental Auditor") to have prompt access to the Real Property in order to conduct an environmental investigation, satisfactory to the Buyer in scope (such scope being sufficient to result in a Phase I environmental audit report and a Phase II environmental audit report, if desired by the Buyer), of, and to prepare a report with respect to, the Real Property (the "Environmental Audit"). The Sellers shall cause the Corporation to provide to the Environmental Auditor: (i) reasonable access to all its existing records concerning the matters which are the subject of the Environmental Audit; and (ii) reasonable access to the employees of the Corporation and the last known addresses of former employees of the Corporation who are most familiar with the matters which are the subject of the Environmental Audit (the Sellers agreeing to use reasonable efforts to have such former employees respond to any reasonable requests or inquiries by the Environmental Auditor). The Sellers shall otherwise cooperate and cause the Corporation to cooperate with the Environmental Auditor in connection with the Environmental Audit. The Buyer and the Sellers shall each bear 50% of the costs, fees and expenses incurred in connection with the preparation of the Environmental Audit.

5.12 Audited Financial Statements. The Sellers shall allow, cooperate with and assist Buyer's accountants, and shall instruct the Corporation's accountants to cooperate, in the preparation of audited financial statements of the Corporation as necessary for any required filings by the Buyer with the Securities and Exchange Commission or with the Buyer's lenders; provided that the expense of such audit shall be borne by the Buyer.

5.13 Hart-Scott-Rodino. Subject to the determination by the Buyer that any of the

following actions is not required, the Sellers shall promptly prepare and file Notification and Report Forms under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") with the Federal Trade Commission (the "FTC") and the Antitrust Division of the Department of Justice (the "Antitrust Division"), and respond as promptly as practicable to all inquiries received from the FTC or the Antitrust Division for additional information or documentation.

ARTICLE 6
PRE-CLOSING COVENANTS OF BUYER

The Buyer hereby covenants and agrees that, from and after the date hereof until the Closing:

6.1 Publicity. Except as may be required by law or by the rules of the New York Stock Exchange, or as necessary in connection with the transactions contemplated hereby, the Buyer shall not (i) make any press release or other public announcement relating to this Agreement or the transactions contemplated hereby, without the prior written approval of the Sellers' Agent, or (ii)

otherwise disclose the existence and nature of its discussions or negotiations regarding the transactions contemplated hereby to any person or entity other than its accountants, attorneys and similar professionals, all of whom shall be subject to this nondisclosure obligation as agents of the Buyer.

6.2 Closing Conditions. The Buyer shall use all reasonable best efforts to satisfy promptly the conditions to Closing set forth in Article 8 hereof required herein to be satisfied by the Buyer prior to the Closing.

6.3 Application to Automobile Manufacturers and Distributors. Subject to the reasonable cooperation of the Sellers, the Buyer shall provide to all applicable automobile manufacturers and distributors as promptly as practicable after the execution and delivery of this Agreement any application or other information with respect to such application necessary in connection with the seeking of the consents of such manufacturers and distributors to the transactions contemplated by this Agreement.

6.4 Hart-Scott-Rodino. Subject to the determination by the Buyer that any of the following actions is not required, the Buyer shall promptly prepare and file Notification and Report Forms under the HSR Act with the FTC and the Antitrust Division, respond as promptly as practicable to all inquiries received from the FTC or the Antitrust Division for additional information or documentation, and the Buyer shall pay all filing fees in connection therewith.

6.5 ss.338 Election. In the event that the Buyer makes an election under Section 338(g) of the Code with respect to the purchase of the Shares, the Buyer shall be liable for and hereby agrees to indemnify the Sellers for any and all liability for Taxes imposed on the Sellers or the Corporation that are attributable, directly or indirectly, to any election made by the Buyer pursuant to Section 338(g) of the Code.

ARTICLE 7
CONDITIONS TO OBLIGATIONS OF THE BUYER AT THE CLOSING

The obligations of the Buyer to perform this Agreement at the Closing are subject to the satisfaction at or prior to the Closing of the following conditions, unless waived in writing by the Buyer:

7.1 Representations and Warranties. The representations and warranties made by the Sellers in this Agreement shall be true and correct in all material respects at and as of the date of this Agreement and at and as of the Closing as though made at and as of the Closing.

7.2 Performance of Obligations of the Sellers. The Sellers shall have performed all obligations required to be performed by the Sellers under this Agreement, and complied with all covenants for which compliance by the Sellers is required under this Agreement, prior to or at the Closing.

7.3 Closing Documentation. The Buyer shall have received the following documents, agreements and instruments from the Sellers:

(a) a certificate signed by the Sellers and dated the date of the Closing certifying as to the satisfaction of the conditions set forth in Sections 7.1 and 7.2 hereof;

(b) the stock certificates and stock powers for the Shares described in Section 1.3(a) hereof;

(c) such duly signed resignations of directors and officers of the Corporation as the Buyer shall have previously requested;

(d) an opinion of Baker, Donelson, Bearman & Caldwell, counsel for the Sellers, dated the date of the Closing and addressed to the Buyer, in form and substance reasonably acceptable to the Buyer;

(e) copies of all authorizations, approvals, consents, notices, registrations and filings referred to in Schedules 3.2(b), 3.10 and 3.29(b) hereof including, without limitation, the approval of Honda (or any subsidiary or affiliate of Honda, as may be required);

(f) (i) a certificate dated as of a recent date from the Secretary of State of the State of Tennessee to the effect that the Corporation is duly incorporated in such State and stating that the Corporation owes no taxes, fees or penalties in such State, and (ii) one or more certificates of officials from the jurisdictions listed on Schedule 3.7 hereto to the effect that the Corporation is duly qualified as a foreign corporation and is in good standing in such jurisdictions;

(g) a copy of the Corporation's Articles of Incorporation, including all amendments thereto, certified as of a recent date by the Secretary of State of the State of Tennessee;

(h) evidence, reasonably satisfactory to the Buyer, of the authority and incumbency of the persons acting on behalf of the Corporation in connection with the execution of any document delivered in connection with this Agreement;

(i) Uniform Commercial Code Search Reports on Form UCC-11 with respect to the Corporation from the states and local jurisdictions where the principal places of business of the Corporation and its assets are located;

(j) a certificate of each of the Sellers as to such Seller's non-foreign status in appropriate form;

(k) the corporate minute books and stock record books of the Corporation, and all other books and records of, or pertaining to, the business and operations of the Corporation;

(l) estoppel letter[s] of lender[s] to the Corporation, in form and substance reasonably satisfactory to the Buyer, with respect to amounts owing by the Corporation as of the Closing; and

(m) such other instruments and documents as the Buyer shall reasonably request not inconsistent with the provisions hereof.

7.4 Approval of Legal Matters. The form of all instruments, certificates and documents to be executed and delivered by the Sellers to the Buyer pursuant to this Agreement and all legal matters in respect of the transactions as herein contemplated shall be reasonably satisfactory to the Buyer and its counsel, none of whose approval shall be unreasonably withheld or delayed.

7.5 No Litigation. No action, suit or other proceeding shall be pending or threatened before any court, tribunal or governmental authority seeking or threatening to restrain or prohibit the consummation of the transactions contemplated by this Agreement, or seeking to obtain damages in respect thereof, or involving a claim that consummation thereof would result in the violation of any law, decree or regulation of any governmental authority having appropriate jurisdiction, and no order, decree or ruling of any governmental authority or court shall have been entered challenging the legality, validity or propriety of, or otherwise relating to, this Agreement or the transactions contemplated hereby, or prohibiting, restraining or otherwise preventing the consummation of the transactions contemplated hereby.

7.6 No Material Adverse Change or Undisclosed Liability. There shall have been no material adverse change or development in the business, prospects, properties, earnings, results of operations or financial condition of the Corporation, or any of its assets.

7.7 No Adverse Laws. There shall not have been enacted, adopted or promulgated any statute, rule, regulation or order which materially adversely affects the business or assets of the Corporation.

7.8 Affiliate Transactions. All amounts owing to the Corporation from the Sellers or any Affiliate thereof shall have been paid in full and any indebtedness of the Corporation to the Sellers or their Affiliates shall have been canceled by the holder(s) thereof. Title to the Real Property, as well as all related mortgage indebtedness of the Corporation with respect to the Real Property, shall have been transferred to the Sellers with no continuing liability or obligation of the Corporation with respect thereto.

7.9 Pledge Agreement. The Sellers shall have duly executed and delivered to the Buyer the Pledge Agreement and the Pledged Shares thereunder.

7.10 Execution of Dealership Leases. The Sellers shall have duly delivered to the Corporation and the Buyer the Dealership Leases, duly executed by the respective lessors thereunder, each with a corresponding memorandum of lease in a form suitable for recording.

7.11 Non-Competition Agreement. The Sellers shall have duly executed and delivered to the Buyer and the Corporation the Non-Competition Agreement.

7.12 Cancellation of Stock Options. All outstanding options, warrants, "phantom" stock options and other plans, agreements or arrangements of the Corporation with respect to the purchase, or the issuance of, any capital stock or other securities of the Corporation shall have been canceled and terminated prior to the Closing at no expense to the Buyer, and the Buyer shall have received reasonably satisfactory evidence thereof.

7.13 Audited Financial Statements. The Buyer shall have completed preparation of such audited financial statements of the Corporation as may be required by applicable regulations of the Securities and Exchange Commission or by any of the Buyer's lenders.

7.14 Hart-Scott-Rodino Waiting Period. All applicable waiting periods under the HSR Act shall have expired without any indication by the Antitrust Division or the Federal Trade Commission that either of them intends to challenge the transactions contemplated hereby or, if any such challenge or investigation is made or commenced, the conclusion of such challenge or investigation permits the transactions contemplated hereby in all material respects.

ARTICLE 8
CONDITIONS TO OBLIGATIONS OF THE SELLERS AT THE CLOSING

The obligations of the Sellers to perform this Agreement at the Closing are subject to the satisfaction at or prior to the Closing of the following conditions, unless waived in writing by the Sellers:

8.1 Representations and Warranties. The representations and warranties made by the Buyer in this Agreement shall be true and correct in all material respects at and as of the date of this Agreement and at and as of the Closing as though made at and as of the Closing.

8.2 Performance of Obligations of the Buyer. The Buyer shall have performed all

obligations required to be performed by it under this Agreement, and complied with all covenants for which compliance by it is required under this Agreement, prior to or at the Closing.

8.3 Closing Documentation. The Sellers shall have received the following documents, agreements and instruments from the Buyer:

(a) a certificate signed by a duly authorized signatory of the Buyer and dated as of the Closing Date certifying as to the satisfaction of the conditions set forth in Sections 8.1 and 8.2 hereof;

(b) payment of the Purchase Price pursuant to Section 1.2 hereof;

(c) an opinion of Parker, Poe, Adams & Bernstein L.L.P., counsel for the Buyer, dated as of the Closing Date and addressed to the Sellers, in form and substance reasonably acceptable to the Sellers;

(d) such resolutions of the Buyer, as sole shareholder of the Corporation, and the directors of the Corporation electing directors and appointing officers, respectively, of the Corporation, effective upon the Closing;

(e) certificates dated as of a recent date from the Secretary of State of the State of Delaware to the effect that the Buyer is duly incorporated and in good standing in such state;

(f) a copy of the Buyer's Certificate of Incorporation, including all amendments thereto, certified by the Secretary of State of the State of Delaware;

(g) evidence, reasonably satisfactory to the Sellers, of the authority and incumbency of the persons acting on behalf of the Buyer in connection with the execution of any document delivered in connection with this Agreement; and

(h) such other instruments and documents as the Sellers shall reasonably request not inconsistent with the provisions hereof.

8.4 Approval of Legal Matters. The form of all certificates, instruments and documents to be executed or delivered by the Buyer to the Sellers pursuant to this Agreement and all legal matters in respect of the transactions as herein contemplated shall be reasonably satisfactory to the Sellers and their counsel, none of whose approval shall be unreasonably withheld or delayed.

8.5 No Litigation. No action, suit or other proceeding shall be pending or threatened before any court, tribunal or governmental authority seeking or threatening to restrain or prohibit the consummation of the transactions contemplated by this Agreement, or seeking to obtain substantial damages in respect thereof, or involving a claim that consummation thereof would result in the violation of any law, decree or regulation of any governmental authority having appropriate jurisdiction, and no order, decree or ruling of any governmental authority or court

shall have been entered challenging the legality, validity or propriety of, or otherwise relating to, this Agreement or the transactions contemplated hereby,

or prohibiting, restraining or otherwise preventing the consummation of the transactions contemplated hereby.

8.6 Dealership Leases. The Corporation shall have duly executed and delivered to the Sellers the Dealership Leases.

8.7 Pledge Agreement. The Buyer shall have duly executed and delivered the Pledge Agreement.

8.8 Liquidity Agreement. O. Bruton Smith shall have executed and delivered to the Sellers the Liquidity Agreement.

8.9 Hart-Scott-Rodino Waiting Period. All applicable waiting periods under the HSR Act shall have expired without any indication of the Antitrust Division or the Federal Trade Commission that either of them intends to challenge the transactions contemplated hereby, or, if any such challenge or investigation is made or commenced, the conclusion of such challenge or investigation permits the transactions contemplated hereby in all material respects.

ARTICLE 9
SURVIVAL OF REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION, ETC.

9.1 Survival. All statements contained in any Schedule or certificate delivered hereunder or in connection herewith by or on behalf of any of the parties pursuant to this Agreement shall be deemed representations and warranties by the respective parties hereunder unless otherwise expressly provided herein. The representations and warranties of the Sellers and the Buyer contained in this Agreement, including those contained in any Schedule or certificate delivered hereunder or in connection herewith, shall survive the Closing for a period of two years with the exception of (i) the representations and warranties of the Sellers contained in Section 3.21, which shall survive the Closing until the expiration of the applicable tax statutes of limitation plus a period of sixty (60) days, and (ii) the representations and warranties of the Sellers contained in Sections 3.11, 3.19 and 3.36, which shall survive the Closing for a period of five years. As to each representation and warranty of the parties hereto, the date to which such representation and warranty shall survive is hereinafter referred to as the "Survival Date".

9.2 Agreement to Indemnify by Sellers. Subject to the terms and conditions of Sections 9.4 and 9.5 hereof, the Sellers hereby, severally with respect to the breach, inaccuracy or untruth of any of the matters set forth in Sections 3.1 through 3.6 hereof, and jointly and severally with respect to all other matters set forth in this Agreement, agree to indemnify and save the Buyer, the Corporation and their respective shareholders, officers, directors, employees, successors and assigns (each, a "Buyer Indemnitee") harmless from and against, for and in respect of, any and all damages, losses, obligations, liabilities, demands, judgments, injuries, penalties, claims, actions or causes of action, encumbrances, costs, and expenses (including, without limitation, reasonable attorneys' fees and expert witness fees), suffered, sustained, incurred or required to be paid by any Buyer Indemnitee (collectively, "Buyer's Damages")

arising out of, based upon, in connection with, or as a result of:

(a) the untruth, inaccuracy or breach of any representation and warranty of the Sellers contained in or made pursuant to this Agreement, including in any Schedule or certificate delivered hereunder or in connection herewith, excluding any breach of representation and warranty contained in Section 3.19; provided, however, that with respect to the foregoing indemnification obligation of the Sellers contained in this paragraph (a), the Sellers shall not have any indemnification obligation until (and only to the extent that) Buyer's Damages in respect of all claims for indemnity pursuant to this paragraph (a) shall exceed a cumulative aggregate total of $150,000;

(b) the untruth, inaccuracy or breach of any representation and warranty of the Sellers contained in or made pursuant to Section 3.19, including in any Schedule or certificate delivered hereunder in connection therewith;

(c) the breach or nonfulfillment of any covenant or agreement of any Seller contained in this Agreement or in any other agreement, document or instrument delivered hereunder or pursuant hereto;

(d) any loss of life, injury to persons or property, or damage to natural resources caused by the actual, alleged, or threatened release, storage, transportation, treatment or generation of or exposure to Hazardous Materials generated, stored, used, disposed of, treated, handled or shipped by the Corporation or present on the Real Property on or before the Closing Date;

(e) any cleanup of Hazardous Materials released, disposed of or discharged: (i) on, beneath or adjacent to the Real Property prior to or on the date of the Closing; or (ii) at any other location if such substances were generated, used, stored, treated, transported or released by the Corporation prior to or on the Closing Date;

(f) all known or unknown environmental liabilities of and claims against the Corporation or any such liabilities and claims arising out of the operation of the business or ownership of the Real Property prior to the Closing, including, without limitation, the presence, release or threatened release of Hazardous Materials and any liabilities or obligations arising under any Environmental Law, including but not limited to the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), as amended;

(g) any and all costs of installing pollution control equipment or other equipment to bring any of the Real Property into compliance with any Environmental Law if such equipment is installed because any of the Real Property was not in compliance with any Environmental Laws as of the date of the Closing, regardless of when such non-compliance is discovered; or

(h) any and all Taxes owing out of or based upon the ownership, use and operation of the Owned Real Property before or after the Closing (other than any Taxes which are the obligation of the Buyer under the Dealership Leases) or the distribution by the Corporation of the Owned Real Property contemplated in Section 1.2(c)(1).

With respect to the Sellers' obligations to pay Buyer's Damages pursuant to Section 9.2 of this Agreement, the Buyer shall be entitled (but shall not be obligated) to make demand for delivery of Escrow Shares under the Escrow Agreement.

9.3 Agreement to Indemnify by Buyer. Subject to the terms and conditions of Sections 9.4 and 9.5 hereof, the Buyer hereby agrees to indemnify and save the Sellers and their successors and assigns (each, a "Seller Indemnitee") harmless from or against, for and in respect of, any and all damages, losses, obligations, liabilities, demands, judgments, injuries, penalties, claims, actions or causes of action, encumbrances, costs, and expenses (including, without limitation, reasonable attorneys' fees and expert witness fees) suffered, sustained, incurred or required to be paid by any Seller Indemnitee ("Sellers' Damages") arising out of, based upon or in connection with or as a result of:

(a) the untruth, inaccuracy or breach of any representation and warranty of the Buyer contained in or made pursuant to this Agreement, including in any Schedule or certificate delivered hereunder or in connection herewith;

(b) the breach or nonfulfillment of any covenant or agreement of the Buyer contained in this Agreement or in any other agreement, document or instrument delivered hereunder or pursuant hereto;

(c) any loss of life, injury to persons or property, or damage to natural resources caused by the actual, alleged, or threatened release, storage, transportation, treatment or generation of or exposure to Hazardous Materials generated, stored, used, disposed of, treated, handled or shipped by the Corporation after the Closing Date;

(d) any cleanup of Hazardous Materials released, disposed of or discharged: (i) on, beneath or adjacent to the Real Property after the date of the Closing; or (ii) at any other location if such substances were generated, used, stored, treated, transported or released by the Corporation after the Closing Date;

(e) all known or unknown environmental liabilities of and claims against the Corporation or any such liabilities and claims arising out of operation of the business after the Closing, including, without limitation, the presence, release or threatened release of Hazardous Materials and any liabilities or obligations arising under any Environmental Law, including but not limited to the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), as amended; or

(f) any and all costs of installing pollution control equipment or other equipment in order to bring any of the Real Property into compliance with any Environmental Laws if such equipment is installed because any of the Real Property is not in compliance with applicable Environmental Laws during the Buyer's operation on or occupancy of the Real Property; provided, however, that this indemnification does not apply to (i) any such noncompliance of any of the Real Property as of the date of Closing, regardless of when such noncompliance is discovered, or (ii) any such noncompliance that is otherwise attributable to the acts or omissions of the Sellers or their agents.

9.4 Claims for Indemnification. No claim for indemnification with respect to a breach of a representation and warranty shall be made under this Agreement after the applicable Survival Date unless prior to such Survival Date the Buyer Indemnitee or the Seller Indemnitee, as the case may be, shall have given the

Sellers or the Buyer, as the case may be, written notice of such claim for indemnification based upon actual loss sustained, or potential loss anticipated, as a result of the existence of any claim, demand, suit, or cause of action against such Buyer Indemnitee or Seller Indemnitee, as the case may be.

9.5 Procedures Regarding Third Party Claims. The procedures to be followed by the Buyer and the Sellers with respect to indemnification hereunder regarding claims by third persons which could give rise to an indemnification obligation hereunder shall be as follows:

(a) Promptly after receipt by any Buyer Indemnitee or Seller Indemnitee, as the case may be, of notice of the commencement of any action or proceeding (including, without limitation, any notice relating to a tax audit) or the assertion of any claim by a third person which the person receiving such notice has reason to believe may result in a claim by it for indemnity pursuant to this Agreement, such person (the "Indemnified Party") shall give a written notice of such action, proceeding or claim to the party against whom indemnification pursuant hereto is sought (the "Indemnifying Party"), setting forth in reasonable detail the nature of such action, proceeding or claim, including copies of any documents and written correspondence from such third person to such Indemnified Party.

(b) The Indemnifying Party shall be entitled, at its own expense, to participate in the defense of such action, proceeding or claim, and, if (i) the action, proceeding or claim involved seeks (and continues to seek) solely monetary damages, (ii) the Indemnifying Party confirms, in writing, its obligation hereunder to indemnify and hold harmless the Indemnified Party with respect to such damages in their entirety pursuant to Sections 9.2 or 9.3 hereof, as the case may be, and (iii) the Indemnifying Party shall have made provision which, in the reasonable judgment of the Indemnified Party, is adequate to satisfy any adverse judgment as a result of its indemnification obligation with respect to such action, proceeding or claim, then the Indemnifying Party shall be entitled to assume and control such defense with counsel chosen by the Indemnifying Party and approved by the Indemnified Party, which approval shall not be unreasonably withheld or delayed. The Indemnified Party shall be entitled to participate therein after such assumption, the costs of such participation following such assumption to be at its own expense. Upon assuming such defense, the Indemnifying Party shall have full rights to enter into any monetary compromise or settlement which is dispositive of the matters involved; provided, that such settlement is paid in full by the Indemnifying Party and will not have any direct or indirect continuing material adverse effect upon the Indemnified Party.

(c) With respect to any action, proceeding or claim as to which (i) the Indemnifying Party does not have the right to assume the defense or (ii) the Indemnifying Party shall not have exercised its right to assume the defense, the Indemnified Party shall assume and control the defense of and contest such action, proceeding or claim with counsel chosen by it and approved by the Indemnifying Party, which approval shall not be unreasonably withheld. The Indemnifying Party shall be entitled to participate in the defense of such action, proceeding or claim, the cost of such participation to be at its own expense. The Indemnifying Party shall be obligated to pay the reasonable attorneys' fees and expenses of the Indemnified Party to the

extent that such fees and expenses relate to claims as to which indemnification is due under Sections 9.2 or 9.3 hereof, as the case may be. The Indemnified Party shall have full rights to dispose of such action, proceeding or claim and enter into any monetary compromise or settlement; provided, however, in the event that the Indemnified Party shall settle or compromise any action, proceeding or claim for which indemnification is due under Sections 9.2 or 9.3 hereof, as the case may be, it shall act reasonably and in good faith in doing so.

(d) Both the Indemnifying Party and the Indemnified Party shall cooperate fully with one another in connection with the defense, compromise or settlement of any such action, proceeding or claim, including, without limitation, by making available to the other all pertinent information and witnesses within its control.

9.6 Effectiveness. The provisions of this Article 9 shall be effective upon consummation of the Closing, and prior to the Closing, shall have no force and effect.

9.7 Access to Information. In order to facilitate the resolution of any claims for indemnification under this Article 9, each of the parties hereto shall, after the Closing: (a) afford to the other parties hereto, and their authorized agents and representatives, reasonable access, during normal business hours, to the offices, properties, books and records of such party; and (b) furnish to the other parties hereto, and their authorized agents and representatives, such additional financial and other information as may be relevant to the matter in dispute; provided, however, that such access shall not unreasonably interfere with the business or operations of the party providing

such access and, provided, further, that no party hereunder shall be obligated to disclose any information which it holds under a legally binding obligation of confidentiality or which is protected by any privilege.

9.8 Certain Limitations on Indemnification. The indemnification obligations of any party hereto shall be offset by any net reduction of federal and state income tax that may reasonably be expected by reason of the respective Buyer's Damages or Sellers' Damages, as the case may be, after taking into account the amount of the indemnification received by such party. Furthermore, in the case of indemnification by the Sellers, the amount of any reserve or liability reflected on the Closing Balance Sheet with respect to the item of Buyer's Damages involved shall be deducted in the calculation of such Buyer's Damages.

ARTICLE 10
TERMINATION

10.1 Termination. Notwithstanding any other provision herein contained to the contrary, this Agreement may be terminated at any time prior to the Closing Date:

(a) by the written mutual consent of the Buyer and the Sellers;

(b) At any time after the Closing Date Deadline, by written notice by the Buyer or the Sellers to the other party(ies) hereto if the Closing shall not have been completed on or before the Closing Date Deadline; provided, however, no party may terminate this Agreement pursuant to this Section 10.1(b) if such party is in breach of any material representation,

warranty or covenant of such party contained in this Agreement;

(c) By the Buyer or the Sellers if, after any initial HSR Act filing, the FTC makes a "second request" for information, or the FTC or the Antitrust Division challenges the transactions contemplated hereby; provided, that the Buyer or the Sellers' Agent, as the case may be, delivers a written notice to the other party(ies) of such termination hereunder within 30 days of the Buyer's or Sellers' receipt of such second request or of notice of such challenge;

(d) By the Buyer or the Sellers' Agent, by written notice to the other party(ies) hereto, in the event that approval by Honda (or any subsidiary or affiliate of Honda, as may be required) of the transactions contemplated by this Agreement is not received on or prior to the Closing Date Deadline; provided, however, if this Agreement shall be terminated by the Sellers' Agent pursuant to this clause (d), the Buyer may nevertheless elect to close the transactions contemplated hereby by giving the Sellers' Agent written notice of such election within five (5) Business Days of the receipt of such termination notice by the Sellers' Agent, in which case the parties shall be obligated to close the transactions contemplated hereby within five (5) Business Days of the receipt by the Sellers' Agent of such notice of election by the Buyer; or

(e) By the Buyer within 30 days after _____ if, and only if, the Buyer is not satisfied, in its discretion, with the results of the Buyer's due diligence investigations contemplated by Section 5.1(a) hereof.

10.2 Procedure and Effect of Termination. In the event of termination pursuant to Section 10.1, this Agreement shall be of no further force or effect; provided, however, that, except as expressly set forth below, any termination pursuant to Section 10.1 shall not relieve (i) the Buyer of any liability under Section 10.3 below or of any obligation under Section 12.14 below, (ii) the Sellers of any liability under Section 10.4 below, or (iii) any party hereto of any liability for breach of any representation and warranty, covenant or agreement hereunder occurring prior to such termination. In addition, in the event of any such termination, all filings, applications and other submissions made pursuant to this Agreement or prior to the execution of this Agreement in contemplation thereof shall, to the extent practicable, be withdrawn from the agency or other entity to which made. Except as specifically provided in Section 10.5 below, nothing contained in this Agreement shall prevent any party from seeking any equitable relief to which it would otherwise be entitled in the event of breach by the other party.

10.3 Payment of Buyer's Termination Fee . If this Agreement is terminated by the Sellers pursuant to Section 10.1(b) above and the failure to complete the Closing on or before the Closing Date Deadline shall have been due to the Buyer's breach of its material representations and warranties or its material covenants or obligations under this Agreement, then the Buyer shall, upon demand of the Sellers, promptly pay to the Sellers in immediately available funds, as liquidated damages for the loss of the transaction, a termination fee of $1,000,000 (the "Buyer's Termination Fee").

10.4 Payment of Sellers' Termination Fee. If this Agreement is terminated by the Buyer pursuant to Section 10.1(b) above and the failure to complete the

Closing on or before the Closing Date Deadline shall have been due to the Sellers' breach of any of their material

representations and warranties or any of their material covenants or obligations under this Agreement, then the Sellers, jointly and severally, shall, upon demand of the Buyer, promptly pay to the Buyer in immediately available funds, as liquidated damages for the loss of the transaction, a termination fee of $1,000,000 (the "Sellers' Termination Fee").

10.5 Termination Fees Exclusive Remedies for Damages. The respective rights of the parties to terminate this Agreement under Section 10.1(b) and to be paid the Sellers' Termination Fee or the Buyer's Termination Fee, as the case may be, shall be the respective parties' sole and exclusive remedies for damages; in the event of such termination by either party, such party shall have no right to equitable relief for any breach or alleged breach of this Agreement, other than for specific performance for the payment of the Sellers' Termination Fee or the Buyers' Termination Fee, as the case may be. Nothing contained in this Section 10.5 shall prevent any party hereto from electing not to terminate this Agreement and seeking equitable relief, including specific performance, from any breaching party hereunder.

ARTICLE 11
CERTAIN TAXES AND EXPENSES

11.1 Certain Taxes and Expenses.

(a) All sales, use, transfer, intangible, excise, documentary stamp, recording, gross income, gross receipts and other similar taxes or fees which may be due or payable in connection with the consummation of the transactions contemplated hereby shall be paid by the Sellers.

(b) Except as otherwise herein provided, the Sellers and the Buyer shall be responsible for the payment of their respective fees, costs and expenses incurred in connection with the negotiation and consummation of the transactions contemplated hereby and shall not be liable to the other party or parties for the payment of any such fees, costs and expenses.

ARTICLE 12
MISCELLANEOUS

12.1 Certain Tax Returns. The Sellers shall cooperate with and provide assistance to the Buyer and the Corporation in connection with the preparation and filing of all federal, state, local and foreign income tax returns which relate to the Corporation and to periods prior to Closing but which are not required to be filed until after the Closing.

12.2 Parties in Interest; No Third-Party Beneficiaries. Subject to Section 12.4 hereof, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the respective successors and assigns of the parties hereto. Nothing in this Agreement, expressed or implied, is intended or shall be construed to confer upon or give to any employee of the Corporation or the Buyer, or any other person, firm, corporation or legal entity, other than the parties hereto and their successors and assigns, any rights, remedies or other benefits under or by

reason of this Agreement.

12.3 Entire Agreement; Amendments. This Agreement (including all Exhibits and Schedules hereto) and the other writings referred to herein or delivered pursuant hereto contain the entire understanding of the parties hereto with respect to its subject matter. There are no representations, promises, warranties, covenants or undertakings other than as expressly set forth herein or therein. This Agreement supersedes all prior agreements and understandings between the parties hereto with respect to its subject matter. This Agreement may be amended or modified only by a written instrument duly executed by the parties hereto.

12.4 Assignment. This Agreement shall not be assignable by any party hereto without the prior written consent of the other parties; provided, however, the Buyer may assign its rights and obligations hereunder to any Affiliate of the Buyer presently existing or hereafter formed and to any person or entity that shall acquire all or substantially all of the assets of the Buyer or the Corporation; provided, further, that no such assignment shall release the Buyer from its obligations hereunder without the consent of the Sellers. Nothing contained in this Agreement shall prohibit its assignment by the Buyer as collateral security and the Sellers and the Corporation hereby agree to execute any acknowledgment of such assignment by the Buyer as may be required by any lender to the Buyer.

12.5 Remedies. Except as expressly provided in this Agreement to the contrary, each of the parties to this Agreement is entitled to all remedies in the event of breach provided at law or in equity, specifically including, but not limited to, specific performance.

12.6 Headings. The Article and Section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

12.7 Notices. All notices, claims, certificates, requests, demands and other communications hereunder shall be given in writing and shall be delivered personally or sent by telecopier or by a nationally recognized overnight courier, postage prepaid, and shall be deemed to have been duly given when so delivered personally or one (1) business day after the date of transmission by telecopier or the date of deposit with such nationally recognized overnight courier. All such notices, claims, certificates, requests, demands and other communications shall be addressed to the respective parties at the addresses set forth below or to such other address as the person to whom notice is to be given may have furnished to the others in writing in accordance herewith.

If to the Buyer, to:

Sonic Automotive, Inc.
5401 E. Independence Boulevard
Charlotte, North Carolina 28212
Telecopy: (704) 536-5116
Attention: Theodore M. Wright, Chief Financial Officer

With a copy to:

Parker, Poe, Adams & Bernstein L.L.P.
2500 Charlotte Plaza
Charlotte, North Carolina 28244
Telecopy (704) 334-4706
Attention: Edward W. Wellman, Jr., Esq.

If to the Sellers, to:

Mr. Freeman Smith, as Seller's Agent
c/o Baker, Donelson, Bearman & Caldwell
1800 Republic Centre
603 Chestnut Street
Chattanooga, Tennessee 37450
Telecopy: (423) 756-3447
Attention: Richard B. Gossett, Esq.

12.8 Counterparts. This Agreement may be executed in any number of counterparts, and each such counterpart hereof shall be deemed to be an original instrument, and all such counterparts together shall constitute but one agreement.

12.9 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee, without giving effect to its rules governing conflict of laws.

12.10 Waivers. Any party to this Agreement may, by written notice to the other parties hereto, waive any provision of this Agreement from which such party is entitled to receive a benefit. The waiver by any party hereto of a breach by another party of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by such other party of such provision or any other provision of this Agreement.

12.11 Severability. In the event that any provision, or part thereof, in this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions, or parts thereof, shall not in any way be affected or impaired thereby.

12.12 Knowledge. Whenever any representation or warranty of any Seller contained herein (other than the representations and warranties set forth in Sections 3.1 through 3.6 hereof) or in any other document executed and delivered in connection herewith is based upon the knowledge of such Seller, (i) such knowledge shall be deemed to include (A) the best actual knowledge, information and belief of any of the Sellers and (B) any information which any Seller would reasonably be expected to be aware of in the prudent discharge of his or her duties in the ordinary course of business (including consultation with legal counsel) on behalf of the Corporation, and (ii) the knowledge of any Seller shall be deemed to be the knowledge of all of the Sellers.

12.13 Jurisdiction; Arbitration.

(a) Subject to the other provisions of this Section 12.13, any judicial proceeding brought with respect to this Agreement must be brought in any court of competent jurisdiction in the State of Tennessee, and, by execution and delivery of this Agreement, each party (i) accepts, generally and unconditionally, the exclusive jurisdiction of such courts and any related appellate court, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement, and (ii) irrevocably waives any objection it may now or hereafter have as to the venue of any such suit, action or proceeding brought in such court or that such court is an inconvenient forum.

(b) Any dispute, claim or controversy arising out of or relating to this Agreement (except for accounting matters provided for in Section 1.2(c) hereto), or the interpretation or breach hereof (including, without limitation, any of the foregoing based upon a claim to any termination fee hereunder), shall be resolved by binding arbitration under the commercial arbitration rules of the American Arbitration Association (the "AAA Rules") to the extent such AAA Rules are not inconsistent with this Agreement. Judgment upon the award of the arbitrators may be entered in any court having jurisdiction thereof or such court may be asked to judicially confirm the award and order its enforcement, as the case may be. The demand for arbitration shall be made by any party hereto within a reasonable time after the claim, dispute or other matter in question has arisen, and in any event shall not be made after the date when institution of legal proceedings, based on such claim, dispute or other matter in question, would be barred by the applicable statute of limitations. The arbitration panel shall consist of three (3) arbitrators, one of whom shall be appointed by each party hereto within thirty (30) days after any request for arbitration hereunder. The two arbitrators thus appointed shall choose the third arbitrator within thirty (30) days after their appointment; provided, however, that if the two arbitrators are unable to agree on the appointment of the third arbitrator within 30 days after their appointment, either arbitrator may petition the American Arbitration Association to make the appointment. The place of arbitration shall be Atlanta, Georgia. The arbitrators shall be instructed to render their decision within sixty (60) days after their selection and to allocate all costs and expenses of such arbitration (including legal and accounting fees and expenses of the respective parties) to the parties in the proportions that reflect their relative success on the merits (including the successful assertion of any defenses).

(c) Nothing contained in this Section 12.13 shall (i) prevent any party hereto from seeking any equitable relief to which it would otherwise be entitled from a court of competent jurisdiction, or (ii) prevent the Buyer from enforcing its rights under the Non-Competition Agreement in the State of North Carolina.

12.14 Confidentiality. The Buyer agrees that it will keep confidential and not disclose without the prior written consent of the Sellers' Agent, and will not use for any reason other than the conduct of its due diligence investigations contemplated by Section 5.1 of this Agreement, all confidential information received from the Sellers or the Corporation. As used in this Section 12.14, the term "confidential information" shall mean all information regarding the Corporation's business which the Corporation takes reasonable measures to treat as confidential, but does not include (i) information which is, or becomes, generally available to the public other

than due to an act or omission of the Buyer, (ii) information which is, or becomes, available to the Buyer on a non-confidential basis from a source other than the Sellers or the Corporation, provided that such source is not bound by a confidentiality agreement with the Sellers or the Corporation, or (iii) was already known by the Buyer at the time of the receipt thereof. The provisions of this Section 12.14 shall survive the termination of this Agreement.

[Remainder of this Page Intentionally Blank - Signatures Next Page]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered on the date first above written.

SONIC AUTOMOTIVE, INC.

By: /s/ O. Bruton Smith

Name: O. Bruton Smith
Title: Chief Executive Officer

/s/ Freeman Smith

Name: Freeman Smith

/s/ Melvin Q. Smith

Name: Melvin Q. Smith

/s/ James M. Holland

Name: James M. Holland

EXHIBITS

Exhibit A	-	List of Sellers
Exhibit B	-	Form of Pledge Agreement
Exhibit C-1	-	Statement of Rights and Preferences of Preferred Stock
Exhibit C-2	-	Form of Liquidity Agreement
Exhibit D	-	Form of Dealership Leases
Exhibit E	-	Form of Non-Competition Agreement

SCHEDULES

Schedule 3.2(b)	Consents and Approvals for the Sellers
Schedule 3.5	Interest in other Entities
Schedule 3.7	Qualification
Schedule 3.8	Capitalization
Schedule 3.10	No Violation; Conflicts
Schedule 3.11	Encumbrances
Schedule 3.13	Financial Statements
Schedule 3.14	Accounts Receivable
Schedule 3.15	Inventories
Schedule 3.16(b)	Leased Premises
Schedule 3.16(c)	Easements, Condemnation
Schedule 3.16(d)	Zoning, Etc.
Schedule 3.16(e)	Owned Equipment
Schedule 3.16(f)	Leased Equipment
Schedule 3.16(g)	Maintenance of Equipment
Schedule 3.17	Intellectual Property
Schedule 3.18	Certain Liabilities
Schedule 3.19	No Undisclosed Liabilities
Schedule 3.20	Absence of Changes
Schedule 3.21	Tax Matters
Schedule 3.22	Compliance with Laws
Schedule 3.23	Litigation Regarding Corporation
Schedule 3.24	Permits, Etc.
Schedule 3.25	Employees; Labor Relations
Schedule 3.26	Compensation
Schedule 3.27	Employee Benefits
Schedule 3.28	Powers of Attorney
Schedule 3.29(a)	Material Agreements
Schedule 3.29(b)	Required Consents for Transfers of Material Agreements
Schedule 3.31	Bank Accounts, Credit Cards and Safe Deposit Boxes
Schedule 3.32(a)	Insurance Policies
Schedule 3.32(b)	Property Damage and Personal Injury Claims
Schedule 3.33	Warranties
Schedule 3.34	Directors and Officers
Schedule 3.36	Environmental Matters
Schedule 4.2(b)	Consents and Approvals for the Buyer
Schedule 5.5	Certain Dividends

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET, CONSOLIDATED STATEMENT OF INCOME AND CONSOLIDATED STATEMENT OF CASH FLOWS INCLUDED IN THE COMPANY'S FORM 10-Q FOR THE QUARTER ENDING MARCH 31, 1998, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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