

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2001

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  
(State or other jurisdiction of  
incorporation or organization)

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

5401 E. Independence Blvd., Charlotte, North Carolina  
(Address of principal executive offices)

28212  
(Zip Code)

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

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

Yes  No   
---

As of August 10, 2001, there were 28,565,606 shares of Class A Common Stock and 12,029,375 shares of Class B Common Stock outstanding.

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June 30, 2000 and June 30, 2001

Consolidated Statements of Income -  
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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)

<TABLE>  
<CAPTION>

	Three Months Ended June 30,	
	2000	2001
	-----	-----
<S>	<C>	<C>
REVENUES:		
New vehicles	\$ 904,622	\$ 971,588
Used vehicles	321,323	320,242
Wholesale vehicles	109,963	103,066
	-----	-----
Total vehicles	1,335,908	1,394,896
Parts, service and collision repair	170,545	194,791
Finance, insurance and other	41,886	50,693
	-----	-----
Total revenues	1,548,339	1,640,380
COST OF SALES	1,329,041	1,398,494
	-----	-----
GROSS PROFIT	219,298	241,886
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	154,819	179,379
DEPRECIATION	1,644	2,074
GOODWILL AMORTIZATION	4,180	4,655
	-----	-----
OPERATING INCOME	58,655	55,778
OTHER INCOME AND EXPENSE:		
Interest expense, floor plan	12,048	10,450
Interest expense, other	10,296	8,508
Other income	36	16
	-----	-----
Total other expense, net	22,308	18,942
	-----	-----
INCOME BEFORE INCOME TAXES	36,347	36,836
PROVISION FOR INCOME TAXES	13,895	14,350
	-----	-----
NET INCOME	\$ 22,452	\$ 22,486
	=====	=====
BASIC NET INCOME PER SHARE	\$ 0.52	\$ 0.56
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	42,969	40,063
	=====	=====
DILUTED NET INCOME PER SHARE	\$ 0.51	\$ 0.55
	=====	=====
WEIGHTED AVERAGE NUMBER OF DILUTED SHARES OUTSTANDING	44,331	41,062
	=====	=====

</TABLE>

See notes to unaudited consolidated financial statements.

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

<TABLE>  
<CAPTION>

	Six Months Ended June 30,	
	2000	2001
<S>	<C>	<C>
<b>REVENUES:</b>		
New vehicles	\$ 1,758,656	\$ 1,850,196
Used vehicles	626,754	634,589
Wholesale vehicles	210,975	219,919
	-----	-----
Total vehicles	2,596,385	2,704,704
Parts, service and collision repair	336,132	384,152
Finance, insurance and other	80,223	91,729
	-----	-----
Total revenues	3,012,740	3,180,585
<b>COST OF SALES</b>	2,585,408	2,716,760
	-----	-----
<b>GROSS PROFIT</b>	427,332	463,825
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	308,285	350,846
<b>DEPRECIATION</b>	3,161	3,799
<b>GOODWILL AMORTIZATION</b>	8,230	9,106
	-----	-----
<b>OPERATING INCOME</b>	107,656	100,074
<b>OTHER INCOME AND EXPENSE:</b>		
Interest expense, floor plan	22,405	22,692
Interest expense, other	20,562	18,513
Other income	74	75
	-----	-----
Total other expense, net	42,893	41,130
	-----	-----
<b>INCOME BEFORE INCOME TAXES</b>	64,763	58,944
<b>PROVISION FOR INCOME TAXES</b>	24,940	22,975
	-----	-----
<b>NET INCOME</b>	\$ 39,823	\$ 35,969
	=====	=====
<b>BASIC NET INCOME PER SHARE</b>	\$ 0.94	\$ 0.88
	=====	=====
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	42,528	40,664
	=====	=====
<b>DILUTED NET INCOME PER SHARE</b>	\$ 0.89	\$ 0.87
	=====	=====
<b>WEIGHTED AVERAGE NUMBER OF DILUTED SHARES OUTSTANDING</b>	44,604	41,266
	=====	=====

</TABLE>

See notes to unaudited consolidated financial statements.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands)

<TABLE>  
<CAPTION>

	December 31, 2000	June 30, 2001 (Unaudited)
<S>	<C>	<C>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 109,325	\$ 117,247
Receivables, net	127,865	134,677
Inventories	773,785	720,939

Other current assets	26,428	32,271
Total current assets	1,037,403	1,005,134
PROPERTY AND EQUIPMENT, NET	72,966	78,195
GOODWILL, NET	668,782	691,434
OTHER ASSETS	10,097	10,958
TOTAL ASSETS	\$ 1,789,248	\$ 1,785,721
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable - floor plan	\$ 684,718	\$ 627,445
Trade accounts payable	50,274	51,706
Accrued interest	10,279	8,854
Other accrued liabilities	70,453	89,137
Current maturities of long-term debt	2,597	2,852
Total current liabilities	818,321	779,994
LONG-TERM DEBT	485,212	493,412
OTHER LONG-TERM LIABILITIES	8,200	8,654
PAYABLE TO THE COMPANY'S CHAIRMAN	5,500	5,500
DEFERRED INCOME TAXES	21,093	24,585
STOCKHOLDERS' EQUITY:		
Class A convertible preferred stock	251	--
Class A common stock	333	342
Class B common Stock	123	121
Paid-in capital	329,489	333,763
Retained earnings	153,564	189,533
Treasury stock, at cost	(32,838)	(50,183)
Total stockholders' equity	450,922	473,576
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,789,248	\$ 1,785,721

</TABLE>

See notes to unaudited consolidated financial statements.

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

Retained Earnings	Preferred Stock		Class A Common Stock		Class B Common Stock		Paid-In Capital
	Shares	Amount	Shares	Amount	Shares	Amount	
--	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>							
BALANCE AT December 31, 2000	-	\$ 251	33,292	\$ 333	12,250	\$ 123	\$ 329,489
\$ 153,564							
Shares awarded under stock compensation plans			577	6			4,275
Repurchase of Class A Common Stock							
Conversion of Class B Common Stock			221	2	(221)	(2)	
Redemption of Preferred Stock	-	(251)					
Exercise of warrants			81	1			
(1)							
Net income							
35,969							
--	-----	-----	-----	-----	-----	-----	-----
BALANCE AT June 30, 2001	-	\$ -	34,171	\$ 342	12,029	\$ 121	\$ 333,763
\$ 189,533							
	=====	=====	=====	=====	=====	=====	=====

<CAPTION>

	Treasury Stock	Total Stockholders' Equity
	-----	-----
<S>	<C>	<C>
BALANCE AT December 31, 2000	\$ (32,838)	\$ 450,922
Shares awarded under stock compensation plans		4,281
Repurchase of Class A Common Stock	(17,345)	(17,345)
Conversion of Class B Common Stock		-
Redemption of Preferred Stock		(251)
Exercise of warrants		-
Net income		35,969
	-----	-----
BALANCE AT June 30, 2001	\$ (50,183)	\$ 473,576
	=====	=====

</TABLE>

See notes to unaudited consolidated financial statements.

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

<TABLE>  
<CAPTION>

	Six Months Ended June 30,	
	2000	2001
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 39,823	\$ 35,969
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,391	12,905
Gain/loss on disposal of assets	65	(110)
Changes in assets and that relate to operations:		
Receivables	(29,043)	1,792
Inventories	(45,500)	103,327
Other assets	(6,847)	(1,764)
Notes payable - floor plan	55,554	(112,698)
Trade accounts payable and other liabilities	29,133	17,589
	-----	-----
Total adjustments	14,753	21,041
	-----	-----
Net cash provided by operating activities	54,576	57,010
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of dealerships, net of cash acquired	(46,802)	(36,720)
Purchases of property and equipment	(34,955)	(20,879)
Proceeds from sales of property and equipment	3,383	4,260
Proceeds from sales of dealerships	-	9,624
	-----	-----
Net cash used in investing activities	(78,374)	(43,715)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on revolving credit facilities	48,513	8,822
Payments on long-term debt	(1,979)	(1,199)
Proceeds from long-term debt	1,350	319
Purchases of Class A common stock	(24,847)	(17,345)
Redemptions of Preferred Stock	-	(251)
Issuance of shares under stock compensation plans	1,362	4,281
Advances to affiliated companies	3,371	-
	-----	-----
Net cash provided by/(used in) financing activities	27,770	(5,373)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,972	7,922
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	83,111	109,325
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 87,083	\$ 117,247
	=====	=====
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Preferred Stock issued for acquisitions and contingent consideration	\$ 11,589	\$ -
Conversion of Preferred Stock	\$ 25,947	\$ -

</TABLE>

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", "projected" or similar terms. 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, including without limitation, Exhibit 99.1 hereto, and in our other filings with the Securities and Exchange Commission.

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 and six months ended June 30, 2000 and 2001 has 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 audited consolidated financial statements of Sonic Automotive, Inc. ("Sonic") for the year ended December 31, 2000.

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

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

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

Commissions expense related to finance and insurance commission revenue is charged to cost of sales upon recognition of such revenue, net of estimated chargebacks. Commission expense charged to cost of sales was approximately \$6.8 million and \$7.3 million for the three months ended June 30, 2000 and 2001, respectively, and approximately \$13.1 million and \$13.6 million for the six months ended June 30, 2000 and 2001, respectively.

**Recent Accounting Pronouncements** -- In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141: Business Combinations. SFAS No. 141 prohibits the pooling-of-interests method of accounting and requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. In addition, SFAS 141 provides additional guidance regarding the measurement and recognition of goodwill and other acquired intangible assets. The provisions of this standard became effective beginning July 1, 2001. Upon adoption, we may be required to reclassify certain intangible assets previously recorded as goodwill, such as franchise rights granted from automobile manufacturers, as intangible assets apart from goodwill. However, we are currently evaluating the provisions of this standard and have not yet determined the full impact on our consolidated financial statements.

In July 2001, the FASB also issued SFAS No. 142: Goodwill and Other Intangible Assets. Among other things, SFAS 142 no longer permits the amortization of goodwill, but requires that the carrying amount of goodwill be reviewed and reduced against operations if it is found to be impaired. This review must be performed on at least an annual basis, but must also be performed upon the occurrence of an event or circumstance that indicates a possible reduction in value. SFAS 142 does require the amortization of intangible assets other than goodwill over their useful economic lives, unless the useful economic life is determined to be indefinite. These intangible assets are required to be reviewed for impairment in accordance with SFAS 121: Accounting for Impairment of Long-Lived Assets and Assets to be Disposed. Intangible assets that are

determined to have an indefinite economic life may not be amortized and must be reviewed for impairment in accordance with the terms of SFAS 142. The provisions of SFAS 142 become effective for us beginning January 1, 2002; however, goodwill and other intangible assets determined to have an indefinite useful life acquired in business combinations completed after June 30, 2001 will not be amortized. Early adoption and retroactive application is not permitted. While we are currently evaluating the provisions of SFAS 142, we have not yet determined the full impact on our consolidated financial statements. As of December 31, 2000, the carrying amount of goodwill was \$668.8 million and represented 37.4% of total assets and 148.3% of total stockholders' equity. As of June 30, 2001, the carrying amount of goodwill was \$691.4 million and represented 38.7% of total assets and 146.0% of total stockholders' equity.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accounts in the accompanying financial statements which require the use of significant estimates are accounts receivable, inventories, intangible assets, income taxes and certain accrued expenses.

Segment Information - Sonic's business is fundamentally managed based on individual dealership operating performance. Each of Sonic's dealerships have similar economic and operating characteristics. Each dealership sells similar products and services (new and used vehicles, parts, service and collision repair services), uses similar processes in selling its product and services, and sells its products and services to similar classes of customers. As a result, Sonic's dealerships are aggregated into a single operating segment for purposes of reporting financial condition and results of operations.

2. BUSINESS ACQUISITIONS

Acquisitions Completed During the Six Months Ended June 30, 2001:

During the first six months of 2001, Sonic acquired four dealerships for approximately \$42.0 million in cash. The acquisitions were accounted for using the purchase method of accounting, and the results of operations of such acquisitions have been included in the accompanying unaudited consolidated financial statements from their respective acquisition dates. The aggregate purchase price of these acquisitions has been allocated to the assets and liabilities acquired based on their estimated fair market value at the acquisition date as shown in the table below. We are still in the process of obtaining data necessary to complete the allocation of the purchase price of certain of these acquisitions. As a result, the values of assets and liabilities included in the table below reflect preliminary estimates where actual values have not yet been determined, and may ultimately be different than amounts recorded once actual values are determined. Any adjustment to the value of the assets and liabilities will be recorded against goodwill.

Working capital	\$	8,405
Property and equipment		3,631
Goodwill		31,499
Non-current liabilities assumed		(1,534)
		-----
Total purchase price	\$	42,001
		=====

The following unaudited pro forma financial information presents a summary of consolidated results of operations as if the acquisitions completed during the three and six months ended June 30, 2000 and June 30, 2001 had occurred as of the beginning of the year in which the acquisitions were completed, and at the beginning of the immediately preceding year, after giving effect to certain adjustments, including amortization of goodwill, interest expense on acquisition debt and related income tax effects. The pro forma financial information does not give effect to adjustments relating to net reductions in floor plan interest expense resulting from 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 Sonic or whose salaries have been reduced pursuant to employment agreements with Sonic. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results of operations that would have occurred had the acquisitions been completed at the beginning of the period presented. These results are also not necessarily indicative of the results of future operations.

<TABLE>  
<CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	2001	2000	2001
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Total revenues	\$ 1,759,601	\$ 1,645,446	\$ 3,445,797	\$ 3,209,367
Cross profit	\$ 241,293	\$ 244,552	\$ 472,945	\$ 468,149
Net income	\$ 23,518	\$ 22,300	\$ 41,473	\$ 34,952
Diluted net income per share	\$ 0.53	\$ 0.54	\$ 0.93	\$ 0.85

</TABLE>

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

2. Business Acquisitions - (Continued)

Sale of Dealership Subsidiaries:

In the ordinary course of business, we evaluate dealerships for possible disposition based on various performance criteria. During the six months ended June 30, 2001, we sold or otherwise disposed of assets from nine of our dealership franchises which contributed approximately \$36.3 million in revenues in the first half of 2001. Proceeds, net of disposal costs, from these dispositions were approximately \$9.6 million, and we have recorded no material gains or losses on these dispositions.

3. Inventories

Inventories consist of the following:

	December 31,	June 30,
	2000	2001
	-----	-----
New vehicles	\$ 591,583	\$ 522,979
Used vehicles	116,836	124,656
Parts and accessories	48,916	46,395
Other	16,450	26,909
	-----	-----
Total	\$ 773,785	\$ 720,939
	=====	=====

4. Property and Equipment

Property and equipment is comprised of the following:

	December 31,	June 30,
	2000	2001
	-----	-----
Land	\$ 53	\$ 1,802
Building and improvements	25,771	29,826
Office equipment and fixtures	23,599	25,285
Parts and service equipment	20,132	20,468
Company vehicles	5,812	6,255
Construction in progress	12,244	12,401
	-----	-----
Total, at cost	87,611	96,037
Less accumulated depreciation	(14,645)	(17,842)
	-----	-----
Property and equipment, net	\$ 72,966	\$ 78,195
	=====	=====

In addition to the \$12.4 million classified as construction in progress at June 30, 2001, Sonic has incurred approximately \$15.8 million in construction costs during the first six months of 2000 on facilities which are expected to be completed and sold within one year in sale-leaseback transactions. Accordingly, these costs have been classified in other current assets on the accompanying unaudited consolidated balance sheet as of June 30, 2001. At December 31, 2000 Sonic had classified \$5.2 million of such construction costs in other current assets.

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

5. Long-Term Debt

Revolving Facility

On June 20, 2001 we entered into a new revolving credit facility (the

"Revolving Facility") with Ford Motor Credit Company ("Ford Motor Credit"), Chrysler Financial Company, L.L.C ("Chrysler Financial") and Toyota Motor Credit Corporation ("Toyota Credit") with a borrowing limit of \$600 million, subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by an affiliate of Sonic (the borrowing base was approximately \$465.5 million at June 30, 2001). The Revolving Facility replaced our prior revolving credit facility with Ford Motor Credit and Chrysler Financial, as lenders, which had a borrowing limit of \$500 million, subject to a similar borrowing base. Amounts outstanding under the Revolving Facility bear interest at 2.50% above LIBOR (LIBOR was 3.86% at June 30, 2001) and will mature on October 1, 2004 (but may be extended for a number of additional one year terms to be negotiated with Ford Motor Credit, Chrysler Financial and Toyota Credit). The weighted average interest rate on the Revolving Facility was 7.03% and 7.77% for the three and six months ended June 30, 2001, respectively. Borrowings, net of repayments, under the Revolving Facility for the six months ended June 30, 2001 were approximately \$8.8 million and were primarily used to finance acquisitions. The total outstanding balance was approximately \$361.2 million as of June 30, 2001 and approximately \$325.2 million as of August 10, 2001. Additional amounts to be drawn under the Revolving Facility are to be used for the acquisition of additional dealerships and to provide for the general working capital needs of Sonic and other general corporate purposes.

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

- . current assets to current liabilities (at least 1.23:1),
- . earnings before interest, taxes, depreciation and amortization (EBITDA) and rent less capital expenditures to fixed charges (at least 1.4:1),
- . EBITDA to interest expense (at least 2:1) and
- . total adjusted debt to EBITDA (no greater than 2.25:1).

In addition, the loss of voting control over Sonic by Bruton Smith, Chairman and Chief Executive Officer, Scott Smith, President and Chief Operating Officer, and their spouses or immediate family members or the failure by Sonic, with certain exceptions, to own all the outstanding equity, membership or partnership interests in its dealership subsidiaries will constitute an event of default under the Revolving Facility. Sonic is in compliance with all restrictive covenants as of June 30, 2001.

#### Mortgage Facility

We currently have a revolving real estate acquisition and construction line of credit (the "Construction Loan") and a related mortgage refinancing facility (the "Permanent Loan" and collectively with the Construction Loan, the "Mortgage Facility") with Ford Motor Credit. Under the Construction Loan, our dealership development subsidiaries can borrow up to \$50.0 million to finance land acquisition and dealership construction costs. Advances can be made under the Construction Loan until December 2003. All advances will mature on June 22, 2005, bear interest at 2.25% above LIBOR and are secured by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets. The total outstanding balance under the Construction Loan as of June 30, 2001 was approximately \$5.9 million.

Under the Permanent Loan, we can refinance up to \$50.0 million in advances under the Construction Loan once the projects are completed. Advances can be made under the Permanent Loan until June 2005. All advances under the Permanent Loan mature on June 22, 2010, bear interest at 2.00% above LIBOR and are secured by the same collateral given under the Construction Loan. As of June 30, 2001, no amounts were outstanding under the Permanent Loan.

The Mortgage Facility allows us to borrow up to \$100 million in the aggregate under the Construction Loan and the Permanent Loan. The Mortgage Facility is not cross-collateralized with the Revolving Facility; however, a default under one will cause a default under the other. Among other customary covenants, the borrowing subsidiaries under the Mortgage Facility agreed not to incur any other liens on their property (except for existing encumbrances on property acquired) and not to transfer their property or more than 20% of their ownership interests to any third party. In addition, the loss of voting control by Bruton Smith, Scott Smith and their spouses or immediate family members, with certain exceptions, will result in an event of default under the Mortgage Facility. Sonic was in compliance with all restrictive covenants as of June 30, 2001.

#### Subsidiary Guarantees

Balances outstanding under Sonic's Revolving Facility and \$125 million senior subordinated notes are guaranteed by all of Sonic's operating subsidiaries. These guarantees are full and unconditional and joint and several. The parent company has no independent assets or operations, and

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

6. Related Parties

Registration Rights Agreement

When Sonic acquired Town & Country Ford, Lone Star Ford, Fort Mill Ford, Town & Country Toyota and Frontier Oldsmobile-Cadillac in 1997, Sonic signed a Registration Rights Agreement dated as of June 30, 1997 with Sonic Financial Corporation ("SFC"), Bruton Smith, Scott Smith and William S. Egan (collectively, the "Class B Registration Rights Holders"). SFC currently owns 8,881,250 shares of Class B common stock; Bruton Smith, 2,171,250 shares; Scott Smith, 956,250 shares; and Egan Group, LLC, an assignee of Mr. Egan (the "Egan Group"), 20,625 shares, all of which are covered by the Registration Rights Agreement. The Egan Group also owns certain shares of Class A common stock to which the Registration Rights Agreement applies. If, among other things provided in Sonic's charter, offers and sales of shares of Class B common stock are registered with the Securities and Exchange Commission, then such shares will automatically convert into a like number of shares of Class A common stock.

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

Payable to Company's Chairman

Sonic has a note payable to Mr. Smith in the amount of \$5.5 million (the "Subordinated Smith Loan"). The Subordinated Smith Loan bears interest at Bank of America's announced prime rate plus 0.5% (prime rate was 6.75% at June 30, 2001) and has a stated maturity date of November 30, 2000. Under the terms of certain subordination agreements currently in effect, however, all amounts owed by Sonic to Mr. Smith under the Subordinated Smith Loan are to be paid only after all amounts owed by Sonic under the Revolving Facility, Sonic's floor plan financing facility with Ford Motor Credit and Sonic's senior subordinated notes are fully paid in cash. Accordingly, the Subordinated Smith Loan has been classified as non-current on the accompanying consolidated balance sheets.

7. Capital Structure and Per Share Data

Preferred Stock - Sonic has 3 million shares of "blank check" preferred stock authorized with such designations, rights and preferences as may be determined from time to time by the Board of Directors. The Board of Directors has designated 300,000 shares of preferred stock as Class A convertible preferred stock, par value \$0.10 per share (the "Preferred Stock") which is divided into 100,000 shares of Series I Preferred Stock, 100,000 shares of Series II Preferred Stock, and 100,000 shares of Series III Preferred Stock. As of June 30, 2001 there were no shares issued and outstanding.

Common Stock - Sonic has two classes of common stock. Sonic has authorized 100 million shares of Class A common stock at a par value of 0.01 per share. Class A common stock entitles its holder to one vote per share. Sonic had 33,291,933 and 34,170,228 shares of Class A common stock issued at December 31, 2000 and June 30, 2001, respectively. Of these issued shares, there were 29,715,570 and 28,404,064 shares outstanding at December 31, 2000 and June 30, 2001, respectively. Sonic has also authorized 30 million shares of Class B common stock at a par value of \$.01 per share. Class B common stock entitles its holder to ten votes per share, except in certain circumstances. Each share of Class B common stock is convertible into one share of Class A common stock either upon voluntary conversion at the option of the holder, or automatically upon the occurrence of certain events, as provided in Sonic's charter. Sonic had 12,250,000 and 12,029,375 shares of Class B common stock issued and outstanding at December 31, 2000 and June 30, 2001, respectively.

Treasury Stock/Share Repurchase Program - Our Board of Directors has authorized us to expend up to \$100 million to repurchase shares of our Class A common stock or redeem securities convertible into Class A common stock. As of June 30, 2001 we had repurchased a total of 5,766,164 shares of Class A common stock for approximately \$50.2 million and had also redeemed 13,801.5 shares of Class A convertible preferred stock at a total cost of approximately \$13.8 million. As of August 10, 2001, we have repurchased a total of 5,833,664 shares of Class A common stock for approximately \$52.3 million. We will continue to repurchase shares from time to time subject to market conditions.

7. Capital Structure and Per Share Data - continued

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

<TABLE>  
 <CAPTION>

	For the six months ended June 30, 2000			For the six months ended June 30, 2001		
	Income	Shares	Per-share amount	Income	Shares	Per-share amount
	(Dollars and Shares in thousands except per share amounts)			(Dollars and Shares in thousands except per share amounts)		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Basic Net Income Share	\$ 39,823	42,528	\$ 0.94	\$ 35,969	40,664	\$ 0.88
			=====			=====
Effect of Dilutive Securities:						
Stock compensation plans	-	503		-	563	
warrants	-	33		-	27	
Convertible Preferred Stock	-	1,540		-	12	
Diluted Net Income Per Share	\$ 39,823	44,604	\$ 0.89	\$ 35,969	41,266	\$ 0.87
	=====	=====	=====	=====	=====	=====

</TABLE>

<TABLE>  
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	For the three months ended June 30, 2000			For the three months ended June 30, 2001		
	Income	Shares	Per-Share Amount	income	Shares	Per-Share Amount
	(Dollars and Shares in thousand except per share amounts)			(Dollars and Shares in thousands except per share amounts)		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Basic Net Income Per Share	\$ 22,452	42,969	\$ 0.52	\$ 22,486	40,063	\$ 0.56
			=====			=====
Effect of Dilutive Securities						
Stock compensation plans	-	622		-	962	
warrants	-	38		-	37	
Convertible Preferred Stock	-	702		-	-	
Diluted Net Income Per Share	\$ 22,452	44,331	\$ 0.51	\$ 22,486	41,062	\$ 0.55
	=====	=====	=====	=====	=====	=====

</TABLE>

In addition to the stock options included in the table above, options to purchase 1,188,633 shares of Class A common stock were outstanding during the three months ended June 30, 2001 but were not included in the computation of diluted net income per share because the options were antidilutive.

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.

Overview

We are the second largest automotive retailer in the United States, as measured by total revenue, operating 163 dealership franchises and 30 collision repair centers throughout the United States as of August 10, 2001. We own and operate franchises for 30 different brands of cars and light trucks, providing comprehensive services including sales of both new and used cars and light trucks, replacement parts and vehicle maintenance, warranty, paint and repair services. We also arrange extended warranty contracts and financing and insurance for our automotive customers.

The following table depicts the breakdown of our new vehicle revenues by brand for the three and six months ended June 30, 2001 compared to the three and six months ended June 30, 2000:

<TABLE>  
<CAPTION>

of New Revenues for the Months Ended 30, 2001	Percentage of New Vehicle Revenues for the Three Months Ended June 30,		Percentage Vehicle Six June
	2000	2001	2000
	-----	-----	-----
	<C>	<C>	<C>
<S>			
<C>			
Brand			
18.8% Ford.....	14.2%	19.8%	14.4%
13.2% Honda.....	14.6%	12.9%	14.2%
10.7% Toyota.....	8.5%	11.0%	8.4%
11.3% BMW.....	10.2%	11.6%	10.1%
10.8% General Motors(1).....	11.0%	10.7%	10.9%
8.8% Chrysler (2).....	11.4%	8.1%	12.1%
5.4% Nissan.....	6.1%	5.0%	6.3%
5.4% Lexus.....	4.9%	5.2%	4.8%
15.6% Other (3).....	19.1%	15.7%	18.8%
-----	-----	-----	-----
100.0% Total.....	100.0%	100.0%	100.0%
=====	=====	=====	=====

</TABLE>

- (1) Includes Buick, Cadillac, Chevrolet, GMC, Oldsmobile and Pontiac
- (2) Includes Chrysler, Dodge, Jeep and Plymouth
- (3) Includes Acura, Audi, Hyundai, Infiniti, Isuzu, KIA, Land Rover, Lincoln, Mercedes, Mercury, Mitsubishi, Porsche, Subaru, Volkswagen and Volvo

New vehicle revenues include both the sale and lease of new vehicles. Used vehicle revenues include amounts received for used vehicles sold to retail customers, other dealers and wholesalers. Other operating revenues include parts and services revenues, fees and commissions for arranging financing and insurance and sales of third party extended warranties for vehicles. In connection with vehicle financing contracts, we receive a finance fee from the lender for originating the loan. If, within 90 days of origination, the customer pays off the loans through refinancing or selling/trading in the vehicle or defaults on the loan, the finance company will assess a charge (a "chargeback") for a portion of the original commission. The amount of the chargeback depends on how long the related loan was outstanding. As a result, we have established reserves based on our historical chargeback experience. We also sell warranties provided by third-party vendors, and recognize a commission at the time of sale.

The automobile industry is cyclical and historically has experienced periodic downturns, characterized by oversupply and weak demand. Many factors affect the industry including general economic conditions and consumer confidence, the level of discretionary personal income, interest rates and available credit. During the first half of 2001, we saw a significant decline in same store vehicle sales of domestic manufacturer brands as compared to the same period last year as a result of these factors. On a same store basis, new vehicle revenues declined by approximately 6.8% in the first half of 2001 compared to the same period last year, and retail used vehicle revenues declined by approximately 8.8% compared to the same period last year. We expect this slowdown in domestic vehicle sales to continue during 2001.

While the automotive retailing business is cyclical, we sell several products and services that are not closely tied to the sale of new and used vehicles. Such products and services include our parts, service and collision repair businesses, none of which are dependent upon near-term new or used vehicle sales volume.

Our cost of sales and profitability are also affected by the allocations of new vehicles which our dealerships receive from manufacturers.

When we do not receive allocations of new vehicle models adequate to meet customer demand, we may purchase additional vehicles from other dealers at a premium to the manufacturer's invoice, reducing the gross margin realized on the sales of such vehicles. In addition, we follow a disciplined approach in selling vehicles to other dealers and wholesalers when the vehicles have been in our inventory longer than the guidelines set by us. Such sales are frequently at or below cost and, therefore, reduce our overall gross margin on vehicle sales.

Salary expense, employee benefits costs, facility rent and advertising expenses comprise the majority of our selling, general and administrative expenses. Approximately 61.8% of our selling, general and administrative expenses for the six months ended June 30, 2001 were variable. We are able to adjust these expenses as the operating or economic environment impacting our dealerships changes. We manage these variable expenses, such as advertising (approximately 7.4% of selling, general and administrative expenses) and non-salaried sales compensation

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(approximately 48.4%), so that they are generally related to vehicle sales and can be adjusted in response to changes in vehicle sales volume. In addition, management compensation is tied to individual dealership profitability and stock price appreciation through stock options.

Interest expense fluctuates based primarily on the level of the inventory of new vehicles held at our dealerships, substantially all of which is financed through floor plan financing, as well as the amount of indebtedness incurred for acquisitions. In addition, because most of our debt incurs interest at variable rates, interest expense also fluctuates based on changes in those underlying interest rates (see discussion under "Results of Operations" and "Quantitative and Qualitative Disclosures About Market Risk"). Our floor plan expenses are substantially offset by amounts received from manufacturers, in the form of floor plan inventory incentives. These payments are credited against our cost of sales. During the six months ended June 30, 2001, we received approximately \$16.4 million in manufacturer inventory incentives which resulted in an effective borrowing rate under our floor plan facilities of approximately 1.9%.

Our business is fundamentally managed based on individual dealership operating performance. Each of our dealerships have similar economic and operating characteristics. Each dealership sells similar products and services (new and used vehicles, parts, service and collision repair services), uses similar processes in selling its products and services, and sells its products and services to similar classes of customers. As a result, we have aggregated our dealerships into a single operating segment for purposes of reporting financial condition and results of operations.

We have accounted for all of our dealership acquisitions using the purchase method of accounting and, as a result, we do not include in our financial statements the results of operations of these dealerships prior to the date they were acquired. Our Unaudited Consolidated Financial Statements discussed below reflect the results of operations, financial position and cash flows of each of our dealerships acquired prior to June 30, 2001 from their respective dates of acquisition. As a result of the effects of our acquisitions, the historical unaudited consolidated financial information described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" is not necessarily indicative of the results of operations, financial position and cash flows which would have resulted had such acquisitions occurred at the beginning of the periods presented, nor is it indicative of future results of operations, financial position and cash flows.

Results of Operations

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

<TABLE>  
<CAPTION>

Percentage of Revenues for the Months Ended	Percentage of		
	Total Revenues for the		Total
	Three Months Ended		Six
	June 30,		June
30,			
2001	2000	2001	2000
-----	-----	-----	-----
<S>	<C>	<C>	<C>
<C>			
Revenues:			
New vehicle revenues.....	58.4%	59.2%	58.4%

58.2%	Used vehicle revenues (retail).....	20.8%	19.5%	20.8%
20.0%	Wholesale vehicle revenues.....	7.1%	6.3%	7.0%
6.9%	Parts, service and collision repair.....	11.0%	11.9%	11.1%
12.0%	Finance, insurance and other.....	2.7%	3.1%	2.7%
2.9%		-----	-----	-----
-----	Total revenues.....	100.0%	100.0%	100.0%
100.0%	Cost of sales.....	85.8%	85.3%	85.8%
85.4%		-----	-----	-----
-----	Gross profit.....	14.2%	14.7%	14.2%
14.6%	Selling, general and administrative expenses.....	10.0%	10.9%	10.2%
11.1%	Depreciation.....	0.1%	0.1%	0.1%
0.1%	Goodwill amortization.....	0.3%	0.3%	0.3%
0.3%		-----	-----	-----
-----	Operating income.....	3.8%	3.4%	3.6%
3.1%	Interest expense, floor plan.....	0.8%	0.6%	0.8%
0.7%	Interest expense, other.....	0.7%	0.5%	0.7%
0.6%		-----	-----	-----
-----	Income before income taxes.....	2.3%	2.3%	2.1%
1.8%	Income tax expense.....	0.9%	0.9%	0.8%
0.7%		-----	-----	-----
-----	Net Income.....	1.4%	1.4%	1.3%
1.1%		=====	=====	=====

</TABLE>

#### Revenues

Revenues grew in most of our primary revenue areas in both the second quarter and first half of 2001, causing total revenues to increase \$92.0 million, or 5.9%, in the second quarter of 2001 over the same period last year, and \$167.8 million, or 5.6%, in the first half of 2001 over the same period last year. Dealerships acquired in 2000 and 2001, net of dealerships disposed, accounted for an increase in revenues of approximately \$185.8 million in the second quarter and approximately \$327.7 million in the first half. These increases were offset by declines in revenues from dealerships owned longer than one year of approximately \$93.8 million in the second quarter of 2001 compared to the same period last year, and \$159.9 million in the first half of 2001 compared to the same period last year.

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**New Vehicles:** Revenues from the sale of new vehicles increased approximately \$67.0 million, or 7.4%, in the second quarter of 2001 compared to the same period last year, and approximately \$91.5 million, or 5.2%, in the first half of 2001 compared to the same period last year. These increases reflect increases in both unit sales, which increased approximately 3.9% in the second quarter of 2001 and 1.8% in the first half of 2001, compared to the same periods last year, and increases in average selling price, which increased approximately 3.3% in both the second quarter and first half of 2001 compared to the same periods last year. The overall increases in unit sales resulted from dealerships acquired, which contributed 5,336 units in the second quarter, net of dealerships disposed, and 8,576 units in the first half, net of dealerships disposed. These increases were offset by declines in unit sales from dealerships owned longer than one year of 3,944 units, or 11.5%, in the second quarter of 2001 and 7,333 units, or 11.3%, in the first half of 2001. The decline in unit sales from dealerships owned longer than one year was primarily isolated to domestic brands which have experienced softening demand under weaker economic conditions, as well as dealerships located in our Northern California market, which experienced unusually strong demand in the latter half of 1999 and first half of 2000 as a result of the strong technology industry in that area, that has now declined to more normal levels.

**Used Vehicles:** Revenues from retail sales of used vehicles decreased

approximately 0.3% in the second quarter of 2001 compared to the same period last year, but increased approximately 1.3% in the first half of 2001 compared to the same period last year. The decrease in revenues in the second quarter resulted from a decline in the average selling price of approximately 0.5% , while unit sales remained relatively flat. The increase in revenues in the first half resulted from an increase in unit sales of approximately 0.4% and an increase in the average selling price of approximately 0.9%. Dealerships acquired contributed 2,233 units in the second quarter, net of dealerships disposed, and 4,353 units in the first half, net of dealerships disposed. This was offset by declines in unit sales from dealerships owned longer than one year of 2,203 units in the second quarter of 2001 and 4,207 units in the first half of 2001. The decline in unit sales from dealerships owned longer than one year was experienced primarily by dealerships selling predominantly domestic models, in which used unit sales declined approximately 20.4% in the second quarter of 2001 and 23.1% in the first half of 2001, compared to dealerships representing predominantly import franchises in which used unit sales declined approximately 3.8% in the second quarter of 2001 and 2.1% in the first half of 2001.

**Parts, Service and Collision Repair:** Revenues from parts, service and collision repair increased approximately 14.2% in the second quarter of 2001 compared to the same period last year, and approximately 14.3% in the first half of 2001 compared to the same period last year. The majority of these increases resulted from dealership acquisitions, net of dealership dispositions, which accounted for approximately 72.2% of the increase in the second quarter of 2001 and approximately 69.4% in the first half of 2001. Parts, service and collision repair revenues from dealerships owned longer than one year increased approximately 4.1% in the second quarter of 2001 over the same period last year, and approximately 4.7% in the first half of 2001 over the same periods last year, resulting primarily from investments in real estate and construction projects which allowed us to increase our overall service and parts capacity.

**Finance and Insurance:** Finance and insurance revenue increased approximately 21.0% in the second quarter of 2001 compared with the same period last year, and approximately 14.3% in the first half of 2001 compared with the same period last year. Approximately 60.1% of the increase in the second quarter and approximately 70.6% of the increase in the first half resulted from dealership acquisitions, net of dealership dispositions. Finance and insurance revenues per vehicle increased approximately 18.0% in the second quarter of 2001 compared to the same period last year and approximately 12.9% in the first half of 2001 compared to the same period last year. In addition, despite decreases in new vehicle revenues from dealerships owned longer than one year of approximately 6.8% in both the second quarter and first half of 2001, compared to the same periods last year, finance and insurance revenues from those dealerships increased 8.7% in the second quarter and 4.5% in the first half, reflecting increases in finance and insurance revenues per vehicle of 22.6% in the second quarter and 17.8% in the first half. These increases resulted primarily from management's continued focus on improving training and development programs for finance and insurance sales people. Finance and insurance revenues for the second quarter of 2001 also benefited from resolution of, and increases in, commission rates on manufacturers branded extended warranty products. We also have improved the commission rates on financing with a number of preferred providers in the second quarter of 2001 compared to the second quarter of 2000.

#### Gross profit and gross margins

Gross profit increased 10.3% in the second quarter of 2001 and approximately 8.5% in the first half of 2001 compared to the same periods last year. The increases resulted primarily from the additional revenues contributed by dealership acquisitions, net of dealership dispositions. Our overall gross margins increased to 14.7% in the second quarter of 2001 and 14.6% in the first half of 2001, from 14.2% in both the second quarter and first half of 2000, despite declines in gross margins from retail vehicle sales resulting from weaker economic conditions. The increases in overall gross margins were primarily driven by increases in the percentage of revenues contributed by parts, service, collision repair services and finance and insurance products, which earn higher margins than vehicles sales, as well as increases in gross margins earned on those products. Parts, service and collision repair revenues as a percentage of total revenues increased to 11.9% in the second quarter of 2001, from 11.0% in the second quarter of 2000, and to 12.1% in the first half of 2001 compared to 11.1% in the first half of 2000, reflecting investments in real estate and construction projects which allowed us to increase our overall service and parts capacity. Gross margins earned on parts, service, collision repair and finance and insurance products increased to 54.6% in the second quarter of 2001 from 52.4% in the second quarter of 2000, and to 53.5% in the first half of 2001 from 52.0% in the first half of 2000, reflecting management's continued emphasis on training and development and the implementation of best business practices, including variable pricing structures and expense controls.

The following graph depicts our mix of revenue and gross profit for the second quarter of 2001 compared to the second quarter of 2000 and for the first half of 2001 compared to the first half of 2000:

#### Selling, general and administrative expenses

Selling, general and administrative expenses increased 15.9% in the second quarter of 2001 and 13.8% in the first half of 2001, compared to the same periods in the prior year. Approximately 80.9% of the increase in the second quarter, and approximately 78.9% of the increase in the first half, resulted from dealership acquisitions, net of dealerships dispositions. As a percentage of gross profits, selling, general and administrative expenses increased to 74.2% in the second quarter of 2001 from 70.6% in the second quarter of 2000, and to 75.6% in the first half of 2001 from 72.1% in the first half of 2000. The majority of these increases were related to investments in real estate and completed construction projects sold in sale-leaseback transactions which resulted in increases in rent expense of 22.2% in the second quarter and 24.3% in the first half, compared to the same periods last year, and to declines in revenue at many of our domestic line dealerships which resulted in fewer revenues available to cover fixed expenses. These increases were slightly offset by decreases in advertising expenses which declined to 5.4% of gross profits in the second quarter of 2001 from 6.0% in the second quarter of 2000 and to 5.6% of gross profits in the first half of 2001 from 6.1% in the first half of 2000, resulting from management's continued efforts to control dealership advertising budgets. All of these factors can be further illustrated by larger increases in fixed expenses as a percentage of gross profits compared to variable expenses. Fixed expenses as a percentage of gross profits increased to 28.4% in the second quarter of 2001 from 25.0% in the second quarter of 2000 and to 28.9% in the first half of 2001 from 25.6% in the first half of 2000. Variable expenses as a percentage of gross profits increased only slightly to 45.8% in the second quarter of 2001 from 45.6% in the second quarter of 2000 and to 46.8% in the first half of 2001 from 46.5% in the first half of 2000.

#### Depreciation and amortization

Depreciation expense, excluding goodwill amortization, increased approximately 26.2% in the second quarter of 2001 and 20.2% in the first half of 2001, compared to the same periods in the prior year. The balance of gross property and equipment, excluding land and construction in process, increased approximately \$4.8 million in the second quarter of 2001 and \$6.5 million in the first half of 2001. The second quarter increase primarily resulted from \$2.5 million in capital expenditures coupled with \$2.2 million in property and equipment acquired through dealership acquisitions. The increase in the first half of the year primarily resulted from \$4.5 million in capital expenditures and \$3.1 million in property and equipment acquired through dealership acquisitions, partially offset by \$1.1 million in disposals and other adjustments. As a percentage of total revenues, depreciation expense was 0.1% in both the second quarter and first half of 2001 and 2000. Goodwill amortization expense increased 11.4% in the second quarter of 2001 and 10.6% in the first half of 2001, compared to the same periods in the prior year, primarily as a result of additional acquisitions. Goodwill arising from acquisitions was approximately \$9.9 million in the second quarter of 2001 and \$31.5 million in the first half of 2001.

#### Interest Expense, floor plan

Interest expense, floor plan decreased by \$1.6 million, or 13.3%, in the second quarter of 2001 compared to the same period last year, reflecting decreases from stores owned longer than one year of approximately \$2.9 million, or 25.1%, which were offset by the effect of dealership acquisitions, net of disposals. As a percentage of total revenues, floor plan interest decreased to 0.6% in the second quarter of 2001 from 0.8% in the same period last year. Of the decreases in interest expense from stores owned longer than one year, an estimated \$2.5 million resulted from decreases in interest rates. The remainder primarily resulted from a decrease in average floor plan balance to \$524.7 million in the second quarter of 2001 from \$547.3 in the second quarter of 2000, due to more centralized control over new vehicle inventory management.

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In the first half of 2001, floor plan interest expense increased by \$0.3 million, or 1.3%, compared to the same period last year, reflecting decreases from stores owned longer than one year of approximately \$2.3 million, or 11.5%, which were offset by the effect of dealership acquisitions, net of disposals. As a percentage of total revenues, floor plan interest remained relatively flat at approximately 0.7% in the first half of both 2001 and 2000. Of the decreases in interest expense from stores owned longer than one year, an estimated \$2.8 million resulted from decreases in interest rates, which was offset by an increase in average floor plan balances to approximately \$518.1 million in the first half of 2001 from approximately \$503.8 million in the first half of 2000.

#### Interest Expense, other

Interest expense, other decreased \$1.8 million in the second quarter of 2001 and \$2.0 million in the first half of 2001 compared to the same periods last year. Of these decreases, approximately \$0.7 million in the second quarter

and approximately \$1.3 million in the first half resulted from an increase in the amount of interest capitalized on construction projects over the same periods last year. In addition, approximately \$1.5 million in both the second quarter and first half resulted from decreases in the weighted average interest rate incurred under our \$600 million revolving credit agreement (the "Revolving Facility") with Ford Motor Credit Company ("Ford Motor Credit"), Chrysler Financial Company, LLC ("Chrysler Financial") and Toyota Motor Credit Corporation ("Toyota Credit") to approximately 7.0% in the second quarter of 2001 and approximately 7.8% in the first half of 2001 from approximately 8.8% in the both the second quarter and first half of 2000. These decreases were offset by increases in the average balance outstanding under our Revolving Facility to \$366.4 million in the second quarter of 2001 from \$337.7 million in the second quarter of 2000, and to \$364.3 million in the first half of 2001 from \$327.0 million in the first half of 2000.

#### Liquidity and Capital Resources

Our principal needs for capital resources are to finance acquisitions and fund debt service and working capital requirements. Historically, we have relied on internally generated cash flows from operations, borrowings under our various credit facilities and offerings of debt and equity securities to finance our operations and expansion.

#### Cash from operations:

During the first six months of 2001, net cash provided by operating activities was approximately \$57.0 million compared to \$54.6 million in 2000. The increase was affected by a \$3.9 million decrease in net income in the first half of 2001 compared to the first half of 2000 as well as a decrease in floor plan notes payable, net of inventory, of approximately \$9.4 million in the first half of 2001 compared to an increase in floor plan notes payable, net of inventory, of approximately \$10.1 million in the first half of 2000. This was offset by a decrease in receivables of approximately \$1.8 million in the first half of 2001 compared to an increase in receivables of approximately \$29.0 million in the first half of 2000.

Cash flows from operations include the effect of vehicle purchases and related floor plan financing. We currently have standardized floor plan credit facilities with Chrysler Financial, General Motors Acceptance Corporation ("GMAC") and Ford Motor Credit. The floor plan credit facility with Chrysler Financial provides up to \$750 million for the purchase of vehicles at our Chrysler dealerships. The floor plan credit facility with GMAC provides for the purchase of vehicles at ten of our General Motors dealerships. The floor plan facility with Ford Motor Credit provides up to \$550 million for the purchase of vehicles at all of our other dealerships. As of June 30, 2001, there was an aggregate of approximately \$141.0 million outstanding under the Chrysler Financial floor plan facility, \$54.5 million outstanding under the GMAC floor plan facility and \$431.9 million outstanding under the Ford Motor Credit floor plan facility. Balances outstanding under new vehicle floor plan indebtedness generally exceed the related inventory balances, which are generally reduced by purchase discounts from manufacturers that are not reflected in the related floor plan liability. These manufacturer purchase discounts are standard in the automotive retail 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 us by the manufacturers on a quarterly basis.

Amounts outstanding under the Chrysler Financial floor plan facility bear interest at 1.25% above LIBOR (LIBOR was 3.86% at June 30, 2001). Amounts outstanding under the Ford Motor Credit and GMAC floor plan facilities bear interest at the prime rate (prime was 6.75% at June 30, 2001), subject to certain incentives and other adjustments. Interest payments under each of our floor plan facilities are due monthly, but we are not required to make 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, excluding franchise agreements, of the relevant dealership subsidiary. The floor plan facilities contain a number of covenants, including among others, covenants restricting us with respect to the creation of liens and changes in ownership, officers and key management personnel. We are in compliance with all restrictive covenants as of June 30, 2001.

#### Investing activities:

Cash used for investing activities in the six months ended June 30, 2001 was approximately \$43.7 million, compared to \$78.4 million in the same period of 2000. Our principal investing activities include capital expenditures, dealership acquisitions and dispositions.

Capital Expenditures: Other than construction of new dealerships and collision repair centers, our capital expenditures generally include building improvements and equipment for use in our dealerships. Capital expenditures in the six months ended June 30, 2001 were approximately \$20.9 million, compared to \$35.0 million in the same period last year. The year over year decreases primarily represent a decrease in expenditures for the construction and renovation of dealerships and collision repair centers. Of the capital expenditures in the first six months of 2001, approximately \$16.4 million

related to the construction of new dealerships and collision repair centers compared to \$26.0 million for similar expenditures in the first six months of 2000. Once completed, these new dealerships and collision repair centers are generally sold to third parties in sale-leaseback transactions. As of June 30, 2001, total construction in progress was approximately \$28.2 million, of which approximately \$15.8

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million represented construction costs on facilities which are expected to be completed and sold within one year in sale-leaseback transactions. Accordingly, these costs have been classified in other current assets on the accompanying unaudited consolidated balance sheet as of June 30, 2001. We do not expect any significant gains or losses from these sales.

**Dealership acquisitions and dispositions:** During the six months ended June 30, 2001, we acquired four dealerships for approximately \$42.0 million in cash. The purchases were financed with a combination of cash borrowed under our Revolving Facility and cash generated from our existing operations.

In the ordinary course of business, we evaluate dealerships for possible disposition based on various performance criteria. During the six months ended June 30, 2001, we sold or otherwise disposed of assets from nine of our dealership franchises which contributed approximately \$36.3 million in revenues in the first half of 2001. Proceeds, net of disposal costs, from these dispositions were approximately \$9.6 million, and we have recognized no material gains or losses on these dispositions.

**Financing activities:**

Cash used for financing activities was approximately \$5.4 million in the first six months of 2001 compared to cash provided by financing activities of \$27.8 million in 2000. Cash used for financing activities in the first six months of 2001 primarily related to repurchases of stock under our stock repurchase program of approximately \$17.6 million offset by net borrowings under our various revolving credit facilities (see discussion under "The Revolving Facility" and "The Mortgage Facility" below) of approximately \$8.8 million and issuances of stock under stock compensation plans of approximately \$4.3 million. Cash provided by financing activities in the first six months of 2000 primarily related to net borrowings under our revolving credit facilities of approximately \$48.5 million, offset by repurchases of stock under our stock repurchase program of approximately \$24.8 million.

**The Revolving Facility:** On June 20, 2001 we entered into the Revolving Facility with Ford Motor Credit, Chrysler Financial and Toyota Credit with a borrowing limit of \$600 million, subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by an affiliate of Sonic (the borrowing base was approximately \$465.5 million at June 30, 2001). The Revolving Facility replaced our prior revolving credit facility with Ford Motor Credit and Chrysler Financial, as lenders, which had a borrowing limit of \$500 million, subject to a similar borrowing base. Amounts outstanding under the Revolving Facility bear interest at 2.50% above LIBOR (LIBOR was 3.86% at June 30, 2001) and will mature on October 1, 2004 (but may be extended for a number of additional one year terms to be negotiated with Ford Motor Credit, Chrysler Financial and Toyota Credit). The weighted average interest rate on the Revolving Facility was 7.77% for the six months ended June 30, 2001. Borrowings, net of repayments, under the Revolving Facility for the six months ended June 30, 2001 were approximately \$8.8 million and were primarily used to finance acquisitions. The total outstanding balance was approximately \$361.2 million as of June 30, 2001 and approximately \$325.2 million as of August 10, 2001. Additional amounts to be drawn under the Revolving Facility are to be used for the acquisition of additional dealerships and to provide for the general working capital needs of Sonic and other general corporate purposes.

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

- . current assets to current liabilities (at least 1.23:1),
- . earnings before interest, taxes, depreciation and amortization (EBITDA) and rent, less capital expenditures, to fixed charges (at least 1.4:1),
- . EBITDA to interest expense (at least 2:1) and
- . total adjusted debt to EBITDA (no greater than 2.25:1).

In addition, the loss of voting control over Sonic by Bruton Smith, Chairman and Chief Executive Officer, Scott Smith, President and Chief Operating Officer, and their spouses or immediate family members or our failure, with certain exceptions, to own all the outstanding equity, membership or partnership interests in our dealership subsidiaries will constitute an event of default

under the Revolving Facility. We are in compliance with all restrictive covenants as of June 30, 2001.

**The Mortgage Facility:** We currently have a revolving real estate acquisition and construction line of credit (the "Construction Loan") and a related mortgage refinancing facility (the "Permanent Loan" and collectively with the Construction Loan, the "Mortgage Facility") with Ford Motor Credit. Under the Construction Loan, our dealership development subsidiaries can borrow up to \$50.0 million to finance land acquisition and dealership construction costs. Advances can be made under the Construction Loan until December 2003. All advances will mature on June 22, 2005, bear interest at 2.25% above LIBOR and are secured by Sonic's guarantee and a lien on all of the borrowing subsidiaries' real estate and other assets. The total outstanding balance under the Construction Loan as of June 30, 2001 was approximately \$5.9 million.

Under the Permanent Loan, we can refinance up to \$50.0 million in advances under the Construction Loan once the projects are completed. Advances can be made under the Permanent Loan until June 2005. All advances under the Permanent Loan mature on June 22, 2010, bear interest at 2.00% above LIBOR and are secured by the same collateral given under the Construction Loan. As of June 30, 2001, no amounts were outstanding under the Permanent Loan.

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

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other customary covenants, the borrowing subsidiaries under the Mortgage Facility agreed not to incur any other liens on their property (except for existing encumbrances on property acquired) and not to transfer their property or more than 20% of their ownership interests to any third party. In addition, the loss of voting control by Bruton Smith, Scott Smith and their spouses or immediate family members, with certain exceptions, will result in an event of default under the Mortgage Facility. Sonic was in compliance with all restrictive covenants as of June 30, 2001.

**The Senior Subordinated Notes:** We currently have an aggregate principal balance of \$125 million in senior subordinated notes outstanding which mature on August 1, 2008 and bear interest at a stated rate of 11.0%. The notes are unsecured and are redeemable at our option after August 1, 2003. Interest payments are due semi-annually on August 1 and February 1. The notes are subordinated to all of our present and future senior indebtedness, including the Revolving Facility. Redemption prices during 12 month periods beginning August 1 are 105.500% in 2003, 103.667% in 2004, 101.833% in 2005 and 100% thereafter.

The indenture governing the senior subordinated notes contains certain specified restrictive and required financial covenants. We have agreed not to pledge our assets to any third party except under certain limited circumstances (for example, floor plan indebtedness). We have also agreed to certain other limitations or prohibitions concerning the incurrence of other indebtedness, capital stock, guaranties, asset sales, investments, cash dividends to shareholders, distributions and redemptions. We are in compliance with all restrictive covenants as of June 30, 2001.

**Stock Repurchase Program:** Our Board of Directors has authorized us to expend up to \$100 million to repurchase shares of our Class A common stock or redeem securities convertible into Class A common stock. As of June 30, 2001 we had repurchased a total of 5,766,164 shares of Class A common stock for approximately \$50.2 million and had also redeemed 13,801.5 shares of Class A convertible preferred stock at a total cost of approximately \$13.8 million. As of August 10, 2001, we have repurchased a total of 5,833,664 shares of Class A common stock for approximately \$52.3 million and have redeemed 13,801.5 shares of Class A convertible preferred stock for approximately \$13.8 million. We will continue to repurchase shares from time to time subject to market conditions.

We believe that funds generated through future operations and availability of borrowings under our floor plan financing (or any replacements thereof) and other credit arrangements will be sufficient to fund our debt service and working capital requirements and any seasonal operating requirements, including our currently anticipated internal growth for our existing businesses, for the foreseeable future. We expect to fund any future acquisitions from future cash flow from operations, additional debt financing (including the Revolving Facility) or the issuance of Class A common stock, preferred stock or other convertible instruments.

#### Seasonality

Our operations are subject to seasonal variations. The first and fourth quarter generally contributes less revenue and operating profits than the second and third quarters. Seasonality is principally caused by weather conditions and the timing of manufacturer incentive programs and model changeovers.

#### Effect of New Accounting Pronouncements:

Recent Accounting Pronouncements -- In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141: Business Combinations. SFAS No. 141 prohibits the pooling-of-interests method of accounting and requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. In addition, SFAS 141 provides additional guidance regarding the measurement and recognition of goodwill and other acquired intangible assets. The provisions of this standard became effective beginning July 1, 2001. Upon adoption, we may be required to reclassify certain intangible assets previously recorded as goodwill, such as franchise rights granted from automobile manufacturers, as intangible assets apart from goodwill. However, we are currently evaluating the provisions of this standard and have not yet determined the full impact on our consolidated financial statements.

In July 2001, the FASB also issued SFAS No. 142: Goodwill and Other Intangible Assets. Among other things, SFAS 142 no longer permits the amortization of goodwill, but requires that the carrying amount of goodwill be reviewed and reduced against operations if it is found to be impaired. This review must be performed on at least an annual basis, but must also be performed upon the occurrence of an event or circumstance that indicates a possible reduction in value. SFAS 142 does require the amortization of intangible assets other than goodwill over their useful economic lives, unless the useful economic life is determined to be indefinite. These intangible assets are required to be reviewed for impairment in accordance with SFAS 121: Accounting for Impairment of Long-Lived Assets and Assets to be Disposed. Intangible assets that are determined to have an indefinite economic life may not be amortized and must be reviewed for impairment in accordance with the terms of SFAS 142. The provisions of SFAS 142 become effective for us beginning January 1, 2002; however, goodwill and other intangible assets determined to have an indefinite useful life acquired in business combinations completed after June 30, 2001 will not be amortized. Early adoption and retroactive application is not permitted. While we are currently evaluating the provisions of SFAS 142, we have not yet determined the full impact on our consolidated financial statements. As of December 31, 2000, the carrying amount of goodwill was \$668.8 million and represented 37.4% of total assets and 148.3% of total stockholders' equity. As of June 30, 2001, the carrying amount of goodwill was \$691.4 million and represented 38.7% of total assets and 146.0% of total stockholders' equity.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. Our variable rate floor plan notes payable, revolving credit facility borrowings and other variable rate notes expose us to risks caused by fluctuations in the underlying interest rates. The total outstanding balance of such instruments was approximately \$1.0 billion at June 30, 2001 and approximately \$957.8 million at June 30, 2000. A change of one percent in the interest rate would have caused a change in interest expense of approximately \$5.2 million in the first six months of 2001 and approximately \$4.7 million in the first six months of 2000. Of the total

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change in interest expense, approximately \$3.3 million in the first six months of 2001 and approximately \$2.9 million in the first six months of 2000 would have resulted from floor plan notes payable.

Our exposure with respect to floor plan notes payable is mitigated by floor plan incentives received from manufacturers which are generally based on rates similar to those incurred under our floor plan financing arrangements. Our floor plan interest expense in the first six months of 2001 exceeded the amounts we received from these manufacturer floor plan incentives by only approximately \$6.3 million. As a result, the effective rate incurred under our floor plan financing arrangements was reduced to an annualized rate of approximately 1.9% after considering these incentives.

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

At the annual meeting of stockholders held on May 2, 2001, B. Scott Smith, William P. Benton and William I. Belk were elected directors by Sonic's stockholders. Directors whose terms of office continued after the meeting were O. Bruton Smith, Thomas A. Price, Theodore M. Wright, Jeffrey C. Rachor, William R. Brooks and H. Robert Heller. In addition to the election of three directors, the stockholders approved the appointment of Deloitte & Touche LLP as Sonic's independent public accountants for the year ended December 31, 2001.

<TABLE>  
<CAPTION>

Election of Directors -----		Votes For -----	Votes Withheld -----
<S>	<C>	<C>	<C>
B. Scott Smith*		139,398,176	2,146,905
William P. Benton*		141,509,928	35,153
William I. Belk*		141,510,928	34,153

Votes For                      Votes Against                      Votes Abstaining

Appointment of Deloitte & Touche LLP as independent public accountants*	141,528,749	9,581	6,751
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</TABLE>

\* There were no broker non-votes.

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PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

- 3.1\* Amended and Restated Certificate of Incorporation of Sonic (incorporated by reference to Exhibit 3.1 to Sonic's Registration Statement on Form S-1 (Reg. No. 333-33295) (the "Form S-1")).
- 3.2\* Certificate of Amendment to Sonic's Amended and Restated Certificate of Incorporation effective June 18, 1999 (incorporated by reference to Exhibit 3.2 to Sonic's Annual Report on Form 10-K for the year ended December 31, 1999 (the "1999 Form 10-K")).
- 3.3\* Certificate of Designation, Preferences and Rights of Class A Convertible Preferred Stock (incorporated by reference to Exhibit 4.1 to Sonic's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998).
- 3.4\* Bylaws of Sonic (incorporated by reference to Exhibit 3.2 to the Form S-1).
- 4.1\* Specimen Certificate representing Class A Common Stock (incorporated by reference to Exhibit 4.1 to the Form S-1).
- 4.2\* Form of 11% Senior Subordinated Note due 2008, Series B (incorporated by reference to Exhibit 4.3 to Sonic's Registration Statement on Form S-4 (Reg. Nos. 333-64397 and 333-64397-001 through 333-64397-044) (the "Form S-4")).
- 4.3\* Indenture dated as of July 1, 1998 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors, and U.S. Bank Trust National Association, as trustee (the "Trustee"), relating to the 11% Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4.2 to the Form S-4).
- 4.4\* First Supplemental Indenture dated as of December 31, 1999 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors and additional guarantors, and the Trustee, relating to the 11% Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4.2a to the 1999 Form 10-K).
- 4.5\* Second Supplemental Indenture dated as of September 15, 2000 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors and additional guarantors, and the Trustee, relating to the 11% Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4.4 to Sonic's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (the "September 30, 2000 Form 10-Q")).
- 4.6 Third Supplemental Indenture dated as of March 31, 2001 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors and additional guarantors, and the Trustee, relating to the 11% Senior Subordinated Notes due 2008.
- 4.7\* Registration Rights Agreement dated as of June 30, 1997 among Sonic, O. Bruton Smith, Bryan Scott Smith, William S. Egan and Sonic Financial Corporation (incorporated by reference to Exhibit 4.2 to the Form S-1).
- 10.1 Credit Agreement dated as of June 20, 2001 (the "Credit Agreement") between Sonic, as Borrower, Ford Motor Credit Company ("Ford Credit"), as Agent and Lender, Chrysler Financial Company, L.L.C. ("Chrysler Financial"), as Lender, and Toyota Motor Credit Corporation ("Toyota Credit"), as Lender.
- 10.2 Promissory Note dated June 20, 2001 executed by Sonic in favor of Ford Credit pursuant to the Credit Agreement.
- 10.3 Promissory Note dated June 20, 2001 executed by Sonic in favor of Chrysler Financial pursuant to the Credit Agreement.
- 10.4 Promissory Note dated June 20, 2001 executed by Sonic in favor of Toyota Credit pursuant to the Credit Agreement.

- 10.5 Guaranty dated June 20, 2001 by the subsidiaries of Sonic named therein, as Guarantors, in favor of Ford Credit, as Agent for the Lenders under the Credit Agreement.
- 10.6 Security Agreement dated June 20, 2001 by Sonic in favor of Ford Credit, as Agent for the Lenders under the Credit Agreement.
- 10.7 Security Agreement dated June 20, 2001 by the subsidiaries of Sonic named therein in favor of Ford Credit, as Agent for the Lenders under the Credit Agreement.
- 99.1 Risk Factors.
- (b) Reports on Form 8-K: No reports on Form 8-K have been filed during the quarter ended June 30, 2001.

\*Filed Previously

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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.

Date: August 14, 2001  
 -----  
 By: /s/ O. Bruton Smith  
 -----  
 O. Bruton Smith  
 Chairman and Chief Executive Officer

Date: August 14, 2001  
 -----  
 By: /s/ Theodore M. Wright  
 -----  
 Theodore M. Wright  
 Vice President, Chief Financial  
 Officer and Treasurer  
 (Principal Financial and Accounting  
 Officer)

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INDEX TO EXHIBITS TO  
 QUARTERLY REPORT ON FORM 10-Q FOR  
 SONIC AUTOMOTIVE, INC.  
 FOR THE THREE MONTHS ENDED JUNE 30, 2001

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
-----	-----
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4.3*	Indenture dated as of July 1, 1998 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors, and U.S. Bank Trust National Association, as trustee (the "Trustee"), relating to the 11% Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4.2 to the Form S-4).

- 4.4\* First Supplemental Indenture dated as of December 31, 1999 among Sonic, as issuer, the subsidiaries of Sonic named therein, as guarantors and additional guarantors, and the Trustee, relating to the 11% Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4.2a to the 1999 Form 10-K).
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- 10.7 Security Agreement dated June 20, 2001 by the subsidiaries of Sonic named therein in favor of Ford Credit, as Agent for the Lenders under the Credit Agreement.
- 99.1 Risk Factors.

\*Filed Previously

## THIRD SUPPLEMENTAL INDENTURE

This THIRD SUPPLEMENTAL INDENTURE dated as of March 31, 2001 (this "Supplemental Indenture") is by and among:

BILL SWAD CHEVROLET, INC., an Ohio corporation  
 PHILPOTT MOTORS, LTD., a Texas limited partnership  
 SONIC - RICHARDSON F, L.P., a Texas limited partnership

(hereinafter referred to collectively as the "Guaranteeing Subsidiaries"), SONIC AUTOMOTIVE, INC., a Delaware corporation, (the "Company"), the other Guarantors (as listed on the signature page of the Indenture referred to below) (the "Guarantors") and U.S. BANK TRUST NATIONAL ASSOCIATION, as trustee under the Indenture referred to below (the "Trustee").

## WITNESSETH

WHEREAS, the Company and the Guarantors have heretofore executed and delivered to the Trustee an Indenture dated as of July 1, 1998, as supplemented by (i) the First Supplemental Indenture dated as of December 31, 1999, and (ii) the Second Supplemental Indenture dated as of September 15, 2000, among the parties listed on the signature pages hereto, (as supplemented, the "Indenture") providing for the issuance in an aggregate principal amount of up to \$125,000,000 of the Company's 11% Senior Subordinated Notes due 2008 (the "Notes"); and

WHEREAS, the Indenture provides that under certain circumstances each of the Guaranteeing Subsidiaries shall execute and deliver to the Trustee a supplemental indenture pursuant to which each of the Guaranteeing Subsidiaries shall guarantee all of the Indenture Obligations under the Notes and the Indenture on the terms and conditions set forth herein (the "Note Guarantee"); and

WHEREAS, each Guaranteeing Subsidiary is a wholly-owned direct or indirect subsidiary of the Company; and

WHEREAS, pursuant to Section 901(e) of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture to add the Guaranteeing Subsidiaries pursuant to the requirements of Section 1013 of the Indenture; and

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, each of the Guaranteeing Subsidiaries and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

Section 1. Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

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Section 2. Agreement to Guarantee. Each of the Guaranteeing Subsidiaries hereby agrees as follows (notwithstanding anything to the contrary in this Supplemental Indenture, such agreements of the Guaranteeing Subsidiaries shall be construed as identical to those agreements made by the Guarantors under the Indenture, and the obligations and rights of the Guaranteeing Subsidiaries hereunder shall be no more and no less than those of the Guarantors under the Indenture):

(a) Guaranteeing Subsidiaries' Guarantee. Along with the Guarantors named in the Indenture and in accordance with Article Thirteen of the Indenture and this Section 2, to guarantee absolutely, fully, unconditionally and irrevocably, jointly and severally with each other and with each other Person that may become a Guarantor under the Indenture, to the Trustee and the Holders, as if the Guaranteeing Subsidiaries were the principal debtor, the punctual payment and performance when due of all Indenture Obligations (which for purposes of this Guarantee shall also be deemed to include all commissions, fees, charges, costs and other expenses (including reasonable legal fees and disbursements of one counsel) arising out of or incurred by the Trustee or the Holders in connection with the enforcement of this Guarantee).

(b) Continuing Guarantee; No Right of Set-Off; Independent Obligations.

(i) This Guarantee by the Guaranteeing Subsidiaries shall be a continuing guarantee of the payment and performance of all Indenture Obligations and shall remain in full force and effect until the payment in full of all of the Indenture Obligations and shall apply to and secure any ultimate balance due or remaining unpaid to the Trustee or the Holders. This Guarantee by the Guaranteeing Subsidiaries shall not be considered as wholly or partially satisfied by the payment or liquidation at any time or from time to time of any

sum of money for the time being due or remaining unpaid to the Trustee or the Holders. Each Guaranteeing Subsidiary, jointly and severally, covenants and agrees to comply with all obligations, covenants, agreements and provisions applicable to it in the Indenture as if named as a Guarantor therein including those set forth in Article Eight of the Indenture. Without limiting the generality of the foregoing, each Guaranteeing Subsidiaries' liability shall extend to all amounts which constitute part of the Indenture Obligations and would be owed by the Company under the Indenture and the Securities but for the fact that they are unenforceable, reduced, limited, impaired, suspended or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving the Company.

(ii) Each Guaranteeing Subsidiary, jointly and severally, hereby guarantees that the Indenture Obligations will be paid to the Trustee without set-off or counterclaim or other reduction whatsoever (whether for taxes, withholding or otherwise) in lawful currency of the United States of America.

(iii) Each Guaranteeing Subsidiary, jointly and severally, guarantees that the Indenture Obligations shall be paid strictly in accordance with their terms regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the holders of the Securities.

(iv) Each Guaranteeing Subsidiary's liability to pay or perform or cause the performance of the Indenture Obligations under this Guarantee shall arise forthwith after demand

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for payment or performance by the Trustee has been given to the Guarantors in the manner prescribed in Section 106 of the Indenture.

(v) Except as provided in the Indenture, the provisions of Article Thirteen of the Indenture and this Section 2 cover all agreements between the parties hereto relative to this Guarantee and none of the parties shall be bound by any representation, warranty or promise made by any Person relative thereto or hereto, which is not embodied therein or herein; and it is specifically acknowledged and agreed that this Guarantee has been delivered by each Guaranteeing Subsidiary free of any conditions whatsoever and that no representations, warranties or promises have been made to any Guaranteeing Subsidiary affecting its liabilities hereunder, and that the Trustee shall not be bound by any representations, warranties or promises now or at any time hereafter made by the Company to any Guaranteeing Subsidiary.

(vi) This Guarantee is a guarantee of payment, performance and compliance and not of collectibility and is in no way conditioned or contingent upon any attempt to collect from or enforce performance or compliance by the Company or upon any event or condition whatsoever.

(vii) The obligations of the Guaranteeing Subsidiaries set forth herein constitute the full recourse obligations of the Guaranteeing Subsidiaries enforceable against them to the full extent of all their assets and properties.

(c) Guarantee Absolute. The obligations of the Guaranteeing Subsidiaries hereunder are independent of the obligations of the Company under the Securities and the Indenture and a separate action or actions may be brought and prosecuted against any Guaranteeing Subsidiary whether or not an action or proceeding is brought against the Company and whether or not the Company is joined in any such action or proceeding. The liability of the Guaranteeing Subsidiaries hereunder is irrevocable, absolute and unconditional and (to the extent permitted by law) the liability and obligations of the Guaranteeing Subsidiaries hereunder shall not be released, discharged, mitigated, waived, impaired or affected in whole or in part by:

- (i) any defect or lack of validity or enforceability in respect of any Indebtedness or other obligation of the Company or any other Person under the Indenture or the Securities, or any agreement or instrument relating to any of the foregoing;
- (ii) any grants of time, renewals, extensions, indulgences, releases, discharges or modifications which the Trustee or the Holders may extend to, or make with, the Company, any Guarantor, any Guaranteeing Subsidiary or any other Person, or any change in the time, manner or place of payment of, or in any other term of, all or any of the Indenture Obligations, or any other amendment or waiver of, or any consent to or departure from, the Indenture or the Securities, including any increase or decrease in the Indenture Obligations;

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- (iii) the taking of security from the Company, any Guarantor, any Guaranteeing Subsidiary or any other Person, and the release, discharge or alteration of, or other dealing with, such security;
  - (iv) the occurrence of any change in the laws, rules, regulations or ordinances of any jurisdiction by any present or future action of any governmental authority or court amending, varying, reducing or otherwise affecting, or purporting to amend, vary, reduce or otherwise affect, any of the Indenture Obligations and the obligations of any Guaranteeing Subsidiary hereunder;
  - (v) the abstention from taking security from the Company, any Guarantor, any Guaranteeing Subsidiary or any other Person or from perfecting, continuing to keep perfected or taking advantage of any security;
  - (vi) any loss, diminution of value or lack of enforceability of any security received from the Company, any Guarantor, any Guaranteeing Subsidiary or any other Person, and including any other guarantees received by the Trustee;
  - (vii) any other dealings with the Company, any Guarantor, any Guaranteeing Subsidiary or any other Person, or with any security;
  - (viii) the Trustee's or the Holders' acceptance of compositions from the Company, any Guarantor or any Guaranteeing Subsidiary;
  - (ix) the application by the Holders or the Trustee of all monies at any time and from time to time received from the Company, any Guarantor, any Guaranteeing Subsidiary or any other Person on account of any indebtedness and liabilities owing by the Company, any Guarantor or any Guaranteeing Subsidiary to the Trustee or the Holders, in such manner as the Trustee or the Holders deems best and the changing of such application in whole or in part and at any time or from time to time, or any manner of application of collateral, or proceeds thereof, to all or any of the Indenture Obligations, or the manner of sale of any collateral;
  - (x) the release or discharge of the Company, any Guarantor or any Guaranteeing Subsidiary of the Securities or of any Person liable directly as surety or otherwise by operation of law or otherwise for the Securities, other than an express release in writing given by the Trustee, on behalf of the Holders, of the liability and obligations of any Guaranteeing Subsidiary hereunder;
  - (xi) any change in the name, business, capital structure or governing instrument of the Company, any Guarantor or any Guaranteeing Subsidiary or any refinancing or restructuring of any of the Indenture Obligations;
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- (xii) the sale of the Company's, any Guarantor's or any Guaranteeing Subsidiary's business or any part thereof,
  - (xiii) subject to Section 1314 of the Indenture, any merger or consolidation, arrangement or reorganization of the Company, any Guarantor or any Guaranteeing Subsidiary, any Person resulting from the merger or consolidation of the Company, any Guarantor or any Guaranteeing Subsidiary with any other Person or any other successor to such Person or merged or consolidated Person or any other change in the corporate existence, structure or ownership of the Company, any Guarantor or any Guaranteeing Subsidiary or any change in the corporate relationship among the Company, any Guarantor and any Guaranteeing Subsidiary, or any termination of such relationship;
  - (xiv) the insolvency, bankruptcy, liquidation, winding-up, dissolution, receivership, arrangement, readjustment, assignment for the benefit of creditors or

distribution of the assets of the Company or its assets or any resulting discharge of any obligations of the Company (whether voluntary or involuntary) or of any Guarantor (whether voluntary or involuntary) or any Guaranteeing Subsidiary (whether voluntary or involuntary) or the loss of corporate existence;

- (xv) subject to Section 1314 of the Indenture, any arrangement or plan of reorganization affecting the Company, any Guarantor or any Guaranteeing Subsidiary;
- (xvi) any failure, omission or delay on the part of the Company to conform or comply with any term of the Indenture;
- (xvii) any limitation on the liability or obligations of the Company or any other Person under the Indenture, or any discharge, termination, cancellation, distribution, irregularity, invalidity or unenforceability in whole or in part of the Indenture;
- (xviii) any other circumstance (including any statute of limitations) that might otherwise constitute a defense available to, or discharge of, the Company, any Guarantor or any Guaranteeing Subsidiary; or
- (xix) any modification, compromise, settlement or release by the Trustee, or by operation of law or otherwise, of the Indenture Obligations or the liability of the Company or any other obligor under the Securities, in whole or in part, and any refusal of payment by the Trustee, in whole or in part, from any other obligor or other guarantor in connection with any of the Indenture Obligations, whether or not with notice to, or further assent by, or any reservation of rights against, each of the Guarantors and the Guaranteeing Subsidiaries.

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(d) Right to Demand Full Performance. In the event of any demand for payment or performance by the Trustee from any Guaranteeing Subsidiary hereunder, the Trustee or the Holders shall have the right to demand its full claim and to receive all dividends or other payments in respect thereof until the Indenture Obligations have been paid in full, and the Guaranteeing Subsidiaries shall continue to be jointly and severally liable hereunder for any balance which may be owing to the Trustee or the Holders by the Company under the Indenture and the Securities. The retention by the Trustee or the Holders of any security, prior to the realization by the Trustee or the Holders of its rights to such security upon foreclosure thereon, shall not, as between the Trustee and any Guaranteeing Subsidiary, be considered as a purchase of such security, or as payment, satisfaction or reduction of the Indenture Obligations due to the Trustee or the Holders by the Company or any part thereof. Each Guaranteeing Subsidiary, promptly after demand, will reimburse the Trustee and the Holders for all costs and expenses of collecting such amount under, or enforcing this Guarantee, including, without limitation, the reasonable fees and expenses of counsel.

(e) Waivers.

(i) Each Guaranteeing Subsidiary hereby expressly waives (to the extent permitted by law) notice of the acceptance of this Guarantee and notice of the existence, renewal, extension or the nonperformance, non-payment, or non-observance on the part of the Company of any of the terms, covenants, conditions and provisions of the Indenture or the Securities or any other notice whatsoever to or upon the Company, any Guarantor or such Guaranteeing Subsidiary with respect to the Indenture Obligations, whether by statute, rule of law or otherwise. Each Guaranteeing Subsidiary hereby acknowledges communication to it of the terms of this Supplemental Indenture, the Indenture and the Securities and all of the provisions herein and therein contained and consents to and approves the same. Each Guaranteeing Subsidiary hereby expressly waives (to the extent permitted by law) diligence, presentment, protest and demand for payment with respect to (a) any notice of sale, transfer or other disposition of any right, title to or interest in the Securities by the Holders or in the Indenture, (b) any release of any Guaranteeing Subsidiary from its obligations hereunder resulting from any loss by it of its rights of subrogation hereunder and (c) any other circumstances whatsoever that might otherwise constitute a legal or equitable discharge, release or defense of a guarantor or surety or that might otherwise limit recourse against such Guaranteeing Subsidiary.

(ii) Without prejudice to any of the rights or recourses which the Trustee or the Holders may have against the Company, each Guaranteeing Subsidiary hereby expressly waives (to the extent permitted by law) any right to

require the Trustee or the Holders to:

- (a) enforce, assert, exercise, initiate or exhaust any rights, remedies or recourse against the Company, any Guarantor, any Guaranteeing Subsidiary or any other Person under the Indenture or otherwise;
- (b) value, realize upon, or dispose of any security of the Company or any other Person held by the Trustee or the Holders;
- (c) initiate or exhaust any other remedy which the Trustee or the Holders may have in law or equity; or

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- (d) mitigate the damages resulting from any default under the Indenture;

before requiring or becoming entitled to demand payment from such Guaranteeing Subsidiary under this Guarantee.

(f) The Guaranteeing Subsidiaries Remain Obligated in Event the Company Is No Longer Obligated to Discharge Indenture Obligations. It is the express intention of the Trustee and the Guaranteeing Subsidiaries that if for any reason the Company has no legal existence, is or becomes under no legal obligation to discharge the Indenture Obligations owing to the Trustee or the Holders by the Company or if any of the Indenture Obligations owing by the Company to the Trustee or the Holders becomes irrecoverable from the Company by operation of law or for any reason whatsoever, this Guarantee and the covenants, agreements and obligations of the Guaranteeing Subsidiaries contained in this Section Two shall nevertheless be binding upon the Guaranteeing Subsidiaries, as principal debtor, until such time as all such Indenture Obligations have been paid in full to the Trustee and all Indenture Obligations owing to the Trustee or the Holders by the Company have been discharged, or such earlier time as Section 402 of the Indenture shall apply to the Securities and the Guarantors and the Guaranteeing Subsidiaries shall be responsible for the payment thereof to the Trustee or the Holders upon demand.

(g) Fraudulent Conveyance, Contribution, Subrogation.

(i) Each Guaranteeing Subsidiary, and by its acceptance of the Indenture each Holder, hereby confirms that it is the intention of all such parties that the Guarantee by such Guaranteeing Subsidiary pursuant to its Guarantee not constitute a fraudulent transfer or conveyance for purposes of the Bankruptcy Law, the Uniform Fraudulent Conveyance Act, the Uniform Fraudulent Transfer Act or any similar federal or state law. To effectuate the foregoing intention, the Holders and such Guaranteeing Subsidiary hereby irrevocably agree that the obligations of such Guaranteeing Subsidiary under its Guarantee shall be limited to the maximum amount which, after giving effect to all other contingent and fixed liabilities of such Guaranteeing Subsidiary, and after giving effect to any collections from or payments made by or on behalf of any other Guarantor or Guaranteeing Subsidiary in respect of the obligations of such other Guarantor or Guaranteeing Subsidiary under its Guarantee or pursuant to its contribution obligations hereunder and under the Indenture, will result in the obligations of such Guaranteeing Subsidiary under its Guarantee not constituting such fraudulent transfer or conveyance.

(ii) Each Guaranteeing Subsidiary that makes a payment or distribution under its Guarantee shall be entitled to a contribution from each other Guaranteeing Subsidiary, if any, in a pro rata amount based on the net assets of each Guarantor and Guaranteeing Subsidiary, determined in accordance with GAAP.

(iii) Each Guaranteeing Subsidiary hereby waives all rights of subrogation or contribution, whether arising by contract or operation of law (including, without limitation, any such right arising under federal bankruptcy law) or otherwise by reason of any payment by it pursuant to the provisions of this Section Two until payment in full of all Indenture Obligations.

(h) Guarantee Is in Addition to Other Security. This Guarantee shall be in addition to and not in substitution for any other guarantees or other security which the Trustee may now or

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hereafter hold in respect of the Indenture Obligations owing to the Trustee or the Holders by the Company and (except as may be required by law) the Trustee shall be under no obligation to marshal in favor of each of the Guaranteeing Subsidiaries any other guarantees or other security or any moneys or other assets which the Trustee may be entitled to receive or upon which the Trustee or the Holders may have a claim.

(i) Release of Security Interests. Without limiting the generality

of the foregoing and except as otherwise provided herein and in the Indenture, each Guaranteeing Subsidiary hereby consents and agrees, to the fullest extent permitted by applicable law, that the rights of the Trustee hereunder, and the liability of the Guaranteeing Subsidiaries hereunder, shall not be affected by any and all releases for any purpose of any collateral, if any, from the Liens and security interests created by any collateral document and that this Guarantee shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Indenture Obligations is rescinded or must otherwise be returned by the Trustee upon the insolvency, bankruptcy or reorganization of the Company or otherwise, all as though such payment had not been made.

(j) No Bar to Further Actions. Except as provided by law, no action or proceeding brought or instituted under this Section 2, Article Thirteen of the Indenture and this Guarantee and no recovery or judgment in pursuance thereof shall be a bar or defense to any further action or proceeding which may be brought under Section Two, Article Thirteen of the Indenture and this Guarantee by reason of any further default or defaults under Section Two, Article Thirteen of the Indenture and this Guarantee or in the payment of any of the Indenture Obligations owing by the Company.

(k) Failure to Exercise Rights Shall Not Operate as a Waiver, No Suspension of Remedies.

(i) No failure to exercise and no delay in exercising, on the part of the Trustee or the Holders, any right, power, privilege or remedy under this Section 2, Article Thirteen of the Indenture and this Guarantee shall operate as a waiver thereof, nor shall any single or partial exercise of any rights, power, privilege or remedy preclude any other or further exercise thereof, or the exercise of any other rights, powers, privileges or remedies. The rights and remedies herein provided for are cumulative and not exclusive of any rights or remedies provided in law or equity.

(ii) Nothing contained in this Section 2 shall limit the right of the Trustee or the Holders to take any action to accelerate the maturity of the Securities pursuant to Article Five of the Indenture or to pursue any rights or remedies hereunder or under applicable law.

(l) Trustee's Duties; Notice to Trustee.

(i) Any provision in this Section 2 or elsewhere in the Indenture allowing the Trustee to request any information or to take any action authorized by, or on behalf of any Guaranteeing Subsidiary, shall be permissive and shall not be obligatory on the Trustee except as the Holders may direct in accordance with the provisions of the Indenture or where the failure of

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the Trustee to request any such information or to take any such action arises from the Trustee's negligence, bad faith or willful misconduct.

(ii) The Trustee shall not be required to inquire into the existence, powers or capacities of the Company, any Guarantor, any Guaranteeing Subsidiary or the officers, directors or agents acting or purporting to act on their respective behalf.

(m) Successors and Assigns. All terms, agreements and conditions of this Section 2 shall extend to and be binding upon each Guaranteeing Subsidiary and its successors and permitted assigns and shall enure to the benefit of and may be enforced by the Trustee and its successors and assigns, provided, however, that the Guaranteeing Subsidiaries may not assign any of their rights or obligations hereunder other than in accordance with Article Eight of the Indenture.

(n) Release of Guarantee.

(i) Concurrently with the payment in full of all of the Indenture Obligations, the Guarantors shall be released from and relieved of their obligations under this Section 2. Upon the delivery by the Company to the Trustee of an Officers' Certificate and, if requested by the Trustee, an Opinion of Counsel to the effect that the transaction giving rise to the release of this Guarantee was made by the Company in accordance with the provisions of the Indenture and the Securities, the Trustee shall execute any documents reasonably required in order to evidence the release of the Guaranteeing Subsidiaries from their obligations under this Guarantee. If any of the Indenture Obligations are revived and reinstated after the termination of this Guarantee, then all of the obligations of the Guaranteeing Subsidiaries under this Guarantee shall be revived and reinstated as if this Guarantee had not been terminated until such time as the Indenture Obligations are paid in full, and each Guaranteeing Subsidiary shall enter into an amendment to this Guarantee, reasonably satisfactory to the Trustee, evidencing such revival and reinstatement.

(ii) This Guarantee shall terminate with respect to each Guaranteeing Subsidiary and shall be automatically and unconditionally released and discharged as provided in Section 1013(c) of the Indenture.

(o) Execution and Delivery of Guarantee. Each of the Guaranteeing Subsidiaries agrees that their Guarantee hereunder shall remain in full force and effect notwithstanding any failure to endorse on each Note a notation of their Guarantee. Pursuant to Section 1315(b) of the Indenture, each Guaranteeing Subsidiary agrees to be subject to the provisions (including the representations and warranties) of the Indenture as of the date of this Supplemental Indenture as if named as a Guarantor therein.

Section 3. NEW YORK LAW TO GOVERN. THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS FIRST SUPPLEMENTAL INDENTURE BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

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Section 4. Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 5. Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

Section 6. The Trustee. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Guaranteeing Subsidiaries and the Company.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed and attested, all as of the 31st day of March, 2001.

THE COMPANY:

-----

SONIC AUTOMOTIVE, INC.

By: /s/ B. SCOTT SMITH

-----

Name: B. Scott Smith  
Title: President

Attest: /s/ STEPHEN K. COSS

-----

Name: Stephen K. Coss  
Title: Secretary

GUARANTEEING SUBSIDIARIES:

-----

BILL SWAD CHEVROLET, INC.

By: /s/ B. SCOTT SMITH

-----

Name: B. Scott Smith  
Title: Vice President

Attest: /s/ STEPHEN K. COSS

-----

Name: Stephen K. Coss  
Title: Secretary

PHILPOTT MOTORS, LTD.  
SONIC - RICHARDSON F, L.P.

[signatures continued on following page]

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Sonic of Texas, Inc., general partner

By: /s/ B. SCOTT SMITH

-----

Name: B. Scott Smith  
Title: Vice President

Attest: /s/ STEPHEN K. COSS

-----

Name: Stephen K. Coss  
Title: Secretary

GUARANTORS:

AUTOBAHN, INC.  
CAPITOL CHEVROLET AND IMPORTS, INC.  
COBB PONTIAC CADILLAC, INC.  
FA SERVICE CORPORATION  
FA THOUSAND OAKS BNG, INC.  
FA THOUSAND OAKS COLR, INC.  
FA THOUSAND OAKS H, INC.  
FA THOUSAND OAKS L, INC.  
FA THOUSAND OAKS MBJ, INC.  
FA THOUSAND OAKS MSS, INC.  
FAA AUTO FACTORY, INC.  
FAA BEVERLY HILLS, INC.  
FAA CAPITOL F, INC.  
FAA CAPITOL N, INC.  
FAA CONCORD H, INC.  
FAA CONCORD N, INC.  
FAA CONCORD T, INC.  
FAA DUBLIN N, INC.  
FAA DUBLIN VWD, INC.  
FAA HOLDING CORP.  
FAA MARIN D, INC.  
FAA MARIN F, INC.  
FAA MARIN LR, INC.  
FAA MONTEREY F, INC.  
FAA POWAY D, INC.  
FAA POWAY G, INC.  
FAA POWAY H, INC.  
FAA POWAY T, INC.  
FAA SAN BRUNO, INC.  
FAA SANTA MONICA V, INC.  
FAA SERRAMONTE H, INC.

[signatures continued on following page]

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FAA SERRAMONTE L, INC.  
FAA SERRAMONTE, INC.  
FAA STEVENS CREEK, INC.  
FAA TORRANCE CPJ, INC.  
FAA WOODLAND HILLS VW, INC.  
FORT MILL CHRYSLER-PLYMOUTH-DODGE INC.  
FORT MILL FORD, INC.  
FRANCISCAN MOTORS, INC.  
FRONTIER OLDSMOBILE-CADILLAC, INC.  
HMC FINANCE ALABAMA, INC.  
KRAMER MOTORS INCORPORATED  
L DEALERSHIP GROUP, INC. (f/k/a Lucas  
Dealership Group, Inc.)  
MARCUS DAVID CORPORATION  
RIVERSIDE NISSAN, INC.  
ROYAL MOTOR COMPANY, INC.  
SANTA CLARA IMPORTED CARS, INC.  
SMART NISSAN, INC.  
SONIC - CLASSIC DODGE, INC.  
SONIC - GLOVER, INC.  
SONIC - MANHATTAN FAIRFAX, INC.  
SONIC - MANHATTAN WALDORF, INC.  
SONIC - MONTGOMERY FLM, INC.  
SONIC - NEWSOME CHEVROLET WORLD, INC.  
SONIC - NEWSOME OF FLORENCE, INC.  
SONIC - NORTH CHARLESTON DODGE, INC.  
SONIC - NORTH CHARLESTON, INC.  
SONIC - RIVERSIDE AUTO FACTORY, INC.  
SONIC - RIVERSIDE, INC.  
SONIC - ROCKVILLE IMPORTS, INC.  
SONIC - ROCKVILLE MOTORS, INC.  
SONIC - STEVENS CREEK B, INC. (f/k/a Don  
Lucas International, Inc.)  
SONIC - WILLIAMS BUICK, INC.  
SONIC - WILLIAMS CADILLAC, INC.  
SONIC - WILLIAMS IMPORTS, INC.  
SONIC AUTOMOTIVE - 1400 AUTOMALL DRIVE,  
COLUMBUS, INC.  
SONIC AUTOMOTIVE - 1455 AUTOMALL DRIVE,  
COLUMBUS, INC.  
SONIC AUTOMOTIVE - 1495 AUTOMALL DRIVE,  
COLUMBUS, INC.  
SONIC AUTOMOTIVE - 1500 AUTOMALL DRIVE,  
COLUMBUS, INC.  
SONIC AUTOMOTIVE - 3700 WEST BROAD STREET,

[signatures continued on following page]

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SONIC AUTOMOTIVE - 4000 WEST BROAD STREET,  
COLUMBUS, INC.  
SONIC AUTOMOTIVE 2424 LAURENS RD.,  
GREENVILLE, INC.  
SONIC AUTOMOTIVE 2752 LAURENS RD.,  
GREENVILLE, INC.  
SONIC AUTOMOTIVE OF GEORGIA, INC.  
SONIC OF TEXAS, INC.  
SPEEDWAY CHEVROLET, INC.  
STEVENS CREEK CADILLAC, INC.  
TOWN AND COUNTRY CHRYSLER-PLYMOUTH-JEEP OF  
ROCK HILL, INC.  
TOWN AND COUNTRY FORD, INCORPORATED  
TRANSCAR LEASING, INC.  
VILLAGE IMPORTED CARS, INC.  
WINDWARD, INC.

By: /s/ B. SCOTT SMITH

-----  
Name: B. Scott Smith  
Title: Vice President

Attest: /s/ STEPHEN K. COSS

-----  
Name: Stephen K. Coss  
Title: Secretary

FAA LAS VEGAS H, INC.  
FIRSTAMERICA AUTOMOTIVE, INC.  
FREEDOM FORD, INC.  
SONIC AUTOMOTIVE - BONDESEN, INC.  
SONIC AUTOMOTIVE - CLEARWATER, INC.  
SONIC AUTOMOTIVE COLLISION CENTER OF  
CLEARWATER, INC.  
SONIC AUTOMOTIVE OF NEVADA, INC.  
SONIC AUTOMOTIVE OF TENNESSEE, INC.  
SONIC AUTOMOTIVE - 1307 N. DIXIE HWY.,  
NSB, INC.  
SONIC AUTOMOTIVE - 1720 MASON AVE., DB, INC.  
SONIC AUTOMOTIVE - 1919 N. DIXIE HWY.,  
NSB, INC.  
SONIC AUTOMOTIVE - 21699 U.S. HWY 19 N.,  
INC.  
SONIC AUTOMOTIVE - 241 RIDGEWOOD AVE., HH,  
INC.  
SONIC AUTOMOTIVE - 3741 S. NOVA RD., PO,  
INC.  
SONIC AUTOMOTIVE - 6008 N. DALE MABRY, FL,  
INC.  
SONIC - FM , INC.  
SONIC - FM NISSAN, INC.

[signatures continued on following page]

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SONIC - FM VW, INC.  
SONIC - FREELAND, INC.  
SONIC - LLOYD NISSAN, INC.  
SONIC - LLOYD PONTIAC-CADILLAC, INC.  
SONIC - SHOTTENKIRK, INC.

By: /s/ B. SCOTT SMITH

-----  
Name: B. Scott Smith  
Title: President

Attest: /s/ STEPHEN K. COSS

-----  
Name: Stephen K. Coss  
Title: Secretary

SONIC - 2185 CHAPMAN RD., CHATTANOOGA, LLC  
SONIC - SUPERIOR OLDSMOBILE, LLC  
SONIC AUTOMOTIVE - 2490 SOUTH LEE HIGHWAY,  
LLC  
SONIC AUTOMOTIVE - 5260 PEACHTREE INDUSTRIAL

BLVD., LLC  
SONIC AUTOMOTIVE - 5585 PEACHTREE INDUSTRIAL  
BLVD., LLC  
SONIC AUTOMOTIVE - 6025 INTERNATIONAL DRIVE,  
LLC  
SONIC AUTOMOTIVE OF CHATTANOOGA, LLC  
SONIC AUTOMOTIVE OF NASHVILLE, LLC  
SRE TENNESSEE - 1, LLC  
SRE TENNESSEE - 2, LLC  
SRE TENNESSEE - 3, LLC  
TOWN AND COUNTRY CHRYSLER-PLYMOUTH-JEEP, LLC  
TOWN AND COUNTRY DODGE OF CHATTANOOGA, LLC  
TOWN AND COUNTRY FORD OF CLEVELAND, LLC  
TOWN AND COUNTRY JAGUAR, LLC

By: /s/ B. SCOTT SMITH  
-----

Name: B. Scott Smith  
Title: Vice President and Governor

Attest: /s/ STEPHEN K. COSS  
-----

Name: Stephen K. Coss  
Title: Secretary

[signatures continued on following page]

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SONIC AUTOMOTIVE - 1720 MASON AVE., DB, LLC  
SONIC - FM AUTOMOTIVE, LLC

By: /s/ B. SCOTT SMITH  
-----

Name: B. Scott Smith  
Title: President and Manager

Attest: /s/ STEPHEN K. COSS  
-----

Name: Stephen K. Coss  
Title: Secretary

SONIC AUTOMOTIVE - 9103 E. INDEPENDENCE ,  
NC. LLC  
SONIC CHRYSLER-PLYMOUTH-JEEP, LLC  
SONIC DODGE, LLC  
SONIC - WILLIAMS MOTORS, LLC

By: /s/ B. SCOTT SMITH  
-----

Name: B. Scott Smith  
Title: Vice President and Manager

Attest: /s/ STEPHEN K. COSS  
-----

Name: Stephen K. Coss  
Title: Secretary

SONIC - FITZGERALD CHEVROLET, LLC  
SONIC - INTEGRITY DODGE LV, LLC  
SONIC - LAS VEGAS C EAST, LLC  
SONIC - LAS VEGAS C WEST, LLC  
SONIC - VOLVO LV, LLC  
SONIC AUTOMOTIVE F&I, LLC  
SONIC AUTOMOTIVE SERVICING COMPANY, LLC  
SONIC AUTOMOTIVE WEST, LLC  
SRE ALABAMA - 2, LLC  
SRE ALABAMA -3, LLC  
SRE FLORIDA - 1, LLC  
SRE FLORIDA - 2, LLC  
SRE FLORIDA - 3, LLC  
SRE HOLDING, LLC  
SRE NEVADA - 1, LLC  
SRE NEVADA - 2, LLC  
SRE NEVADA - 3, LLC

[signatures continued on following page]

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SRE SOUTH CAROLINA - 2, LLC  
SRE VIRGINIA -, LLC  
SREALESTATE ARIZONA - 2, LLC

SREALESTATE ARIZONA - 3, LLC  
SREALESTATE ARIZONA - 4, LLC  
SREALESTATE ARIZONA -1, LLC

By: /s/ THEODORE M. WRIGHT  
-----

Name: Theodore M. Wright  
Title: Vice President and Manager

Attest: /s/ STEPHEN K. COSS  
-----

Name: Stephen K. Coss  
Title: Secretary

SONIC - GLOBAL IMPORTS, L.P.  
SONIC PEACHTREE INDUSTRIAL BLVD., L.P.  
SRE GEORGIA - 1, L.P.  
SRE GEORGIA - 2, L.P.  
SRE GEORGIA - 3, L.P.

Sonic Automotive of Georgia, Inc.,  
their general partner

By: /s/ B. SCOTT SMITH  
-----

Name: B. Scott Smith  
Title: Vice President

Attest: /s/ STEPHEN K. COSS  
-----

Name: Stephen K. Coss  
Title: Secretary

SONIC AUTOMOTIVE OF TEXAS, L.P.  
SONIC AUTOMOTIVE - 3401 N. MAIN, TX, L.P.  
SONIC AUTOMOTIVE - 4701 I-10 EAST, TX, L.P.  
SONIC AUTOMOTIVE - 5221 I-10 EAST, TX, L.P.  
SONIC - CAMP FORD, L.P.  
SONIC - CARROLLTON V, L.P.  
SONIC - LUTE RILEY, L.P.  
SONIC - READING, L.P.  
SONIC - SAM WHITE NISSAN, L.P.  
SONIC - SAM WHITE OLDSMOBILE, L.P.  
SONIC - FORT WORTH T, L.P.

[signatures continued on following page]

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SONIC - DALLAS AUTO FACTORY, L.P.  
SRE TEXAS - 1, L.P.  
SRE TEXAS - 2, L.P.  
SRE TEXAS - 3, L.P.

Sonic of Texas, Inc., their general partner

By: /s/ B. SCOTT SMITH  
-----

Name: B. Scott Smith  
Title: Vice President

Attest: /s/ STEPHEN K. COSS  
-----

Name: Stephen K. Coss  
Title: Secretary

[signatures continued on following page]

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TRUSTEE:

U.S. BANK TRUST NATIONAL ASSOCIATION,  
as Trustee.

By: /s/ LORI-ANNE ROSENBERG  
-----

Authorized Signatory

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-----

AMENDED AND RESTATED  
CREDIT AGREEMENT

Dated as of June 20, 2001

between

SONIC AUTOMOTIVE, INC.  
as Borrower

and

FORD MOTOR CREDIT COMPANY,  
CHRYSLER FINANCIAL COMPANY, L.L.C.,  
TOYOTA MOTOR CREDIT CORPORATION and  
the other Lenders party hereto,

as the Lenders

and

FORD MOTOR CREDIT COMPANY,  
as Agent.

Credit Agreement

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Credit Agreement

EXHIBITS AND SCHEDULES

Exhibits

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EXHIBIT A	--	Form of Note
EXHIBIT B	--	Form of Borrowing Notice
EXHIBIT C-1	--	Form of Dealership Guaranty
EXHIBIT C-2	--	Form of Subsidiary Holding Company Guaranty
EXHIBIT C-3	--	Form of Non-Dealership Guaranty
EXHIBIT D-1	--	Form of Dealership Security Agreement
EXHIBIT D-2	--	Form of Subsidiary Holding Company Security Agreement
EXHIBIT D-3	--	Form of Non-Dealership Security Agreement
EXHIBIT E	--	Closing Statement
EXHIBIT F	--	Form of Officer's Certificate
EXHIBIT G	--	Form of Waiver, Guaranty and Disbursement Agreement

Schedules

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Schedule 1.1.0	--	Irregular Franchise Agreements
Schedule 1.1.1	--	Permitted Existing Indebtedness
Schedule 1.1.2	--	Permitted Existing Investments
Schedule 1.1.3	--	Permitted Existing Liens
Schedule 1.1.4	--	Lender's Commitments
Schedule 1.1.5	--	Dealership Guarantors
Schedule 1.1.6	--	Non-Dealership Guarantors
Schedule 1.1.7	--	Affiliated Dealers
Schedule 4.8	--	Subsidiaries

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Credit Agreement

CREDIT AGREEMENT

This Amended and Restated Credit Agreement dated June 20, 2001 (this "Amendment") is entered into among SONIC AUTOMOTIVE, INC., a Delaware corporation, (the "Borrower") FORD MOTOR CREDIT COMPANY, a Delaware corporation, ("Ford Credit") CHRYSLER FINANCIAL COMPANY, L.L.C., a Michigan limited liability company, ("Chrysler Financial"), TOYOTA MOTOR CREDIT CORPORATION, a California corporation ("Toyota Credit"), and the other Lenders from time to time party hereto, and Ford Credit, as administrative agent and collateral agent (in such capacity and together with any Successor Agent appointed pursuant to Article VII, the "Agent") for the Secured Parties.

WHEREAS, on August 10, 2000 the Ford Credit and Chrysler Financial made a loan (the "Original Loan") to Borrower in the principal amount of \$500,000,000.00, pursuant to the terms of that certain Credit Agreement dated as of August 10, 2000 (the "Original Agreement"); and

WHEREAS, Borrower has requested an increase of the Original Loan to the amount of \$600,000,000.00 (the "Increase;" and together with the Original Loan, the "Loan"); and

WHEREAS, in order to accommodate Borrower's request for the Increase, Toyota Credit will be joining Ford Credit and Chrysler Financial as a Lender under the Loan; and

WHEREAS, as a condition of making available the Increase, the Lenders have required that Borrower enter into this Amendment (the Original Agreement as amended by this Amendment is referred to as the "Agreement"); and

NOW THEREFORE, The parties hereto agree that the Original Agreement is hereby amended and restated in its entirety as follows and that effective as of the date of this Amendment, the terms of the Original Agreement are amended and restated in their entirety in accordance herewith:

ARTICLE I: DEFINITIONS

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

As used in this Agreement:

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

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happening of a contingency) or a majority (by percentage of voting power) of the outstanding equity interests of such an entity.

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

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

"Advance" means any Advance made under Section 2.1 hereof or otherwise deemed made under the Loan Documents.

"Adjusted Leverage Ratio" is defined in Section 5.4(F) hereof.

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

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

"Agent" has the meaning set forth in the recital of parties to this Agreement.

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

"Agreement" means the Original Agreement, as amended by this Amendment, and as it may be amended, restated or otherwise modified and in effect from time to time.

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

"Applicable LIBOR Rate" means as of any Payment Date, the LIBOR Rate plus two and fifty hundredths percent (2.50%) per annum.

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"Asset Sale" means, with respect to any Person, the sale, lease,

conveyance, disposition or other transfer by such Person of any of its assets (including by way of a sale-leaseback transaction and including the sale or other transfer of any of the Equity Interests of any Subsidiary of such Person).

"Assignment and Acceptance" has the meaning set forth in Section 10.3 (a) hereof.

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

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

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

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

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

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

"Borrowing" means a borrowing consisting of either (i) simultaneous Advances by the Lenders pursuant to Section 2.1 (A), (ii) any Advance by Ford Credit under Section 2.1 (B) or (iii) Advances collectively made by Ford Credit and the other Lenders after giving effect to purchases by such Lenders pursuant to Section 2.2 (C).

"Borrowing Date" means a date on which an Advance is made hereunder.

"Borrowing Notice" is defined in Section 2.4 hereof.

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

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

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

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

"Capitalized Lease Obligations" of a Person means the amount of the

obligations of such Person under Capitalized Leases which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

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

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"Change of Control" means an event or series of events by which:

(i) the Principals and their Related Parties cease to own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the Borrower's Capital Stock ordinarily having the right to vote at an election of directors;

(ii) during any period of 24 consecutive calendar months, individuals:

(a) who were directors of the Borrower on the first day of such period, or

(b) whose election or nomination for election to the board of directors of the Borrower was recommended or approved by at least a majority of the directors then still in office who were directors of the Borrower on the first day of such period, or whose election or nomination for election was so approved,

shall cease to constitute a majority of the board of directors of the Borrower; and

(iii) the Borrower consolidates with or merges into another corporation or conveys, transfers or leases all or substantially all of its property to any Person, or any corporation consolidates with or merges into the Borrower, in either event pursuant to a transaction in which the outstanding Capital Stock of the Borrower is reclassified or changed into or exchanged for (A) cash or Cash Equivalents or (B) securities, and the holders of the Capital Stock in the Borrower immediately prior to such transaction do not, as a result of such transaction, own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the Borrower's Capital Stock or the Capital Stock of its successor entity in such transaction.

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

"Chrysler Financial" means Chrysler Financial Company, L.L.C., a Michigan limited liability company, and its successors and assigns.

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

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

"Collateral Documents" means all agreements, instruments and documents executed in connection with this Agreement that are intended to create or evidence Liens to secure the Obligations, including, without limitation, the Borrower Security Agreement, the Borrower Pledges, the Subsidiary Holding Company Pledges, the Cross Agreement, the Waiver,

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Credit Agreement

Guaranty and Disbursement Agreement, Sonic Financial's Pledge, each Dealership Security Agreement, Subsidiary Holding Company Security Agreement and all other security agreements, mortgages, deeds of trust, loan agreements, notes, guaranties, subordination agreements, pledges, powers of attorney, consents, assignments, contracts, fee letters, notices, leases, financing statements and all other written matter whether heretofore, now, or hereafter executed by or on behalf of the Borrower or any of its Subsidiaries and delivered to the Agent, together with all agreements and documents referred to therein or contemplated thereby.

"Commission" means the Securities and Exchange Commission and any Person succeeding to the functions thereof.

"Commitment" means (a) with respect to any Lender other than Ford Credit at any time, the amount set forth opposite such Lender's name on Schedule I hereto under the caption "Commitment" or, if such Lender has entered into one or more Assignment and Acceptances, set forth for such Lender in the Register maintained by the Agent pursuant to Section, 10.3, and (b) with respect to Ford Credit at any time, the difference between the Maximum Availability minus the aggregate outstanding sum of the Advances made by all Lenders (whether pursuant to Section 2.1(A), 2.1(B), 2.2(C) or otherwise) at such time, in either case as any such amount may be reduced pursuant to Section 2.5.

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

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

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

"Contracts Balance" means the sum of the outstanding aggregate principal balance under the Retail Contracts (the amount financed for the purchase of the Financed Vehicles plus only those add-ons which have received Lender's written consent) less (i) the outstanding aggregate principal balance under all Retail Contracts for which any payments from an Obligor are received 60 days or more after the monthly due date, as set forth in the applicable Retail Contract, and less (ii) the provision for loss reserve.

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

"Contribution Agreement" means collectively, that certain Contribution Agreement dated August 10, 2000, as amended by the Amended & Restated Contribution Agreement, as it may be amended, restated or otherwise modified and in effect from time to time, and each of those certain Binding Acknowledgments dated as of various dates and executed by Dealership Guarantors acquired pursuant to Permitted Acquisitions, and any future Binding Acknowledgments executed by Dealership Guarantors acquired pursuant to any future Permitted Acquisitions.

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

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

"Cross Agreement" means that certain Cross Default Agreement dated August 10, 2000, as amended by the Amended & Restated Contribution Agreement, as it may be amended, restated or otherwise modified and in effect from time to time, and each of those certain Binding Acknowledgments dated as of various dates and executed by Dealership Guarantors acquired pursuant to Permitted Acquisitions, and any future Binding Acknowledgments executed by Dealership Guarantors acquired pursuant to any future Permitted Acquisitions."

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

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

"Current Ratio" is defined in Section 5.4(C) hereof.

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"Customary Permitted Liens" means:

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

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

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

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

(v) Liens of attachment or judgment with respect to judgments, writs or warrants of attachment, or similar process against

the Borrower or any of its Subsidiaries which do not constitute an Event of Default under Section 6.1(h) hereof; and

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

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

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

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

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

"Decision Period" is defined in Section 5.2(G) hereof.

"Decision Reserve" is defined in Section 5.2(G) hereof.

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

"Defaulted Advance" means, with respect to any Lender at any time, the portion of any Advance which such Lender has not purchased upon demand by Ford Credit pursuant to Section 2.1 (B) (2) (b) or which otherwise is required to be made by such Lender at or prior to such time that has not been made by such Lender as of such time.

"Defaulting Lender" means, at any time, any Lender that, at such time, (a) owes a Defaulted Advance or (b) shall take any action or be the subject of any action or proceeding of a type described in Section 6.1(f) or 6.1(g).

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

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

"Dollar" and "\$" means dollars in the lawful currency of the United States.

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

- (i) Net Income,
- plus (ii) Interest Expense, to the extent deducted in computing Net Income,
- plus (iii) charges against income for foreign, federal, state and local taxes, to the extent deducted in computing Net Income,
- plus (iv) depreciation expense, to the extent deducted in computing Net Income,

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

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

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

"Effective Date" is defined in Section 1.3 hereof.

"Eligible Assignee" is defined in Section 10.3 hereof.

"Environmental, Health or Safety Requirements of Law" means all Requirements of Law derived from or relating to federal, state and local laws or regulations relating to or addressing pollution or protection of the environment, or protection of worker health or safety, including, but not limited to, the Comprehensive Environmental Response, Compensation and

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Liability Act, 42 U.S.C. ss. 9601 et seq., the Occupational Safety and Health Act of 1970, 29 U.S.C. ss. 651 et seq., and the Resource Conservation and Recovery Act of 1976, 42 U.S.C. ss. 6901 et seq., in each case including any amendments thereto, any successor statutes, and any regulations or guidance promulgated thereunder, and any state or local equivalent thereof.

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

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

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

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

"Event of Default" means an event described in Article VI hereof.

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

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

"Fixed Charge Coverage Ratio" is defined in Section 5.4(D) hereof.

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

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"Ford Credit" means Ford Motor Credit Company, a Delaware corporation, and its successors and assigns.

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

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

"Guarantor" means each Dealership Guarantor, Subsidiary Holding Company Guarantor and Non-Dealership Guarantor.

"Guaranty" means each Dealership Guaranty, Subsidiary Holding Company Guaranty and Non-Dealership Guaranty.

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

"HMC Finance" means, and Sonic Automotive - 3741 S. Nova Rd., PO, Inc., a Florida corporation.

"HMC Finance's Address" means 3741 S. Nova Rd., Port Orange, Florida 32119.

"Indebtedness" of any Person means, without duplication, such Person's (a) obligations for borrowed money, (b) obligations representing the deferred purchase price of property or services (other than accounts payable arising in the ordinary course of such Person's business payable on terms customary in the trade), (c) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from property or assets now or hereafter owned or acquired by such Person, (d) obligations which are evidenced by notes, acceptances or other instruments, (e) Capitalized Lease Obligations, (f) reimbursement obligations with respect to letters of credit (other than commercial letters of credit) issued for the account of such Person, (g) Hedging Obligations, (h) Off Balance Sheet Liabilities and (i) Contingent Obligations in respect of obligations of another Person of the type described in the foregoing clauses (a) through (h). The amount of Indebtedness of any Person at any date shall be without duplication (i) the outstanding balance at such date of all unconditional obligations as described above and the maximum liability of any such Contingent Obligations at such date and (ii) in the case of Indebtedness of others secured by a Lien to which the property or assets owned or held by such Person is subject, the lesser of the fair market value at such date of any

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asset subject to a Lien securing the Indebtedness of others and the amount of the Indebtedness secured.

"Indemnified Matters" is defined in Section 9.6(B) hereof.

"Indemnitees" is defined in Section 9.6(B) hereof.

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

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

"Interest Reconciliation Date" is defined in Section 2.1 (B) hereof.

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

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

"Irregular Franchise Agreement" means any franchise agreement listed on Schedule 1.1.0.

"IRS" means the Internal Revenue Service and any Person succeeding to the functions thereof.

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

"Lender's Commitment" means, with respect to any Lender at any time, the amount set forth opposite such Lender's name on Schedule 1.1.4 hereto under the caption "Commitment" or, if such Lender has entered into one or more Assignment and Acceptances,

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set forth for such Lender in the Register maintained by the Agent pursuant to Section 10.3 (b) hereof as such lender's "Commitment," as such amount may be reduced pursuant to Section 2.3.

"LIBOR Rate" means the monthly arithmetic average of the per annum interest rate announced from time to time as the one month London Interbank Offered Rates quoted each Monday for the previous Friday under the Money Rates Column of the Wall Street Journal, or, if the Wall Street Journal is unavailable for any reason, as published in such other publications as Lender may designate. In the event such rate is not quoted on Monday for the previous Friday, the rate quoted on the first business day of the week for the last business day of the previous week shall be utilized.

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

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

"Loan to Value Ratio" is defined in Section 5.4(G) hereof.

"Margin Stock" shall have the meaning ascribed to such term in Regulation U.

"Master Intercreditor Agreement" means that certain intercreditor agreement among each of the Lenders, and others.

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

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

"Maximum Availability" means the lesser of (a) \$600,000,000.00 and (b) the sum of (1) the Scaled Assets of the Sonic Group, plus (2) fifty percent (50%) of the Speedway Stock Value, and plus (3) \$200,000,000.00, as either such amount may be reduced pursuant to Section 2.3 hereof.

"Maximum Rate" means the maximum nonusurious interest rate under applicable law.

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

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

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

"New Subsidiary" is defined in Section 5.3(F)(ii).

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

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

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

"Notes" means collectively, all promissory notes of the Borrower payable to the order of a Lender, in substantially the form of Exhibit A hereto, evidencing the indebtedness of the Borrower to such Lender, including any amendment, restatement, modification, renewal, increase or replacement thereof.

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

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

"Off Balance Sheet Liabilities" of a Person means (a) any repurchase obligation or liability of such Person or any of its Subsidiaries with respect to accounts or notes receivable sold by such Person or any of its Subsidiaries, (b) any liability under any sale and leaseback transactions which do not create a liability on the consolidated balance sheet of such Person, (c) any liability under any financing lease or so-called "synthetic" lease transaction, or (d) any

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obligations arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the consolidated balance sheets of such Person and its Subsidiaries.

"Original Credit Agreement" means that certain Credit Agreement between Borrower Ford Credit, and Chrysler Financial dated as of August 10, 2000.

"Other Taxes" is defined in Section 2.11(B) hereof.

"Participants" is defined in Section 10.2(A) hereof.

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

"PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

"Permitted Acquisition" is defined in Section 5.3(F)(iii) hereof.

"Permitted Existing Indebtedness" means the Indebtedness of the Borrower and its Subsidiaries identified as such on Schedule 1.1.1 to this Agreement.

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

"Permitted Existing Liens" means the Liens on assets of the Borrower and its Subsidiaries identified as such on Schedule 1.1.3 to this Agreement.

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

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

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

"Principal Reconciliation Date" is defined in Section 2.1 (B) hereof.

"Principals" means O. Bruton Smith and B. Scott Smith.

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"Ratable Share" means with respect to any Lender at any time, a percentage represented by a fraction the numerator of which is the amount of such Lender's Commitment at such time and the denominator of which is the sum of all Commitments at such time, in either case as reduced pursuant to the terms hereof.

"Receivable(s)" means and includes all of the Borrower's and each Dealership Guarantor's presently existing and hereafter arising or acquired accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds and other obligations of third persons of any kind, now or hereafter existing, whether arising out of or in connection with the sale or lease of goods, the rendering of services or

otherwise, and all rights now or hereafter existing in and to all security agreements, leases, and other contracts securing or otherwise relating to any such accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds or obligations of third persons.

"Register" has the meaning set forth in Section 10.3 (b).

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

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

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

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

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

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

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

"Required Lenders" means, at any time, Lenders owed or holding at least a majority in interest of the sum of (a) the aggregate principal amount of the Advances outstanding at such time, and (b) the Commitments at such time; provided, however, that if any Lender shall be a Defaulting Lender at such time, there shall be excluded from the determination of Required Lenders at such time (X) the aggregate principal amount of the Advances owing to such Lender (in its capacity as a Lender) and outstanding at such time, (Y) the Unused Commitment of such Lender at such time.

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

"Restricted Payment" means (i) any dividend or other distribution, direct or indirect, on account of any Equity Interests of the Borrower now or hereafter outstanding, except a dividend payable solely in the Borrower's Capital Stock (other than Disqualified Stock) or in options, warrants or other rights to purchase such Capital Stock, (ii) any redemption, retirement, purchase or other acquisition for value, direct or indirect, of any Equity Interests of the Borrower or any of its Subsidiaries now or hereafter outstanding, other than

in exchange for, or out of the proceeds of, the substantially concurrent sale (other than to a Subsidiary of the Borrower) of other Equity Interests of the Borrower (other than Disqualified Stock), and (iii) any payment of a claim for the rescission of the purchase or sale of, or for material damages arising from the purchase or sale of any Equity Interests of the Borrower or any of the Borrower's Subsidiaries, or of a claim for reimbursement, indemnification or contribution arising out of or related to any such claim for damages or rescission.

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

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

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

"Revolving Credit Obligations" means, at any particular time, the sum of the outstanding principal amount of all Advances at such time.

"Scaled Assets" means with respect to the Sonic Group, the sum of (A) an amount equal to 75% of the Sonic Group's Receivables which constitute factory receivables, (B) an amount equal to 60% of the Sonic Group's Receivables which constitute current finance receivables, (C) an amount equal to 60% of the Sonic Group's Receivables which constitute receivables for parts and services (after netting any amounts payable in connection with such parts and services by any member of the Sonic Group), (D) an amount equal to 55% of the Sonic Group's Inventory which constitutes parts and accessories, (E) an amount equal to 80% of the that portion of the Sonic Group's Inventory which constitutes used vehicles less the amount of any outstanding Floor Plan Indebtedness of any member of the Sonic Group incurred in connection with such used vehicles, (F) an amount equal to 45% of the difference between (i) the value of the Sonic Group's Equipment and (ii) the amount of Indebtedness of any member of the Sonic Group incurred in connection with such Equipment and (G) an amount equal to 50% of the Contracts Balance. The value of the Sonic Group's Scaled Assets shall be calculated by the Agent and shall be determined based on the financial statements, monthly factory statements and other reports delivered to the Agent pursuant to Section 5.1(A). Scaled Assets shall be measured as of the most recent quarterly report of Scaled Assets published by Borrower prior to the date of this Agreement and as of the end of each calendar quarter.

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

"Secured Parties" means the Lenders and the Agent.

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

"Solvent" means, with respect to any Person on a particular date, that on such date (a) the fair value of the property of such Person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such Person, (b) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay such debts and liabilities as they mature and (d) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction,

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for which such Person's property would constitute an unreasonably small capital.

The amount of contingent liabilities at any time shall be computed as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

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

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

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

"Sonic Group" means each of the Borrower and each Subsidiary of the Borrower.

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

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

"Successor Agent" is defined in Section 7.6 of this Agreement.

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

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

"Subsidiary Holding Company Guaranty" means each Guaranty in the form attached hereto as Exhibit C-2, provided by a Subsidiary Holding Company to Agent, as the same may

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be amended, modified, supplemented, reaffirmed and/or restated, and in effect from time to time.

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

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

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

(i) Consolidated Net Worth

plus  
- ----

(ii) the sum of

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

minus  
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(iii) the sum of

- (A) Receivables with respect to which the account debtor is a director, officer, employee, Subsidiary or Affiliate of the Borrower or other amounts (whether or not classified as Receivables) from Affiliates of the Borrower or its Subsidiaries (other than those payable within 30 days and incurred in the ordinary course of business); and
- (B) the value of leasehold improvements after deductions for depreciation of the Borrower and its Subsidiaries on a consolidated basis;
- (C) that part of the Borrower's and its Subsidiaries (on a consolidated basis) capitalization or reserves attributable to any writing up of book values on any fixed assets after the date of the most recently delivered financial statements of the Borrower and its Subsidiaries;

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- (D) the aggregate amount of the Borrower's and its Subsidiaries Investments in Affiliates (other than the Borrower's Subsidiaries);
- (E) organizational expenses related to start-up of operations with respect to the Borrower and its Subsidiaries;
- (F) goodwill and other intangible assets (as determined in accordance with Agreement Accounting Principles);
- (G) any amount paid to a third-party as consideration for no-competition agreements;
- (H) the value of daily rental franchise payments made by the Borrower or its Subsidiaries under any franchise agreements (net of any amounts owed by a franchisor to Borrower or its Subsidiaries); and
- (I) other assets (including, without limitation, airplanes, cattle, etc.) not related to the operations of the Dealerships as automobile dealerships.

"Taxes" is defined in Section 2.11(A) hereof.

"Termination Date" means the earlier of (a) October 31, 2004 or such other "Termination Date" specified in an Extension Notice and agreed to by all Lenders and (b) the date of termination of the Commitment pursuant to either of Section 2.3 or Section 8.1 hereof.

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

of a trustee to administer, any Benefit Plan; or (vi) the partial or complete withdrawal of the Borrower or any member of the Controlled Group from a Multi-employer Plan.

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

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

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"Toyota Credit" means Toyota Motor Credit Corporation, a California corporation, and its successors and assigns.

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

"Transaction Documents" means the Loan Documents and the Acquisition Documents.

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

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

"Unused Commitment" means, with respect to any Lender, such Lender's Commitment at such time minus the aggregate principal amount of Advances made by such Lender and outstanding at such time.

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

"Wholesale Agreement" means the Agreement among Borrower, the Lenders and others regarding which Lender will fund future Wholesale Lines.

"Wholesale Line" means any automotive floor plan wholesale credit line made by Ford Credit, Chrysler Financial, General Motors Acceptance Corporation, Toyota Credit, any Lender or any affiliate or subsidiary thereof to a Sonic Dealership.

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

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

1.3 Effectiveness of this Agreement. Upon the satisfaction of all of the conditions precedent set forth in Section 3.1 of this Agreement (the date upon which such conditions precedent are satisfied being hereinafter referred to as the "Effective Date"), this Agreement shall become effective.

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ARTICLE II: THE LOAN FACILITIES

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2.1 Making Advances; Accounting for Advances.

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(A) Making Advances. Upon satisfaction of the conditions precedent set forth in Sections 3.1 and 3.2, from and including the Effective

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

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

(1) Interest. (a) By the tenth (10th) day of each month, or if such day is not a Business Day, on the next succeeding Business Day, no later than 12:00 noon (Eastern Standard Time), Agent will provide to each Lender a written statement identifying the amount of interest payment to be received from Borrower by Agent on each such Lender's Ratable Share of the Advances outstanding on the immediately succeeding Payment Date, pursuant to section 2.9 (B) (i) hereof (such amount is referred to herein as the "Interest Due Lenders");

(b) No later than 12:00 noon (Eastern Standard Time) on the first Business Day following a Payment Date upon which Agent has received payment in full from Borrower of the amount required pursuant to Section 2.9 (b)(ii) hereof (each such date being referred to herein as an "Interest Reconciliation Date"), Agent will make remittance to each Lender (via wire transfer, pursuant to wire transfer instructions provided to Agent by each Lender in writing from time to time) of each such Lender's Ratable Share of the Interest Due Lenders; provided, however that the Administration Fee due to Agent (pursuant to Section 2.13 hereof) for the month immediately preceding such Interest Reconciliation Date will be netted out of the Interest Due Lenders and be maintained by Agent for the benefit of Agent; and

(2) Principal.

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(a) Agent will make a written demand (which demand shall be made in accordance with Section 2.1 (B) (2) (c); (the date each such demand is made is referred to herein as a "Principal Reconciliation Date")), which such demand will identify (a) the then current (as of such Principal Reconciliation Date) outstanding aggregate amount of Advances made to Borrower under this

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Agreement and the Notes (the "Balance Due"), and (b) the aggregate amount of Advances made to Borrower by Ford Credit from and after the immediately preceding Principal Reconciliation Date (or if no previous demand has been made, since the Effective Date).

(b) No later than 1:00 p.m. (Eastern Standard Time) on the first Business Day following the Principal Reconciliation Date, each Lender will purchase, and Agent shall sell and assign to each other Lender, its Ratable Share of the Balance Due not theretofore sold by Agent to, or otherwise held by such Lender, by making available to Agent, in same day funds, an amount equal to the portion of the Balance Due to be purchased by such Lender, provided, however, that the aggregate principal amount of all Advances purchased by any Lender may not at any time exceed the amount of such Lender's Commitment. Upon any such assignment by Agent to any other Lender of a portion of Advance pursuant to this Section 2.2(B) (2) (b), Agent represents and warrants to such other Lender that Agent is the legal and beneficial owner of such interest being assigned by it, but makes no other representation or warranty and assumes no responsibility with respect to such Advance, the Loan Documents, the Borrower or its Subsidiaries. If and to the extent that any Lender shall not have so made the amount of such Advance available, such Lender shall become a Defaulting Lender. If such Lender shall have made such amount available to Agent, such amount so paid in respect of principal shall constitute an Advance made by such Lender on such Business Day for purposes of this Agreement, and the aggregate outstanding principal amount of the Advances made by Agent shall be reduced by such amount on such Business Day. Agent shall notify the agent of all Advances sold by Agent pursuant to this Section 2.2(B) (2) (b).

(c) Agent may make demand under Section 2.1 (B) (2) (b) on (i) any Business Day on which the aggregate Revolving Credit

Obligations owing to Agent on such Business Day (after giving effect to any Advances to be made by Agent on such Business Day) exceed \$250,000,000.00 and otherwise (ii) the last Business Day of any month, in each case no later than 5:00 p.m. Eastern Standard Time on such Business Day.

## 2.2 Optional Payments; Mandatory Prepayments

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

(B) Mandatory Prepayments. If at any time and for any reason the Revolving Credit Obligations are greater than the Maximum Availability, the Borrower shall immediately make a mandatory prepayment of the Obligations in an amount equal to such excess. Amounts equal to a Decision Reserve or net cash proceeds of an Asset Sale in connection with or following restoration, rebuilding or replacement of insured property shall be mandatorily applied against the Revolving Credit Obligations in the amounts and in the manner set forth in Section 5.2(G) hereof.

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

- (a) one-half of one percent (.50%), if Borrower terminates/reduces the Commitment on or before October 31, 2002; or
- (b) three-eighths of one percent (.375%), if Borrower terminates/reduces the Commitment after October 31, 2002 but on or before October 31, 2003; or
- (c) one-quarter of one percent (0.25%), if Borrower terminates/reduces the Commitment after October 31, 2003 but before October 31, 2004.

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

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

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2.5 Minimum Amount of Each Advance. Except with respect to any Advance to be made pursuant to Section 2.1 (a) (1), Borrower may request Agent to make, and Agent will make, on the terms and conditions hereinafter set forth, Advances to the Borrower from time to time on any Business Day during the period from the Effective Date until the Termination Date in an amount not to exceed the aggregate of the Unused Commitment of Ford Credit at such time. Each Advance shall be in the minimum amount of \$500,000.00, provided, however, that any Advance may be in the amount of the unused Commitment.

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

2.7 Method of Payment. (A) All payments of principal, interest, and fees hereunder shall be made, without setoff, deduction or counterclaim, in immediately available funds to Agent at the Agent's address specified pursuant to Article XI, at any other address specified in writing by Agent to the Borrower, or via wire transfer pursuant to wire transfer instructions provided by Agent from time to time, by 12:00 noon (Eastern Standard Time) on the date when due. Agent will promptly thereafter cause like funds to be distributed (i) if such payment by the Borrower is in respect of principal, interest, commitment fees or any other Obligation then payable hereunder and under the Notes to more than one Lender, to such Lender for its account ratably in accordance with the amounts of such respective Obligations then payable to such Lenders and (ii) if such payment by the Borrower is in respect of any Obligation then payable hereunder to one Lender, to such Lender for its account, in each case to be applied in accordance with the terms of this Agreement; provided, however that the Administration Fee due to Agent (pursuant to Section 2.13 hereof) for the month immediately preceding such date will be netted out of such amounts and be maintained in or remitted to the Agent's Account by and for the benefit of the Agent. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 10.3 from and after the effective date of such Assignment and Acceptance, the Agent shall make all payments hereunder and under the Notes in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

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

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

2.9 Promise to Pay; Interest and Commitment Fees; Interest Payment Dates; Interest and Fee Basis; Taxes.

(A) Promise to Pay. The Borrower shall repay to the Agent, for the ratable account of the Lenders, on the Termination Date, the aggregate principal amount of the Advances then outstanding. The Borrower unconditionally promises to pay when due the principal amount of each Advance and all other Obligations

incurred by it, and to pay all unpaid interest accrued thereon, in accordance with the terms of this Agreement, the Notes and the other Loan Documents.

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

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

(C) Commitment Fees; Accounting for Commitment Fees; Previously Accrued Commitment Fees.

(i) Commitment Fees. The Borrower shall pay to Agent (for the account of the Lenders), from and after the date hereof and from the effective date specified in the Assignment and Acceptance pursuant to which it became a Lender (in the case of each other Lender) until the date on which the Commitment shall be terminated in whole, a commitment fee equal to one-quarter of one percent (0.25%) per annum, on the amount by which (A) the Commitment in effect from time to time exceeds (B) the Revolving Credit Obligations in effect from time to time, provided, however, that any commitment fee accrued with respect to any of the Commitments of a Defaulting Lender during the period prior to the time such Lender became a Defaulting Lender and unpaid at such time shall not be payable by the Borrower so long as such Lender shall be a defaulting Lender except to the extent that such commitment fee

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shall otherwise have been due and payable by the Borrower prior to such time; and provided, further that no commitment fee shall accrue on any of the Commitments of a Defaulting Lender so long as such Lender shall be a Defaulting Lender. All such commitment fees payable under this clause (C) shall be payable annually in arrears (via wire transfer, pursuant to wire transfer instructions provided to Borrower by Agent in writing from time to time) on each November 15th occurring after the Effective Date (provided, however, that if any such November 15th is not a Business Day, the commitment fee must be paid on the next succeeding Business Day) and, in addition, on the date on which the Commitment shall be terminated in whole.

(ii) Accounting for Commitment Fees. On the first Business Day after each Principal Reconciliation Date following the date of a payment of the commitment fee provided for in the preceding section, Agent will remit to each Lender such Lender's Ratable Share of the commitment fee received by Agent, based on each such Lender's Commitment (via wire transfer, pursuant to wire transfer instructions provided to Agent by Lender in writing from time to time).

(iii) Previously Accrued Commitment Fees. Borrower acknowledges that commitment fees have accrued under the Original Credit Agreement and pursuant to Section 2.9 (C) of the Original Credit Agreement, and only Ford Credit and Chrysler Financial may share in such previously accrued commitment fees. Toyota Credit acknowledges that it may not share in such previously accrued commitment fees. Ford Credit and Chrysler Financial will share in such previously accrued commitment fees equally, with each receiving 50% of such previously accrued commitment fees; which such fees must be paid by Borrower to Agent on November 15, 2001, and 50% of which such fees Agent will remit to Chrysler Financial on the first Business Day after the first Principal Reconciliation Date following November 15, 2001.

(D) Interest and Fee Basis. Agent will calculate interest and fees for actual days elapsed on the basis of a 365 day year. Interest shall be payable for the day an Obligation is incurred but not for the day of any payment on the amount paid if payment is received prior to 12:00 noon (Eastern Standard Time) at the place of payment. If any payment of principal of or interest on an Advance or any payment of any other Obligations shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment. Absent manifest error, each determination by the Agent of an interest rate, fee or commission hereunder shall be conclusive and binding for all purposes.

2.10 Termination Date. This Agreement shall be effective until the Termination Date. The Borrower shall have the right to submit a notice (an "Extension Notice") requesting an extension of the initial Termination Date for additional one-year periods. The Borrower shall deliver the Extension Notice to

Agent on or before the date that is at least 45 and not more than 90 days prior to the first anniversary of the Effective Date (and each like period in each subsequent year thereafter in which such option is available). All of the Lenders, acting collectively, shall, on or before the date that is 30 days after receipt of any such Extension Notice notify the Borrower in writing whether or not the then applicable Termination Date is extended for one year; provided, however, failure to give such notice shall mean that no such extension shall have been granted; and provided further, nothing herein shall obligate the Lenders to extend the initial Termination Date or any other Termination Date and any determination whether or not to so extend the Termination Date shall be made by the Lenders in their sole discretion. Notwithstanding the termination of this Agreement on the

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Termination Date, until all of the Obligations (other than contingent indemnity obligations, but including all Floor Plan Indebtedness owed to (i) Ford Credit and any of its Subsidiaries or Affiliates, (ii) Chrysler Financial and any of its Subsidiaries or Affiliates, or (iii) Toyota Credit and any of its Subsidiaries or Affiliates) shall have been fully and indefeasibly paid and satisfied and all financing arrangements between the Borrower and each Lender in connection with this Agreement shall have been terminated (other than with respect to Hedging Obligations), all of the rights and remedies under this Agreement and the other Loan Documents shall survive and each Lender shall be entitled to retain its security interest in and to all existing and future Collateral.

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

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

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

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later than thirty (30) days after receipt) furnish to such Lender such certificates, receipts and other documents as may be required (in the judgment of the Lender) to establish any tax credit to which such Lender may be entitled.

(D) Within thirty (30) days after the date of any payment of Taxes or Other Taxes by the Borrower, the Borrower shall furnish to the Lender having

made such payment and seeking reimbursement the original or a certified copy of a receipt evidencing payment thereof.

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

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

2.13 Loan Administration Fee. On each Interest Reconciliation Date, each Lender will pay Agent a fee in consideration for Agent's performance of the administrative functions more particularly described herein (the "Administration Fee"). With respect to each Lender, such fee will be in an amount equal to one tenth of one percent (0.1%) per annum on such Lender's Ratable Share of the Balance Due for the month immediately preceding such Interest Reconciliation Date. Each Lender agrees to pay Agent the Administration Fee, on each Interest Reconciliation Date, by allowing Agent to net the Administration Fee out of the Interest Due Lenders.

2.14. Defaulting Lenders. (A) In the event that, at any one time, (i) any Lender shall be a Defaulting Lender, (ii) such Defaulting Lender shall owe a Defaulted Amount to the Agent or any of the other Lenders and (iii) the Borrower shall make any payment hereunder or under any other Loan Document to the Agent for the account of such Defaulting Lender, then (1) the Agent may, on its behalf or on behalf of such other Lenders and to the fullest extent permitted by applicable law, apply at such time the amount so paid by the Borrower to or for the account of such Defaulting Lender to the payment of each such Defaulted Amount to the extent required to pay such Defaulted Amount, and (2) such Defaulting Lender shall be liable to the Agent or any other Lender with respect to such Defaulted Advance for an amount equal to the Applicable LIBOR Rate plus two and fifty hundredths percent (2.5%) per annum on the Defaulted Advance for so long as such Defaulted Advance remains outstanding. In the event that the Agent shall so apply any such amount to the payment of any such Defaulted Amount on any date, the amount so applied by the Agent shall constitute for all purposes of this Agreement and the other Loan Documents payment, to such extent, of such Defaulted Amount on such date. Any such amount so applied by the Agent shall be retained by the Agent or distributed by the Agent to such other Agent or such other Lenders, ratably in accordance with the respective portions of such Defaulted Amounts payable at such time to the Agent, such other Agent and such other Lenders and, if the amount of such payment made by the Borrower shall at such time be

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insufficient to pay all Defaulted Amounts owing at such time to the Agent, such other Agent and such other Lenders, in the following order of priority:

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

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

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

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

such escrow account, including the rate of interest payable with respect to the credit balance of such account from time to time, shall be such escrow agent's standard terms applicable to escrow accounts maintained with it. Any interest credited to such account from time to time shall be held by the Agent in escrow under, and applied by the Agent from time to time in accordance with the provisions of, this subsection (b). The Agent shall, to the fullest extent permitted by applicable law, apply all funds so held in escrow from time to time to the extent necessary to make any Advances required to be made by such Defaulting Lender and to pay any amount payable by such Defaulting Lender hereunder and under the other Loan Documents to the Agent or any other Lender, as and when such Advances or amounts are required to be made or paid and, if the amount so held in escrow shall at any time be insufficient to make and pay all such Advances and amounts required to be made or paid at such time, in the following order of priority:

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

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

In the event that any Lender that is a Defaulting Lender shall, at any time, cease to be a Defaulting Lender, any funds held by the Agent in escrow at such time with respect to such

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Lender shall be distributed by the Agent to such Lender and applied by such Lender to the Obligations owing to such Lender at such time under this Agreement and the other Loan Documents ratably in accordance with the respective amounts of such Obligations outstanding at such time.

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

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

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

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

ARTICLE III: CONDITIONS PRECEDENT

3.1 Conditions of Effectiveness. The Effective Date of this Agreement shall be June \_\_\_\_\_, 2001; on condition that:

(A) no law, regulation, order, judgment or decree of any Governmental Authority shall, and no Lender shall have received any notice that

litigation is pending or threatened which is likely to, (a) enjoin, prohibit or restrain the making of an Advance hereunder or (b) impose or result in the imposition of a Material Adverse Effect;

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(B) all due diligence materials requested by the Lenders from the Borrower shall have been delivered to the Lenders and such due diligence materials shall be in form and substance satisfactory to the Lenders;

(C) the Borrower has furnished to the Agent each of the following, all in form and substance satisfactory to the Agent:

- (i) this Agreement, duly executed by the Borrower;
- (ii) the Notes, duly executed by the Borrower in favor of each Lender;
- (iii) the Cross Agreement executed by Borrower, each Dealership Guarantor, each Non-Dealership Guarantor and each Subsidiary Holding Company;
- (iv) a Dealership Guaranty executed by each Sonic Dealership to the Agent;
- (v) a Dealership Security Agreement executed by each Sonic Dealership to the Agent;
- (vi) a Subsidiary Holding Company Guaranty executed by each Subsidiary Holding Company to Agent;
- (vii) a Subsidiary Holding Company Security Agreement executed by each Subsidiary Holding Company to Agent;
- (viii) the Contribution Agreement;
- (ix) the Borrower Pledges, the Subsidiary Holding Company Pledges and Sonic Financial's Pledge, together with, for each corporate entity so acquired, a stock certificate evidencing the issued and outstanding pledged stock and undated stock powers executed in blank;
- (x) to the extent any Sonic Dealership, Non-Dealership Guarantor or Subsidiary Holding Company has any Indebtedness other than Permitted Indebtedness, pay-out letters, releases and UCC-3 Termination Statements, where applicable, from all third-party creditors releasing all Liens securing any such Indebtedness;
- (xi) Certificates of good standing for the Borrower, and if requested by Lender, each Subsidiary Holding Company, each Non-Dealership Guarantor and each Dealership Guarantor from its jurisdiction of incorporation and each other jurisdiction where the nature of its business requires it to be qualified as a foreign corporation;
- (xii) a Secretary's Certificate from the Borrower, each Subsidiary Holding Company, each Non-Dealership Guarantor and each Sonic Dealership acquired by the Borrower on or prior to the date hereof.
- (xiii) a certificate, in form and substance satisfactory to the Lender, signed by the chief financial officer of the Borrower stating that as of the Effective Date, no Event of Default or Unmatured Default has occurred and is continuing and setting forth the calculation of the Sonic Group's Scaled Assets as of most recent quarterly report of

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Scaled Assets published by Borrower prior to the date of this Agreement, and the representations and warranties of the Borrower are true and correct with full force and effect as if made on the Effective Date;

(xiv) to the extent not included in the foregoing, the documents, instruments and agreements set forth on the closing list attached as Exhibit E hereto;

(xv) such consents, waivers or other documents as the Lender or its counsel may have reasonably requested;

(xvi) a Non-Dealership Guaranty executed by each Non-Dealership Guarantor to the Agent;

(xvii) a Non-Dealership Security Agreement executed by each Non-Dealership Guarantor to the Agent;

(xviii) the Master Intercreditor Agreement executed by all parties thereto;

(xix) the Wholesale Agreement executed by all parties thereto; and

(xx) any required consent letters from manufacturers with whom any of the Dealership Guarantors have sales and service agreements.

3.2 Conditions Precedent to Each Advance. No Lender shall be required to make any Advance, unless on the applicable Borrowing Date:

(i) There exists no Event of Default or Unmatured Default; and

(ii) The representations and warranties contained in Article IV are true and correct as of such Borrowing Date (unless such representation and warranty expressly relates to an earlier date or is no longer true solely as a result of transactions permitted by this Agreement).

Each Borrowing Notice with respect to each such Advance shall constitute a representation and warranty by the Borrower that the conditions contained in Sections 3.2(i) and (ii) have been satisfied. If Agent has a reasonable basis for believing an Event of Default or Unmatured Default may have occurred and is continuing or that the Borrower is not able to make one or more of the representations and warranties set forth in Article IV, Agent may require a duly completed officer's certificate in substantially the form of Exhibit F hereto as a condition to making an Advance.

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

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

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

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

ARTICLE IV: REPRESENTATIONS AND WARRANTIES  
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The Borrower represents and warrants as follows to the Lenders as of the date hereof and as of the Effective Date:

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

4.2 Authority.  
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(A) The execution, delivery, performance and filing, as the case may be, of each of the Transaction Documents which must be executed or filed by the Borrower or any of its Subsidiaries or which have been executed or filed as

required by this Agreement and to which the Borrower or any of its Subsidiaries is party, and the consummation of the transactions contemplated thereby, have been duly approved by the respective boards of directors or managers, or by the partners, as applicable, and, if necessary, the shareholders, members or partners, as applicable, of the Borrower and its Subsidiaries, and such approvals have not been rescinded. No other corporate, company or partnership action or proceedings on the part of the Borrower or its Subsidiaries are necessary to consummate such transactions.

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

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

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

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

#### 4.6 Taxes. -----

(A) Tax Examinations. All material deficiencies which have been asserted against the Borrower or any of the Borrower's Subsidiaries as a result of any federal, state, local or foreign tax examination for each taxable year in respect of which an examination has been conducted have been fully paid or finally settled or are being contested in good faith, and as of the date hereof no issue has been raised by any taxing authority in any such examination which, by

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application of similar principles, reasonably can be expected to result in assertion by such taxing authority of a material deficiency for any other year not so examined which has not been reserved for in the Borrower's consolidated financial statements to the extent, if any, required by Agreement Accounting Principles.

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

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

4.8 Subsidiaries. Schedule 4.8 to this Agreement (i) contains a description as of the Effective Date (or as of the date of any supplement thereto) of the corporate structure of, the Borrower and its Subsidiaries and any other Person in which the Borrower or any of its Subsidiaries holds an Equity Interest; and (ii) accurately sets forth as of the Effective Date (or as of the date of any supplement thereto) (A) the correct legal name, the jurisdiction of incorporation or formation and the jurisdictions in which each of the Borrower and the Subsidiaries of the Borrower is qualified to transact business as a foreign corporation or other foreign entity and (B) a summary of the direct and indirect partnership, joint venture, or other Equity Interests, if any, of the Borrower and each Subsidiary of the Borrower in any Person that is not a corporation. After the formation or acquisition of any New Subsidiary permitted under Section 5.3(F) (ii), if requested by the Agent, the Borrower shall provide a supplement to Schedule 4.8 to this Agreement. None of the issued and outstanding Capital Stock of the Borrower or any of its Subsidiaries is subject to any redemption or repurchase agreement. The outstanding Capital Stock of the Borrower and each of the Borrower's Subsidiaries is duly authorized, validly issued, fully paid and nonassessable. The Borrower has no Subsidiaries other than (i) the Subsidiaries set forth on Schedule 4.8 and (ii) any Subsidiaries acquired in connection with a Permitted Acquisition, in connection with which the Borrower shall have provided all of the documents, instruments and agreements as required by this Agreement.

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4.9 ERISA. No Benefit Plan has incurred any material accumulated funding deficiency (as defined in Sections 302(a) (2) of ERISA and 412(a) of the Code) whether or not waived. Neither the Borrower nor any member of the Controlled Group has incurred any material liability to the PBGC which remains outstanding other than the payment of premiums, and there are no premium payments which have become due which are unpaid. Schedule B to the most recent annual report filed with the IRS with respect to each Benefit Plan and, if so requested, furnished to the Lender, is complete and accurate. Since the date of each such Schedule B, there has been no material adverse change in the funding status or financial condition of the Benefit Plan relating to such Schedule B. Neither the Borrower nor any member of the Controlled Group has (i) failed to make a required contribution or payment to a Multiemployer Plan or (ii) made a complete or partial withdrawal under Sections 4203 or 4205 of ERISA from a Multiemployer Plan, in either event which could result in any material liability. Neither the Borrower nor any member of the Controlled Group has failed to make a required installment or any other required payment under Section 412 of the Code, in either case involving any material amount, on or

before the due date for such installment or other payment. Neither the Borrower nor any member of the Controlled Group is required to provide security to a Benefit Plan under Section 401(a)(29) of the Code due to a Plan amendment that results in an increase in current liability for the plan year. Neither the Borrower nor any of its Subsidiaries maintains or contributes to any employee welfare benefit plan within the meaning of Section 3(1) of ERISA which provides benefits to employees after termination of employment other than as required by Section 601 of ERISA. Each Plan which is intended to be qualified under Section 401(a) of the Code as currently in effect is so qualified, and each trust related to any such Plan is exempt from federal income tax under Section 501(a) of the Code as currently in effect. The Borrower and all Subsidiaries are in compliance in all material respects with the responsibilities, obligations and duties imposed on them by ERISA and the Code with respect to all Plans. Neither the Borrower nor any of its Subsidiaries nor any fiduciary of any Plan has engaged in a nonexempt prohibited transaction described in Sections 406 of ERISA or 4975 of the Code which could reasonably be expected to subject the Borrower or any Dealership Guarantor to material liability. Neither the Borrower nor any member of the Controlled Group has taken or failed to take any action which would constitute or result in a Termination Event, which action or inaction could reasonably be expected to subject the Borrower to material liability. Neither the Borrower nor any Subsidiary is subject to any liability under Sections 4063, 4064, 4069, 4204 or 4212(c) of ERISA and no other member of the Controlled Group is subject to any liability under Sections 4063, 4064, 4069, 4204 or 4212(c) of ERISA which could reasonably be expected to subject the Borrower or any Dealership Guarantor to material liability. Neither the Borrower nor any of its Subsidiaries has, by reason of the transactions contemplated hereby, any obligation to make any payment to any employee pursuant to any Plan or existing contract or arrangement. For purposes of this Section 4.9 "material" means any noncompliance or basis for liability which could reasonably be likely to subject the Borrower or any of its Subsidiaries to liability individually or in the aggregate for all such matters in excess of \$2,500,000.00.

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

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

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

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

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

under any such agreement, will affect any right, title or interest of the Borrower or such Subsidiary in and to any of its assets in a manner that will have or could reasonably be expected to have a Material Adverse Effect.

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

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

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

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

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

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

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

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

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

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

4.20 Benefits. The Borrower, each of its Subsidiaries and Sonic Financial will benefit from the financing arrangement established by this Agreement. Each Lender has stated and the Borrower acknowledges that, but for the agreement by each of the Subsidiary Holding Companies, the Non-Dealership Guarantors and the Dealership Guarantors to execute and deliver their respective Subsidiary Holding Company Guaranty, Non-Dealership Guaranty, Dealership Guaranty, Subsidiary Holding Company Security Agreement, Non-Dealership Security Agreement and Dealership Security Agreement, and Sonic Financial's agreement to deliver Sonic Financial's Pledge, no Lender would have made available the credit facilities established hereby on the terms set forth herein.

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

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

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

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

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

(v) each Retail Contract constitutes "chattel paper" as defined in the UCC.

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

#### ARTICLE V: COVENANTS

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The Borrower covenants and agrees that so long as any Commitment is outstanding and thereafter until payment in full of all of the Obligations (other than contingent indemnity obligations, but including Floor Plan Indebtedness owed to either (i) Ford Credit or any of its Subsidiaries or Affiliates, (ii) Chrysler Financial or any of its Affiliates or Subsidiaries), or (iii) Toyota Credit or any of its Subsidiaries or Affiliates, unless each Lender shall otherwise give its prior written consent (or, in those instances as more particularly described in Section 7.1 hereof, unless Ford Credit (in its capacity as Agent) alone shall otherwise give its prior written consent):

##### 5.1 Reporting. The Borrower shall:

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

(i) Quarterly Reports. As soon as practicable, and in any event within forty five (45) days after the end of each fiscal quarter in each fiscal year, the consolidated and consolidating balance sheet of the Borrower and its Subsidiaries as at the end of such period and the related consolidated and consolidating statements of income and

cash flows of the Borrower and its Subsidiaries for such fiscal quarter and for the period from the beginning of the then current fiscal year to the end of such fiscal quarter, certified by the chief financial officer of the Borrower on behalf of the Borrower as fairly presenting the consolidated and consolidating financial position of the Borrower and its Subsidiaries as at the dates indicated and the results of their operations and cash flows for the periods indicated in accordance with Agreement Accounting Principles, subject to normal year end adjustments.

(ii) Annual Reports. As soon as practicable, and in any event within ninety (90) days after the end of each fiscal year, (a) the consolidated and consolidating balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal year and the related consolidated and consolidating statements of income, stockholders' equity and cash flows of the Borrower and its Subsidiaries for such fiscal year, and in comparative form the corresponding figures for the previous fiscal year and (b) an audit report on the items listed in

clause (a) hereof (other than the consolidating statements) of independent certified public accountants of recognized national standing, which audit report shall be unqualified and shall state that such financial statements fairly present the consolidated financial position of the Borrower and its Subsidiaries as of the dates indicated and the results of their operations and cash flows for the periods indicated in conformity with Agreement Accounting Principles and that the examination by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards. The deliveries made pursuant to this clause (ii) shall be accompanied by any management letter prepared by the above-referenced accountants.

(iii) Monthly Statements. As soon as practicable after a Lender's request, and in any event within five (5) Business Days after such request, with respect to a Sonic Dealership with which such Lender has outstanding a Wholesale Line, certified copies of direct (factory) statements provided by such Sonic Dealership to a manufacturer.

(iv) Officer's Certificate. Together with each delivery of any financial statement pursuant to clauses (i) and (ii) of this Section 5.1(A), an Officer's Certificate of the Borrower, substantially in the form of Exhibit F attached hereto and made a part hereof, stating that no Event of Default or Unmatured Default exists, or if any Event of Default or Unmatured Default exists, stating the nature and status thereof and setting forth (X) such financial statements and information as shall be reasonably acceptable to the Lender and (Y) a valuation of the Collateral.

(v) Liquidation Report. Within twenty (20) Business Days after the end of each fiscal quarter, or at such other frequency as Agent may request from time to time, reports covering the BHPH Collateral, which include: (1) trial balance of customer contracts, certified as true and accurate by an authorized corporate officer of HMC Finance, (2) customer delinquency report, (3) loss experience analysis, (4) paid off contracts report, (5) charged off contracts report, (6) repossession report, (7) auction report, (8) new contracts report, (9) cash and transaction report, and (10) systems security features.

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

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

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

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

evaluate such matters.

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

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

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

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

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

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

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

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

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

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

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

(F) Other Indebtedness. Deliver to Agent (i) a copy of each notice or communication regarding potential or actual defaults (including any accompanying officer's certificate) delivered by or on behalf of the Borrower or any of its Subsidiaries to the holders of funded Indebtedness

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pursuant to the terms of the agreements governing such Indebtedness, such delivery to be made at the same time and by the same means as such notice or other communication is delivered to such holders, and (ii) a copy of each notice or other communication regarding potential or actual defaults received by the Borrower or any of its Subsidiaries from the holders of funded Indebtedness pursuant to the terms of such Indebtedness, such delivery to be made promptly after such notice or other communication is received by the Borrower or any such Subsidiary.

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

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

(I) Other Information. Promptly upon receiving a request therefore from Agent, prepare and deliver to Agent such other information with respect to the Borrower, any of its Subsidiaries, or the Collateral, including, without limitation, schedules identifying and describing the Collateral and any dispositions thereof, as from time to time may be reasonably requested by Agent.

## 5.2 Affirmative Covenants.

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

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

(C) Compliance with Laws, Etc. The Borrower shall, and shall cause its Subsidiaries to, (a) comply with all Requirements of Law and all restrictive covenants affecting such Person or the business, properties, assets or operations of such Person, and (b) obtain as needed all

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permits necessary for its operations and maintain such permits in good standing, unless failure to comply or obtain could not reasonably be expected to have a Material Adverse Effect.

(D) Payment of Taxes and Claims; Tax Consolidation. The Borrower shall pay, and cause each of its Subsidiaries to pay, (i) all taxes, assessments and other governmental charges imposed upon it or on any of its properties or assets or in respect of any of its franchises, business, income or property before any penalty or interest accrues thereon, and (ii) all claims (including, without limitation, claims for labor, services, materials and supplies) for sums which have become due and payable and which by law have or may become a Lien (other than a Lien permitted by Section 5.3(C)) upon any of the Borrower's or such Subsidiary's property or assets, prior to the time when any penalty or fine shall be incurred with respect thereto; provided, however, that no such taxes, assessments and governmental charges referred to in clause (i) above or claims referred to in clause (ii) above (and interest, penalties or fines relating thereto) need be paid if being contested in good faith by appropriate proceedings diligently instituted and conducted and if such reserve or other

appropriate provision, if any, as shall be required in conformity with Agreement Accounting Principles shall have been made therefor. The Borrower will not, nor will it permit any of its Subsidiaries to, file or consent to the filing of any consolidated income tax return with any other Person other than the consolidated return of the Borrower.

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

(F) Inspection of Property; Books and Records; Discussions. The Borrower shall permit and cause each of the Borrower's Subsidiaries to permit, any authorized representative(s) designated by Agent or any Lender to visit and inspect any of the properties of the Borrower or any of its Subsidiaries, to examine, audit, check and make copies of their respective financial and accounting records, books, journals, orders, receipts and any correspondence and other data relating to their respective businesses or the transactions contemplated hereby or by the Acquisitions (including, without limitation, in connection with environmental compliance, hazard or liability), and to discuss their affairs, finances and accounts with their officers and independent certified public accountants, all upon reasonable notice and at such reasonable times during normal business hours, as often as may be reasonably requested; provided, that while no Event of Default exists, all of the foregoing shall be at the joint expense of the Lenders. The Borrower shall keep and maintain, and cause each of the Borrower's Subsidiaries to keep and maintain, in all material respects, proper books of record and account in which entries in conformity with Agreement Accounting Principles shall be made of all dealings and transactions in relation to their respective businesses and activities, including, without limitation, transactions and other dealings with respect to the Collateral. If an Event of Default has occurred and is continuing, the Borrower, upon the request of Agent or any Lender, shall turn over any such records to Agent, such Lender, or their respective representatives.

(G) Insurance and Condemnation Proceeds. The Borrower directs (and, if applicable, shall cause its Subsidiaries to direct) all insurers under policies of property damage, boiler and machinery and business interruption insurance and payors of any condemnation claim or award relating to the property to pay all proceeds payable under such policies or with respect to such claim or award for any loss with respect to the Collateral directly to Agent (for the benefit of the Lenders); provided, however, in the event that such proceeds or award are less than \$250,000.00 ("Excluded Proceeds"), unless an Event of Default shall have occurred and be

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

(H) ERISA Compliance. The Borrower shall, and shall cause each of the Borrower's Subsidiaries to, establish, maintain and operate all Plans, if any, to comply in all material respects with the provisions of ERISA, the Code, all

other applicable laws, and the regulations and interpretations thereunder and the respective requirements of the governing documents for such Plans, except where the failure to comply will not or could not reasonably be expected to subject the Borrower and its Subsidiaries to liability individually or in the aggregate in excess of \$2,500,000.00.

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

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

(K) Use of Proceeds. Except as otherwise provided in Section 2.1 (A) (1) hereof, the Borrower shall use the proceeds of Advances to (i) fund Permitted Acquisitions and (ii) provide funds for working capital needs and other general corporate purposes of the Borrower. The proceeds of Advances hereunder may not be used to make any mandatory prepayment under Section 2.2(B). The Borrower will not, nor will it permit any Subsidiary to, use any of the proceeds of the Loans to purchase or carry any "Margin Stock" or to make any Acquisition, other than any Permitted Acquisition pursuant to Section 5.3(F).

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

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

(M) Future Liens on Real Property. The Borrower shall, and shall cause each of its Subsidiaries that is required to guarantee the Obligations to, execute and deliver to Agent, immediately upon its acquisition or leasing of any real property after the date hereof, a mortgage, deed of trust, collateral assignment or other appropriate instrument evidencing a Lien upon any such acquired property, lease or interest, to be in form and substance reasonably acceptable to the Lenders and subject only to such Liens as otherwise shall be

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permitted by this Agreement and the Borrower or the applicable Subsidiary, as the case may be, shall have provided the Agent or any Lender with such opinions, landlord and mortgagee waivers or title insurance as the Agent or any Lender

shall have reasonably requested in connection with such acquisition or leasing of real property. The foregoing provision shall apply to the leasing of any real property only if (i) the term of such lease (without regard to any extension thereof at then current market rent) is more than five years or (ii) such lease has a material value by reason of a purchase option, below-market rent or otherwise.

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

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

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

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

(iii) purchase only those Retail Contracts which (A) were originated by an Affiliated Dealer in the state in which the applicable Affiliated Dealer conducts business for the retail sale of a Financed Vehicle in the ordinary course of such Affiliated Dealer's business, (B) were fully and properly executed by the parties thereto, (C) were originated by an Affiliated Dealer with whom HMC Finance is operating under an existing agreement and (D) were validly assigned by such Affiliated Dealer to HMC Finance.

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

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

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

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

(viii) give to any prospective purchaser, lender, or

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

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

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

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

### 5.3 Negative Covenants.

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

- (i) the Obligations;
- (ii) Permitted Existing Indebtedness and Permitted Refinancing Indebtedness;
- (iii) Indebtedness in respect of obligations secured by Customary Permitted Liens;
- (iv) Indebtedness constituting Contingent Obligations in respect of Indebtedness otherwise permitted hereunder;

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(v) Indebtedness arising from intercompany loans from the Borrower to any Guarantor or from any Subsidiary to the Borrower or any Guarantor; provided that in each case such Indebtedness is subordinated upon terms satisfactory to the Agent and the Required Lenders to the obligations of the Borrower and its Subsidiaries with respect to the Obligations;

(vi) Guaranties by the Borrower of Indebtedness permitted to be incurred by any Subsidiary;

(vii) Indebtedness with respect to surety, appeal and performance bonds obtained by the Borrower or any of its Subsidiaries in the ordinary course of business;

(viii) Indebtedness arising under any Guaranty;

(ix) Indebtedness constituting that portion of the deferred purchase price payable by the Borrower in connection with an Acquisition, which such Indebtedness shall not be secured by any of the Collateral;

(x) Indebtedness not in excess of \$2,500,000.00 in connection with the Liens set forth in Section 5.3(C) (iv);

(xi) Floor Plan Indebtedness incurred by a Subsidiary ;

(xii) Indebtedness existing under the 1998 Indenture;

(xiii) Indebtedness issued by Borrower, (which may or may not be guaranteed by the Subsidiaries of Borrower) and otherwise pari passu or subordinated in right of payment to Indebtedness, under the Approved Indentures and subordinated to the Obligations on terms reasonably satisfactory to the Required Lenders (it being acknowledged that the subordination provisions relating to the Indebtedness issued pursuant to the Indentures are and would be satisfactory to the Required Lenders), provided, however, that the aggregate amount of Indebtedness allowed pursuant to the Approved Indentures under this Section 5.3 (a) (xiii) may not exceed \$300,000,000.00.

(B) Sales of Assets. Neither the Borrower nor any of its Subsidiaries shall sell, assign, transfer, lease, convey or otherwise dispose of any property (including the Capital Stock of any Subsidiary), whether now owned or hereafter

acquired, or any income or profits therefrom, or enter into any agreement to do so, except:

- (i) sales of inventory in the ordinary course of business;
- (ii) the disposition in the ordinary course of business of equipment that is obsolete, excess or no longer useful in the Borrower's or its Subsidiaries' business; and
- (iii) sales, assignments, transfers, leases, conveyances or other dispositions of other assets (including sales of Capital Stock of a Subsidiary) if such transaction (a) is for all cash consideration, (b) is for not less than Fair Value, (c) when combined with all such other transactions (each such transaction being valued at book value) (i) during the immediately preceding twelve-month period, represents the disposition of not greater than \$2,500,000.00, and (ii) during the period from the date hereof to the date of such proposed transaction, represents the disposition of not

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greater than \$5,000,000.00 and (d) is a sale by the Borrower of Capital Stock in any Subsidiary, except as provided in subclause (c) above, the Borrower shall continue to own, of record and beneficially, with sole voting and dispositive power, 100% (unless required by the Subsidiary's franchise agreement to be less, in which event at least 80%) of the outstanding shares of Capital Stock of any such Subsidiary.

(C) Liens. Neither the Borrower nor any of its Subsidiaries shall directly or indirectly create, incur, assume or permit to exist any Lien on or with respect to any of their respective property or assets, except:

- (i) Permitted Existing Liens;
- (ii) Customary Permitted Liens;
- (iii) Liens securing the Obligations;
- (iv) Liens securing Floor Plan Indebtedness, provided, however, that with respect to Floor Plan Indebtedness owing to any finance source which is not a Lender, only the following assets may be encumbered by a Lien: (i) the Inventory specifically financed under the terms of such Floor Plan Indebtedness, and (ii) any and all proceeds of the sale or other disposition of or realization upon any such item of Inventory; and
- (v) Liens (other than on the stock of any Subsidiaries) securing other obligations not exceeding \$2,500,000.00 in the aggregate at any time outstanding.

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

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

- (i) Investments in Cash Equivalents;
- (ii) Permitted Existing Investments in an amount not greater than the amount thereof on the date hereof;
- (iii) Investments in trade receivables or received in connection with the bankruptcy or reorganization of suppliers and customers and in settlement of delinquent obligations of, and other disputes with, customers and suppliers arising in the ordinary course of business;

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- (iv) Investments consisting of intercompany loans from any Subsidiary to the Borrower or any other Subsidiary permitted by Section 5.3(A) (v);
- (v) Investments in any Guarantor;

(vi) Investments constituting Permitted Acquisitions;

(vii) loans and advances made by Borrower to employees of Borrower, provided, however that the aggregate amount of such loans and advances outstanding at any given time may not exceed \$1,000,000.00; and

(viii) Investments in addition to those referred to elsewhere in this Section 5.3(D) in an amount not to exceed \$500,000.00 in the aggregate at any time outstanding;

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

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

(i) where the consideration therefor consists solely of Equity Interests (but excluding Disqualified Stock) of the Borrower or its Subsidiaries provided no Change of Control would occur as a result thereof;

(ii) in connection with the payment of dividends by a Subsidiary to its parent provided such parent is a Guarantor; and

(iii) the redemption or repurchase by Borrower of any Equity Interests of the Borrower or a Subsidiary of Borrower, now or hereafter outstanding, provided that after giving effect to such redemption or repurchase, Borrower remains in compliance with the Financial Covenants set forth in Section 5.4 hereof.

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

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

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

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

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

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

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

Section 5.4;

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

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

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

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

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for the purposes of such Acquisition, broken down by fiscal quarter in the Borrower's reasonable judgment, copies of which shall be provided to Agent.

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

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

(H) Restriction on Fundamental Changes. Neither the Borrower nor any of its Subsidiaries shall enter into any merger or consolidation, or liquidate, wind-up or dissolve (or suffer any liquidation or dissolution), or convey, lease, sell, transfer or otherwise dispose of, in one transaction or series of transactions, all or substantially all of the Borrower's or any such Subsidiary's business or property, whether now or hereafter acquired, except (i) transactions permitted under Sections 5.3(B) or 5.3(G) (ii) the merger of a Subsidiary of the Borrower into a Person acquired in connection with a Permitted Acquisition; (iii) the merger of a wholly-owned Subsidiary of the Borrower with and into the Borrower; and (iv) the merger of a Subsidiary of the Borrower with another Subsidiary of the Borrower; provided, however, (i) with respect to any such permitted mergers involving any Guarantor, the surviving corporation in the merger shall also be or become a Guarantor; and (ii) after the consummation of any such transaction, the Borrower shall be in compliance with the provisions of Sections 5.2(K) and 5.3(E).

(I) Sales and Leasebacks. Except for transactions relating to any real property financed under either the Permanent Loan Agreement, between Ford Credit and certain Subsidiaries of Borrower, dated June 23, 2000, or the Master Construction Loan Agreement, between Ford Credit and certain Subsidiaries of Borrower, dated June 23, 2000, and subsequently sold by one of such Subsidiaries of Borrower, neither the Borrower nor any of its Subsidiaries shall, without the prior written consent of the Agent and the Required Lenders, become liable, directly, by assumption or by Contingent Obligation, with respect to any lease, whether an operating lease or a Capitalized Lease, of any property (whether real or personal or mixed) (i) which it or one of its Subsidiaries sold or transferred or is to sell or transfer to any other Person, or (ii) which it or one of its Subsidiaries intends to use for substantially the same purposes as

any other property which has been or is to be sold or transferred by it or one of its Subsidiaries to any other Person in connection with such lease.

(J) Margin Regulations. Neither the Borrower nor any of its Subsidiaries, shall use all or any portion of the proceeds of any credit extended under this Agreement to purchase or carry Margin Stock.

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(K) ERISA. The Borrower shall not  
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(i) engage, or permit any of its Subsidiaries to engage, in any prohibited transaction described in Sections 406 of ERISA or 4975 of the Code for which a statutory or class exemption is not available or a private exemption has not been previously obtained from the DOL;

(ii) permit to exist any accumulated funding deficiency (as defined in Sections 302 of ERISA and 412 of the Code), with respect to any Benefit Plan, whether or not waived;

(iii) fail, or permit any Controlled Group member to fail, to pay timely required contributions or annual installments due with respect to any waived funding deficiency to any Benefit Plan;

(iv) terminate, or permit any Controlled Group member to terminate, any Benefit Plan which would result in any liability of the Borrower or any Controlled Group member under Title IV of ERISA;

(v) fail to make any contribution or payment to any Multiemployer Plan which the Borrower or any Controlled Group member may be required to make under any agreement relating to such Multiemployer Plan, or any law pertaining thereto;

(vi) fail, or permit any Controlled Group member to fail, to pay any required installment or any other payment required under Section 412 of the Code on or before the due date for such installment or other payment; or

(vii) amend, or permit any Controlled Group member to amend, a Plan resulting in an increase in current liability for the plan year such that the Borrower or any Controlled Group member is required to provide security to such Plan under Section 401(a)(29) of the Code,

except where such transactions, events, circumstances, or failures will not have or is not reasonably likely to subject the Borrower and its Subsidiaries to liability individually or in the aggregate in excess of \$2,500,000.00.

(L) Issuance of Equity Interests. The Borrower shall not issue any Equity Interests if as a result of such issuance a Change of Control shall occur. None of the Borrower's Subsidiaries shall issue any Equity Interests other than to the Borrower or if required by the applicable manufacturer in connection with a Restricted Franchise Agreement or the state motor vehicle dealer licensing authority, to Minority Holders whose Equity Interests (i) do not exceed 20% of the Equity Interests of such Subsidiary and (ii) have been pledged to the Agent (other than with respect to Equity Interests held by Minority Holders as of the Effective Date); provided, however, that no such issuance of Equity Interests shall be permitted hereunder unless the Subsidiary with respect to which operates only under a Restricted Franchise Agreement.

(M) Corporate Documents; Franchise Agreements. Neither the Borrower nor any of its Subsidiaries shall amend, modify or otherwise change any of the terms or provisions in any of their respective constituent documents as in effect on the date hereof in any manner adverse in any material respect to the interests of either Initial Lender without the prior written consent of

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each Initial Lender. The Borrower shall not permit any Sonic Dealership to amend, modify or otherwise change any of the terms or provisions of such Sonic Dealership's franchise agreement in any manner adverse in any material respect to the interests of either Initial Lender without the prior written consent of each Initial Lender.

(N) Fiscal Year. Neither the Borrower nor any of its consolidated Subsidiaries shall change its fiscal year for accounting or tax purposes from a period consisting of the 12-month period ending on December 31 of each calendar year.

(O) Subsidiary Covenants. The Borrower will not, and will not permit any Subsidiary to, create or otherwise cause to become effective any consensual

encumbrance or restriction of any kind on the ability of any Subsidiary to pay dividends or make any other distribution on its stock, or make any other Restricted Payment, pay any Indebtedness or other Obligation owed to the Borrower or any other Subsidiary, make loans or advances or other Investments in the Borrower or any other Subsidiary, or sell, transfer or otherwise convey any of its property to the Borrower or any other Subsidiary.

(P) Hedging Obligations. The Borrower shall not and shall not permit any of its Subsidiaries to enter into any interest rate, commodity or foreign currency exchange, swap, collar, cap or similar agreements evidencing Hedging Obligations, other than interest rate, foreign currency or commodity exchange, swap, collar, cap or similar agreements entered into by the Borrower or a Subsidiary pursuant to which the Borrower or such Subsidiary has hedged its actual interest rate, foreign currency or commodity exposure.

(Q) Payments on Subordinated Debt. The Borrower shall not make any payments on any of the Debt Offering Notes except in accordance with the Indenture.

(R) Retail Contracts. (i) The Borrower shall not permit HMC Finance to purchase any Retail Contract which shall have been originated in, or shall be subject to the laws of, any jurisdiction under which the sale, transfer, and assignment of such Retail under this Agreement shall be unlawful, void, or voidable.

(ii) Except for the conveyances hereunder, the Borrower will not permit HMC Finance to sell, pledge, assign or transfer to any other person, or grant, create, incur, assume or suffer to exist any lien on any interest therein, and

(iii) The Borrower shall not permit HMC Finance to enter into any agreements of sale with an Affiliated Dealer containing any waiver of any Affiliated Dealer's obligations to repurchase the Retail Contracts and Financed Vehicles.

5.4 Financial Covenants. The Borrower shall comply with the following:

(A) Current Ratio. The Borrower shall not at any time permit the ratio (the "Current Ratio") of Current Assets of the Sonic Group on a consolidated basis to Current Liabilities of the Sonic Group on a consolidated basis to be less than 1.23 : 1.

(B) Fixed Charge Coverage Ratio. The Borrower shall maintain a ratio ("Fixed Charge Coverage Ratio") of (i) EBITDAR less Capital Expenditures, to (ii) the sum of (a) Interest Expense plus (b) scheduled amortization of the principal portion of all Indebtedness for money borrowed plus (c) Rentals plus (d) taxes paid in cash during such period of the Borrower and its consolidated Subsidiaries of at least 1.4 : 1 for each fiscal quarter ending from and after

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the Effective Date. In each case the Fixed Charge Coverage Ratio shall be determined as of the last day of each fiscal quarter for the four-quarter period ending on such day.

(C) Interest Coverage Ratio. The Borrower shall maintain a ratio (the "Interest Coverage Ratio") of EBITDA to Interest Expense of at least 2 : 1 for each fiscal quarter ending from and after the Effective Date. In each case the Interest Coverage Ratio shall be determined as of the last day of each fiscal quarter for the four-quarter period ending on such day.

(D) Total Adjusted Debt to EBITDA Ratio. The Borrower shall not at any time permit the ratio (the "Adjusted Leverage Ratio") of (i) Total Adjusted Debt of the Borrower and its consolidated Subsidiaries to (ii) EBITDA of the Borrower and its consolidated Subsidiaries, to be greater than 2.25 : 1. The Adjusted Leverage Ratio shall be calculated, in each case, determined as of the last day of each fiscal quarter based upon (a) for Total Adjusted Debt, Total Adjusted Debt as of the last day of each such fiscal quarter; and (b) for EBITDA, EBITDA for the twelve-month period ending on such day calculated as set forth in the definition thereof.

All financial covenants set forth in this Section 5.4 shall be calculated by Agent based on the calculations set forth in and the financial statements attached to Officer's Certificates delivered hereunder and shall be binding on the Borrower for all purposes of this Agreement absent manifest error.

#### ARTICLE VI: EVENT OF DEFAULTS

6.1 Event of Defaults. Each of the following occurrences shall constitute an Event of Default under this Agreement:

(a) Failure to Make Payments When Due. The Borrower shall (i) fail to pay when due any of the Obligations consisting of principal with respect to the Advances or (ii) shall fail to pay within ten (10) days of the date when due any of the other Obligations under this Agreement or the other Loan Documents.

(b) Breach of Certain Covenants. The Borrower shall fail duly and punctually to perform or observe any agreement, covenant or obligation binding on the Borrower under Sections 5.2(F), 5.2(K), 5.3 or 5.4.

(c) Breach of Representation or Warranty. Any representation or warranty made or deemed made by the Borrower to the Lenders herein or by the Borrower or any of its Subsidiaries in any of the other Loan Documents or in any written statement or certificate at any time given by any such Person pursuant to any of the Loan Documents shall be false or misleading in any material respect on the date as of which made (or deemed made).

(d) Other Defaults. The Borrower shall default in the performance of or compliance with any term contained in this Agreement (other than as covered by paragraphs (a), (b) or (c) of this Section 6.1), or the Borrower or any of its Subsidiaries shall default in the performance of or compliance with any term contained in any of the other Loan Documents, and such default shall continue for thirty (30) days after the occurrence thereof.

(e) Default as to Other Indebtedness. The Borrower or any of its Subsidiaries shall fail to make any payment when due (whether by scheduled maturity, required prepayment,

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acceleration, demand or otherwise) with respect to any Indebtedness (other than Indebtedness constituting the deferred portion of the purchase price of an asset which is subject to a good faith dispute, which, together with all such other outstanding disputed Indebtedness, is not in excess of \$5,000,000.00 and which is being contested by the Borrower, and provided that the Borrower has set aside adequate reserves covering such disputed Indebtedness) the outstanding principal amount of which Indebtedness is in excess of \$1,000,000.00; or any breach, default or event of default shall occur, or any other condition shall exist under any instrument, agreement or indenture pertaining to any such Indebtedness, if the effect thereof is to cause an acceleration, mandatory redemption, a requirement that the Borrower offer to purchase such Indebtedness or other required repurchase of such Indebtedness, or permit the holder(s) of such Indebtedness to accelerate the maturity of any such Indebtedness or require a redemption or other repurchase of such Indebtedness; or any such Indebtedness shall be otherwise declared to be due and payable (by acceleration or otherwise) or required to be prepaid, redeemed or otherwise repurchased by the Borrower or any of its Subsidiaries (other than by a regularly scheduled required prepayment) prior to the stated maturity thereof.

(f) Involuntary Bankruptcy; Appointment of Receiver, Etc.  
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(i) An involuntary case shall be commenced against the Borrower or any of the Borrower's Subsidiaries and the petition shall not be dismissed, stayed, bonded or discharged within sixty (60) days after commencement of the case; or a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Borrower or any of the Borrower's Subsidiaries in an involuntary case, under any applicable bankruptcy, insolvency or other similar law now or hereinafter in effect; or any other similar relief shall be granted under any applicable federal, state, local or foreign law.

(ii) A decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over the Borrower or any of the Borrower's Subsidiaries or over all or a substantial part of the property of the Borrower or any of the Borrower's Subsidiaries shall be entered; or an interim receiver, trustee or other custodian of the Borrower or any of the Borrower's Subsidiaries or of all or a substantial part of the property of the Borrower or any of the Borrower's Subsidiaries shall be appointed or a warrant of attachment, execution or similar process against any substantial part of the property of the Borrower or any of the Borrower's Subsidiaries shall be issued and any such event shall not be stayed, dismissed, bonded or discharged within sixty (60) days after entry, appointment or issuance.

(g) Voluntary Bankruptcy; Appointment of Receiver, Etc. The Borrower or any of the Borrower's Subsidiaries shall (i) commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, (ii) consent to the entry of an order for relief in an involuntary case, or to the conversion of an involuntary case to a voluntary case, under any such law, (iii) consent to the appointment of or taking possession by a receiver, trustee or other similar custodian for the benefit of creditors for all or a substantial part of its property, (iv) make any assignment for the benefit of

creditors or (v) take any corporate action to authorize any of the foregoing.

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(h) Judgments and Attachments. Any money judgment(s) (other than a money judgment covered by insurance as to which the insurance company has not disclaimed coverage or if it has reserved the right to disclaim coverage, such letter reserving the right to disclaim coverage is outstanding twelve months after such money judgment was rendered), writ or warrant of attachment, or similar process against the Borrower or any of its Subsidiaries or any of their respective assets involving in any single case or in the aggregate an amount in excess of \$2,500,000.00 is or are entered and shall remain undischarged, unvacated, unbonded or unstayed for a period of sixty (60) days or in any event later than fifteen (15) days prior to the date of any proposed sale thereunder.

(i) Dissolution. Any order, judgment or decree shall be entered against the Borrower or any of its Subsidiaries decreeing its involuntary dissolution or split up and such order shall remain undischarged and unstayed for a period in excess of sixty (60) days; or the Borrower or any of its Subsidiaries shall otherwise dissolve or cease to exist except as specifically permitted by this Agreement.

(j) Loan Documents; Failure of. At any time, for any reason, (i) any Loan Document as a whole that materially affects the ability of the Lender to enforce the Obligations or enforce its rights against the Collateral ceases to be in full force and effect or the Borrower or any of the Borrower's Subsidiaries party thereto seeks to repudiate its obligations thereunder and the Liens intended to be created thereby are, or the Borrower or any such Subsidiary seeks to render such Liens, invalid or unperfected, or (ii) any Lien on Collateral in favor of Agent (for the benefit of the Lenders) contemplated by the Loan Documents shall, at any time, for any reason, be invalidated or otherwise cease to be in full force and effect or such Lien shall not have the priority contemplated by this Agreement or the Loan Documents and such failure shall continue for three (3) days after the occurrence thereof.

(k) Termination Event. Any Termination Event occurs which is reasonably likely to subject the Borrower or any of its Subsidiaries to liability individually or in the aggregate in excess of \$2,500,000.00, and such Termination Event shall continue for three (3) days after the occurrence thereof, provided however, if such Termination Event is a Reportable Event, then prior to such Termination Event causing an Event of Default under this Section 6.1(k), such Termination Event shall continue for ten (10) days after the occurrence thereof.

(l) Waiver of Minimum Funding Standard. If the plan administrator of any Plan applies under Section 412(d) of the Code for a waiver of the minimum funding standards of Section 412(a) of the Code and the Required Lenders believe the substantial business hardship upon which the application for the waiver is based could reasonably be expected to subject either the Borrower or any Controlled Group member to liability individually or in the aggregate in excess of \$2,500,000.00.

(m) Change of Control. A Change of Control shall occur.  
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(n) Hedging Agreements. Nonpayment by the Borrower or any Subsidiary of any obligation under any contract with respect to Hedging Obligations entered into by the Borrower or such Subsidiary with a Lender (or Affiliate thereof) or the breach by the Borrower or Subsidiary of any other term, provision or condition contained in any agreement and such nonpayment or breach shall continue for ten (10) days after the occurrence thereof.

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(o) Guarantor Default or Revocation. Any Sonic Guaranty shall fail to remain in full force or effect or any action shall be taken by the Borrower or any Guarantor to discontinue or to assert the invalidity or unenforceability of any Sonic Guaranty or any Guarantor shall fail to comply with any of the terms or provisions of any Sonic Guaranty to which it is a party, or the Borrower or any Guarantor denies that it has any further liability under any Sonic Guaranty to which it is a party, or gives notice to such effect.

(p) Environmental Matters. The Borrower or any of its Subsidiaries shall be the subject of any proceeding or investigation pertaining to (i) the Release by the Borrower or any of its Subsidiaries of any Contaminant into the environment, (ii) the liability of the Borrower or any of its Subsidiaries arising from the Release by any other person of any Contaminant into the environment, or (iii) any violation of any Environmental, Health or Safety Requirements of Law by the Borrower or any of its Subsidiaries, which, in any case, has subjected or is reasonably likely to subject the Borrower or any of its Subsidiaries to liability individually or in the aggregate in excess of \$2,500,000.00.

An Event of Default shall be deemed "continuing" until cured or until waived in writing in accordance with Section 8.3.

ARTICLE VII: THE AGENT  
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7.1 Authorization and Action. (a) Each Lender hereby appoints and authorizes Agent to take such action as agent on its own behalf and to exercise such powers and discretion under this Agreement and the other Loan Documents as are delegated to Agent by the terms hereof and thereof, together with such powers and discretion as are reasonably incidental thereto. As to any matters not expressly provided for by the Loan Documents (including, without limitation, enforcement or collection of the Notes), Agent shall be required to exercise only such discretion or take only such action as is: (a) in accordance with the manner in which Agent acts or refrains from acting (and shall be fully protected in so acting or refraining from acting) in connection with matters in which it is the sole lender, and (b) jointly agreed upon by Agent and the Lenders in writing (such agreement will be binding upon each Lender and all holders of the Note); provided, however, that Agent shall not be required to take any action that exposes it to personal liability or that is contrary to this Agreement or applicable law.

(b) For so long as Ford Credit is acting as Agent hereunder, each Lender agrees that Ford Credit may unilaterally grant requests for and waivers of, the following matters only, provided, however, that Ford Credit must notify each Lender prior to issuing such consents or waivers to Borrower:

(1) any Event of Default (as set forth in Article VI hereof) which can be cured, and which based upon the reasonable representation of Borrower will be cured, within ninety (90) days from the date upon which Ford Credit will have learned of the occurrence of such Event of Default. With respect to any Event of Default which, by its nature, cannot be cured, Ford Credit may not respond unilaterally to any request made by Borrower. If any such Event of Default is not cured within such ninety (90) day period, Ford Credit may not take any further action unilaterally;

(2) noncompliance with any covenant or obligation binding on the Borrower, provided Borrower has reasonably represented that the condition causing such noncompliance will last for no more than ninety (90) days. If any

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such condition causing noncompliance lasts more than ninety (90) days, Ford Credit may not take any further action unilaterally.

Nothing contained in this Section 7.1 (b) may be construed to obligate either Ford Credit or a Lender to grant any such consents or forbear from exercising any of its rights with respect to any Event of Default which may occur from time to time. The rights and powers set forth in this Section 7.1 (b) apply only to Ford Credit acting as Agent and are not intended to benefit any Successor Agent.

(c) For so long as Ford Credit is acting as Agent hereunder, each Lender agrees that with respect to any documents executed to evidence either (1) a consent the Agent and the Required Lenders have agreed to grant or (2) a waiver of any condition or Event of Default the Agent and the Required Lenders have agreed to grant, Ford Credit, as Agent, may execute any such letter individually in its capacity as Agent, without the need for any other Lender to join in the execution thereof, provided, however, that prior to executing any such letter, Ford Credit, as Agent, will have received written confirmation from each of the Lenders required to consent to such consent or waiver, evidencing each such Lender's agreement to grant such consent or waiver, as the case may be.

Nothing contained in this Section 7.1 (c) may be construed to obligate either Ford Credit or a Lender to grant any such consents or forbear from exercising any of its rights with respect to any Event of Default which may occur from time to time. The rights and powers set forth in this Section 7.1 (c) apply only to Ford Credit acting as Agent and are not intended to benefit any Successor Agent.

(d) Agent will provide to each Lender the following:

- (1) copies of all reports and notices furnished by Borrower to Agent pursuant to the Loan Documents, within 5 Business Days after Agent's receipt thereof;
- (2) reports of the calculation of Scaled Assets and all other calculations made by Agent pursuant to Section 5.4 hereof, within 5 Business Days after Agent will have made such calculations; and

- (3) copies of all documents delivered to Agent by Borrower pursuant to Sections 5.2 (L), 5.2 (M) and 5.2 (O) hereof, within 30 Business Days after Agent's receipt thereof.

7.2 Agent's Reliance, Etc. Neither Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with the Loan Documents, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, Agent: (a) may treat the payee of the Note as the holder thereof until it receives written notice of the assignment thereof signed by such payee and including the agreement of the assignee to be bound thereby as it would have been if it had been an original party to this Agreement, in form satisfactory to Agent, as provided for in Section 10.3; (b) may consult with legal counsel (including counsel for any Lender), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (c) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations (whether written or oral) made in or in connection with the Loan Documents; (d) shall not, other than as specifically set forth in the Loan Documents, have any duty to ascertain or to inquire as

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to the performance or observance of any of the terms, covenants or conditions of any Loan Document on the part of any party to any of the Loan Documents or to inspect the property of any party to any of the Loan Documents; (e) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of, or the perfection or priority of any lien or security interest created or purported to be created under or in connection with, any Loan Document or any other instrument or document furnished pursuant thereto; and (f) shall incur no liability under or in respect of any Loan Document by acting upon any notice, consent, certificate or other instrument or writing (which may be by telegram, telecopy or telex) believed by it to be genuine and signed or sent by the proper party or parties.

7.3 Agent and Affiliates. With respect to its Commitments, the Advances made by it and the Notes issued to it, Agent shall have the same rights and powers under the Loan Documents as any other Lender and may exercise the same as though it were not an agent.

7.4 Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon Agent and based on the financial statements referred to in Section 4.4 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon Agent and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

7.5 Indemnification. (a) Each Lender agrees to indemnify Agent and its directors, officers, agents and employees (to the extent not promptly reimbursed by the Borrower) from and against each Lender's Ratable Share (determined as provided below) of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against Agent in any way relating to or arising out of the Loan Documents or any action taken or omitted by Agent under the Loan Documents (collectively, the "Indemnified Costs"); provided, however, that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from Agent's gross negligence or willful misconduct as found in a final, non-appealable judgment by a court of competent jurisdiction. Without limitation of the foregoing, each Lender agrees to reimburse Agent promptly upon demand for its Ratable Share of any costs and expenses (including, without limitation, fees and expenses of counsel) payable by the Borrower under Section 9.6 (A), to the extent that Agent is not promptly reimbursed for such costs and expenses by the Borrower. In the case of any investigation, litigation or proceeding giving rise to any Indemnified Costs, this Section 7.5 applies whether any such investigation, litigation or proceeding is brought by any Lender or any other Person.

(b) For purposes of this Section 7.5, each Lender's Ratable Share of any amount shall be determined, at any time, according to the aggregate principal amount of the Advances outstanding at such time and owing to the respective Lender. Without prejudice to the survival of any other agreement of any Lender hereunder, the agreement and obligations of Chrysler Financial contained in this Section 7.5 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the other Loan Documents.

7.6 Successor Agents. An Agent may resign at any time by giving

written notice thereof to the Lenders and the Borrower, which resignation will become effective at such times as more specifically set forth in this Section 7.6. Upon any such resignation, the Required Lenders shall have the right to appoint a successor agent, provided, however, that any such

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appointment of a successor agent must have been consented to in writing by Borrower, which consent shall not be unreasonably withheld or delayed, unless an Event of Default shall have occurred and be continuing, in which case no consent of Borrower shall be required. If no successor agent shall have been so appointed by the Lenders, and shall have accepted such appointment, within 30 days after Agent's giving of notice of resignation, then Agent may, on behalf of the Lenders, appoint a successor agent, which shall be a commercial bank or finance company organized under the laws of the United States or of any State thereof and having a combined capital and surplus of at least \$250,000,000 (any successor agent appointed under this Section 7.6 is referred to herein as a "Successor Agent"). Upon the acceptance of any appointment as Agent hereunder by a Successor Agent and, in the case of a Successor Agent to Agent's agency duties with respect to the Collateral and as provided for in the Collateral Documents, upon the execution and filing or recording of such financing statements, or amendments thereto, and amendment to such other instruments or notices, as may be necessary or desirable, or as the Lenders may request, in order to continue the perfection of the Liens granted or purported to be granted by the Collateral Documents, such Successor Agent shall succeed to and become vested with such rights, powers, discretion, privileges and duties of Agent in its capacity as agent, and Agent shall be discharged from such duties and obligations as Agent under the Loan Documents. If within 45 days after written notice is given of the retiring Agent's resignation under this Section 7.6 no Successor Agent shall have been appointed and shall have accepted such appointment, then on such 45th day (a) Agent's resignation shall become effective, (b) Agent shall thereupon be discharged from such agency duties and obligations under the Loan Documents and as identified in its notice of resignation and (c) the Lenders shall thereafter perform all duties of Agent under the Loan Documents until such time, if any, as the Lenders appoint a Successor Agent as provided above. After Agent's resignation hereunder as agent shall have become effective, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was acting in its capacity as agent under this Agreement.

ARTICLE VIII: ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES

8.1 Termination of Commitments; Acceleration. If any Event of Default described in Section 6.1(f) or 6.1(g) occurs with respect to the Borrower, the obligations of any Lender to make Advances hereunder shall automatically terminate and the Obligations shall immediately become due and payable without any election or action on the part of any Lender. If any other Event of Default occurs, Agent shall at the request, and may with the consent, of the Required Lenders, declare the obligations of the Lenders to make Advances hereunder to be terminated, whereupon the same shall be terminated, and/or shall at the request, and may with the consent, of the Required Lenders, declare the Obligations to be due and payable, or both, whereupon, after written notice to the Borrower, the Obligations shall become immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which the Borrower expressly waives.

8.2 Amendments. Other than as specifically set forth in Section 7.1 of this Agreement, no amendment or waiver of any provision of this Agreement or the Notes or any other Loan Document, nor consent to any departure, therefrom by the Borrower or any Affiliate or Subsidiary of the Borrower party thereto shall in any event be effective unless the same shall be in writing and signed (or, in the case of the Collateral Documents, consented to) by the Agent and the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that (a) no amendment, waiver or consent shall, unless in writing and signed by the Agent and all of the

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Lenders (other than any Lender that is, at such time, a Defaulting Lender), do any of the following at any time: (i) waive any of the conditions specified in Section 3.1 or, in the case of the initial Borrowing, Section 3.2, (ii) change the number of Lenders or the percentage of (x) the Commitments or (y) the aggregate unpaid principal amount of the Advances that, in each case, shall be required for the Lenders or any of them to take any action hereunder, (iii) reduce or limit the obligations of any Guarantor or otherwise limit such Guarantor's liability with respect to the Obligations owing to the Agent and the Lenders, (iv) release Collateral in any transaction or series of related transactions or permit the creation, incurrence, assumption or existence of any Lien on Collateral in any transaction or series of related transactions to secure any Obligations other than Obligations under the Loan Documents, (v) amend this Section 8.2, (vi) increase the Commitments of the Lenders other than

in accordance with terms of the Loan Documents, (vii) reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder, (viii) postpone any date scheduled for any payment of principal of, or interest on, the Notes or any date fixed for payment of fees or other amounts payable hereunder, or (ix) limit the liability of the Borrower or any of its Affiliates under any of the Loan Documents and (b) no amendment, waiver or consent shall, unless in writing and signed by the Lenders (other than any Lender that is, at such time, a Defaulting Lender) that has a Commitment if such Lender is directly affected by such amendment, waiver or consent, (i) increase the Commitments of such Lender, (ii) reduce the principal of, or interest on, the Notes held by such Lender or any fees or other amounts payable hereunder to such Lender, (iii) postpone any date fixed for any payment of principal of, or interest on, the Notes held by such Lender or any fees or other amounts payable hereunder to such Lender, (iv) change the order of application of any prepayment under the Loan Documents in any manner that materially affects such Lender; and provided further that no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Lenders required above to take such action, affect the rights or duties of the Agent under this Agreement or the other Loan Documents.

8.3 Preservation of Rights. No delay or omission of any Lender or Agent to exercise any right under the Loan Documents shall impair such right or be construed to be a waiver of any Event of Default or an acquiescence therein, and the making of an Advance notwithstanding the existence of an Event of Default or the inability of the Borrower to satisfy the conditions precedent to such Advance shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of the Loan Documents whatsoever shall be valid unless in writing signed by the Required Lenders, and then only to the extent in such writing specifically set forth. All remedies contained in the Loan Documents or by law afforded shall be cumulative and all shall be available to any Lender until the Obligations have been paid in full.

ARTICLE IX: GENERAL PROVISIONS

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9.1 Survival of Representations. All representations and warranties of the Borrower contained in this Agreement shall survive delivery of the Note and the making of the Advances herein contemplated.

9.2 Governmental Regulation. Anything contained in this Agreement to the contrary notwithstanding, no Lender shall be obligated to extend credit to the Borrower in violation of any limitation or prohibition provided by any applicable statute or regulation.

9.3 Performance of Obligations. The Borrower agrees that Agent may, at the direction of the Required Lenders, but shall have no obligation to (i) at any time, pay or discharge taxes,

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liens, security interests or other encumbrances levied or placed on or threatened against any Collateral, unless such claims are being contested in good faith by the Borrower and the Borrower has set aside adequate reserves covering such tax, lien, security interest or other encumbrance and no Event of Default has occurred and is outstanding and (ii) after the occurrence and during the continuance of an Event of Default to make any payment or perform any act required of the Borrower under any Loan Document or take any other action which the Required Lenders, in their reasonable discretion deem necessary or desirable to protect or preserve the Collateral, including, without limitation, any action to (y) effect any repairs or obtain any insurance called for by the terms of any of the Loan Documents and to pay all or any part of the premiums therefor and the costs thereof and (z) pay any rents payable by the Borrower which are more than 30 days past due, or as to which the landlord has given notice of termination, under any lease. Agent shall use its reasonable efforts to give the Borrower notice of any action taken under this Section 9.3 prior to the taking of such action or promptly thereafter provided the failure to give such notice shall not affect the Borrower's obligations in respect thereof. The Borrower agrees to pay Agent (for the benefit of the Lenders), upon demand, the principal amount of all funds advanced by each Lender under this Section 9.3, together with interest thereon at the rate from time to time applicable to Advances from the date of such advance until the outstanding principal balance thereof is paid in full. All outstanding principal of, and interest on, advances made under this Section 9.3 shall constitute Obligations for purposes hereof.

9.4 Headings. Section headings in the Loan Documents are for convenience of reference only, and shall not govern the interpretation of any of the provisions of the Loan Documents.

9.5 Entire Agreement. The Loan Documents embody the entire agreement and understanding among the Borrower and the Lenders and the Loan Documents delivered on the Effective Date supersede all prior agreements and understandings among the Borrower and the Lenders relating to the subject matter

thereof.

9.6 Expenses; Indemnification.  
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(A) Expenses. The Borrower shall reimburse the Agent and each Lender for any reasonable costs, internal charges and out-of-pocket expenses (including reasonable attorneys' and paralegals' fees and time charges of attorneys and paralegals for the Agent or any Lender, which attorneys and paralegals may be employees of the Agent or any Lender) paid or incurred by Agent or any Lender in connection with the preparation, negotiation, execution, delivery, review, amendment, modification, and administration of the Loan Documents. The Borrower also agrees to reimburse the Agent and each Lender for any reasonable costs, internal charges and out-of-pocket expenses (including attorneys' and paralegals' fees and time charges of attorneys and paralegals for the Agent and each Lender, which attorneys and paralegals may be employees of the Agent or any Lender) paid or incurred by the Agent or any Lender in connection with the collection of the Obligations and enforcement of the Loan Documents. In addition to expenses set forth above, the Borrower agrees to reimburse the Agent and each Lender, promptly after the Agent's or any Lender's request therefor, for each audit or other business analysis performed by it in connection with this Agreement or the other Loan Documents at a time when an Event of Default exists in an amount equal to the Agent's or a Lender's then reasonable and customary charges for each person employed to perform such audit or analysis, plus all costs and expenses (including without limitation, travel expenses) incurred by the Agent or a Lender in the performance of such audit or analysis. The Agent or

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the Lender shall provide the Borrower with a detailed statement of all reimbursements requested under this Section 9.6(A).

(B) Indemnity. The Borrower further agrees to defend, protect, indemnify, and hold harmless the Agent, each Lender and each of its respective Affiliates, and each of the Agent's, Lender's, or Affiliate's respective officers, directors, employees, attorneys and agents (including, without limitation, those retained in connection with the satisfaction or attempted satisfaction of any of the conditions set forth in Article III) (collectively, the "Indemnitees") from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses of any kind or nature whatsoever (including, without limitation, the fees and disbursements of counsel for such Indemnitees in connection with any investigative, administrative or judicial proceeding, whether or not such Indemnitees shall be designated a party thereto), imposed on, incurred by, or asserted against such Indemnitees in any manner relating to or arising out of:

(i) this Agreement, the other Loan Documents or any of the Transaction Documents, or any act, event or transaction related or attendant thereto, the making of the Advances, hereunder, the management of such Advances, the use or intended use of the proceeds of the Advances hereunder, or any of the other transactions contemplated by the Transaction Documents; or

(ii) any liabilities, obligations, responsibilities, losses, damages, personal injury, death, punitive damages, economic damages, consequential damages, treble damages, intentional, willful or wanton injury, damage or threat to the environment, natural resources or public health or welfare, costs and expenses (including, without limitation, attorney, expert and consulting fees and costs of investigation, feasibility or remedial action studies), fines, penalties and monetary sanctions, interest, direct or indirect, known or unknown, absolute or contingent, past, present or future relating to violation of any Environmental, Health or Safety Requirements of Law arising from or in connection with the past, present or future operations of the Borrower, its Subsidiaries or any of their respective predecessors in interest, or, the past, present or future environmental, health or safety condition of any respective property of the Borrower or its Subsidiaries, the presence of asbestos-containing materials at any respective property of the Borrower or its Subsidiaries or the Release or threatened Release of any Contaminant into the environment (collectively, the "Indemnified Matters");

provided, however, the Borrower shall have no obligation to an Indemnitee hereunder with respect to Indemnified Matters caused by or resulting from the willful misconduct or Gross Negligence of such Indemnitee as determined by the final non-appealed judgment of a court of competent jurisdiction. If the undertaking to indemnify, pay and hold harmless set forth in the preceding sentence may be unenforceable because it is violative of any law or public policy, the Borrower shall contribute the maximum portion which it is permitted to pay and satisfy under applicable law, to the payment and satisfaction of all Indemnified Matters incurred by the Indemnitees.

(C) Notwithstanding anything else in this Agreement to the contrary, no party shall have any obligation to reimburse any person for attorneys' fees

and expenses unless such fees and expenses are (i) reasonable in amount, (ii) determined without reference to any statutory presumption and (iii) calculated using the actual time expended and the standard hourly rate for

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the attorneys and paralegals performing the tasks in question and the actual out-of-pocket expenses incurred.

(D) Waiver of Certain Claims; Settlement of Claims. The Borrower further agrees to assert no claim against any of the Indemnitees on any theory of liability for consequential, special, indirect, exemplary or punitive damages. No settlement shall be entered into by the Borrower or any of its Subsidiaries with respect to any claim, litigation, arbitration or other proceeding relating to or arising out of the transactions evidenced by this Agreement, the other Loan Documents (whether or not any Lender or any Indemnitee is a party thereto) unless such settlement releases all Indemnitees from any and all liability with respect thereto.

(E) Survival of Agreements. The obligations and agreements of the Borrower under this Section 9.6 shall survive the termination of this Agreement.

9.7 Accounting. Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with Agreement Accounting Principles.

9.8 Severability of Provisions. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

9.9 Nonliability of Lender. The relationship between the Borrower and each Lender shall be solely that of borrower and lender. No Lender shall have fiduciary responsibilities to the Borrower and no Lender takes any responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations.

9.10 GOVERNING LAW. ANY DISPUTE BETWEEN THE BORROWER AND A LENDER, OR ANY INDEMNITEE ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN THEM IN CONNECTION WITH, THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS, AND WHETHER ARISING IN CONTRACT, TORT, EQUITY, OR OTHERWISE, SHALL BE RESOLVED IN ACCORDANCE WITH THE INTERNAL LAWS (WITHOUT REGARD TO THE CONFLICTS OF LAWS PROVISIONS) OF THE STATE OF NORTH CAROLINA.

9.11 CONSENT TO JURISDICTION; SERVICE OF PROCESS; JURY TRIAL. EXCEPT AS PROVIDED IN SUBSECTION (B), EACH OF THE PARTIES HERETO AGREES THAT ALL DISPUTES AMONG THEM ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH, THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS WHETHER ARISING IN CONTRACT, TORT, EQUITY, OR OTHERWISE, SHALL BE RESOLVED EXCLUSIVELY BY STATE OR FEDERAL COURTS LOCATED IN NORTH CAROLINA, BUT THE PARTIES HERETO ACKNOWLEDGE THAT ANY APPEALS FROM THOSE COURTS MAY HAVE TO BE HEARD BY A COURT LOCATED OUTSIDE OF NORTH CAROLINA. EACH OF THE PARTIES HERETO WAIVES IN ALL DISPUTES BROUGHT PURSUANT TO THIS SUBSECTION (A) ANY OBJECTION THAT IT MAY HAVE TO THE LOCATION OF THE COURT CONSIDERING THE DISPUTE.

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(B) OTHER JURISDICTIONS. THE BORROWER AGREES THAT ANY LENDER OR ANY INDEMNITEE SHALL HAVE THE RIGHT TO PROCEED AGAINST THE BORROWER OR ITS PROPERTY IN A COURT IN ANY LOCATION TO ENABLE SUCH PERSON TO (1) OBTAIN PERSONAL JURISDICTION OVER THE BORROWER OR (2) REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS OR ENFORCE A JUDGMENT OR OTHER COURT ORDER ENTERED IN FAVOR OF SUCH PERSON. THE BORROWER AGREES THAT IT WILL NOT ASSERT ANY PERMISSIVE COUNTERCLAIMS IN ANY PROCEEDING BROUGHT BY SUCH PERSON TO REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF SUCH PERSON. THE BORROWER WAIVES ANY OBJECTION THAT IT MAY HAVE TO THE LOCATION OF THE COURT IN WHICH SUCH PERSON HAS COMMENCED A PROCEEDING DESCRIBED IN THIS SUBSECTION (B).

(C) SERVICE OF PROCESS. THE BORROWER WAIVES PERSONAL SERVICE OF ANY PROCESS UPON IT AND IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OF ANY WRITS, PROCESS OR SUMMONSES IN ANY SUIT, ACTION OR PROCEEDING BY THE MAILING THEREOF BY AGENT BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO THE BORROWER ADDRESSED AS PROVIDED HEREIN. NOTHING HEREIN SHALL IN ANY WAY BE DEEMED TO LIMIT THE ABILITY OF AGENT TO SERVE ANY SUCH WRITS, PROCESS OR SUMMONSES IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW THE BORROWER IRREVOCABLY WAIVES ANY OBJECTION (INCLUDING, WITHOUT LIMITATION, ANY OBJECTION OF THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS) WHICH IT MAY NOW OR HEREAFTER HAVE TO THE

BRINGING OF ANY SUCH ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith IN ANY JURISDICTION SET FORTH ABOVE.

(D) WAIVER OF JURY TRIAL. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE, ARISING OUT OF, CONNECTED WITH, RELATED TO OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith. EACH OF THE PARTIES HERETO AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

(E) WAIVER OF BOND. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, THE BORROWER WAIVES THE POSTING OF ANY BOND OTHERWISE REQUIRED OF ANY PARTY HERETO IN CONNECTION WITH ANY JUDICIAL PROCESS OR PROCEEDING TO REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS OR TO ENFORCE ANY JUDGMENT OR OTHER COURT ORDER ENTERED IN FAVOR OF SUCH PARTY, OR TO ENFORCE BY SPECIFIC PERFORMANCE, TEMPORARY RESTRAINING ORDER, PRELIMINARY OR PERMANENT INJUNCTION, THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT.

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(F) ADVICE OF COUNSEL. EACH OF THE PARTIES REPRESENTS TO EACH OTHER PARTY HERETO THAT IT HAS DISCUSSED THIS AGREEMENT AND, SPECIFICALLY, THE PROVISIONS OF THIS SECTION 9.11, WITH ITS COUNSEL.

9.12 No Strict Construction. The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

9.13 Subordination of Intercompany Indebtedness. The Borrower agrees that any and all claims of the Borrower against any Guarantor, any endorser or any other guarantor of all or any part of the Obligations, or against any of its properties, including, without limitation, pursuant to the any intercompany Indebtedness permitted under Section 5.3(A)(vi), shall be subordinate and subject in right of payment to the prior payment, in full and in cash, of all Obligations. Notwithstanding any right of the Borrower to ask, demand, sue for, take or receive any payment from any Guarantor, all rights, liens and security interests of the Borrower, whether now or hereafter arising and howsoever existing, in any assets of any Guarantor shall be and are subordinated to the rights, if any, of the Lender in those assets. The Borrower shall have no right to possession of any such asset or to foreclose upon any such asset, whether by judicial action or otherwise, unless and until all of the Obligations shall have been paid in full in cash and satisfied and all financing arrangements under this Agreement and the other Loan Documents between the Borrower and each Lender have been terminated. If, during the continuance of an Event of Default, all or any part of the assets of any Guarantor, or the proceeds thereof, are subject to any distribution, division or application to the creditors of any Guarantor, whether partial or complete, voluntary or involuntary, and whether by reason of liquidation, bankruptcy, arrangement, receivership, assignment for the benefit of creditors or any other action or proceeding, then, and in any such event, any payment or distribution of any kind or character, either in cash, securities or other property, which shall be payable or deliverable upon or with respect to any indebtedness of any Guarantor to the Borrower, including, without limitation, pursuant to the any intercompany Indebtedness permitted under Section 5.3(A)(vi) ("Intercompany Indebtedness") shall be paid or delivered directly to Agent (for the benefit of the Lenders) for application on any of the Obligations, due or to become due, until such Obligations shall have first been paid in full in cash and satisfied; provided, however, ordinary course payments or distributions made by any Guarantor to the Borrower shall be required to be paid or delivered to Agent (for the benefit of the Lenders) only upon Agent's request. The Borrower irrevocably authorizes and empowers Agent (if directed to do so by the Required Lenders) to demand, sue for, collect and receive every such payment or distribution and give acquittance therefor and to make and present for and on behalf of the Borrower such proofs of claim and take such other action, in Agent's own name or in the name of the Borrower or otherwise, as Required Lenders may deem necessary or advisable for the enforcement of this Section 9.13. Agent may vote such proofs of claim in any such proceeding, receive and collect any and all dividends or other payments or disbursements made thereon in whatever form the same may be paid or issued and apply the same on account of any of the Obligations. Should any payment, distribution, security or instrument or proceeds thereof be received by the Borrower upon or with respect to the Intercompany Indebtedness during the continuance of an Event of Default and prior to the satisfaction of all of the Obligations and the termination of all financing arrangements under this Agreement and the other Loan Documents between the Borrower and the Lenders, the Borrower shall receive and hold the same in trust,

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as trustee, for the benefit of each Lender and shall forthwith deliver the same to Agent (for the benefit of the Lenders), in precisely the form received (except for the endorsement or assignment of the Borrower where necessary), for application to any of the Obligations, due or not due, and, until so delivered, the same shall be held in trust by the Borrower as the property of each Lender; provided, however, ordinary course payments or distributions made to or by any Guarantor to the Borrower shall be required to be paid or delivered to Agent (for the benefit of the Lenders) only upon Initial Lender's request after the occurrence and Continuance of an Event of Default. If the Borrower fails to make any such endorsement or assignment to Agent (for the benefit of the Lenders), Agent or any of its officers or employees are irrevocably authorized to make the same. The Borrower agrees that until the Obligations have been paid in full in cash and satisfied and all financing arrangements under this Agreement and the other Loan Documents between the Borrower and the Lender have been terminated, the Borrower will not assign or transfer to any Person (other than Agent (for the benefit of the Lenders)) any claim the Borrower has or may have against any Guarantor.

9.14 Usury Not Intended. It is the intent of the Borrower and each Lender in the execution and performance of this Agreement and the other Loan Documents to contract in strict compliance with applicable usury laws, including conflicts of law concepts, governing the Advances of each Lender including such applicable laws of the State of North Carolina and the United States of America from time-to-time in effect. In furtherance thereof, each Lender and the Borrower stipulate and agree that none of the terms and provisions contained in this Agreement or the other Loan Documents shall ever be construed to create a contract to pay, as consideration for the use, forbearance or detention of money, interest at a rate in excess of the Maximum Rate and that for purposes hereof "interest" shall include the aggregate of all charges which constitute interest under such laws that are contracted for, charged or received under this Agreement; and in the event that, notwithstanding the foregoing, under any circumstances the aggregate amounts taken, reserved, charged, received or paid on the Advances, include amounts which by applicable law are deemed interest which would exceed the Maximum Rate, then such excess shall be deemed to be a mistake and each Lender receiving same shall credit the same on the principal of the Notes (or if the Notes shall have been paid in full, refund said excess to the Borrower). In the event that the maturity of the Notes is accelerated by reason of any election of the holder thereof resulting from any Event of Default under this Agreement or otherwise, or in the event of any required or permitted prepayment, then such consideration that constitutes interest may never include more than the Maximum Rate and excess interest, if any, provided for in this Agreement or otherwise shall be canceled automatically as of the date of such acceleration or prepayment and, if theretofore paid, shall be credited on the applicable Notes (or, if the Notes shall have been paid in full, refunded to the Borrower of such interest). In determining whether or not the interest paid or payable under any specific contingencies exceeds the Maximum Rate, the Borrower and each Lender shall to the maximum extent permitted under applicable law amortize, prorate, allocate and spread in equal parts during the period of the full stated term of the Notes all amounts considered to be interest under applicable law at any time contracted for, charged, received or reserved in connection with the Obligations. The provisions of this Section shall control over all other provisions of this Agreement or the other Loan Documents which may be in apparent conflict herewith.

## ARTICLE X: BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

10.1 Successors and Assigns. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Borrower, each Lender and their respective

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successors and assigns, except that the Borrower shall not have the right to assign its rights or obligations under the Loan Documents.

## 10.2 Participations.

(A) Permitted Participants; Effect. Subject to the terms set forth in this Section 10.2, any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other financial institutions ("Participants") participating interests in any Advance owing to such Lender, the Notes, the Commitment or any other interest of such Lender under the Loan Documents on a pro rata or non-pro rata basis. Notice of such participation to the other Lenders and to the Borrower shall be required prior to any participation becoming effective. In the event of any such sale by any Lender of participating interests to a Participant, such Lender's obligations under the Loan Documents shall remain unchanged, such Lender shall remain solely responsible to the other parties hereto for the performance of

such obligations, such Lender shall remain the holder of the Note for all purposes under the Loan Documents, all amounts payable by the Borrower under this Agreement shall be determined as if such Lender had not sold such participating interests, and the Borrower shall continue to deal solely and directly with Agent in connection with each Lender's rights and obligations under the Loan Documents.

(B) Voting Rights. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents other than any amendment, modification or waiver with respect to any Advance or Commitment in which such Participant has an interest.

10.3 Assignments. (a) Each Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other financial institutions approved by the Borrower and each other Lender (each referred to as an "Eligible Assignee") within 10 days of notice to the Borrower by such Lender of such assignment (which such approval shall not be unreasonably withheld) all or a portion of its rights and obligations under this Agreement (including, without limitation, its Commitment and all Advances owing to it) pursuant to an assignment and acceptance agreement in form and substance satisfactory to each Initial Lender (each referred to as an "Assignment and Acceptance") . Notwithstanding the foregoing, the Borrower shall not have any right to approve an assignee under this Section 10.3, after the occurrence and continuance of an Event of Default or to the extent such assignee is an Affiliate of either Lender, provided, however, that to the extent any Lender assigns its obligations hereunder, such Affiliate shall be a United States Person and the Lender shall have provided such financial statements as the Borrower shall have reasonably requested.

(b) Upon such execution, delivery and acceptance of, and from and after the effective date specified in such Assignment and Acceptance, (i) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (ii) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights (other than its rights under Sections 2.11 and 9.6 to the extent any claim thereunder relates to an event arising prior to such assignment) and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto).

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Credit Agreement

(c) By executing and delivering an Assignment and Acceptance, each Lender assignor thereunder and each assignee thereunder confirm to and agree with each other and the other parties thereto and hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with any Loan Document or the execution, legality, validity, enforceability, genuineness, sufficiency or value of, or the perfection or priority of any lien or security interest created or purported to be created under or in connection with, any Loan Document or any other instrument or document furnished pursuant thereto; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of Borrower, any Guarantor or any other party to the Loan, or the performance or observance by Borrower, any Guarantor or any other party to the Loan of any of its obligations under any Loan Document or any other instrument or document furnished pursuant thereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 4.4 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee confirms that it is an Eligible Assignee; (vi) such assignee appoints and authorizes Agent to take such action as agent on its behalf and to exercise such powers and discretion under the Loan Documents as are delegated to such Agent by the terms hereof and thereof, together with such powers and discretion as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as a Lender.

(d) The Agent, acting for this purpose (but only for this purpose) as the agent of the Borrower, shall maintain at its address a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lender and the Commitment of, and principal amount of the Advances owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all

purposes, absent manifest error, and the Borrower, the Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or Agent or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of an assignment and acceptance agreement executed pursuant to the preceding subsection (a), together with any Note or Notes subject to such assignment, the Agent will (i) accept such assignment and acceptance agreement executed pursuant to the preceding subsection (a), (ii) record the information contained therein in the Register, and (iii) give prompt notice thereof to Borrower. In the case of any assignment by a Lender, within five (5) Business Days after its receipt of such notice, the Borrower, at its own expense, shall execute and deliver to the Agent in exchange for the surrendered Note or Notes a new Note to the order of such Eligible Assignee in an amount equal to the Lender's Commitment assumed by it pursuant to such assignment and acceptance agreement and, if any assigning Lender has retained a commitment hereunder, a new Note to the order of such assigning Lender in an amount equal to such assigning Lender's Commitment retained by it hereunder. Such new Note or Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Note or Notes, shall be dated the effective date of such

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Credit Agreement

assignment and acceptance agreement and shall be in substantially the form of Exhibit A hereto.

Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 10.3, disclose to the assignee or participant or proposed assignee or participant any information relating to the Borrower furnished to such Lender by or on behalf of the Borrower; provided, however, that, prior to any such disclosure, the assignee or participant or proposed assignee or participant shall agree to preserve the confidentiality of any Confidential Information received by it from such Lender.

10.4 Confidentiality. Subject to Sections 10.3 and 10.5, each Lender shall hold all nonpublic information obtained pursuant to the requirements of this Agreement and identified as such by the Borrower in accordance with each respective Lender's customary procedures for handling confidential information of this nature and in any event may make disclosure reasonably required by a prospective Transferee in connection with the contemplated participation or as required or requested by any Governmental Authority or representative thereof or pursuant to legal process and shall require any such Transferee to agree (and require any of its Transferees to agree) to comply with this Section 10.4. In no event shall any Lender be obligated or required to return any materials furnished by the Borrower; provided, however, each prospective Transferee shall be required to agree that if it does not become a participant it shall return all materials furnished to it by or on behalf of the Borrower in connection with this Agreement.

10.5 Dissemination of Information. The Borrower authorizes each Lender to disclose to any Participant or Eligible Assignee or any other Person acquiring an interest in the Loan Documents by operation of law (each a "Transferee") and any prospective Transferee any and all information in the Lender's possession concerning the Borrower and its Subsidiaries; provided that prior to any such disclosure, such prospective Transferee shall agree to preserve in accordance with Section 10.4 the confidentiality of any confidential information described therein.

ARTICLE XI: NOTICES

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11.1 Giving Notice. Except as otherwise permitted by Section 2.8 with respect to borrowing notices, all notices and other communications provided to any party hereto under this Agreement or any other Loan Documents shall be in writing or by telex or by facsimile and addressed or delivered to such party at its address set forth below its signature hereto or at such other address as may be designated by such party in a notice to the other parties. Any notice, if mailed and properly addressed with postage prepaid, shall be deemed given when received; any notice, if transmitted by telex or facsimile, shall be deemed given when transmitted (answerback confirmed in the case of telexes).

11.2 Change of Address. The Borrower, the Agent and each Lender may each change the address for service of notice upon it by a notice in writing to the other parties hereto.

ARTICLE XII: COUNTERPARTS

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This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this

Credit Agreement

Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by the Borrower and each Lender.

IN WITNESS WHEREOF, the Borrower, the Agent and each Lender have executed this Agreement as of the date first above written.

SONIC AUTOMOTIVE, INC.,  
as the Borrower

By: /s/ THEODORE M. WRIGHT

-----  
Name: Theodore M. Wright  
Title: Vice President

Address:  
6415 Idlewild Road  
Suite 109  
Charlotte, North Carolina 28212  
Attention: Theodore M. Wright  
Telephone No.: (704) 566-2400  
Facsimile No.: (704) 566-6031

[SIGNATURE PAGE TO CREDIT AGREEMENT]

Credit Agreement

FORD MOTOR CREDIT COMPANY,  
as Lender, and as Agent

By: /s/ W. J. BECK IV

-----  
Name: W. J. Beck, IV  
Title: National Account Manager

Address:  
6302 Fairview Road  
Suite 500  
Charlotte, North Carolina 28210  
Attention: Branch Manager  
Telephone No.: (704) 442-0371  
Facsimile No.: (704) 442-1909

[SIGNATURE PAGE TO CREDIT AGREEMENT]

Credit Agreement

CHRYSLER FINANCIAL COMPANY, LLC,  
as Lender

By: /s/ R. D. KNIGHT

-----  
Name: R. D. Knight

Title: Vice President of Credit

Address:  
27777 Franklin Road, 18th floor  
Southfield, MI 48034-8286  
Attention: Michele Nowak  
FAX: 248-948-3848

[SIGNATURE PAGE TO CREDIT AGREEMENT]

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Credit Agreement

TOYOTA MOTOR CREDIT CORPORATION,  
as Lender

By: /s/ TOM BRUBAKER

-----  
Name: Tom Brubaker  
Title: National Accounts Development  
Manager

Address:  
19001 South Western Avenue  
Torrance, California 90501  
Attention: Tom Brubaker  
Telephone No.: (310) 468-3756  
Facsimile No.: (310) 468-3501

[SIGNATURE PAGE TO CREDIT AGREEMENT]

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Credit Agreement

AMENDED AND RESTATED PROMISSORY NOTE  
(Acquisition/Revolving Line of Credit)  
(LIBOR Rate)

\$600,000,000.00

Charlotte, North Carolina

June 20, 2001

FOR VALUE RECEIVED, SONIC AUTOMOTIVE, INC., a Delaware corporation ("Borrower"), whose address is 6415 Idlewild Road, Suite 109, Charlotte, North Carolina 28212, promises to pay to FORD MOTOR CREDIT COMPANY, a Delaware corporation, ("Lender"), or order, at 6302 Fairview Road, Suite 500, Charlotte, North Carolina 28210, or at such other place as Lender may from time to time in writing designate, in lawful money of the United States of America, the principal sum of SIX HUNDRED MILLION AND 00/100 DOLLARS (\$600,000,000.00), or so much thereof as may be advanced from time to time, together with interest, adjusted monthly, on the principal balance outstanding from time to time (the "Principal Balance"), in like money, from the date of this Promissory Note (this "Note"), to and including the Termination Date, at the rate of two and fifty hundredths percent (2.50%) per annum above the LIBOR Rate (as defined herein) in effect from time to time (the "Applicable LIBOR Rate").

Capitalized terms used herein and not otherwise defined herein shall have the meaning given to such terms in the Credit Agreement dated August 10, 2000, as amended by the Amended and Restated Credit Agreement dated as of even date herewith, among Borrower, the Lender and certain other lender parties thereto, and Lender, as Agent for all lender parties (the "Agreement").

Borrower promises to pay interest on the unpaid principal balance outstanding until such principal amount is paid in full, at the Applicable LIBOR Rate, and payable at such times as are specified in the Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Agent under the Agreement, in same day funds. Each Advance owing to the Lender by the Borrower, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto, which is part of this Note; provided, however, that the failure of the Lender to make any such recordation or endorsement will not affect the Obligations of the Borrower under this Note.

This Note is one of the Notes referred to in, and is entitled to the benefits of, the Agreement. The Agreement, among other things, (i) provides for the making of Advances by the Lender to or for the benefit of the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the U.S. dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof

upon the terms and conditions therein specified. The Obligations of Borrower under this Note and the Loan Documents, and the obligations of the Dealership Guarantors and any other parties to the loan are secured by the Collateral as provided in the Loan Documents.

In no circumstance may the aggregate principal amount of all Advances (as defined in the Agreement) outstanding under the Notes (as defined in the Agreement) exceed the aggregate amount of all Lender's Commitments (as more specifically set forth in the Agreement).

IN WITNESS WHEREOF, Borrower, intending to be legally bound hereby, has duly executed this Note under seal, the day and year first above written.

SONIC AUTOMOTIVE, INC.,  
a Delaware corporation

By: /s/ THEODORE M. WRIGHT (SEAL)

-----  
Name: Theodore M. Wright  
Title: Vice President

[SIGNATURE PAGE TO PROMISSORY NOTE]

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PROMISSORY NOTE  
(Acquisition/Revolving Line of Credit)  
(LIBOR Rate)

\$250,000,000.00

Charlotte, North Carolina

June 20, 2001

FOR VALUE RECEIVED, SONIC AUTOMOTIVE, INC., a Delaware corporation ("Borrower"), whose address is 6415 Idlewild Road, Suite 109, Charlotte, North Carolina 28212, promises to pay to CHRYSLER FINANCIAL COMPANY, a Michigan limited liability company, ("Lender"), or order, at 27777 Franklin Road, Southfield, Michigan 48034-8286 or at such other place as Lender may from time to time in writing designate, in lawful money of the United States of America, the principal sum of TWO HUNDRED FIFTY MILLION AND 00/100 DOLLARS (\$250,000,000.00), or so much thereof as may be advanced from time to time, together with interest, adjusted monthly, on the principal balance outstanding from time to time (the "Principal Balance"), in like money, from the date of this Promissory Note (this "Note"), to and including the Termination Date, at the rate of two and fifty hundredths percent (2.50%) per annum above the LIBOR Rate (as defined herein) in effect from time to time (the "Applicable LIBOR Rate"):

Capitalized terms used herein and not otherwise defined herein shall have the meaning given to such terms in the Credit Agreement dated as of August 10, 2000, as amended by the Amended and Restated Credit Agreement dated as of even date herewith, among Borrower, the Lender and certain other lender parties thereto, and Ford Motor Credit Company, a Delaware corporation, as Agent for all lender parties (the "Agreement").

Borrower promises to pay interest on the unpaid principal balance outstanding until such principal amount is paid in full, at the Applicable LIBOR Rate, and payable at such times as are specified in the Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Agent under the Agreement, in same day funds. Each Advance owing to the Lender by the Borrower, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto, which is part of this Note; provided, however, that the failure of the Lender to make any such recordation or endorsement will not affect the Obligations of the Borrower under this Note.

This Note is one of the Notes referred to in, and is entitled to the benefits of, the Agreement. The Agreement, among other things, (i) provides for the making of Advances by the Lender to or for the benefit of the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the U.S. dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof

upon the terms and conditions therein specified. The Obligations of Borrower under this Note and the Loan Documents, and the obligations of the Dealership Guarantors and any other parties to the loan are secured by the Collateral as provided in the Loan Documents.

In no circumstance may the aggregate principal amount of all Advances (as defined in the Agreement) outstanding under the Notes (as defined in the Agreement) exceed the aggregate amount of all Lender's Commitments (as more specifically set forth in the Agreement).

IN WITNESS WHEREOF, Borrower, intending to be legally bound hereby, has duly executed this Note under seal, the day and year first above written.

SONIC AUTOMOTIVE, INC.,  
a Delaware corporation

By: /s/ THEODORE M. WRIGHT (SEAL)

-----  
Name: Theodore M. Wright

Title: Vice President

[SIGNATURE PAGE TO PROMISSORY NOTE]

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PROMISSORY NOTE  
(Acquisition/Revolving Line of Credit)  
(LIBOR Rate)

\$100,000,000.00

Charlotte, North Carolina

June 20, 2001

FOR VALUE RECEIVED, SONIC AUTOMOTIVE, INC., a Delaware corporation ("Borrower"), whose address is 6415 Idlewild Road, Suite 109, Charlotte, North Carolina 28212, promises to pay to TOYOTA MOTOR CREDIT CORPORATION, a California corporation, ("Lender"), or order, at 19001 South Western Avenue, Torrance, California 90501 or at such other place as Lender may from time to time in writing designate, in lawful money of the United States of America, the principal sum of ONE HUNDRED MILLION AND 00/100 DOLLARS (\$100,000,000.00), or so much thereof as may be advanced from time to time, together with interest, adjusted monthly, on the principal balance outstanding from time to time (the "Principal Balance"), in like money, from the date of this Promissory Note (this "Note"), to and including the Termination Date, at the rate of two and fifty hundredths percent (2.50%) per annum above the LIBOR Rate (as defined in the Agreement) in effect from time to time (the "Applicable LIBOR Rate"):

Capitalized terms used herein and not otherwise defined herein shall have the meaning given to such terms in the Amended and Restated Credit Agreement dated as of even date herewith, among Borrower, the Lender and certain other lender parties thereto, and Ford Motor Credit Company, a Delaware corporation, as Agent for all lender parties (the "Agreement").

Borrower promises to pay interest on the unpaid principal balance outstanding until such principal amount is paid in full, at the Applicable LIBOR Rate, and payable at such times as are specified in the Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Agent under the Agreement, in same day funds. Each Advance owing to the Lender by the Borrower, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto, which is part of this Note; provided, however, that the failure of the Lender to make any such recordation or endorsement will not affect the Obligations of the Borrower under this Note.

This Note is one of the Notes referred to in, and is entitled to the benefits of, the Agreement. The Agreement, among other things, (i) provides for the making of Advances by the Lender to or for the benefit of the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the U.S. dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified. The Obligations of Borrower under this Note and the

Loan Documents, and the obligations of the Dealership Guarantors and any other parties to the loan are secured by the Collateral as provided in the Loan Documents.

In no circumstance may the aggregate principal amount of all Advances (as defined in the Agreement) outstanding under the Notes (as defined in the Agreement) exceed the aggregate amount of all Lender's Commitments (as more specifically set forth in the Agreement).

IN WITNESS WHEREOF, Borrower, intending to be legally bound hereby, has duly executed this Note under seal, the day and year first above written.

SONIC AUTOMOTIVE, INC.,  
a Delaware corporation

By: /s/ THEODORE M. WRIGHT (SEAL)

-----

Name: Theodore M. Wright

Title: Vice President

[SIGNATURE PAGE TO PROMISSORY NOTE]

GUARANTY AND  
REAFFIRMATION OF GUARANTY

GUARANTY AND REAFFIRMATION OF GUARANTY (this "Guaranty") dated June 20, 2001 made by each of the entities listed on the signature pages hereto, jointly and severally, (each referred to individually herein as a "Guarantor," and collectively, the "Guarantors"), in favor of FORD MOTOR CREDIT COMPANY (the "Agent"), as agent for the lenders (the "Lenders") under the Credit Agreement defined below. Capitalized terms used herein and not otherwise defined herein shall have the respective meanings given to such terms in the Credit Agreement defined below.

## PRELIMINARY STATEMENTS

WHEREAS, pursuant to the terms of a certain Credit Agreement dated August 10, 2000 (the "Original Credit Agreement"), Ford Motor Credit Company and Chrysler Financial Company, L.L.C. (collectively, the "Original Lenders") extended to Sonic Automotive, Inc., a Delaware corporation, and the entity which exercises control over the Guarantors ("Borrower"), a revolving credit facility in an amount not to exceed \$500,000,000.00 (the "Original Loan"); and

WHEREAS, the Original Credit Agreement is evidenced by the Notes as defined in the Original Credit Agreement (the "Original Notes"); and

WHEREAS, as a condition, among others, to the Original Lenders' willingness to enter into and the Original Credit Agreement, the Original Lenders required that certain Subsidiaries (as defined in the Original Credit Agreement) existing at the time of the Original Credit Agreement (collectively, the "Original Guarantors"), jointly and severally, execute and deliver a guaranty agreement dated August 10, 2000 (collectively, the "First Guaranties"), and a security agreement dated August 10, 2000 (collectively, the "Original Security Agreements") pursuant to which, among other things, each such Original Guarantor agreed to guaranty the Obligations of Borrower under the Notes (as defined in the Original Credit Agreement) and the Original Credit Agreement; and

WHEREAS, under the terms of the Original Credit Agreement, any new Dealership Guarantor acquired by Borrower in a Permitted Acquisition was and is required to guaranty each of the Obligations and execute a guaranty and a security agreement in a form acceptable to the Original Lenders; and

WHEREAS, from the date of the Original Credit Agreement to the date hereof, Borrower made several Permitted Acquisitions and each of the entities acquired or created by Borrower in connection with such Permitted Acquisitions (collectively, the "Additional Guarantors," and together with Original Guarantors, "Guarantors" as defined in the first paragraph hereof) guaranteed the Obligations and executed a guaranty (all referred to together with the First Guaranties as the "Original Guaranty"), a security agreement (all referred to together with the Original Security Agreements as the "Security Agreement"); and

WHEREAS, Borrower has requested an increase in the credit to be provided under the Original Loan to \$600,000,000.00 (the "Increase") and in connection with the Increase, Toyota Motor Credit Corporation will join the Original Lenders in providing credit to Borrower and its Subsidiaries pursuant to the terms of the Amended and Restated Credit Agreement dated as of even date herewith (the "Amendment," and referred to together with the Original Credit Agreement as the "Credit Agreement") and as evidenced by the Notes (as defined in the Amendment, the "Amended Notes," and together with the Original Notes, the "Notes"); and

WHEREAS, it is a condition precedent to the making of loans under the Credit Agreement, that each Guarantor reaffirms its obligations under the Original Guaranty and agrees to guaranty the Increase by executing and delivering this Guaranty and that each Guarantor confirms that the security interests granted pursuant to the Security Agreement secure both the Original Loan and the Increase;

NOW, THEREFORE, in consideration of the premises and in order to induce each Lender to make the Increase and make further Advances under the Credit Agreement, each Guarantor hereby agrees that the Original Guaranty is hereby reaffirmed and amended and restated in its entirety as follows:

Section 1. Guaranty. (a) Each Guarantor hereby unconditionally and irrevocably guarantees the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of the Borrower now or hereafter existing under the Credit Agreement and the Note, whether for principal, interest, fees, expenses or otherwise (such obligations being the "Guaranteed Obligations"), and agrees to pay any and all expenses (including reasonable counsel fees and expenses) incurred by the Agent or the Lenders in enforcing any rights under this Guaranty. Without limiting the generality of the

foregoing, Guarantor's liability shall extend to all amounts that constitute part of the Guaranteed Obligations and would be owed by Borrower to any Lender but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving Borrower.

Section 2. Guaranty Absolute. Guarantor guarantees that the Guaranteed Obligations will be paid strictly in accordance with the terms of the Credit Agreement, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Agent or the Lenders with respect thereto. The obligations of Guarantor under this Guaranty are independent of the Guaranteed Obligations or any other obligations of any other party under the Credit Agreement, and a separate action or actions may be brought and prosecuted against Guarantor to enforce this Guaranty, irrespective of whether any action is brought against Borrower or any other party or whether Borrower or any other party is joined in any such action or actions. The liability of Guarantor under this Guaranty shall be irrevocable, absolute and unconditional irrespective of, and Guarantor hereby irrevocably waives any defenses it may now or hereafter have in any way relating to, any or all of the following:

(a) any lack of validity or enforceability of the Credit Agreement or any agreement or instrument relating thereto;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Guaranteed Obligations, or any other amendment or waiver of or any consent to departure from the Credit Agreement, including, without limitation, any

increase in the Guaranteed Obligations resulting from the extension of additional credit to Borrower or otherwise;

(c) any taking, exchange, release or non-perfection of any collateral, or any taking, release or amendment or waiver of or consent to departure from any other guaranty, for all or any of the Guaranteed Obligations;

(d) any manner of application of collateral, or proceeds thereof, to all or any of the Guaranteed Obligations, or any manner of sale or other disposition of any collateral for all or any of the Guaranteed Obligations under the Credit Agreement or any other assets of Borrower; or

(e) any change, restructuring or termination of the corporate structure or existence of Borrower.

This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Guaranteed Obligations is rescinded or must otherwise be returned by the Agent or any Lender or any other person upon the insolvency, bankruptcy or reorganization of Borrower or otherwise, all as though such payment had not been made.

Section 3. Waivers and Acknowledgments. (a) Guarantor hereby waives promptness, diligence, notice of acceptance and any other notice with respect to any of the Guaranteed Obligations and this Guaranty and any requirement that Agent or any Lender protect, secure, perfect or insure any lien or any property subject thereto or exhaust any right or take any action against Borrower or any other person or any collateral.

(b) Guarantor hereby waives any right to revoke this Guaranty, and acknowledges that this Guaranty is continuing in nature and applies to all Guaranteed Obligations, whether existing now or in the future.

(c) Guarantor acknowledges that it will receive substantial direct and indirect benefits from the financing arrangements contemplated by the Credit Agreement and that the waivers set forth in this Section 3 are knowingly made in contemplation of such benefits.

Section 4. Subrogation. Guarantor will not exercise any rights that it may now or hereafter acquire against the Borrower that arise from the existence, payment, performance or enforcement of the Guarantor's Obligations under this Guaranty, including, without limitation, any right of subrogation, reimbursement, exoneration, contribution or indemnification and any right to participate in any claim or remedy of the Agent or any Lender against Borrower or any collateral, whether or not such claim, remedy or right arises in equity or under contract, statute or common law, including, without limitation, the right to take or receive from Borrower directly or indirectly, in cash or other property or by set-off or in any other manner, payment or security on account of such claim, remedy or right, unless and until all of the Guaranteed Obligations and all other amounts payable under this Guaranty shall have been paid in full in cash in accordance with the terms of the Credit Agreement. If any amount shall be paid to Guarantor in violation of the preceding sentence at any time prior to the payment in full in cash of the Guaranteed Obligations and all other amounts payable under this Guaranty, such amount shall be held in trust for the benefit of the Agent and each Lender and shall forthwith be paid to Agent to be

credited and applied to the Guaranteed Obligations and all other amounts payable under this Guaranty, whether matured or unmatured, in accordance with the terms of the Credit

Agreement, or to be held as collateral for any Guaranteed Obligations or other amounts payable under this Guaranty thereafter arising. If (i) Guarantor shall make payment to the Agent or any Lender of all or any part of the Guaranteed Obligations, (ii) all of the Guaranteed Obligations and all other amounts payable under this Guaranty shall be paid in full in cash and (iii) the Credit Agreement shall have terminated in accordance with its own terms, Agent and the Lenders will, at the Guarantors' request and expense, execute and deliver to the Guarantors appropriate documents, without recourse and without representation or warranty, necessary to evidence the transfer by subrogation to the Guarantor of an interest in the Guaranteed Obligations resulting from such payment by the Guarantor.

Section 5. Representations and Warranties. Guarantor hereby represents and warrants as follows:

(a) Guarantor (i) is a duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (ii) is duly qualified and in good standing in each other jurisdiction in which it owns or leases property or in which the conduct of its business requires it to so qualify or be licensed except where the failure to so qualify or be licensed would not have a material adverse effect on the business or properties, taken as a whole, or the condition, financial or otherwise, of Guarantor (a "Material Adverse Effect"), and (iii) has all requisite power and authority to own or lease and operate its properties and to carry on its business as now conducted and as proposed to be conducted.

(b) The execution, delivery and performance by Guarantor of this Guaranty are within Guarantor's powers, have been duly authorized by all necessary corporate action, and do not (i) contravene Guarantor's charter or bylaws or similar organizational documents, (ii) violate any law (including, without limitation, the Securities Exchange Act of 1934 and the Racketeer Influenced and Corrupt Organizations Chapter of the Organized Crime Control Act of 1970), rule, regulation (including, without limitation, Regulations T, U and X of the Board of Governors of the Federal Reserve System), order, writ, judgment, injunction, decree, determination or award, (iii) conflict with or result in the breach of, or constitute a default under, any loan agreement, contract, indenture, mortgage, deed of trust, lease or other instrument binding on or affecting Guarantor, any of its subsidiaries or any of its or their properties, the effect of which conflict, breach or default is reasonably likely to have a Material Adverse Effect, or (iv) except for the liens created under the Credit Agreement, result in or require the creation or imposition of any lien upon or with respect to any of the properties of any such Guarantor or any of its subsidiaries. Guarantor is not in violation of any such law, rule, regulation, order, writ, judgment, injunction, decree, determination or award, or in breach of any such contract, loan agreement, indenture, mortgage, deed of trust, lease or other instrument, the violation or breach of which would be reasonably likely to have a Material Adverse Effect.

(c) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for (i) the due execution, delivery, recordation, filing or performance by Guarantor of this Guaranty, and (ii) the exercise by either Lender of its rights under this Guaranty.

(d) This Guaranty has been duly executed and delivered by Guarantor. This Guaranty is the legal, valid and binding obligation of Guarantor, enforceable against

Guarantor in accordance with its terms except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or limiting creditors' rights or by equitable principles generally.

(e) There are no conditions precedent to the effectiveness of this Guaranty that have not been satisfied or waived.

(f) Guarantor has, independently and without reliance upon the Lender, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Guaranty.

Section 6. Amendments, Etc. Except as otherwise provided in Section 7.1 (b) of the Credit Agreement, no amendment or waiver of any provision of this Guaranty and no consent to any departure by Guarantor therefrom shall in any event be effective unless the same shall be in writing and signed by the Required Lenders (as defined in the Credit Agreement), and then such waiver or

consent shall be effective only in the specific instance and for the specific purpose for which given.

Section 7. Notices, Etc. All notice and other communications provided for hereunder shall be in writing (including telegraphic, telecopy or telex communication) and mailed, telegraphed, telecopied, telexed or delivered by overnight courier of nationally recognized standing to it, if to any Guarantor, addressed to 6415 Idlewild Road, Suite 109, Charlotte, North Carolina 28212, if to the Agent, at its address specified in the Credit Agreement, or as to any party, at such other address as shall be designated by such party in a written notice to each other party complying as to delivery with the terms of this Section 7. All such notices and other communications shall, when mailed, telecopied, telegraphed, telexed or sent by courier, be effective when deposited in the mails, delivered to the telegraph company, transmitted by telecopier, confirmed by telex answerback or delivered to the overnight courier, respectively, addressed as aforesaid.

Section 8. No Waiver, Remedies. No failure on the part of either Lender to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Section 9. Indemnification. Without limitation on any other Guaranteed Obligations of Guarantor or remedies of Agent or the Lenders under this Guaranty, Guarantor shall, to the fullest extent permitted by law, indemnify, defend and save and hold harmless the Agent and each Lender from and against, and shall pay on demand, any and all losses, liabilities, damages, costs, expenses and charges (including the reasonable fees and disbursement of the Agent's or any Lender's in-house and external legal counsel) suffered or incurred by the Agent or a Lender as a result of any failure of any Guaranteed Obligations to be the legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their terms.

Notwithstanding anything else in this Guaranty to the contrary, no party shall have any obligation to reimburse any person for attorneys' fees and expenses unless such fees and expenses are (i) reasonable in amount, (ii) determined without reference to any statutory presumption and (iii) calculated using the actual time expended and the standard hourly rate for

the attorneys and paralegals performing the tasks in question and the actual out-of-pocket expenses incurred.

Section 10. Continuing Guaranty. This Guaranty is a continuing guaranty and shall (a) remain in full force and effect until the later of the payment in full in cash of the Guaranteed Obligations and all other amounts payable under this Guaranty and the date the Credit Agreement shall have terminated in accordance with its own terms, (b) be binding upon each Guarantor, its successors and assigns, and (c) inure to the benefit of and be enforceable by any Lender and its successors, transferees and assigns Without limiting the generality of the foregoing clause (c), any Lender may assign or otherwise transfer all or any portion of its rights and obligations under the Credit Agreement to any other person or entity, and such other person or entity shall thereupon become vested with all the benefits in respect thereof granted to such Lender herein or otherwise subject, however to the provisions of Article VII of the Credit Agreement.

Section 11. Governing Law; Jurisdiction. This Guaranty shall be governed by, and construed in accordance with, the laws of the State of North Carolina.

Section 12. Reaffirmation of Guaranty. Each Guarantor confirms and restates its liabilities, obligations and agreements under its Original Guaranty and acknowledges and agrees that every right, power and remedy of Lenders thereunder is in full force and effect, including without limitation, such right, powers and remedies relating to the Original Notes, as amended and restated by the Amended Notes, and the payment and performance of the Guaranteed Obligations. Without limiting the foregoing, each Guarantor intends by execution and delivery of this instrument to absolutely, irrevocably and unconditionally reaffirm its guaranty, subject to the terms of this Guaranty, to Agent of (i) the due and punctual payment of the Original Notes, as amended and by the Amended Notes, and (ii) the performance by Borrower of the Obligations. Each Guarantor acknowledges and declares that it has no defense, claim, charge, plea or set-off whatsoever in law or equity against the Lenders under the Original Guaranty, this Guaranty, the Original Notes, the Amended Notes, the Original Credit Agreement, the Amendment or any other instrument or document executed by Guarantor or Borrower in connection with the obligations under the Loan. Each Guarantor waives and releases any and all defenses which might accrue to such Guarantor by the execution of this Guaranty, the Amendment, and the Amended Notes.

Section 13. Security. This Guaranty is secured by the Security Agreement as amended and restated by that certain Amended and Restated Security Agreement from Guarantors to Agent. The obligations of the Guarantors to Agent

granted thereby and the terms and conditions therein contained shall apply equally to the Indebtedness evidenced hereby and the covenants therein contained shall remain in full force and effect in accordance with the provisions thereof until the Obligations are paid in full.

IN WITNESS WHEREOF, each Guarantor has caused this Guaranty to be duly executed under seal and delivered by its officer thereunto duly authorized as of the date first above written.

each of the entities listed on the remainder of this page and on the following three pages

By: /s/ THEODORE M. WRIGHT (SEAL)

-----  
Name: Theodore M. Wright

Title: Vice President

SONIC - MONTGOMERY FLM, INC.,  
COBB PONTIAC-CADILLAC, INC.,  
ROYAL MOTOR COMPANY, INC.,  
CAPITAL CHEVROLET AND IMPORTS, INC.,  
SONIC AUTOMOTIVE - 21699 U.S. HWY 19 N.,  
INC.,  
HMC FINANCE ALABAMA, INC.  
SONIC AUTOMOTIVE OF GEORGIA, INC.,  
SONIC AUTOMOTIVE 5260 PEACHTREE  
INDUSTRIAL BLVD., LLC,  
FRONTIER OLDSMOBILE-CADILLAC, INC.,  
MARCUS DAVID CORPORATION,  
SONIC AUTOMOTIVE - 9103 E.  
INDEPENDENCE, NC, LLC,  
SONIC CHRYSLER-PLYMOUTH-JEEP, LLC,  
SONIC DODGE, LLC,  
TOWN AND COUNTRY FORD, INCORPORATED,  
SONIC AUTOMOTIVE-3700 WEST BROAD  
STREET, COLUMBUS, INC.,  
SONIC AUTOMOTIVE-1455 AUTOMALL DRIVE,  
COLUMBUS, INC.,  
SONIC AUTOMOTIVE-1495 AUTOMALL DRIVE,  
COLUMBUS, INC.,  
SONIC AUTOMOTIVE-4000 WEST BROAD  
STREET, COLUMBUS, INC.,  
SONIC AUTOMOTIVE-1500 AUTOMALL  
DRIVE, COLUMBUS, INC.,  
SONIC AUTOMOTIVE-1400 AUTOMALL DRIVE,  
COLUMBUS, INC.,  
FORT MILL CHRYSLER-PLYMOUTH-DODGE,  
INC.,  
SONIC AUTOMOTIVE 2752 LAURENS RD.,  
GREENVILLE, INC.,  
SONIC AUTOMOTIVE 2424 LAURENS RD.,  
GREENVILLE, INC.,  
  
TOWN AND COUNTRY CHRYSLER-PLYMOUTH-  
JEEP OF ROCK HILL, INC.,  
  
SONIC AUTOMOTIVE OF CHATTANOOGA, LLC,  
SONIC AUTOMOTIVE OF NASHVILLE, LLC,  
SONIC AUTOMOTIVE - 6025  
INTERNATIONAL DRIVE, LLC,  
TOWN AND COUNTRY CHRYSLER-PLYMOUTH-  
JEEP, LLC,  
TOWN AND COUNTRY DODGE OF  
CHATTANOOGA, LLC,  
TOWN AND COUNTRY JAGUAR, LLC,  
TOWN AND COUNTRY FORD OF CLEVELAND, LLC,  
SONIC - 2185 CHAPMAN RD., CHATTANOOGA, LLC,  
SONIC OF TEXAS, INC.,  
SONIC - WILLIAMS IMPORTS, INC.,  
SONIC - WILLIAMS BUICK, INC.,  
SONIC - WILLIAMS CADILLAC, INC.,  
SONIC - WILLIAMS MOTORS, LLC,  
SONIC - NEWSOME CHEVROLET WORLD, INC.,  
SONIC - NEWSOME OF FLORENCE, INC.,  
SONIC - CLASSIC DODGE, INC.  
SONIC - ROCKVILLE MOTORS, INC.,  
SONIC - ROCKVILLE IMPORTS, INC.,  
SONIC - MANHATTAN WALDORF, INC.,  
SONIC - MANHATTAN FAIRFAX, INC.,  
SONIC - NORTH CHARLESTON, INC.,  
SONIC AUTOMOTIVE - 5585 PEACHTREE  
INDUSTRIAL BLVD., LLC,

SONIC - NORTH CHARLESTON DODGE, INC.,  
VILLAGE IMPORTED CARS, INC.,  
FIRSTAMERICA AUTOMOTIVE, INC.,  
FA SERVICE CORPORATION,  
FAA AUTO FACTORY, INC.,  
FAA BEVERLY HILLS, INC.,  
FAA CAPITOL N, INC.,  
FAA CONCORD H, INC.,  
FAA CONCORD N, INC.,  
FAA CONCORD T, INC.,  
FAA DEALER SERVICES, INC.,  
FAA DUBLIN N, INC.,  
FAA MARIN D, INC.,  
FAA POWAY D, INC.,  
FAA POWAY G, INC.,  
FAA SAN BRUNO, INC.,  
FAA SERRAMONTE H, INC.,  
FAA SERRAMONTE L, INC.,  
  
FAA SERRAMONTE, INC.,  
FAA STEVENS CREEK, INC.,  
FAA WOODLAND HILLS VW, INC.,  
SMART NISSAN, INC.,  
FAA TORRANCE CPJ, INC.,  
FAA DUBLIN VWD, INC.,  
KRAMER MOTORS INCORPORATED,  
FAA SANTA MONICA V, INC.,  
FAA LAS VEGAS H, INC.,  
L DEALERSHIP GROUP, INC.,  
WINDWARD, INC.,  
AUTOBAHN, INC.,  
DON LUCAS INTERNATIONAL, INC.,  
FAA HOLDING CORP.,  
FRANCISCAN MOTORS, INC.,  
SANTA CLARA IMPORTED CARS, INC.,  
STEVENS CREEK CADILLAC, INC.,  
FAA MARIN F, INC.,  
FAA POWAY H, INC.,  
FAA POWAY T, INC.,  
FAA MARIN LR, INC.,  
SONIC-RIVERSIDE, INC.,  
SONIC-GLOVER, INC., and  
RIVERSIDE NISSAN, INC.,  
SPEEDWAY CHEVROLET, INC.,  
FORT MILL FORD, INC.,  
FREEDOM FORD, INC.,  
SONIC AUTOMOTIVE - CLEARWATER, INC.,  
SONIC AUTOMOTIVE COLLISION CENTER OF  
CLEARWATER, INC.,  
SONIC AUTOMOTIVE - 1919 N. DIXIE HWY.,  
NSB, INC.,  
SONIC AUTOMOTIVE - 1307 N. DIXIE HWY.,  
NSB, INC.,  
SONIC AUTOMOTIVE- 1720 MASON AVE., DB,  
INC.,  
SONIC AUTOMOTIVE - 3741 S. NOVA RD.,  
PO, INC.,  
SONIC AUTOMOTIVE 241 RIDGEWOOD AVE.,  
HH, INC.,  
SONIC AUTOMOTIVE - 6008 N. DALE MABRY,  
FL, INC.,  
SONIC AUTOMOTIVE OF NEVADA, INC.,  
SONIC AUTOMOTIVE OF TENNESSEE, INC.,  
SONIC AUTOMOTIVE - BONDESEN, INC.,  
SONIC - LLOYD PONTIAC - CADILLAC, INC.,  
  
SONIC - LLOYD NISSAN, INC.,  
SONIC - SUPERIOR OLDSMOBILE, LLC,  
SONIC - SHOTTENKIRK, INC.,  
SONIC - INTEGRITY DODGE LV, LLC,  
SONIC - VOLVO LV, LLC,  
SONIC - FM AUTOMOTIVE, LLC,  
SONIC - FM, INC.,  
SONIC - FM VW, INC.,  
SONIC - FM NISSAN, INC.,  
SONIC - FREELAND, INC., and  
SONIC AUTOMOTIVE - 1720 MASON AVE., DB,  
LLC  
FREEDOM FORD, INC.  
SONIC AUTOMOTIVE SERVICING COMPANY, LLC  
SONIC AUTOMOTIVE F & I, LLC  
SONIC - RIVERSIDE AUTO FACTORY, INC.  
TRANSCAR LEASING, INC.  
SONIC AUTOMOTIVE - 2490 SOUTH LEE  
HIGHWAY, L.L.C.

FAA CAPITOL F, INC.,  
SONIC - LAS VEGAS C EAST, LLC,  
SONIC - LAS VEGAS C WEST, LLC,  
BILL SWAD CHEVROLET, INC.  
SONIC DEVELOPMENT, LLC

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SONIC AUTOMOTIVE OF TEXAS, L.P.,  
SONIC AUTOMOTIVE-4701 I-10 EAST,  
TX, L.P.,  
SONIC AUTOMOTIVE - 3401 N. MAIN, TX, L.P.,  
SONIC AUTOMOTIVE - 5221 I-10 EAST, TX,  
L.P.,  
SONIC - SAM WHITE NISSAN, L.P.,  
SONIC - LUTE RILEY, L.P.,  
SONIC - READING, L.P., and  
SONIC - CAMP FORD, L.P.,  
SONIC - DALLAS AUTO FACTORY, L.P.  
SONIC-FORT WORTH T, L.P.,  
PHILPOTT MOTORS, LTD.  
SONIC - RICHARDSON F, L.P.  
SONIC - CARROLLTON V, L.P.

By: Sonic of Texas, Inc., a Texas  
corporation, as General Partner

THEODORE M. WRIGHT (SEAL)

-----

By: \_\_\_\_\_ /s/  
Name: Theodore M. Wright  
Title: Vice President

SONIC PEACHTREE INDUSTRIAL BLVD., L.P.,  
and  
SONIC - GLOBAL IMPORTS, L.P.

By: Sonic Automotive of Georgia, Inc.,  
a Georgia corporation, as General  
Partner

THEODORE M. WRIGHT (SEAL)

-----

By: \_\_\_\_\_ /s/  
Name: Theodore M. Wright  
Title: Vice President

AMENDED AND RESTATED  
SECURITY AGREEMENT

AMENDED AND RESTATED SECURITY AGREEMENT (the "Agreement") dated as of June 20, 2001 made by SONIC AUTOMOTIVE, INC., a Delaware company (the "Borrower"), to FORD MOTOR CREDIT COMPANY, a Delaware corporation, as agent (the "Agent") for the lenders (the "Lenders") under the Credit Agreement defined below. Capitalized terms used herein and not otherwise defined herein shall have the respective meanings given to such terms in the Credit Agreement defined below.

## PRELIMINARY STATEMENTS:

WHEREAS, pursuant to the terms of a certain Credit Agreement dated August 10, 2000 (the "Original Credit Agreement"), Ford Motor Credit Company and Chrysler Financial Company, L.L.C. (collectively, the "Original Lenders") extended to Borrower a revolving credit facility in an amount not to exceed \$500,000,000.00 (the "Original Credit Facilities");

WHEREAS, as a condition to entering into the Original Credit Agreement, the Original Lenders required that the Borrower execute and deliver the Security Agreement dated August 10, 2000 (the "Original Security Agreement");

WHEREAS, Borrower has requested an increase in the credit to be provided under the Original Credit Facilities to \$600,000,000.00 (the "Increased Facilities," and together with the Original Credit Facilities, the "Credit Facilities") and in connection with the Increased Facilities, Toyota Motor Credit Corporation will join the Original Lenders in providing credit to Borrower and its Subsidiaries pursuant to the terms of the Amended and Restated Credit Agreement dated as of even date herewith (the "Amendment," and referred to together with the Original Credit Agreement as the "Credit Agreement"); and

WHEREAS, it is a condition precedent to the making of loans under the Credit Agreement, that Borrower reaffirms its obligations under the Original Security Agreement and agrees that the security interests granted pursuant to the Original Security Agreement secure both the Original Credit Facilities and the Increased Facilities;

NOW, THEREFORE, for and in consideration of the foregoing and of any financial accommodations or extensions of credit (including, without limitation, any loan or advance by renewal, refinancing or extension of the agreements described hereinabove or otherwise) heretofore, now or hereafter made to or for the benefit of the Borrower pursuant to the Credit Agreement any other agreement, instrument or document executed pursuant to or in connection therewith, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower and the Agent hereby agree, for the benefit of the Lenders, that Borrower's obligations under the Original Security Agreement are hereby reaffirmed and the Original Security Agreement is hereby amended and restated in its entirety as follows:

SECTION 1. Grant of Security. The Borrower hereby assigns and pledges to Agent, for the benefit of the Lenders, and hereby grants to Agent, for the benefit of the Lenders, a security interest in, all of its respective right, title and interest in and to the following, whether now owned or hereafter acquired (the "Collateral"):

(a) all furniture, machinery, service vehicles, supplies and other equipment (the "Equipment");

(b) motor vehicles, tractors, trailers, service parts and accessories and other inventory ("Inventory");

(c) all accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds and other obligations of third persons of any kind, now or hereafter existing, whether or not arising out of or in connection with the sale or lease of goods, the rendering of services or otherwise, and all rights now or hereafter existing in and to all security agreements, leases, and other contracts securing or otherwise relating to any such accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds or obligations of third persons (any and all such accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds and obligations of third persons being the "Receivables", and any and

all such leases, security agreements and other contracts being the "Related Contracts");

(d) all of the Borrower's governmental approvals and authorizations to the maximum extent permitted by applicable law;

(e) all property and interests in property of the Debtor now or hereafter coming into the actual possession, custody or control of the Agent or a Lender in any way or for any purpose (whether for safekeeping, deposit, custody, pledge, transmission, collection or otherwise);

(f) leasehold interests in and fixtures located on any real property from which the Debtor conducts business;

(g) records and other books and records relating to the foregoing; and

(h) all accessions and additions to, substitutions for, and replacements, products and proceeds of any of the foregoing (including, without limitation, proceeds which constitute property of the types described in clauses (a) through (g) of this Section 1 and, to the extent not otherwise included, all (i) payments under insurance (whether or not the Agent or the Lenders are the loss payee thereof), or any indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the foregoing Collateral and (ii) cash.

SECTION 2. Security for Obligations. This Agreement secures the payment of (i) all obligations of the Borrower now or hereafter existing under the Credit Agreement and (iii) all obligations of the Borrower hereafter existing under this Agreement (all such obligations of

the Borrower being the "Obligations"). Without limiting the generality of the foregoing, this Agreement secures the payment of all amounts which constitute part of the Obligations and would be owed by Borrower to the Agent or any Lender under the Credit Facilities but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving the Borrower.

SECTION 3. Borrower Remains Liable. Anything herein to the contrary notwithstanding, (a) the Borrower shall remain liable under the contracts and agreements included in the Collateral to the extent set forth therein to perform all of its respective duties and obligations thereunder to the same extent as if this Agreement had not been executed, (b) the exercise by the Agent of any of the rights hereunder shall not release the Borrower from any of its respective duties or obligations under the contracts and agreements included in the Collateral, and (c) neither the Agent nor the Lenders shall have any obligation or liability under the contracts and agreements included in the Collateral by reason of this Agreement, nor shall Agent or the Lenders be obligated to perform any of the obligations or duties of the Borrower thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

SECTION 4. Representations and Warranties. The Borrower represents and warrants as follows:

(a) All of its Equipment and Inventory is located at the places specified on Exhibit A hereto. The chief place of business and chief executive office of the Borrower and the office where the Borrower keeps its records concerning the Receivables, and the originals of all chattel paper that evidence Receivables, are located at its address specified in Section 16. Except for the Receivables constituting BHPH Collateral (as defined in the Credit Agreement) none of the Receivables is evidenced by a promissory note or other instrument.

(b) The Borrower is the legal and beneficial owner of the Collateral free and clear of any lien, security interest, option or other charge or encumbrance except for (i) the security interest created by this Agreement, and (ii) any security interests consented to by the Required Lenders (as defined in the Credit Agreement) (collectively, the "Permitted Liens"). Except for financing statements with respect to Permitted Liens, no effective financing statement or other document similar in effect covering all or any part of the Collateral is on file in any recording office, except such as may have been filed in favor of the Lender relating to this Agreement. The Borrower does not have a trade name.

(c) The Borrower has exclusive possession and control of its Equipment and Inventory.

(d) Subject to the Permitted Liens, this Agreement creates a valid and perfected first priority security interest in the Collateral, securing the payment of the Obligations, and all filings and other actions necessary or desirable to perfect and protect such security interest have been duly taken.

(e) No consent of any other person or entity and no authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required (i) for the grant by the Borrower of the security interest granted hereby or for the execution, delivery or performance of this Agreement by the Borrower, (ii) for the perfection or maintenance of the security interest created hereby (including the first priority nature of such

security interest) or (iii) for the exercise by Agent (for the benefit of the Lenders) of its rights and remedies hereunder.

(f) There are no conditions precedent to the effectiveness of this Agreement that have not been satisfied or waived.

(g) The Borrower has, independently and without reliance upon any Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement.

SECTION 5. Further Assurances. (a) The Borrower agrees that from time to time, at its expense, it will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that the Agent may reasonably request, in order to perfect and protect any security interest granted or purported to be granted hereby or to enable the Agent (acting for the benefit of the Lenders) to exercise and enforce its rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, the Borrower will upon such request: (i) mark conspicuously each chattel paper included in the Receivables and each Related Contract and, at the request of the Agent, each of its records pertaining to the Collateral with a legend, in form and substance satisfactory to the Agent, indicating that such document, chattel paper, Related Contract or Collateral is subject to the security interest granted hereby; (ii) if any Receivable shall be evidenced by a promissory note or other instrument or chattel paper, deliver and pledge to the Agent (for the benefit of the Lenders) hereunder such note or instrument or chattel paper duly endorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to the Agent; and (iii) execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as the Agent may request, in order to perfect and preserve the security interest granted or purported to be granted hereby.

(b) The Borrower hereby authorizes the Agent to file one or more financing or continuation statements, and amendments thereto, relating to all or any part of the Collateral without its signature where permitted by law. A photocopy or other reproduction of this Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law.

(c) The Borrower will furnish to the Agent from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Agent may reasonably request, all in reasonable detail.

SECTION 6. As to Equipment and Inventory. (a) The Borrower shall keep its Equipment and Inventory at the location referred to in Section 4(a) or, upon 30 days' prior written notice to the Agent, at such other places in jurisdictions where all action required by Section 5 shall have been taken with respect to its Equipment and Inventory.

(b) The Borrower shall cause the Equipment owned by it to be maintained and preserved in the same condition, repair and working order as when new, ordinary wear and tear excepted, and in accordance with any manufacturer's manual, and shall forthwith, or in the case of any loss or damage to any of the Equipment as quickly as practicable after the occurrence thereof, make or cause to be made all repairs, replacements, and other improvements in connection therewith which are necessary or desirable to such end. The Borrower shall

promptly furnish to the Agent a statement respecting any material loss or damage to any of its Equipment or Inventory.

(c) The Borrower shall pay promptly when due all property and other taxes, assessments and governmental charges or levies imposed upon, and all claims against, its Equipment or Inventory.

SECTION 7. Insurance. The Borrower shall, at its own expense, maintain insurance with respect to its Equipment and Inventory in such amounts, against such risks, in such form and with such insurers, as shall be satisfactory to the Agent from time to time. Each policy for liability insurance shall provide for all losses to be paid on behalf of the Agent (for the benefit of the Lenders) and the Borrower as their respective interests may appear and each policy for property damage insurance shall provide for all losses to be paid directly to the Agent (for the benefit of the Lenders). Each such policy

shall in addition (i) name the Borrower and the Agent (for the benefit of the Lenders) as insured parties thereunder (without any representation or warranty by or obligation upon the Agent) as their interests may appear, (ii) contain the agreement by the insurer that any loss thereunder shall be payable to the Agent (for the benefit of the Lenders) notwithstanding any action, inaction or breach of representation or warranty by the Borrower, (iii) provide that there shall be no recourse against Agent or the Lenders for payment of premiums or other amounts with respect thereto and (iv) provide that at least ten days' prior written notice of cancellation or of lapse shall be given to the Agent by the insurer. The Borrower shall, if so requested by the Agent, deliver to the Agent original or duplicate policies of such insurance and, as often as the Agent may reasonably request, a report of a reputable insurance broker with respect to such insurance. Further the Borrower shall, at the request of the Agent, duly execute and deliver instruments of assignment of such insurance policies to comply with the requirements of Section 5 and cause the insurers to acknowledge notice of such assignment.

(b) Upon the occurrence and during the continuance of an Event of Default, all insurance payments in respect of such Equipment or Inventory shall be paid to and applied by the Agent as specified in Section 13(b).

SECTION 8. As to Receivables. The Borrower shall keep its chief place of business and chief executive office and the office where it keeps its records concerning the Receivables, and the originals of all chattel paper that evidence Receivables, if any, at the location therefor referred to in Section 4(a) or, upon 30 days' prior written notice to the Lender, at any other locations in a jurisdiction where all action required by Section 5 shall have been taken with respect to the Receivables. The Borrower will hold and preserve such records and chattel paper and will permit representatives of the Agent or a Lender at any time during normal business hours to inspect and make abstracts from such records and chattel paper. The Borrower shall not change its name, identity or corporate structure to such an extent that any financing statement filed in connection with this Agreement would become seriously misleading, unless the Borrower shall have given the Agent at least 30 days prior written notice thereof and prior to effecting any such change, taken such steps as the Agent may deem necessary or desirable to continue the perfecting and priority of the liens in favor of the Lender granted in connection herewith.

SECTION 9. Transfers and Other Liens. The Borrower shall not (i) sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Collateral, or (ii) create or permit to exist any lien, security interest, option or other

charge or encumbrance upon or with respect to any of the Collateral, except for the security interest under this Agreement.

SECTION 10. Agent Appointed Attorney-in-Fact. The Borrower hereby irrevocably appoints the Agent such Borrower's attorney-in-fact, with full authority in the place and stead of the Borrower and in the name of the Borrower, the Lenders or otherwise, from time to time in the Lender's discretion, to take any action and to execute any instrument which the Agent may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation:

(a) to obtain and adjust insurance required to be paid to the Agent pursuant to Section 7,

(b) to ask, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in connection with the Collateral,

(c) to receive, indorse, and collect any drafts or other instruments, documents and chattel paper, in connection therewith, and

(d) to file any claims or take any action or institute any proceedings which the Agent may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of the Agent or the Lenders with respect to any of the Collateral.

SECTION 11. Agent May Perform. If the Borrower fails to perform any agreement contained herein, the Agent may itself perform, or cause performance of, such agreement, and the expenses of the Agent or the Lenders incurred in connection therewith shall be payable by the Borrower under Section 14(b).

SECTION 12. Agent's Duties. The powers conferred on the Agent hereunder are solely to protect its interest (in its capacity as agent on behalf of the Lenders) in the Collateral and shall not impose any duty upon it to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Agent shall have no duty as to any Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral. The Agent shall be deemed to have exercised

reasonable care in the custody and preservation of any Collateral in its possession if such Collateral is accorded treatment substantially equal to that which the Agent accords its own property.

SECTION 13. Remedies. If any Event of Default shall have occurred and be continuing:

(a) The Agent may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Uniform Commercial Code in effect in the State of North Carolina at that time (the "Code") (whether or not the Code applies to the affected Collateral), and also may (i) require the Borrower to, and the Borrower hereby agrees that it will at its expense and upon request of the Agent forthwith, assemble all or part of the Collateral as directed by the Agent and make it available to

the Agent at a place to be designated by the Agent which is reasonably convenient to both parties and (ii) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Agent's or the Initial Lender's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Agent may deem commercially reasonable. The Borrower agrees that, to the extent notice of sale shall be required by law, at least ten days' notice to the Borrower of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(b) Any cash held by the Lender as Collateral and all cash proceeds received by the Lender in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Lender, be held by the Lender as collateral for, and/or then or at any time thereafter be applied (after payment of any amounts payable to the Lender pursuant to Section 14) in whole or in part by the Lender against, all or any part of the Obligations in such order as the Lender shall elect. Any surplus of such cash or cash proceeds held by the Lender and remaining after payment in full in cash of all the Obligations shall be paid over to the Borrower or to whomsoever may be lawfully entitled to receive such surplus.

SECTION 14. Indemnity and Expenses. (a) The Borrower agrees to indemnify the Agent and the Lenders from and against any and all claims, losses and liabilities (including reasonable attorneys' fees) growing out of or resulting from this Agreement (including, without limitation, enforcement of this Agreement), except claims, losses or liabilities resulting from the Lender's gross negligence or willful misconduct.

(b) The Borrower shall be liable to the Lender for the amount of any and all reasonable expenses, including the reasonable fees and expenses of its in-house and external counsel and of any experts and agents, which the Agent or the Lenders may incur in connection with (i) the administration of this Agreement, (ii) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any of the Collateral, (iii) the exercise or enforcement of any of the rights of the Agent or the Lenders hereunder or (iv) the failure by the Borrower to perform or observe any of the provisions hereof.

(c) Notwithstanding anything else in this Agreement to the contrary, no party shall have any obligation to reimburse any person for attorneys' fees and expenses unless such fees and expenses are (i) reasonable in amount, (ii) determined without reference to any statutory presumption and (iii) calculated using the actual time expended and the standard hourly rate for the attorneys and paralegals performing the tasks in question and the actual out-of-pocket expenses incurred.

SECTION 15. Amendments, Etc. except as otherwise provided in Section 7.1 (b) of the Credit Agreement, no amendment or waiver of any provision of this Agreement, and no consent to any departure by the Borrower herefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 16. Addresses for Notices. All notices and other communications provided for hereunder shall be in writing (including telecopier, telegraphic, telex or cable communication) and mailed, telecopied, telegraphed, telexed, cabled or delivered, if to the Borrower, at its address at 6415 Idlewild Road, Suite 109, Charlotte, North Carolina 28212, if to the Agent, at its address specified in the Credit Agreement; or, as to each party, at such

other address as shall be designated by such party in a written notice to the other party. All such notices and communications shall be effective, upon receipt, or in the case of (i) notice by mail, five days after being deposited in the United States mails, first class postage prepaid, (ii) notice by overnight courier, one business day after being deposited with a national overnight courier service, (iii) notice by telex, when telexed against receipt of answer back or (iv) notice by facsimile copy, when transmitted against mechanical confirmation of successful transmission.

SECTION 17. Continuing Security Interest; Assignments under Credit Agreement. This Agreement shall create a continuing assignment of and security interest in the Collateral and shall (i) remain in full force and effect until the payment in full in cash of the Obligations and all other amounts payable under this Agreement (such date, the "Security Termination Date"), (ii) be binding upon the Borrower, and such Borrower's successors and assigns and (iii) inure to the benefit of, and be enforceable by, the Agent, the Lenders and their respective successors, transferees and assigns. Without limiting the generality of the foregoing clause (iii), any Lender may assign or otherwise transfer all or any portion of its rights and obligations under the Credit Agreement to any other person or entity, and such other person or entity shall thereupon become vested with all the benefits in respect thereof granted to such Lender herein or otherwise subject, however to the provisions of Article VII of the Credit Agreement. On the Security Termination Date, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to the Borrower. Upon any such termination, the Agent will, at the Borrower's expense, execute and deliver to the Borrower such documents as it shall reasonably request to evidence such termination.

SECTION 18. Governing Law; Terms. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (AS OPPOSED TO CONFLICTS OF LAW PROVISIONS) AND DECISIONS OF THE STATE OF NORTH CAROLINA. Unless otherwise defined herein or in the Credit Agreement, terms used in Article 9 of the Code are used herein as therein defined.

SECTION 19. Waiver of Jury Trial. To the maximum extent of applicable law, each of the Borrower, the Agent and the Lenders waives any right to trial by jury in any dispute, whether sounding in contract, tort, or otherwise, between the Agent, the Lenders and the Borrower arising out of or related to the transactions contemplated by this Agreement or any other instrument, document or agreement executed or delivered in connection herewith. Either the Borrower, the Agent or the Lenders may file an original counterpart or a copy of this Agreement with any court as written evidence of the consent of the parties hereto to the waiver of their right to trial by jury.

SECTION 20. Consent to Jurisdiction; Counterclaims; Forum Non Conveniens. (a) Exclusive Jurisdiction. Except as provided in subsection (b) of this Section 20, the Lender and the Borrower agree that all disputes between them arising out of or related to the relationship established between them in connection with this Agreement, whether arising in contract, tort, equity, or otherwise, shall be resolved only by state or federal courts located in

North Carolina, but the parties acknowledge that any appeals from those courts may have to be heard by a court located outside of North Carolina.

(b) Other Jurisdictions. Each of the Agent and the Lenders shall have the right to proceed against the Borrower or its real or personal property in a court in any location to enable the Agent or the Lenders to obtain personal jurisdiction over the Borrower, to realize on the Collateral or any other security for the Obligations or to enforce a judgment or other court order entered in favor of the Agent or the Lenders. The Borrower shall not assert any permissive counterclaims in any proceeding brought by the Agent or the Lenders under this Section 17(b).

(c) Venue; Forum Non Conveniens. Each of the Agent, Borrower and each Lender waives any objection that it may have (including, without limitation, any objection to the laying of venue or based on forum non conveniens) to the location of the court in which any proceeding is commenced in accordance with this Section 20.

21. Service of Process. The Borrower waives personal service of any process upon it and, as security for the Obligations, irrevocably appoints Theodore M. Wright as its registered agent for the purpose of accepting service of process issued by any court in connection with any dispute between the Borrower, the Agent and the Lender arising out of or related to the relationship established between them in connection with this Agreement or any other document to which the Borrower is a party.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[SIGNATURE PAGES TO FOLLOW]

IN WITNESS WHEREOF, the Borrower has caused this Agreement

to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

SONIC AUTOMOTIVE, INC.

By: /s/ THEODORE M. WRIGHT  
-----  
Name: Theodore M. Wright  
Title: Vice President

[SIGNATURE PAGE TO BORROWER SECURITY AGREEMENT]

Agreed and Accepted  
this 20th day of June, 2001

FORD MOTOR CREDIT COMPANY,  
a Delaware corporation, as Agent

By: /s/ W. J. BECK IV  
-----  
Name: W. J. Beck, IV  
Title: National Account Manager

[SIGNATURE PAGE TO BORROWER SECURITY AGREEMENT]

## AMENDED AND RESTATED SECURITY AGREEMENT

AMENDED AND RESTATED SECURITY AGREEMENT (this "Security Agreement") dated June 20, 2001 made by each of the entities listed on the signature pages hereto, jointly and severally, (each referred to individually herein as a "Grantor," and collectively, the "Grantors"), in favor of FORD MOTOR CREDIT COMPANY (the "Agent"), as agent for the lenders (the "Lenders") under the Credit Agreement defined below. Capitalized terms used herein and not otherwise defined herein shall have the respective meanings given to such terms in the Credit Agreement defined below.

## PRELIMINARY STATEMENTS:

WHEREAS, pursuant to the terms of a certain Credit Agreement dated August 10, 2000 (the "Original Credit Agreement"), Ford Motor Credit Company and Chrysler Financial Company, L.L.C. (collectively, the "Original Lenders") extended to Sonic Automotive, Inc., a Delaware corporation, and the entity which exercises control over the Guarantors ("Borrower"), a revolving credit facility in an amount not to exceed \$500,000,000.00 (the "Original Loan"); and

WHEREAS, the Original Credit Agreement is evidenced by the Notes as defined in the Original Credit Agreement (the "Original Notes"); and

WHEREAS, as a condition, among others, to the Original Lenders' willingness to enter into and the Original Credit Agreement, the Original Lenders required that certain Subsidiaries (as defined in the Original Credit Agreement) existing at the time of the Original Credit Agreement (collectively, the "Original Grantors"), jointly and severally, execute and deliver a guaranty agreement (collectively, the "First Guaranties"), and a security agreement (collectively, the "Original Security Agreements") pursuant to which, among other things, each such Original Grantor agreed to guaranty the Obligations of Borrower under the Notes (as defined in the Original Credit Agreement) and the Original Credit Agreement; and

WHEREAS, under the terms of the Original Credit Agreement, any new Dealership Guarantor acquired by Borrower in a Permitted Acquisition was and is required to guaranty each of the Obligations and execute a guaranty and a security agreement in a form acceptable to the Original Lenders; and

WHEREAS, from the date of the Original Credit Agreement to the date hereof, Borrower made several Permitted Acquisitions and each of the entities acquired or created by Borrower in connection with such Permitted Acquisitions (collectively, the "Additional Grantors," and together with Original Grantors, "Grantors" as defined in the first paragraph hereof) guaranteed the Obligations and executed a guaranty (all referred to together with the First Guaranties as the "Original Guaranty"), a security agreement (all referred to together with the First Security Agreement as the "Original Agreement"); and

WHEREAS, Borrower has requested an increase in the credit to be provided under the Original Loan to \$600,000,000.00 (the "Increase") and in connection with the Increase, Toyota Motor Credit Corporation will join the Original Lenders in providing credit to Borrower and its Subsidiaries pursuant to the terms of the Amended and Restated Credit Agreement dated as of

even date herewith (the "Amendment," and referred to together with the Original Credit Agreement as the "Credit Agreement") and as evidenced by the Notes (as defined in the Amendment, the "Amended Notes," and together with the Original Notes, the "Notes"); and

WHEREAS, it is a condition precedent to the making of loans under the Credit Agreement, that each Grantor reaffirms its obligations under the Original Guaranty and agrees to guaranty the Increase by executing and delivering the Guaranty and Reaffirmation of Guaranty dated as of even date herewith (referred to together with the Original Guaranty as the "Guaranty") and that each Grantor confirms that the security interests granted pursuant to the Original Agreement secure both the Original Loan and the Increase;

NOW, THEREFORE, in consideration of the premises and in order to induce each Lender to make the Increase and make further Advances under the Credit Agreement, each Grantor hereby agrees with Agent, for the benefit of the Lenders, that Grantor's obligations under the Original Agreement are hereby reaffirmed and the Original Agreement hereby amended and restated in its entirety as follows:

SECTION 1. Grant of Security. Grantor hereby assigns and pledges to Agent, for the benefit of the Lenders, and hereby grants to Agent, for the benefit of the Lenders, a security interest in, all of its respective right, title and interest in and to the following, whether now owned or hereafter acquired (the "Collateral"):

- (a) all furniture, machinery, service vehicles,

supplies and other equipment (the "Equipment");

(b) motor vehicles, tractors, trailers, service parts and accessories and other inventory ("Inventory");

(c) all accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds and other obligations of third persons of any kind, now or hereafter existing, whether or not arising out of or in connection with the sale or lease of goods, the rendering of services or otherwise, and all rights now or hereafter existing in and to all security agreements, leases, and other contracts securing or otherwise relating to any such accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds or obligations of third persons (any and all such accounts, contract rights, chattel paper, instruments, notes, letters of credit, documents, documents of title, investment property, deposit accounts, other bank accounts, general intangibles, tax refunds and obligations of third persons being the "Receivables", and any and all such leases, security agreements and other contracts being the "Related Contracts");

(d) all of the Grantor's governmental approvals and authorizations to the maximum extent permitted by applicable law;

(e) all property and interests in property of the Grantor now or hereafter coming into the actual possession, custody or control of the Agent or a Lender in any way or for any purpose (whether for safekeeping, deposit, custody, pledge, transmission, collection or otherwise);

(f) leasehold interests in and fixtures located on any real property;

(g) records and other books and records relating to the foregoing; and

(h) all accessions and additions to, substitutions for, and replacements, products and proceeds of any of the foregoing (including, without limitation, proceeds which constitute property of the types described in clauses (a) through (g) of this Section 1 and, to the extent not otherwise included, all (i) payments under insurance (whether or not the Lender is the loss payee thereof), or any indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the foregoing Collateral and (ii) cash.

SECTION 2. Security for Obligations. This Agreement secures the payment of (i) all obligations of the Borrower now or hereafter existing under the Credit Agreement and the Notes, (ii) all obligations of Grantor now or hereafter existing under the Guaranty, whether for principal, interest, fees, expenses or otherwise, and (iii) all obligations of Grantor hereafter existing under this Agreement (all such obligations of the Grantors and the Borrower being the "Obligations"). Without limiting the generality of the foregoing, this Agreement secures the payment of all amounts which constitute part of the Obligations and would be owed by Grantor to Lender under the Credit Agreement but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving Grantor or the Borrower.

SECTION 3. Grantors Remain Liable. Anything herein to the contrary notwithstanding, (a) Grantor shall remain liable under the contracts and agreements included in the Collateral to the extent set forth therein to perform all of its respective duties and obligations thereunder to the same extent as if this Agreement had not been executed, (b) the exercise by Agent of any of the rights hereunder shall not release Grantor from any of its duties or obligations under the contracts and agreements included in the Collateral, and (c) neither Agent nor the Lenders shall have any obligation or liability under the contracts and agreements included in the Collateral by reason of this Agreement, nor shall Agent or the Lenders be obligated to perform any of the obligations or duties of Grantor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

SECTION 4. Representations and Warranties. Grantor represents and warrants as follows:

(a) All of its Equipment and Inventory is located at the places specified on Exhibit A hereto. The chief place of business and chief executive office of Grantor and the office where the Grantor keeps its records concerning the Receivables, and the originals of all chattel paper that evidence Receivables, are located at the address specified in Section 16. except for that portion of the Receivables constituting BHPH Collateral (as defined in the Agreement), none of the Receivables is evidenced by a promissory note or other

instrument.

(b) Grantor is the legal and beneficial owner of its respective Collateral free and clear of any lien, security interest, option or other charge or encumbrance except for (i) the security interest created by this Agreement, and (ii) any security interests consented to by the Required Lenders (as defined in the Credit Agreement) (collectively, the "Permitted Liens"). Other than financing statements with respect to Permitted Liens, no effective financing

statement or other document similar in effect covering all or any part of the Collateral is on file in any recording office, except such as may have been filed in favor of the Lender relating to this Agreement.

(c) Grantor has exclusive possession and control of its Equipment and Inventory.

(d) Subject to the Permitted Liens, this Agreement creates a valid and perfected first priority security interest in the Collateral, securing the payment of the Obligations, and all filings and other actions necessary or desirable to perfect and protect such security interest have been duly taken.

(e) No consent of any other person or entity and no authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required (i) for the grant by the Grantor of the security interest granted hereby or for the execution, delivery or performance of this Agreement by the Grantor, (ii) for the perfection or maintenance of the security interest created hereby (including the first priority nature of such security interest) or (iii) for the exercise by Agent (for the benefit of the Lenders) of its rights and remedies hereunder.

(f) There are no conditions precedent to the effectiveness of this Agreement that have not been satisfied or waived.

(g) Grantor has, independently and without reliance upon either Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement.

SECTION 5. Further Assurances. (a) Grantor agrees that from time to time, at its expense, it will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that Agent may reasonably request, in order to perfect and protect any security interest granted or purported to be granted hereby or to enable Agent (acting for the benefit of the Lenders) to exercise and enforce its rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, Grantor will upon such request: (i) mark conspicuously each chattel paper included in the Receivables and each Related Contract and, at the request of Agent, each of its records pertaining to the Collateral with a legend, in form and substance satisfactory to Agent, indicating that such document, chattel paper, Related Contract or Collateral is subject to the security interest granted hereby; (ii) if any Receivable shall be evidenced by a promissory note or other instrument or chattel paper, deliver and pledge to Agent (for the benefit of the Lenders) hereunder such note or instrument or chattel paper duly endorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to Agent; and (iii) execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as the Lender may request, in order to perfect and preserve the security interest granted or purported to be granted hereby.

(b) Grantor hereby authorizes Agent to file one or more financing or continuation statements, and amendments thereto, relating to all or any part of the Collateral without its signature where permitted by law. A photocopy or other reproduction of this

Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law.

(c) Grantor will furnish to Agent from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as Agent may reasonably request, all in reasonable detail.

SECTION 6. As to Equipment and Inventory. (a) Grantor shall keep its Equipment and Inventory at the location referred to in Section 4(a) or, upon 30 days' prior written notice to Agent, at such other places in jurisdictions where all action required by Section 5 shall have been taken with respect to its Equipment and Inventory.

(b) Grantor shall cause the Equipment owned by it to be maintained and preserved in the same condition, repair and working order as when new, ordinary wear and tear excepted, and in accordance with any manufacturer's manual, and shall forthwith, or in the case of any loss or damage to any of the

Equipment as quickly as practicable after the occurrence thereof, make or cause to be made all repairs, replacements, and other improvements in connection therewith which are necessary or desirable to such end. Grantor shall promptly furnish to Agent a statement respecting any material loss or damage to any of its Equipment or Inventory.

(c) Grantor shall pay promptly when due all property and other taxes, assessments and governmental charges or levies imposed upon, and all claims against, its Equipment or Inventory.

SECTION 7. Insurance. Grantor shall, at its own expense, maintain insurance with respect to its Equipment and Inventory in such amounts, against such risks, in such form and with such insurers, as shall be satisfactory to Agent from time to time. Each policy for liability insurance shall provide for all losses to be paid on behalf of Agent (for the benefit of the Lenders) and the Grantor as their respective interests may appear and each policy for property damage insurance shall provide for all losses to be paid directly to Agent (for the benefit of the Lenders). Each such policy shall in addition (i) name the Grantor and Agent (for the benefit of the Lenders) as insured parties thereunder (without any representation or warranty by or obligation upon Agent) as their interests may appear, (ii) contain the agreement by the insurer that any loss thereunder shall be payable to Agent (for the benefit of the Lenders) notwithstanding any action, inaction or breach of representation or warranty by the Grantor, (iii) provide that there shall be no recourse against Agent or the Lenders for payment of premiums or other amounts with respect thereto and (iv) provide that at least ten days' prior written notice of cancellation or of lapse shall be given to Agent by the insurer. Grantor shall, if so requested by Agent, deliver to Agent original or duplicate policies of such insurance and, as often as Agent may reasonably request, a report of a reputable insurance broker with respect to such insurance. Further Grantor shall, at the request of Agent, duly execute and deliver instruments of assignment of such insurance policies to comply with the requirements of Section 5 and cause the insurers to acknowledge notice of such assignment.

(b) Upon the occurrence and during the continuance of an Event of Default, all insurance payments in respect of such Equipment or Inventory shall be paid to and applied by Agent as specified in Section 13(b).

SECTION 8. As to Receivables. Grantor shall keep its chief place of business and chief executive office and the office where it keeps its records concerning the Receivables, and the originals of all chattel paper that evidence Receivables, if any, at the location therefor referred to in Section 4(a) or, upon 30 days' prior written notice to Agent, at any other locations in a jurisdiction where all action required by Section 5 shall have been taken with respect to the Receivables. Grantor will hold and preserve such records and chattel paper and will permit representatives of Agent or any Lender at any time during normal business hours to inspect and make abstracts from such records and chattel paper. Grantor shall not change its name, identity or corporate structure to such an extent that any financing statement filed in connection with this Agreement would become seriously misleading, unless the Borrower shall have given Agent at least 30 days prior written notice thereof and prior to effecting any such change, taken such steps as Agent may deem necessary or desirable to continue the perfecting and priority of the liens in favor of Agent (for the benefit of the Lenders) granted in connection herewith.

SECTION 9. Transfers and Other Liens. Grantor may not (i) sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Collateral, or (ii) create or permit to exist any lien, security interest, option or other charge or encumbrance upon or with respect to any of the Collateral, except for the security interest under this Agreement.

SECTION 10. Agent Appointed Attorney-in-Fact. Grantor hereby irrevocably appoints Agent Grantor's attorney-in-fact, with full authority in the place and stead of the Grantor and in the name of the Grantor, the Lenders or otherwise, from time to time in Agent's discretion, to take any action and to execute any instrument which Agent may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation:

(a) to obtain and adjust insurance required to be paid to Agent pursuant to Section 7,

(b) to ask, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in connection with the Collateral,

(c) to receive, indorse, and collect any drafts or other instruments, documents and chattel paper, in connection therewith, and

(d) to file any claims or take any action or institute any proceedings which Agent may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of Agent or the Lenders with respect to any of the Collateral.

SECTION 11. Agent May Perform. If Grantor fails to perform any agreement contained herein, Agent may itself perform, or cause performance of, such agreement, and the expenses of Agent or the Lenders incurred in connection therewith shall be payable by the Grantors under Section 14(b).

SECTION 12. Agent's Duties. The powers conferred on Agent hereunder are solely to protect its interest (in its capacity as agent on behalf of the Lenders) in the Collateral and shall not impose any duty upon it to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for moneys actually received by it

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hereunder, Agent shall have no duty as to any Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral. Agent shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its possession if such Collateral is accorded treatment substantially equal to that which Agent accords its own property.

SECTION 13. Remedies. If any Event of Default shall have occurred and be continuing:

(a) Agent may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Uniform Commercial Code in effect in the State of North Carolina at that time (the "Code") (whether or not the Code applies to the affected Collateral), and also may (i) require Grantor to, and Grantor hereby agrees that it will at its expense and upon request of Agent forthwith, assemble all or part of the Collateral as directed by the Agent and make it available to Agent at a place to be designated by Agent which is reasonably convenient to both parties and (ii) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of Agent's or Initial Lender's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as Agent may deem commercially reasonable. Grantor agrees that, to the extent notice of sale shall be required by law, at least ten days' notice to the Grantor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(b) Any cash held by Agent as Collateral and all cash proceeds received by Agent in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of Agent, be held by Agent as collateral for, and/or then or at any time thereafter be applied (after payment of any amounts payable to Agent or the Lenders pursuant to Section 14) in whole or in part by Agent against, all or any part of the Obligations in such order as Agent shall elect. Any surplus of such cash or cash proceeds held by Agent and remaining after payment in full in cash of all the Obligations shall be paid over to the Grantor or to whomsoever may be lawfully entitled to receive such surplus.

SECTION 14. Indemnity and Expenses. (a) Grantor agrees to indemnify Agent and the Lenders from and against any and all claims, losses and liabilities (including reasonable attorneys' fees) growing out of or resulting from this Agreement (including, without limitation, enforcement of this Agreement), except claims, losses or liabilities resulting from the Lender's gross negligence or willful misconduct.

(b) Grantor shall be liable to Agent and the Lenders for the amount of any and all reasonable expenses, including the reasonable fees and expenses of its in-house and external counsel and of any experts and agents, which Agent or the Lenders may incur in connection with (i) the administration of this Agreement, (ii) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any of the Collateral, (iii)

the exercise or enforcement of any of the rights of Agent or the Lenders hereunder or (iv) the failure by Grantor to perform or observe any of the provisions hereof.

(c) Notwithstanding anything else in this Agreement to the contrary, no party shall have any obligation to reimburse any person for attorneys' fees and expenses unless such fees and expenses are (i) reasonable in amount, (ii) determined without reference to any statutory presumption and (iii) calculated using the actual time expended and the standard hourly rate for the attorneys and paralegals performing the tasks in question and the actual

out-of-pocket expenses incurred.

SECTION 15. Amendments, Etc. Except as otherwise provided in Section 7.1 (b) of the Credit Agreement, no amendment or waiver of any provision of this Agreement, and no consent to any departure by Grantor herefrom, shall in any event be effective unless the same shall be in writing and signed by Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 16. Addresses for Notices. All notices and other communications provided for hereunder shall be in writing (including telecopier, telegraphic, telex or cable communication) and mailed, telecopied, telegraphed, telexed, cabled or delivered, if to the Grantor, at its address at 6415 Idlewild Road, Suite 109, Charlotte, North Carolina 28212, if to Agent, at its address specified in the Credit Agreement; or, as to each party, at such other address as shall be designated by such party in a written notice to the other party. All such notices and communications shall be effective, upon receipt, or in the case of (i) notice by mail, five days after being deposited in the United States mails, first class postage prepaid, (ii) notice by overnight courier, one business day after being deposited with a national overnight courier service, (iii) notice by telex, when telexed against receipt of answer back or (iv) notice by facsimile copy, when transmitted against mechanical confirmation of successful transmission.

SECTION 17. Continuing Security Interest; Assignments under Credit Agreement. This Agreement shall create a continuing assignment of and security interest in the Collateral and shall (i) remain in full force and effect until the payment in full in cash of the Obligations and all other amounts payable under this Agreement (such date, the "Security Termination Date"), (ii) be binding upon Grantor, and Grantor's successors and assigns and (iii) inure to the benefit of, and be enforceable by, Agent, The Lenders, and each of their respective successors, transferees and assigns. Without limiting the generality of the foregoing clause (iii), any Lender may assign or otherwise transfer all or any portion of its rights and obligations under the Credit Agreement to any other person or entity, and such other person or entity shall thereupon become vested with all the benefits in respect thereof granted to such Lender herein or otherwise subject, however to the provisions of Article VII of the Credit Agreement. On the Security Termination Date, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to the Grantor. Upon any such termination, Agent will, at the Grantors' expense, execute and deliver to Grantor such documents as it shall reasonably request to evidence such termination.

SECTION 18. Governing Law; Terms. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (AS OPPOSED TO CONFLICTS OF LAW PROVISIONS) AND DECISIONS OF THE STATE OF NORTH CAROLINA. Unless otherwise defined herein or in the Credit Agreement, terms used in Article 9 of the Code are used herein as therein defined.

SECTION 19. Waiver of Jury Trial. To the maximum extent of applicable law, Grantor, the Agent and each Lender waives any right to trial by jury in any dispute, whether sounding in contract, tort, or otherwise, between the Agent, the Lenders and Grantor arising out of or related to the transactions contemplated by this Agreement or any other instrument, document or agreement executed or delivered in connection herewith. Any of the Grantor, the Agent or the Lenders may file an original counterpart or a copy of this Agreement with any court as written evidence of the consent of the parties hereto to the waiver of their right to trial by jury.

SECTION 20. Consent to Jurisdiction; Counterclaims; Forum Non Conveniens. (a) Exclusive Jurisdiction. Except as provided in subsection (b) of this Section 20, the Agent, each Lender and the Grantor agree that all disputes between them arising out of or related to the relationship established between them in connection with this Agreement, whether arising in contract, tort, equity, or otherwise, shall be resolved only by state or federal courts located in North Carolina, but the parties acknowledge that any appeals from those courts may have to be heard by a court located outside of North Carolina.

(b) Other Jurisdictions. Each of Agent and the Lenders shall have the right to proceed against any Grantor or its real or personal property in a court in any location to enable Agent or the Lenders to obtain personal jurisdiction over the Grantor, to realize on the Collateral or any other security for the Obligations or to enforce a judgment or other court order entered in favor of Agent or the Lenders. No Grantor shall assert any permissive counterclaims in any proceeding brought by Agent or the Lenders under this Section 17(b).

(c) Venue; Forum Non Conveniens. Each of Agent, the Grantor and each Lender waives any objection that it may have (including, without limitation, any objection to the laying of venue or based on forum non conveniens) to the location of the court in which any proceeding is commenced in accordance with this Section 20.

SECTION 21. Service of Process. Grantor waives personal service of any process upon it and, as security for the Obligations, irrevocably

appoints Theodore M. Wright as its registered agent for the purpose of accepting service of process issued by any court in connection with any dispute between Grantor, the Agent and the Lenders arising out of or related to the relationship established between them in connection with this Agreement or any other document to which Grantor is a party.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the Grantor has caused this Agreement to be duly executed under seal and delivered by its officer thereunto duly authorized as of the date first above written.

each of the entities listed on the remainder of this page and on the following three pages

By: /s/ THEODORE M. WRIGHT (SEAL)

Name: Theodore M. Wright

Title: Vice President

SONIC - MONTGOMERY FLM, INC.,  
COBB PONTIAC-CADILLAC, INC.,  
ROYAL MOTOR COMPANY, INC.,  
CAPITAL CHEVROLET AND IMPORTS, INC.,  
SONIC AUTOMOTIVE - 21699  
U.S. HWY 19 N., INC.,  
HMC FINANCE ALABAMA, INC.  
SONIC AUTOMOTIVE OF GEORGIA, INC.,  
SONIC AUTOMOTIVE 5260 PEACHTREE  
INDUSTRIAL BLVD., LLC,  
FRONTIER OLDSMOBILE-CADILLAC, INC.,  
MARCUS DAVID CORPORATION,  
SONIC AUTOMOTIVE - 9103 E.  
INDEPENDENCE, NC, LLC,  
SONIC CHRYSLER-PLYMOUTH-JEEP, LLC,  
SONIC DODGE, LLC,  
TOWN AND COUNTRY FORD, INCORPORATED,  
SONIC AUTOMOTIVE-3700 WEST BROAD  
STREET, COLUMBUS, INC.,  
SONIC AUTOMOTIVE-1455 AUTOMALL DRIVE,  
COLUMBUS, INC.,  
SONIC AUTOMOTIVE-1495 AUTOMALL DRIVE,  
COLUMBUS, INC.,  
SONIC AUTOMOTIVE-4000 WEST BROAD  
STREET, COLUMBUS, INC.,  
SONIC AUTOMOTIVE-1500 AUTOMALL  
DRIVE, COLUMBUS, INC.,  
SONIC AUTOMOTIVE-1400 AUTOMALL DRIVE,  
COLUMBUS, INC.,  
FORT MILL CHRYSLER-PLYMOUTH-DODGE,  
INC.,  
SONIC AUTOMOTIVE 2752 LAURENS RD.,  
GREENVILLE, INC.,  
SONIC AUTOMOTIVE 2424 LAURENS RD.,  
GREENVILLE, INC.,  
  
TOWN AND COUNTRY CHRYSLER-PLYMOUTH-  
JEEP OF ROCK HILL, INC.,  
SONIC AUTOMOTIVE OF CHATTANOOGA, LLC,  
SONIC AUTOMOTIVE OF NASHVILLE, LLC,  
SONIC AUTOMOTIVE - 6025  
INTERNATIONAL DRIVE, LLC,  
TOWN AND COUNTRY CHRYSLER-PLYMOUTH-  
JEEP, LLC,  
TOWN AND COUNTRY DODGE OF  
CHATTANOOGA, LLC,  
TOWN AND COUNTRY JAGUAR, LLC,  
TOWN AND COUNTRY FORD OF CLEVELAND,  
LLC,  
SONIC - 2185 CHAPMAN RD.,  
CHATTANOOGA, LLC,  
SONIC OF TEXAS, INC.,  
SONIC - WILLIAMS IMPORTS, INC.,  
SONIC - WILLIAMS BUICK, INC.,  
SONIC - WILLIAMS CADILLAC, INC.,  
SONIC - WILLIAMS MOTORS, LLC,  
SONIC - NEWSOME CHEVROLET WORLD,  
INC.,

SONIC - NEWSOME OF FLORENCE, INC.,  
SONIC - CLASSIC DODGE, INC.  
SONIC - ROCKVILLE MOTORS, INC.,  
SONIC - ROCKVILLE IMPORTS, INC.,  
SONIC - MANHATTAN WALDORF, INC.,  
SONIC - MANHATTAN FAIRFAX, INC.,  
SONIC - NORTH CHARLESTON, INC.,  
SONIC AUTOMOTIVE - 5585 PEACHTREE  
INDUSTRIAL BLVD., LLC,  
SONIC - NORTH CHARLESTON DODGE, INC.,  
VILLAGE IMPORTED CARS, INC.,  
FIRSTAMERICA AUTOMOTIVE, INC.,  
FA SERVICE CORPORATION,  
FAA AUTO FACTORY, INC.,  
FAA BEVERLY HILLS, INC.,  
FAA CAPITOL N, INC.,  
FAA CONCORD H, INC.,  
FAA CONCORD N, INC.,  
FAA CONCORD T, INC.,  
FAA DEALER SERVICES, INC.,  
FAA DUBLIN N, INC.,  
FAA MARIN D, INC.,  
FAA POWAY D, INC.,  
FAA POWAY G, INC.,  
FAA SAN BRUNO, INC.,  
FAA SERRAMONTE H, INC.,  
FAA SERRAMONTE L, INC.,  
  
FAA SERRAMONTE, INC.,  
FAA STEVENS CREEK, INC.,  
FAA WOODLAND HILLS VW, INC.,  
SMART NISSAN, INC.,  
FAA TORRANCE CPJ, INC.,  
FAA DUBLIN VWD, INC.,  
KRAMER MOTORS INCORPORATED,  
FAA SANTA MONICA V, INC.,  
FAA LAS VEGAS H, INC.,  
L DEALERSHIP GROUP, INC.,  
WINDWARD, INC.,  
AUTOBAHN, INC.,  
DON LUCAS INTERNATIONAL, INC.,  
FAA HOLDING CORP.,  
FRANCISCAN MOTORS, INC.,  
SANTA CLARA IMPORTED CARS, INC.,  
STEVENS CREEK CADILLAC, INC.,  
FAA MARIN F, INC.,  
FAA POWAY H, INC.,  
FAA POWAY T, INC.,  
FAA MARIN LR, INC.,  
SONIC-RIVERSIDE, INC.,  
SONIC-GLOVER, INC., and  
RIVERSIDE NISSAN, INC.,  
SPEEDWAY CHEVROLET, INC.  
FORT MILL FORD, INC.,  
FREEDOM FORD, INC.,  
SONIC AUTOMOTIVE - CLEARWATER, INC.,  
SONIC AUTOMOTIVE COLLISION CENTER OF  
CLEARWATER, INC.,  
SONIC AUTOMOTIVE - 1919 N. DIXIE  
HWY., NSB, INC.,  
SONIC AUTOMOTIVE - 1307 N. DIXIE  
HWY., NSB, INC.,  
SONIC AUTOMOTIVE- 1720 MASON AVE.,  
DB, INC.,  
SONIC AUTOMOTIVE - 3741 S. NOVA RD.,  
PO, INC.,  
SONIC AUTOMOTIVE 241 RIDGEWOOD AVE.,  
HH, INC.,  
SONIC AUTOMOTIVE - 6008 N. DALE  
MABRY, FL, INC.,  
SONIC AUTOMOTIVE OF NEVADA, INC.,  
SONIC AUTOMOTIVE OF TENNESSEE, INC.,  
SONIC AUTOMOTIVE - BONDESEN, INC.,  
SONIC - LLOYD PONTIAC - CADILLAC,  
INC.,  
  
SONIC - LLOYD NISSAN, INC.,  
SONIC - SUPERIOR OLDSMOBILE, LLC,  
SONIC - SHOTTENKIRK, INC.,  
SONIC - INTEGRITY DODGE LV, LLC,  
SONIC - VOLVO LV, LLC,  
SONIC - FM AUTOMOTIVE, LLC,  
SONIC - FM, INC.,  
SONIC - FM VW, INC.,  
SONIC - FM NISSAN, INC.,

SONIC - FREELAND, INC., and  
SONIC AUTOMOTIVE - 1720 MASON AVE.,  
DB, LLC  
FREEDOM FORD, INC.  
SONIC AUTOMOTIVE  
SERVICING COMPANY, LLC  
SONIC AUTOMOTIVE F & I, LLC  
SONIC - RIVERSIDE AUTO FACTORY, INC.  
SOUTH CAROLINA AUTOMOBILE ENTERPRISES  
INCORPORATED  
TRANSCAR LEASING, INC.  
SONIC AUTOMOTIVE - 2490 SOUTH LEE  
HIGHWAY, L.L.C.  
FAA CAPITOL F, INC.,  
SONIC - LAS VEGAS C EAST, LLC,  
SONIC - LAS VEGAS C WEST, LLC,  
BILL SWAD CHEVROLET, INC.  
SONIC DEVELOPMENT, LLC  
  
SONIC AUTOMOTIVE OF TEXAS, L.P.,  
SONIC AUTOMOTIVE-4701 I-10 EAST,  
TX, L.P.,  
SONIC AUTOMOTIVE - 3401 N. MAIN, TX,  
L.P.,  
SONIC AUTOMOTIVE - 5221 I-10 EAST,  
TX, L.P.,  
SONIC - SAM WHITE NISSAN, L.P.,  
SONIC - LUTE RILEY, L.P.,  
SONIC - READING, L.P., and  
SONIC - CAMP FORD, L.P.,  
SONIC - DALLAS AUTO FACTORY, L.P.  
SONIC-FORT WORTH T, L.P.,  
PHILPOTT MOTORS, LTD.  
SONIC - RICHARDSON F, L.P.  
SONIC - CARROLLTON V, L.P.

By: Sonic of Texas, Inc., a Texas  
corporation, as General Partner

By: /s/ THEODORE M. WRIGHT (SEAL)  
-----  
Name: Theodore M. Wright  
Title: Vice President

SONIC PEACHTREE INDUSTRIAL BLVD.,  
L.P., and  
SONIC - GLOBAL IMPORTS, L.P.

By: Sonic Automotive of Georgia, Inc.,  
a Georgia corporation, as General  
Partner

By: /s/ THEODORE M. WRIGHT (SEAL)  
-----  
Name: Theodore M. Wright  
Title: Vice President

[SIGNATURE PAGE TO SECURITY AGREEMENT]

Agreed and Accepted  
this 20th day of June, 2001

FORD MOTOR CREDIT COMPANY,  
a Delaware corporation, as Agent

By: /s/ THEODORE M. WRIGHT (SEAL)  
-----

Name: W. J. Beck, IV  
Title: National Account Manager

[SIGNATURE PAGE TO SECURITY AGREEMENT]

## RISK FACTORS

Our significant indebtedness could materially adversely affect our financial health and prevent us from fulfilling our financial obligations.

As of June 30, 2001, our total outstanding indebtedness was approximately \$1,123.7 million, including the following:

- . \$361.2 million under a revolving credit agreement with Ford Motor Credit Company ("Ford Motor Credit"), Chrysler Financial Company, LLC ("Chrysler Financial") and Toyota Motor Credit Corporation ("Toyota Credit") (the "Revolving Facility") with a borrowing limit of \$600 million, subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by an affiliate of Sonic;
- . \$431.9 million under a standardized secured inventory floor plan facility (the "Ford Floor Plan Facility") with Ford Motor Credit;
- . \$141.0 million under a standardized secured floor plan facility (the "Chrysler Floor Plan Facility") with Chrysler Financial;
- . \$54.5 million under a standardized secured floor plan facility (the "GMAC Floor Plan Facility" and together with the Ford Floor Plan Facility and the Chrysler Floor Plan Facility, the "Floor Plan Facilities") with General Motors Acceptance Corporation ("GMAC");
- . \$121.4 million in 11% Senior Subordinated Notes due 2008 representing \$125.0 million in aggregate principal amount less unamortized discount of approximately \$3.6 million; and
- . \$13.7 million of other secured debt, including \$5.9 million under a revolving real estate acquisition and new dealership construction line of credit (the "Construction Loan") and a related mortgage refinancing facility (the "Permanent Loan" and together with the Construction Loan, the "Mortgage Facility") with Ford Motor Credit.

As of June 30, 2001, we had approximately \$104.3 million available for additional borrowings under the Revolving Facility, based on a borrowing base calculated on the basis of our receivables, inventory and equipment and certain additional collateral pledged by an affiliate of Sonic. We also had approximately \$94.1 million available for additional borrowings under the Mortgage Facility for real estate acquisitions and new dealership construction. We also have significant additional capacity under the Floor Plan Facilities. In addition, the indentures relating to our senior subordinated notes and other debt instruments allow us to incur additional indebtedness, including secured indebtedness.

The degree to which we are leveraged could have important consequences to the holders of our securities, including the following:

- . our ability to obtain additional financing for acquisitions, capital expenditures, working capital or general corporate purposes may be impaired in the future;
- . a substantial portion of our current cash flow from operations must be dedicated to the payment of principal and interest on our senior subordinated notes, borrowings under the Revolving Facility and the Floor Plan Facilities and other indebtedness, thereby reducing the funds available to us for our operations and other purposes;
- . some of our borrowings are and will continue to be at variable rates of interest, which exposes us to the risk of increased interest rates;
- . the indebtedness outstanding under our credit facilities is secured by a pledge of substantially all the assets of our dealerships; and
- . we may be substantially more leveraged than some of our competitors, which may place us at a relative competitive disadvantage and make us more vulnerable to changing market conditions and regulations.

In addition, our debt agreements contain numerous covenants that limit our discretion with respect to business matters, including mergers or acquisitions, paying dividends, incurring additional debt, making capital expenditures or disposing of assets.

Our future operating results depend on our ability to integrate our operations with recent acquisitions.

Our future operating results depend on our ability to integrate the operations of our recently acquired dealerships, as well as dealerships we acquire in the future, with our existing operations. In particular, we need to

integrate our systems, procedures and structures, which can be difficult. Our growth strategy has focused on the pursuit of strategic acquisitions that either expand or complement our business. We acquired 19 dealerships in 1998, 72 during 1999, and 11 in 2000 and 5 to date in 2001.

We cannot assure you that we will effectively and profitably integrate the operations of these dealerships without substantial costs, delays or operational or financial problems, including as a result of:

- . the difficulties of managing operations located in geographic areas where we have not previously operated;
- . the management time and attention required to integrate and manage newly acquired dealerships;
- . the difficulties of assimilating and retaining employees; and
- . the challenges of keeping customers.

These factors could have a material adverse effect on our financial condition and results of operations.

Risks associated with acquisitions may hinder our ability to increase revenues and earnings.

The automobile retailing industry is considered a mature industry in which minimal growth is expected in industry unit sales. Accordingly, our future growth depends in large part on our ability to acquire additional dealerships, as well as on our ability to manage expansion, control costs in our operations and consolidate both past and future dealership acquisitions into existing operations. In pursuing a strategy of acquiring other dealerships, we face risks commonly encountered with growth through acquisitions. These risks include, but are not limited to:

- . incurring significantly higher capital expenditures and operating expenses;
- . failing to assimilate the operations and personnel of the acquired dealerships;
- . entering new markets with which we are unfamiliar;
- . potential undiscovered liabilities at acquired dealerships;
- . disrupting our ongoing business;
- . diverting our limited management resources;
- . failing to maintain uniform standards, controls and policies;
- . impairing relationships with employees, manufacturers and customers as a result of changes in management;
- . causing increased expenses for accounting and computer systems, as well as integration difficulties; and
- . failure to obtain a manufacturer's consent to the acquisition of one or more of its dealership franchises.

We may not adequately anticipate all of the demands that our growth will impose on our systems, procedures and structures, including our financial and reporting control systems, data processing systems and management structure. If we cannot adequately anticipate and respond to these demands, our business could be materially harmed.

Failure to retain qualified management personnel at any acquired dealership may increase the risk associated with integrating the acquired dealership.

Installing new computer systems has disrupted existing operations in the past as management and salespersons adjust to new technologies. We cannot assure you that we will overcome these risks or any other problems encountered with either our past or future acquisitions.

Automobile manufacturers exercise significant control over our operations and we are dependent on them to operate our business.

Each of our dealerships operates pursuant to a franchise agreement with the applicable automobile manufacturer or manufacturer authorized distributor. We are significantly dependent on our relationships with these manufacturers. Without a franchise agreement, we cannot obtain new vehicles from a manufacturer.

Vehicles manufactured by the following manufacturers accounted for the indicated approximate percentage of our new vehicle revenue for the six months ended June 30, 2001:

Percentage of Historical  
New Vehicle Revenues for  
the Six Months Ended  
June 30, 2001

Manufacturer	
Ford	18.8%
Honda	13.2%
BMW	11.3%
General Motors	10.8%
Toyota	10.7%
Chrysler	8.8%
Nissan	5.4%
Lexus	5.4%

No other manufacturer accounted for more than 5% of our new vehicle sales during the first six months of 2001. A significant decline in the sale of Ford, Honda, Chrysler, General Motors, BMW, Toyota, Nissan or Lexus new vehicles could have a material adverse effect on our revenue and profitability.

Manufacturers exercise a great degree of control over the operations of our dealerships. Each of our franchise agreements provides for termination or non-renewal for a variety of causes, including any unapproved change of ownership or management and other material breaches of the franchise agreements.

Manufacturers may also have a right of first refusal if we seek to sell dealerships. We believe that we will be able to renew at expiration all of our existing franchise agreements, other than our Oldsmobile franchise agreements. General Motors is phasing out the Oldsmobile division, which will not materially affect us.

- . We cannot assure you that any of our existing franchise agreements will be renewed or that the terms and conditions of such renewals will be favorable to us.
- . If a manufacturer is allowed under state franchise laws to terminate or decline to renew one or more of our significant franchise agreements, this action could have a material adverse effect on our results of operations.
- . Actions taken by manufacturers to exploit their superior bargaining position in negotiating the terms of renewals of franchise agreements or otherwise could also have a material adverse effect on our results of operations.
- . Manufacturers allocate their vehicles among dealerships generally based on the sales history of each dealership. Consequently, we also depend on the manufacturers to provide us with a desirable mix of popular new vehicles. These popular vehicles produce the highest profit margins and tend to be the most difficult to obtain from the manufacturers.
- . Our dealerships depend on the manufacturers for certain sales incentives, warranties and other programs that are intended to promote and support dealership new vehicle sales. Manufacturers have historically made many changes to their incentive programs during each year. A reduction or discontinuation of a manufacturer's incentive programs may materially adversely affect our profitability. Some of these programs include:
  - . customer rebates on new vehicles;
  - . dealer incentives on new vehicles;
  - . special financing or leasing terms;
  - . warranties on new and used vehicles; and
  - . sponsorship of used vehicle sales by authorized new vehicle dealers.

Adverse conditions affecting one or more manufacturers may negatively impact our profitability.

The success of each of our dealerships depends to a great extent on the manufacturers':

- . financial condition;
- . marketing;
- . vehicle design;
- . production capabilities;

- . management; and
- . labor relations.

Nissan, Dodge (a Chrysler brand) and Volvo have had significant difficulty in the U.S. market in the recent past. If any of our manufacturers, particularly Ford, Honda, Chrysler, GM, BMW, Toyota, Nissan, or Lexus were unable to design, manufacture, deliver and market their vehicles successfully, the manufacturer's reputation and our ability to sell the manufacturer's vehicles could be adversely affected.

Events such as strikes and other labor actions by unions, or negative publicity concerning a particular manufacturer or vehicle model, may materially and adversely affect our results of operations. Similarly, the delivery of vehicles from manufacturers later than scheduled, which may occur particularly during periods when new products are being introduced, can reduce our sales. Although we have attempted to lessen our dependence on any one manufacturer by establishing dealer relationships with a number of different domestic and foreign automobile manufacturers, adverse conditions affecting manufacturers, Ford, Honda, Chrysler, GM, BMW, Toyota, Nissan or Lexus in particular, could have a material adverse effect on our results of operations. In the event of a strike, we may need to purchase inventory from other automobile dealers at prices higher than we would be required to pay to the affected manufacturer in order to carry an adequate level and mix of inventory. Consequently, strikes or other adverse labor actions could materially adversely affect our profitability.

Manufacturer stock ownership/issuance restrictions limit our ability to issue additional equity to meet our financing needs.

Standard automobile franchise agreements prohibit transfers of any ownership interests of a dealership and its parent and, therefore, often do not by their terms accommodate public trading of the capital stock of a dealership or its parent. Our manufacturers have agreed to permit trading in Sonic's Class A common stock. A number of manufacturers impose restrictions on the transferability of the Class A common stock.

- . Honda may force the sale of our Honda or Acura franchises if (1) an automobile manufacturer or distributor acquires securities having 5% or more of the voting power of Sonic's securities, (2) an individual or entity that has either a felony criminal record or a criminal record relating solely to dealings with an automobile manufacturer, distributor or dealership acquires securities having 5% or more of the voting power of Sonic's securities or (3) any individual or entity acquires securities having 20% or more of the voting power of Sonic's securities and Honda reasonably deems such acquisition to be detrimental to Honda's interests in any material respect.
- . Ford may cause us to sell or resign from one or more of our Ford, Lincoln or Mercury franchises if any person or entity (other than O. Bruton Smith and any entity controlled by him) acquires or has a binding agreement to acquire securities having 50% or more of the voting power of Sonic's securities.
- . GM and Infiniti may force the sale of their respective franchises if 20% or more of Sonic's voting securities are similarly acquired.
- . Toyota may force the sale of one or more of Sonic's Toyota or Lexus dealerships if (1) an automobile manufacturer or distributor acquires securities, or the right to vote securities by proxy or voting agreement, having more than 5% of the voting power of Sonic's securities, (2) any individual or entity acquires securities, or the right to vote securities by proxy or voting agreement, having more than 20% of the voting power of Sonic's securities, (3) there is a material change in the composition of Sonic's Board of Directors that Toyota reasonably concludes will be materially incompatible with Toyota's interests or will have an adverse effect on Toyota's reputation or brands in the marketplace or the performance of Sonic or its Toyota and Lexus dealerships, (4) there occurs an extraordinary transaction whereby Sonic's shareholders immediately prior to such transaction own in the aggregate securities having less than a majority of the voting power of Sonic or the successor entity, or (5) any individual or entity acquires control of Sonic, Sonic Financial Corporation or any Toyota or Lexus dealership owned by Sonic.
- . Chrysler requires prior approval of any future sales that would result in a change in voting or managerial control of Sonic.
- . Mercedes requires 60 days advance notice to approve any acquisition of 20% or more of Sonic's voting securities.
- . Volkswagen has approved the sale of no more than 25% of the voting control of Sonic, and any future changes in ownership or transfers among Sonic's current stockholders that could affect the voting or managerial control of Sonic's Volkswagen franchise subsidiaries requires the prior

approval of Volkswagen.

Other manufacturers may impose similar or more limiting restrictions.

Our lending arrangements also require that holders of Sonic's Class B common stock maintain voting control over Sonic. We are unable to prevent our stockholders from transferring shares of our common stock, including transfers by holders of the Class B common stock. If such transfer results in a change in control of Sonic, it could result in the termination or non-renewal of one or more of our franchise agreements and a default under our credit arrangements. Moreover, these issuance limitations may impede our ability to raise capital through additional equity offerings or to issue our stock as consideration for future acquisitions.

Manufacturers' restrictions on acquisitions could limit our future growth.

We are required to obtain the consent of the applicable manufacturer before the acquisition of any additional dealership franchises. We cannot assure you that manufacturers will grant such approvals, although the denial of such approval may be subject to certain state franchise laws.

Obtaining manufacturer consent for acquisitions could also take a significant amount of time. Obtaining manufacturer approval for our completed acquisitions has taken approximately three to five months. We believe that manufacturer approvals of subsequent acquisitions from manufacturers with which we have previously completed applications and agreements may take less time, although we cannot provide you with assurances to that effect. In addition, under an applicable franchise agreement or under state law, a manufacturer may have a right of first refusal to acquire a dealership in the event we seek to acquire that dealership franchise.

If we experience delays in obtaining, or fail to obtain, manufacturer approvals for dealership acquisitions, our growth strategy could be materially adversely affected. In determining whether to approve an acquisition, the manufacturers may consider many factors, including:

- . our management's moral character;
- . the business experience of the post-acquisition dealership management;
- . our financial condition;
- . our ownership structure; and
- . manufacturer-determined consumer satisfaction index (CSI) scores.

In addition, a manufacturer may seek to limit the number of its dealerships that we may own, our national market share of that manufacturer's products or the number of dealerships we may own in a particular geographic area. These restrictions may not be enforceable under state franchise laws.

- . Our framework agreement with Ford places the following restrictions on our ability to acquire Ford or Lincoln Mercury dealerships:
  - . We may not acquire additional Ford or Lincoln Mercury dealerships unless we continue to satisfy Ford's requirement that 80% of our Ford dealerships meet Ford's performance criteria. Beyond that, we may not make an acquisition that would result in our owning Ford or Lincoln Mercury dealerships with sales exceeding 5% of the total Ford or total Lincoln Mercury retail sales of new vehicles in the United States for the preceding calendar year.
  - . We may not acquire additional Ford or Lincoln Mercury dealerships in a particular state if such an acquisition would result in our owning Ford or Lincoln Mercury dealerships with sales exceeding 5% of the total Ford or total Lincoln Mercury retail sales of new vehicles in that state for the preceding calendar year.
  - . We may not acquire additional Ford dealerships in a Ford-defined market area if such an acquisition would result in our owning more than one Ford dealership in a market having a total of three or less Ford dealerships or owning more than 25% of the Ford dealerships in a market having a total of four or more Ford dealerships. An identical market area restriction applies for Lincoln Mercury dealerships.
- . In December 2000, Toyota and Sonic entered into a new framework agreement that limits the number of Toyota and Lexus dealerships that we may own on a national level, in each Toyota-defined geographic region or distributor area, and in each Toyota or Lexus-defined metropolitan market. Nationally, the limitations on Toyota dealerships owned by us are for specified time periods and are based on specified percentages of total Toyota unit sales in the United States. In Toyota-defined geographic regions or distributor areas, the limitations on Toyota dealerships owned by us are specified by the applicable Toyota regional limitations policy or distributor's policy in effect at such time. In

Toyota-defined metropolitan markets, the limitations on Toyota dealerships owned by us are based on Toyota's metro markets limitation policy then in effect, which currently provides a limitation based on the total number of Toyota dealerships in the particular market. For Lexus, we may own no more than one Lexus dealership in any one Lexus-defined metropolitan market and no more than three Lexus dealerships nationally.

- . Our framework agreement with Honda limits the number of Honda and Acura dealerships that we may own on a national level, in each Honda and Acura-defined geographic zone, and in each Honda-defined metropolitan market. Nationally, the limitations on Honda dealerships owned by us are based on specified percentages of total Honda unit sales in the United States. In Honda-defined geographic zones, the limitations on Honda dealerships owned by us are based on specified percentages of total Honda unit sales in each of 10 Honda-defined geographic zones. In Honda-defined metropolitan markets, the limitations on Honda dealerships owned by us are specified numbers of dealerships in each market, which numerical limits vary based mainly on the total number of Honda dealerships in a particular market. For Acura, we may own no more than (1) two Acura dealerships in a Honda-defined metropolitan market, (2) three Acura dealerships in any one of six Honda-defined geographic zones and (3) five Acura dealerships nationally.
- . Mercedes restricts any company from owning Mercedes dealerships with sales of more than 3% of total sales of Mercedes vehicles in the U.S. during the previous calendar year.
- . GM currently limits the maximum number of GM dealerships that we may acquire to 50% of the GM dealerships, by brand line, in a GM-defined geographic market area having multiple GM dealers.
- . Subaru limits us to no more than two Subaru dealerships within certain designated market areas, four Subaru dealerships within its Mid-America region and 12 dealerships within Subaru's entire area of distribution.
- . BMW currently prohibits publicly held companies from owning BMW dealerships representing more than 10% of all BMW sales in the U.S. or more than 50% of BMW dealerships in a given metropolitan market.
- . Toyota, Honda and Mercedes also prohibit the coupling of a franchise with any other brand without their consent.
- . Honda also prohibits ownership of contiguous dealerships.

As a condition to granting their consent to our acquisitions, a number of manufacturers required additional restrictions. These agreements principally restrict:

- . material changes in our company or extraordinary corporate transactions such as a merger, sale of a material amount of assets or change in our board of directors or management that could have a material adverse effect on the manufacturer's image or reputation or could be materially incompatible with the manufacturer's interests;
- . the removal of a dealership general manager without the consent of the manufacturer; and
- . the use of dealership facilities to sell or service new vehicles of other manufacturers.

In addition, manufacturer consent to our acquisitions may impose conditions, such as requiring facilities improvements by us at the acquired dealership.

If we are unable to comply with these restrictions, we generally:

- . must sell the assets of the dealerships to the manufacturer or to a third party acceptable to the manufacturer; or
- . terminate the dealership agreements with the manufacturer.

Other manufacturers may impose other and more stringent restrictions in connection with future acquisitions.

As of June 30, 2001, we owned the following number of franchises for the following manufacturers:

Manufacturer	Number of Franchises	Manufacturer	Number of Franchises
- - - - -	- - - - -	- - - - -	- - - - -
Ford	12	Lexus	4
Chevrolet	11	Lincoln	4
Honda	11	Mercedes	4

BMW	10	Hyundai	3
Cadillac	10	Isuzu	3
Nissan	10	Kia	3
Toyota	9	Mitsubishi	3
Dodge	8	Audi	2
Volvo	8	GMC	2
Chrysler	7	Infiniti	2
Jeep	7	Pontiac	2
Oldsmobile	7	Porsche	2
Plymouth	7	Acura	1
Mercury	5	Land Rover	1
Volkswagen	4	Subaru	1

Our failure to meet a manufacturer's consumer satisfaction requirements may adversely affect our ability to acquire new dealerships and our profitability.

Many manufacturers attempt to measure customers' satisfaction with their sales and warranty service experiences through systems which vary from manufacturer to manufacturer, but which are generally known as "CSI." These manufacturers may use a dealership's CSI scores as a factor in evaluating applications for additional dealership acquisitions. The components of CSI have been modified by various manufacturers from time to time in the past, and we cannot assure you that these components will not be further modified or replaced by different systems in the future. To date, we have not been materially adversely affected by these standards and have not been denied approval of any acquisition based on low CSI scores, except for Jaguar's refusal to approve our acquisition of a Chattanooga Jaguar franchise in 1997. However, we cannot assure you that we will be able to comply with these standards in the future. A manufacturer may refuse to consent to an acquisition of one of its franchises if it determines our dealerships do not comply with the manufacturer's CSI standards. This could materially adversely affect our acquisition strategy. In addition, we receive payments from the manufacturers based, in part, on CSI scores, which could be materially adversely affected if our CSI scores decline.

There are limitations on our financial resources available for acquisitions.

We intend to finance our acquisitions with cash generated from operations, through issuances of our stock or debt securities and through borrowings under credit arrangements.

- . We cannot assure you that we will be able to obtain additional financing by issuing stock or debt securities.
- . Using cash to complete acquisitions could substantially limit our operating or financial flexibility.

If we are unable to obtain financing on acceptable terms, we may be required to reduce the scope of our presently anticipated expansion, which could materially adversely affect our growth strategy.

We estimate that as of June 30, 2001, we had approximately \$104.3 million available for additional borrowings under the Revolving Facility, based on a borrowing base calculated on the basis of our receivables, inventory and equipment and a pledge of certain additional collateral by an affiliate of Sonic (which borrowing base was \$465.5 million of the \$600.0 million facility at June 30, 2001).

In addition, we are dependent to a significant extent on our ability to finance our inventory. Automotive retail inventory financing involves significant sums of money in the form of "floor plan financing." Floor plan financing is how a dealership finances its purchase of new vehicles from a manufacturer. The dealership borrows money to buy a particular vehicle from the manufacturer and pays off the loan when it sells that particular vehicle, paying interest during this period. We must obtain new floor plan financing or obtain consents to assume such financing in connection with our acquisition of dealerships.

Substantially all the assets of our dealerships are pledged to secure this floor plan indebtedness. In addition, substantially all the real property and assets of our subsidiaries that are constructing new dealerships are pledged under our Mortgage Facility with Ford Motor Credit. These pledges may impede our ability to borrow from other sources.

Finally, because Ford Motor Credit is associated with Ford, any deterioration of our relationship with one could adversely affect our relationship with the other. The same is true of our relationships with Chrysler and Chrysler Financial, GM and GMAC, and Toyota and Toyota Credit.

Although our officers and directors have previously facilitated our acquisition financing, we cannot assure you that these individuals will be willing or able to assist in our financing needs in the future.

O. Bruton Smith, our Chief Executive Officer and Chairman of the Board,

previously guaranteed our credit facilities and other financing arrangements to facilitate our acquisitions. Mr. Smith may be unwilling to make any such commitments in the future if such commitments are needed.

Mr. Smith initially guaranteed obligations under the Revolving Facility. Such obligations were further secured with a pledge of shares of common stock of Speedway Motorsports, Inc. ("SMI") owned by Sonic Financial Corporation, a corporation controlled by Mr. Smith ("SFC"), having an estimated value at the time of pledge of approximately \$50.0 million (the "Revolving Pledge"). When the Revolving Facility's borrowing limit was increased to \$75.0 million in 1997, Mr. Smith's personal guarantee of Sonic's obligations under the Revolving Facility was released, although the Revolving Pledge remained in place. Mr. Smith was also required by Ford Motor Credit to lend \$5.5 million (the "Subordinated Smith Loan") to Sonic to increase our capitalization because the net proceeds from our November 1997 initial public offering were significantly less than expected. In August 1998, Ford Motor Credit released the Revolving Pledge. In November 1999, Ford Motor Credit further increased the borrowing limit under the Revolving Facility to \$350.0 million subject to a borrowing base calculated on the basis of our receivables, inventory and equipment and a continuing pledge by SFC of five million shares of SMI common stock. Presently, the borrowing limit of the Revolving Facility is \$600.0 million, subject to a similar borrowing base, including SFC's continuing pledge of SMI stock.

Before our acquisition of FirstAmerica Automotive, Inc., Mr. Smith guaranteed the obligations of FirstAmerica under FirstAmerica's new acquisition line of credit with Ford Motor Credit. FirstAmerica obtained this new financing to enable it to complete its then pending acquisitions. The borrowing limit on this credit facility was approximately \$138 million. Mr. Smith had guaranteed approximately \$107 million of this amount, which guarantee was secured by a pledge of 5.0 million shares of SMI common stock owned by SFC. We assumed FirstAmerica's obligations to Ford Motor Credit under our Revolving Facility when we acquired FirstAmerica. Mr. Smith's secured guarantee in favor of Ford Motor Credit guaranteed a portion of our obligations under the Revolving Facility until August 2000. After August 2000, Mr. Smith did not provide a guarantee in favor of the Revolving Facility lenders, but SFC continues to pledge SMI stock as collateral. We cannot assure you that Mr. Smith will be willing or able to provide similar guarantees or credit support in the future to facilitate Sonic's future acquisitions.

Automobile retailing is a mature industry with limited growth potential in new vehicle sales, and our acquisition strategy will affect our revenues and earnings.

The United States automobile dealership industry is considered a mature industry in which minimal growth is expected in unit sales of new vehicles. As a consequence, growth in our revenues and earnings is likely to be significantly affected by our success in acquiring and integrating dealerships and the pace and size of such acquisitions.

High competition in automobile retailing reduces our profit margins on vehicle sales. Further, the use of the Internet in the car purchasing process could materially adversely affect us.

Automobile retailing is a highly competitive business with approximately 21,600 franchised automobile dealerships in the United States at the end of 2000. Our competition includes:

- . Franchised automobile dealerships selling the same or similar makes of new and used vehicles that we offer in our markets and sometimes at lower prices than we offer. Some of these dealer competitors may be larger and have greater financial and marketing resources than we do;
- . Other franchised dealers;
- . Private market buyers and sellers of used vehicles;
- . Used vehicle dealers;
- . Internet-based vehicle brokers that sell vehicles obtained from franchised dealers directly to consumers;
- . Service center chain stores; and
- . Independent service and repair shops.

Our financing and insurance ("F&I") business and other related businesses, which provide higher contributions to our earnings than sales of new and used vehicles, are subject to strong competition from various financial institutions and other third parties. This competition is increasing as these products are now being marketed and sold over the Internet.

Gross profit margins on sales of new vehicles have been generally declining since 1986. We do not have any cost advantage in purchasing new vehicles from manufacturers, due to economies of scale or otherwise. We typically rely on advertising, merchandising, sales expertise, service reputation and dealership

location to sell new vehicles. The following factors could have a significant impact on our business:

- . The Internet has become a significant part of the sales process in our industry. Customers are using the Internet to compare pricing for cars and related F&I services, which may further reduce margins for new and used cars and profits for related F&I services. In addition, CarsDirect.com and others are selling vehicles over the Internet without the benefit of having a dealership franchise, although they must currently source their vehicles from a franchised dealer. CarsDirect.com is in an alliance with United Auto Group to facilitate their sourcing of vehicles. Also, AutoNation is selling vehicles for its new car dealerships through its AutoNationDirect.com web site. If Internet new vehicle sales are allowed to be conducted without the involvement of franchised dealers, our business could be materially adversely affected. In addition, other franchise groups have aligned themselves with Internet car sellers or are spending significant sums on developing their own Internet capabilities, which could materially adversely affect our business.
- . Our revenues and profitability could be materially adversely affected should manufacturers decide to enter the retail market directly.
- . The increased popularity of short-term vehicle leasing also has resulted, as these leases expire, in a large increase in the number of late model vehicles available in the market, which puts added pressure on new and used vehicle margins.
- . Some of our competitors may be capable of operating on smaller gross margins than we are, and the on-line auto brokers have been operating at a loss.
- . As we seek to acquire dealerships in new markets, we may face increasingly significant competition as we strive to gain market share through acquisitions or otherwise. This competition includes other large dealer groups and dealer groups that have publicly traded equity.

Our franchise agreements do not grant us the exclusive right to sell a manufacturer's product within a given geographic area. Our revenues or profitability could be materially adversely affected if any of our manufacturers award franchises to others in the same markets where we operate, although certain state franchise laws may limit such activities by the manufacturers. A similar adverse effect could occur if existing competing franchised dealers increase their market share in our markets. Our gross margins may decline over time as we expand into markets where we do not have a leading position. These and other competitive pressures could materially adversely affect our results of operations.

The cyclical and local nature of automobile sales may adversely affect our profitability.

The automobile industry is cyclical and historically has experienced periodic downturns characterized by oversupply and weak demand. Many factors affect the industry, including general economic conditions and consumer confidence, the level of discretionary personal income, interest rates and credit availability. For example, recent interest rate increases and other factors have impacted the market and have reduced the seasonally adjusted annualized selling rate of new cars since the beginning of the year.

Future recessions may have a material adverse effect on our business. In addition, significant changes in interest rates may significantly impact our car sales since many car buyers finance their purchases. Furthermore, higher gasoline prices may lead to a reduction in automobile purchases or a shift in buying patterns from luxury/SUV models (which typically provide high profit margins to retailers) to smaller, more economical vehicles (which typically have lower margins).

Local economic, competitive and other conditions also affect the performance of dealerships. Our dealerships currently are located in the Atlanta, Baltimore, Birmingham, Charleston, Charlotte, Chattanooga, Columbia, Columbus, Dallas, Daytona Beach, Fort Myers, Greenville/Spartanburg, Houston, Las Vegas, Los Angeles, Mobile/Pensacola, Montgomery, Nashville, San Diego, San Francisco, San Jose/Silicon Valley, Tampa/Clearwater, Tulsa and Washington, D.C. markets. We intend to pursue acquisitions outside of these markets, but our operational focus is on our current markets. As a result, our results of operations depend substantially on general economic conditions and consumer spending habits in the Southeast and Northern California and, to a lesser extent, the Houston and Columbus markets. Sales in our Northern California market represented 20.9% of our sales for the six months ended June 30, 2001. Our results of operations also depend on other factors, such as tax rates and state and local regulations specific to the states in which we currently operate. Sonic may not be able to expand geographically and any such expansion may not adequately insulate it from the adverse effects of local or regional economic conditions.

We can offer you no assurances that we will be able to continue executing our acquisition strategy without the costs of future acquisitions escalating.

Although there are many potential acquisition candidates that fit our acquisition criteria, we cannot assure you that we will be able to consummate any such transactions in the future or identify those candidates that would result in the most successful combinations, or that future acquisitions will be able to be consummated at acceptable prices and terms. In addition, increased competition for acquisition candidates could result in fewer acquisition opportunities for us and higher acquisition prices. The magnitude, timing, pricing and nature of future acquisitions will depend upon various factors, including:

- . the availability of suitable acquisition candidates;
- . competition with other dealer groups for suitable acquisitions;
- . the negotiation of acceptable terms;
- . our financial capabilities;
- . our stock price;
- . the availability of skilled employees to manage the acquired companies; and
- . general economic and business conditions.

We may be required to file applications and obtain clearances under applicable federal antitrust laws before completing an acquisition. These regulatory requirements may restrict or delay our acquisitions, and may increase the cost of completing acquisitions.

The operating condition of acquired businesses cannot be determined accurately until we assume control.

Although we conduct what we believe to be a prudent level of investigation regarding the operating condition of the businesses we purchase, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual operating condition of these businesses. Until we actually assume operating control of such business assets, we may not be able to ascertain the actual value of the acquired entity.

Potential conflicts of interest between Sonic and its officers could adversely affect our future performance.

O. Bruton Smith serves as the chairman and chief executive officer of Speedway Motorsports, Inc. ("SMI"). Accordingly, Sonic competes with SMI for the management time of Mr. Smith. Under his employment agreement with Sonic, Mr. Smith is required to devote approximately 50% of his business time to our business. The remainder of his business time may be devoted to other entities, including SMI.

Sonic has in the past and will likely in the future enter into transactions with Mr. Smith, entities controlled by Mr. Smith or other affiliates of Sonic. We believe that all of our existing arrangements with affiliates are as favorable to us as if the arrangements were negotiated between unaffiliated parties, although the majority of such transactions have neither been independently verified in that regard nor are likely to be so verified in the future. Potential conflicts of interest could arise in the future between Sonic and its officers or directors in the enforcement, amendment or termination of arrangements existing between them.

Under Delaware law generally, a corporate insider is precluded from acting on a business opportunity in his individual capacity if that opportunity is

- (1) one which the corporation is financially able to undertake,
- (2) is in the line of the corporation's business,
- (3) is of practical advantage to the corporation, and
- (4) is one in which the corporation has an interest or reasonable expectancy.

Accordingly, our corporate insiders are generally prohibited from engaging in new dealership-related business opportunities outside of Sonic unless a majority of Sonic's disinterested directors decide that such opportunities are not in our best interest.

Sonic's charter contains provisions providing that transactions between Sonic and its affiliates must be no less favorable to Sonic than would be available in similar transactions with an unrelated third party. Moreover, any such transactions involving aggregate payments in excess of \$500,000 must be approved by a majority of Sonic's directors and a majority of Sonic's independent directors. If not so approved, Sonic must obtain an opinion as to the financial fairness of the transaction to be issued by an investment banking

or appraisal firm of national standing. In addition, the terms of the Revolving Facility

and Sonic's existing senior subordinated notes restrict transactions with affiliates in a manner similar to Sonic's charter restrictions.

Lack of majority of independent directors could result in conflicts between us and our management and majority stockholders that may reduce our future performance.

Independent directors do not constitute a majority of our board, and our board may not have a majority of independent directors in the future. Without a majority of independent directors, Sonic's executive officers, principal stockholders and directors could establish policies and enter into transactions without independent review and approval, subject to certain restrictions under our charter. These policies and transactions could present the potential for a conflict of interest between Sonic and its minority stockholders and the controlling officers, stockholders or directors.

The loss of key personnel and limited management and personnel resources could adversely affect our operations and growth.

Our success depends to a significant degree upon the continued contributions of Sonic's management team, particularly its senior management, and service and sales personnel. Additionally, manufacturer franchise agreements may require the prior approval of the applicable manufacturer before any change is made in franchise general managers. We do not have employment agreements with most of our dealership managers and other key dealership personnel. Consequently, the loss of the services of one or more of these key employees could have a material adverse effect on our results of operations.

In addition, as we expand we may need to hire additional managers. The market for qualified employees in the industry and in the regions in which we operate, particularly for general managers and sales and service personnel, is highly competitive and may subject us to increased labor costs during periods of low unemployment. The loss of the services of key employees or the inability to attract additional qualified managers could have a material adverse effect on our results of operations. In addition, the lack of qualified management or employees employed by potential acquisition candidates may limit our ability to consummate future acquisitions.

Seasonality of the automotive retail business adversely affects first quarter revenues.

Our business is seasonal, with a disproportionate amount of revenues received generally in the second, third and fourth fiscal quarters.

Import product restrictions and foreign trade risks may impair our ability to sell foreign vehicles profitably.

Some of the vehicles and major components of vehicles we sell are manufactured in foreign countries. Accordingly, we are subject to the import and export restrictions of various jurisdictions and are dependent to some extent upon general economic conditions in, and political relations with, a number of foreign countries, particularly Germany, Japan and Sweden. Fluctuations in currency exchange rates may also adversely affect our sales of vehicles produced by foreign manufacturers. Imports into the United States may also be adversely affected by increased transportation costs and tariffs, quotas or duties.

Governmental regulation and environmental regulation compliance costs may adversely affect our profitability.

We are subject to a wide range of federal, state and local laws and regulations, such as local licensing requirements and consumer protection laws. The violation of these laws and regulations can result in civil and criminal penalties against us or in a cease and desist order against our operations if we are not in compliance. Our future acquisitions may also be subject to regulation, including antitrust reviews. We believe that we comply in all material respects with all laws and regulations applicable to our business, but future regulations may be more stringent and require us to incur significant additional costs.

Our facilities and operations are also subject to federal, state and local laws and regulations relating to environmental protection and human health and safety, including those governing wastewater discharges, air emissions, the operation and removal of underground and aboveground storage tanks, the use, storage, treatment, transportation, release, recycling and disposal of solid and hazardous materials and wastes and the cleanup of contaminated property or water. We may be required by these laws to pay the full amount of the costs of investigation and/or remediation of contaminated properties, even if we are not at fault for disposal of the materials or if such disposal was legal at the time. People who may be found liable under these laws and regulations include the present or former owner or operator of a contaminated property and companies that generated, transported, disposed of or arranged for the transportation or disposal of hazardous substances found at the property.

Our past and present business operations are subject to environmental laws and regulations governing the use, storage, handling, recycling and disposal of hazardous or toxic substances such as new and waste motor oil, oil filters, transmission fluid, antifreeze, freon, new and waste paint and lacquer thinner, batteries, solvents, lubricants, degreasing agents, gasoline and diesel fuels. We are also subject to laws and regulations relating to underground storage tanks that exist or used to exist at many of our properties. Like many of our competitors, we have incurred, and will continue to incur, capital and operating expenditures and other costs in complying with such laws and regulations. In addition, soil and groundwater contamination exists at certain of our properties. We cannot assure you that our other properties have not been or will not become similarly contaminated. In addition, we could become subject to potentially material new or unforeseen environmental costs or liabilities because of our acquisitions.

Environmental laws and regulations, including those governing air emissions and underground storage tanks, could require compliance with new or more stringent standards that are imposed in the future. We cannot predict what other environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted or what environmental conditions may be found to exist in the future. Consequently, we may be required to make substantial expenditures in the future.

Concentration of voting power and antitakeover provisions of our charter, Delaware law and our dealer agreements may reduce the likelihood of any potential change of control of Sonic.

Sonic's common stock is divided into two classes with different voting rights. This dual class stock ownership allows the present holders of the Class B common stock to control Sonic. Holders of Class A common stock have one vote per share on all matters. Holders of Class B common stock have 10 votes per share on all matters, except that they have only one vote per share on any transaction proposed by the Board of Directors or a Class B common stockholder or otherwise benefiting the Class B common stockholders constituting a:

- (1) "going private" transaction;
- (2) disposition of substantially all of our assets;
- (3) transfer resulting in a change in the nature of our business; or
- (4) merger or consolidation in which current holders of common stock would own less than 50% of the common stock following such transaction.

The holders of Class B common stock currently hold less than a majority of Sonic's outstanding common stock, but a majority of Sonic's voting power. This may prevent or discourage a change of control of Sonic even if such action were favored by holders of Class A common stock.

Sonic's charter and bylaws make it more difficult for its stockholders to take corporate actions at stockholders' meetings. In addition, options under our 1997 Stock Option Plan become immediately exercisable on a change in control. Also, Delaware law makes it difficult for stockholders who have recently acquired a large interest in a company to consummate a business transaction with the company

against its directors' wishes. Finally, restrictions imposed by our dealer agreements may impede or prevent any potential takeover bid. Generally, our franchise agreements allow the manufacturers the right to terminate the agreements upon a change of control of our company and impose restrictions upon the transferability of any significant percentage of our stock to any one person or entity who may be unqualified, as defined by the manufacturer, to own one of its dealerships. The inability of a person or entity to qualify with one or more of our manufacturers may prevent or seriously impede a potential takeover bid. These agreements, corporate documents and laws, as well as provisions of our lending arrangements creating an event of default on a change in control, may have the effect of delaying or preventing a change in control or preventing stockholders from realizing a premium on the sale of their shares upon an acquisition of Sonic.

New accounting pronouncements on business combinations and goodwill could affect future earnings.

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141: Business Combinations. SFAS No. 141 prohibits the pooling-of-interests method of accounting and requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. In addition, SFAS 141 provides additional guidance regarding the measurement and recognition of goodwill and other acquired intangible assets. The provisions of this standard became effective beginning July 1, 2001. Upon adoption, we may be required to reclassify certain intangible assets previously recorded as goodwill, such as franchise rights granted from automobile manufacturers, as intangible assets apart from goodwill. However, we are currently evaluating the provisions of this standard and have not yet determined the full impact on our consolidated

financial statements.

In July 2001, the FASB also issued SFAS No. 142: Goodwill and Other Intangible Assets. Among other things, SFAS 142 no longer permits the amortization of goodwill, but requires that the carrying amount of goodwill be reviewed and reduced against operations if it is found to be impaired. This review must be performed on at least an annual basis, but must also be performed upon the occurrence of an event or circumstance that indicates a possible reduction in value. SFAS 142 does require the amortization of intangible assets other than goodwill over their useful economic lives, unless the useful economic life is determined to be indefinite. These intangible assets are required to be reviewed for impairment in accordance with SFAS 121: Accounting for Impairment of Long-Lived Assets and Assets to be Disposed. Intangible assets that are determined to have an indefinite economic life may not be amortized and must be reviewed for impairment in accordance with the terms of SFAS 142. The provisions of SFAS 142 become effective for us beginning January 1, 2002; however, goodwill and other intangible assets determined to have an indefinite useful life acquired in business combinations completed after June 30, 2001 will not be amortized. Early adoption and retroactive application is not permitted. While we are currently evaluating the provisions of SFAS 142, we have not yet determined the full impact on our consolidated financial statements. As of December 31, 2000, the carrying amount of goodwill was \$668.8 million and represented 37.4% of total assets and 148.3% of total stockholders' equity. As of June 30, 2001, the carrying amount of goodwill was \$691.4 million and represented 38.7% of total assets and 146.0% of total stockholders' equity.