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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, 2012

OR

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

Commission files number 1-13395

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

DELAWARE	**56-2010790**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
4401 Colwick Road, Charlotte, North Carolina	**28211**
(Address of principal executive offices)	**(Zip Code)**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such file). Yes ☒ No ☐

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

Large Accelerated Filer	☐	Accelerated Filer	☒
Non-Accelerated Filer	☐ (Do not check if a smaller reporting company)	Smaller Reporting Company	☐

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

As of July 18, 2012, there were 41,129,794 shares of Class A Common Stock and 12,029,375 shares of Class B Common Stock outstanding.

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PART I – FINANCIAL INFORMATION

Item 1: Unaudited Condensed Consolidated Financial Statements.

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

	Second Quarter Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
New vehicles	$ 1,221,297	$ 1,025,277	$ 2,285,750	$ 1,997,770
Used vehicles	550,040	529,107	1,067,092	1,003,662
Wholesale vehicles	43,984	41,136	89,325	76,182
Total vehicles	1,815,321	1,595,520	3,442,167	3,077,614
Parts, service and collision repair	304,570	295,094	606,318	582,195
Finance, insurance and other	65,338	55,369	124,587	104,471
Total revenues	2,185,229	1,945,983	4,173,072	3,764,280
Cost of Sales:				
New vehicles	(1,149,946)	(957,432)	(2,149,579)	(1,870,428)
Used vehicles	(513,313)	(490,072)	(989,836)	(927,054)
Wholesale vehicles	(45,418)	(43,000)	(90,544)	(78,491)
Total vehicles	(1,708,677)	(1,490,504)	(3,229,959)	(2,875,973)
Parts, service and collision repair	(155,780)	(149,545)	(310,472)	(295,134)
Total cost of sales	(1,864,457)	(1,640,049)	(3,540,431)	(3,171,107)
Gross profit	320,772	305,934	632,641	593,173
Selling, general and administrative expenses	(249,525)	(237,092)	(497,005)	(466,109)
Impairment charges	(33)	(41)	(34)	(58)
Depreciation and amortization	(11,390)	(9,699)	(22,461)	(19,595)
Operating income (loss)	59,824	59,102	113,141	107,411
Other income (expense):				
Interest expense, floor plan	(5,053)	(4,914)	(9,527)	(10,280)
Interest expense, other, net	(12,712)	(15,339)	(27,791)	(30,698)
Interest expense, non-cash, convertible debt	(1,413)	(1,715)	(3,043)	(3,409)
Interest income (expense / amortization), non-cash, cash flow swaps	83	(464)	105	(286)
Other income (expense), net	(2,550)	15	(2,530)	88
Total other income (expense)	(21,645)	(22,417)	(42,786)	(44,585)
Income (loss) from continuing operations before taxes	38,179	36,685	70,355	62,826
Provision for income taxes - benefit (expense)	(10,646)	(13,691)	(23,354)	(24,147)
Income (loss) from continuing operations	27,533	22,994	47,001	38,679
Discontinued operations:				
Income (loss) from operations and the sale of dealerships	1,345	(997)	3,049	(2,092)
Income tax benefit (expense)	(699)	(646)	(1,373)	(272)
Income (loss) from discontinued operations	646	(1,643)	1,676	(2,364)
Net income (loss)	$ 28,179	$ 21,351	$ 48,677	$ 36,315
Basic earnings (loss) per common share:				
Earnings (loss) per share from continuing operations	$ 0.52	$ 0.43	$ 0.88	$ 0.73
Earnings (loss) per share from discontinued operations	0.01	(0.03)	0.03	(0.05)
Earnings (loss) per common share	$ 0.53	$ 0.40	$ 0.91	$ 0.68
Weighted average common shares outstanding	52,593	52,461	52,409	52,438
Diluted earnings (loss) per common share:				
Earnings (loss) per share from continuing operations	$ 0.46	$ 0.38	$ 0.79	$ 0.65
Earnings (loss) per share from discontinued operations	0.01	(0.03)	0.02	(0.04)
Earnings (loss) per common share	$ 0.47	$ 0.35	$ 0.81	$ 0.61
Weighted average common shares outstanding	63,506	65,936	63,963	65,943
Dividends declared per common share	$ 0.025	$ 0.025	$ 0.05	$ 0.05

See notes to Unaudited Condensed Consolidated Financial Statements.

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SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Second Quarter Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss)	$ 28,179	$ 21,351	$ 48,677	$ 36,315
Other comprehensive income (loss) before taxes:				
Change in fair value of interest rate swap agreements	(2,746)	(4,944)	61	(1,663)
Total other comprehensive income (loss) before taxes	(2,746)	(4,944)	61	(1,663)
Provision for income tax benefit (expense) related to components of other comprehensive income (loss)	1,044	1,879	(22)	632
Other comprehensive income (loss)	(1,702)	(3,065)	39	(1,031)
Comprehensive income (loss)	$ 26,477	$ 18,286	$ 48,716	$ 35,284

See notes to Unaudited Condensed Consolidated Financial Statements.

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

	June 30, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 5,908	$ 1,913
Receivables, net	264,108	303,279
Inventories	1,033,044	863,133
Other current assets	20,601	12,404
Total current assets	1,323,661	1,180,729
Property and Equipment, net	561,374	552,037
Goodwill	464,136	468,465
Other Intangible Assets, net	75,499	76,276
Other Assets	45,329	62,122
Total Assets	$2,469,999	$ 2,339,629
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable - floor plan - trade	$ 503,153	$ 469,027
Notes payable - floor plan - non-trade	487,638	399,314
Trade accounts payable	98,389	86,902
Accrued interest	10,672	12,117
Other accrued liabilities	150,003	177,707
Current maturities of long-term debt	12,175	11,608
Total current liabilities	1,262,030	1,156,675
Long-Term Debt	525,395	536,011
Other Long-Term Liabilities	120,728	124,201
Commitments and Contingencies		
Stockholders' Equity:		
Class A convertible preferred stock, none issued	—	—
Class A common stock, $0.01 par value; 100,000,000 shares authorized; 57,011,528 shares issued and 41,127,428 shares outstanding at June 30, 2012; 56,377,778 shares issued and 40,600,031 shares outstanding at December 31, 2011	570	564
Class B common stock; $0.01 par value; 30,000,000 shares authorized; 12,029,375 shares issued and outstanding at June 30, 2012 and December 31, 2011	121	121
Paid-in capital	662,720	667,839
Retained earnings	170,391	124,383
Accumulated other comprehensive income (loss)	(21,451)	(21,490)
Treasury stock, at cost (15,884,100 Class A shares held at June 30, 2012 and 15,777,747 Class A shares held at December 31, 2011)	(250,505)	(248,675)
Total stockholders' equity	561,846	522,742
Total Liabilities and Stockholders' Equity	$2,469,999	$ 2,339,629

See notes to Unaudited Condensed Consolidated Financial Statements.

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

	Class A Common Stock		Class B Common Stock		Paid-In Capital	Retained Earnings / (Accumulated Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
BALANCE AT DECEMBER 31, 2011	56,378	$ 564	12,029	$ 121	$667,839	$ 124,383	$(248,675)	$ (21,490)	$ 522,742
Shares awarded under stock compensation plans	342	3	—	—	479	—	—	—	482
Purchases of treasury stock	—	—	—	—	—	—	(1,830)	—	(1,830)
Income tax benefit associated with stock compensation plans	—	—	—	—	1,573	—	—	—	1,573
Derecognition of equity component of 5.0% Convertible Notes (1), net of tax expense of $59	—	—	—	—	(9,755)	—	—	—	(9,755)
Fair value of interest rate swap agreements, net of tax expense of $22	—	—	—	—	—	—	—	39	39
Stock-based compensation expense	—	—	—	—	122	—	—	—	122
Restricted stock amortization	—	—	—	—	2,465	—	—	—	2,465
Other	292	3	—	—	(3)	—	—	—	—
Net income (loss)	—	—	—	—	—	48,677	—	—	48,677
Dividends ($0.05 per share)	—	—	—	—	—	(2,669)	—	—	(2,669)
BALANCE AT JUNE 30, 2012	57,012	$ 570	12,029	$ 121	$662,720	$ 170,391	$(250,505)	$ (21,451)	$ 561,846

(1) 5.0% Convertible Senior Notes due 2029 which are redeemable by us and which may be put to us by the holders after October 1, 2014 under certain circumstances (the "5.0% Convertible Notes"). See Note 6, "Long-Term Debt," for further discussion.

See notes to Unaudited Condensed Consolidated Financial Statements.

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

	Six-Month Period Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 48,677	$ 36,315
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	22,542	19,724
Provision for bad debt expense	301	265
Other amortization	780	831
Debt issuance cost amortization	1,519	1,990
Debt discount amortization, net of premium amortization	2,441	2,575
Stock - based compensation expense	122	217
Amortization of restricted stock, net of forfeitures	2,465	1,405
Deferred income taxes	13,671	(616)
Equity interest in earnings of investees	(227)	(366)
Asset impairment charges	34	58
Loss (gain) on disposal of dealerships and property and equipment	(5,577)	135
Loss on exit of leased dealerships	1,450	4,417
(Gain) loss on retirement of debt	2,578	—
Non-cash adjustments - cash flow swaps	(105)	286
Changes in assets and liabilities that relate to operations:		
Receivables	39,245	40,432
Inventories	(180,750)	41,589
Other assets	(7,269)	(5,047)
Notes payable - floor plan - trade	34,126	(40,590)
Trade accounts payable and other liabilities	(23,923)	18,808
Total adjustments	(96,577)	86,113
Net cash provided by (used in) operating activities	(47,900)	122,428
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of land, property and equipment	(34,504)	(112,661)
Proceeds from sales of property and equipment	660	214
Proceeds from sale of dealerships	23,620	129
Distributions from equity investees	700	600
Net cash provided by (used in) investing activities	(9,524)	(111,718)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (repayments) borrowings on notes payable floor plan - non-trade	88,324	(74,672)
Borrowings on revolving credit facilities	105,246	164,487
Repayments on revolving credit facilities	(105,246)	(164,487)
Proceeds from issuance of long-term debt	10,700	53,950
Principal payments on long-term debt	(5,162)	(4,212)
Repurchase of debt securities	(29,995)	—
Purchases of treasury stock	(1,830)	(3,902)
Income tax benefit (expense) associated with stock compensation plans	1,573	663
Issuance of shares under stock compensation plans	482	336
Dividends paid	(2,673)	(2,644)
Net cash provided by (used in) financing activities	61,419	(30,481)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,995	(19,771)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,913	21,842
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,908	$ 2,071
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Change in fair value of cash flow hedging instruments (net of tax expense of $22 and tax benefit of $632 in the six-month periods ended June 30, 2012 and 2011, respectively)	$ 39	$ (1,031)
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid (received) during the year for:		
Interest, including amount capitalized	$ 40,408	$ 44,791
Income taxes	$ 24,755	$ 6,874

See notes to Unaudited Condensed Consolidated Financial Statements.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation – The accompanying Unaudited Condensed Consolidated Financial Statements for the second quarter and six-month periods ended June 30, 2012 and 2011 have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and applicable rules and regulations of the Securities and Exchange Commission (the "SEC"). All material intercompany accounts and transactions have been eliminated. These Unaudited Condensed Consolidated Financial Statements reflect, in the opinion of management, all material 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" or the "Company") for the year ended December 31, 2011, which were included in Sonic's Annual Report on Form 10-K and updated in Sonic's Current Report on Form 8-K furnished to the SEC pursuant to Items 2.02 and 9.01 on June 25, 2012.

Reclassifications – The Unaudited Condensed Consolidated Statements of Income for the second quarter and six-month periods ended June 30, 2011 reflect the reclassification of balances from continuing operations to discontinued operations from the prior year presentation for additional dealerships sold or terminated subsequent to June 30, 2011.

Recent Accounting Pronouncements – In May 2011, the Financial Accounting Standards Board (the "FASB") issued an accounting standard update that amends the accounting standard on fair value measurements. The accounting standard update provides for a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. The accounting standard update changes certain fair value measurement principles, clarifies the application of existing fair value measurement, and expands the fair value measurement disclosure requirements, particularly for Level 3 fair value measurements. The amendments in this accounting standard update are to be applied prospectively and are effective for interim and annual periods beginning after December 15, 2011. The adoption of this accounting standard did not have a material effect on Sonic's consolidated financial statements or disclosures.

Lease Exit Accruals – Lease exit accruals relate to facilities Sonic has ceased using in its operations. The accruals represent the present value of the lease payments, net of estimated or actual sublease proceeds, for the remaining life of the operating leases and other accruals necessary to satisfy the lease commitment to the landlord.

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

	(In thousands)
Balance, December 31, 2011	$ 39,118
Lease exit expense (1)	1,450
Payments (2)	(4,331)
Lease buyout (3)	(1,657)
Balance, June 30, 2012	$ 34,580

(1) Approximately $0.2 million is recorded in interest expense, other, net, approximately $0.1 million is recorded in selling, general and administrative expenses and approximately $1.2 million is recorded to income (loss) from operations and the sale of dealerships in the accompanying Unaudited Condensed Consolidated Statements of Income.
(2) Amount is recorded as reduction of rent expense in selling, general and administrative expenses, with approximately $0.8 million in continuing operations and $3.5 million as a reduction to income (loss) from operations and the sale of dealerships in the accompanying Unaudited Condensed Consolidated Statements of Income.
(3) Amount represents write-off of accrual related to an early lease buyout agreement which was completed and paid, relieving Sonic of any future lease obligation.

Income Tax Expense – The overall effective tax rate from continuing operations was 27.9% and 33.2% for the second quarter and six-month periods ended June 30, 2012, respectively, and 37.3% and 38.4% for the second quarter and six-month periods ended June 30, 2011, respectively. The effective rates for the second quarter and six-month periods ended June 30, 2012 were lower than the same prior year periods primarily due to a $3.6 million tax benefit for the second quarter ended June 30, 2012 related to the settlement of a state tax examination.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Discontinued Operations

Dispositions – The operating results of disposed dealerships are included in the income (loss) from discontinued operations in Sonic's Unaudited Condensed Consolidated Statements of Income. During the six-month period ended June 30, 2012, Sonic disposed of five dealerships, which generated cash from disposition of approximately $23.6 million on the disposal of approximately $8.0 million of net assets. At June 30, 2012, there were no dealerships held for sale.

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

(In thousands)	Second Quarter Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Income (loss) from operations	$ (189)	$ 260	$ (1,000)	$ 852
Gain (loss) on disposal	(367)	(180)	5,292	(222)
Lease exit accrual adjustments and charges	1,901	(1,077)	(1,243)	(2,722)
Pre-tax income (loss)	$ 1,345	$ (997)	$ 3,049	$ (2,092)
Total revenues	$ —	$ 22,227	$ 10,267	$ 43,287

Lease exit charges recorded for the second quarter and six-month periods ended June 30, 2012 and 2011 relate to interest charges, the revision of estimates on previously established lease exit accruals and the reversal of a lease exit accrual related to a property which was returned to operating use. The lease exit accruals represent the present value of the lease payments, net of estimated or actual sublease proceeds, for the remaining life of the operating leases and other accruals necessary to satisfy the lease commitment to the landlord.

3. Inventories

Inventories consist of the following:

(In thousands)	June 30, 2012	December 31, 2011
New vehicles	$ 708,689	$ 569,573
Used vehicles	203,177	178,568
Parts and accessories	53,397	54,042
Other	67,781	60,950
Inventories	$1,033,044	$ 863,133

4. Property and Equipment

Property and equipment consists of the following:

(In thousands)	June 30, 2012	December 31, 2011
Land	$ 134,407	$ 131,865
Building and improvements	455,973	455,650
Office equipment and fixtures	108,044	92,920
Parts and service equipment	62,136	61,561
Company vehicles	8,183	8,391
Construction in progress	25,026	16,191
Total, at cost	793,769	766,578
Less accumulated depreciation	(232,395)	(214,541)
Property and equipment, net	$ 561,374	$ 552,037

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In the second quarter and six-month periods ended June 30, 2012, capital expenditures were approximately $22.5 million and $34.5 million, respectively, and were primarily related to construction of new dealerships, building improvements and equipment purchased for use in Sonic's dealerships.

5. Goodwill and Intangible Assets

(In thousands)	Franchise Agreements	Gross Goodwill	Accumulated Impairment	Net Goodwill
Balance, December 31, 2011	$ 64,835	$ 1,265,190	$ (796,725)	$ 468,465
Reductions from dispositions	—	(6,107)	1,778	(4,329)
Balance, June 30, 2012	$ 64,835	$ 1,259,083	$ (794,947)	$ 464,136

At December 31, 2011, Sonic had approximately $11.4 million of definite life intangibles recorded related to favorable lease agreements. After the effect of amortization of the definite life intangibles, the balance recorded at June 30, 2012 was approximately $10.7 million and was included in other intangible assets, net, in the accompanying Unaudited Condensed Consolidated Balance Sheets.

6. Long-Term Debt

Long-term debt consists of the following:

(In thousands)	June 30, 2012	December 31, 2011
2011 Revolving Credit Facility (1)	$ —	$ —
9.0% Senior Subordinated Notes due 2018 (the "9.0% Notes")	210,000	210,000
5.0% Convertible Senior Notes due 2029, redeemable in 2014 (the "5.0% Convertible Notes") (2)	134,905	155,055
Notes payable to a finance company bearing interest from 9.52% to 10.52% (with a weighted average of 10.19%)	11,932	13,223
Mortgage notes to finance companies-fixed rate, bearing interest from 4.29% to 7.03%	125,228	116,584
Mortgage notes to finance companies-variable rate, bearing interest at 1.25 to 3.50 percentage points above one-month LIBOR	63,930	65,640
Net debt discount and premium (3)	(14,015)	(18,635)
Other	5,590	5,752
Total debt	$ 537,570	$ 547,619
Less current maturities	(12,175)	(11,608)
Long-term debt	$ 525,395	$ 536,011

(1) The interest rate on the revolving credit facility was 2.0% above LIBOR at June 30, 2012 and 2.25% above LIBOR at December 31, 2011.
(2) See the heading "5.0% Senior Convertible Notes" below for discussion of the terms under which these notes may be redeemed in 2014.
(3) June 30, 2012 includes $1.2 million discount associated with the 9.0% Notes, $13.0 million discount associated with the 5.0% Convertible Notes, $1.0 million premium associated with notes payable to a finance company and $0.8 million discount associated with mortgage notes payable. December 31, 2011 includes $1.2 million discount associated with the 9.0% Notes, $17.7 million discount associated with the 5.0% Convertible Notes, $1.2 million premium associated with notes payable to a finance company and $0.9 million discount associated with mortgage notes payable.

2011 Credit Facilities

Sonic has a syndicated revolving credit agreement (the "2011 Revolving Credit Facility") and a syndicated floor plan credit facility (the "2011 Floor Plan Facility"). The 2011 Revolving Credit Facility and 2011 Floor Plan Facility (collectively the "2011 Credit Facilities") are scheduled to mature on August 15, 2016.

Availability under the 2011 Revolving Credit Facility is calculated as the lesser of $175.0 million or a borrowing base calculated based on certain eligible assets plus 50% of the fair market value of 5,000,000 shares of common stock of Speedway Motorsports, Inc. ("SMI") that are pledged as collateral, less the aggregate face amount of any outstanding letters of credit under the 2011 Revolving Credit Facility (the "2011 Revolving Borrowing Base"). The 2011 Revolving Credit Facility may be increased at Sonic's option to $225.0 million upon satisfaction of certain conditions. A withdrawal of the pledge of SMI common stock by Sonic Financial Corporation ("SFC"), which holds the 5,000,000 shares of common stock of SMI, or a decline in the value of SMI common stock, could reduce the amount Sonic can borrow under the 2011 Revolving Credit Facility.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Based on balances as of June 30, 2012, the 2011 Revolving Borrowing Base was approximately $175.0 million and Sonic had approximately $39.2 million in outstanding letters of credit resulting in total borrowing availability of approximately $135.8 million under the 2011 Revolving Credit Facility.

Covenants

Sonic was in compliance with the covenants under the 2011 Credit Facilities as of June 30, 2012. Financial covenants include required specified ratios (as each is defined in the 2011 Credit Facilities) of:

	Covenant		
	Consolidated Liquidity Ratio	Consolidated Fixed Charge Coverage Ratio	Consolidated Total Lease Adjusted Leverage Ratio
Required ratio	[3] 1.05	[3] 1.20	£ 5.50
June 30, 2012 actual	1.16	1.56	3.88

The 2011 Credit Facilities contain events of default, including cross-defaults to other material indebtedness, change of control events and events of default customary for syndicated commercial credit facilities. Upon the future occurrence of an event of default, Sonic could be required to immediately repay all outstanding amounts under the 2011 Credit Facilities.

In addition, many of Sonic's facility leases are governed by a guarantee agreement between the landlord and Sonic that contains financial and operating covenants. The financial covenants are identical to those under the 2011 Credit Facilities with the exception of one financial covenant related to the ratio of EBTDAR to Rent (as defined in the lease agreements) with a required ratio of no less than 1.50 to 1.00. At June 30, 2012, the ratio was 2.94 to 1.00.

9.0% Senior Subordinated Notes

The 9.0% Notes are unsecured senior subordinated obligations of Sonic that mature on March 15, 2018 and are guaranteed by Sonic's domestic operating subsidiaries. Interest is payable semi-annually on March 15 and September 15 each year. Sonic may redeem the 9.0% Notes in whole or in part at any time after March 15, 2014 at the following redemption prices, which are expressed as percentages of the principal amount:

	Redemption Price
Beginning on March 15, 2014	104.50%
Beginning on March 15, 2015	102.25%
Beginning on March 15, 2016 and thereafter	100.00%

In addition, on or before March 15, 2013, Sonic may redeem up to 35% of the aggregate principal amount of the 9.0% Notes at par value plus accrued interest with proceeds from certain equity offerings. The Indenture also provides that holders of 9.0% Notes may require Sonic to repurchase the 9.0% Notes at 101% of the par value of the 9.0% Notes, plus accrued interest if Sonic undergoes a "change of control" as defined in the Indenture.

The Indenture governing the 9.0% Notes contains certain specified restrictive covenants. Sonic has agreed not to pledge any assets to any third party lender of senior subordinated debt except under certain limited circumstances. Sonic also has agreed to certain other limitations or prohibitions concerning the incurrence of other indebtedness, capital stock, guarantees, asset sales, investments, cash dividends to stockholders, distributions and redemptions. Specifically, the indenture governing Sonic's 9.0% Notes limits Sonic's ability to pay quarterly cash dividends on Sonic's Class A and B common stock in excess of $0.10 per share. Sonic may only pay quarterly cash dividends on Sonic's Class A and B common stock if Sonic complies with the terms of the indenture governing the 9.0% Notes. Sonic was in compliance with all restrictive covenants as of June 30, 2012.

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5.0% Convertible Senior Notes

During the second quarter ended June 30, 2012, Sonic repurchased approximately $20.2 million in aggregate principal amount of its 5.0% Convertible Notes, which resulted in a loss of approximately $2.6 million recorded in other income (expense), net, in the accompanying Unaudited Condensed Consolidated Statements of Income.

The 5.0% Convertible Notes bear interest at a rate of 5.0% per year, payable semiannually on April 1 and October 1 of each year. The 5.0% Convertible Notes mature on October 1, 2029. Sonic may redeem some or all of the 5.0% Convertible Notes for cash at any time subsequent to October 1, 2014 at a repurchase price equal to 100% of the outstanding principal amount of the notes. Upon the issuance of a redemption notice by Sonic, the holders may convert the 5.0% Convertible Notes prior to the redemption date at their option. Holders have the right to require Sonic to purchase the 5.0% Convertible Notes on each of October 1, 2014, October 1, 2019 and October 1, 2024 or in the event of a change in control for cash at a purchase price equal to 100% of the outstanding principal amount of the notes.

Holders of the 5.0% Convertible Notes may convert their notes at their option prior to the close of business on the business day immediately preceding July 1, 2029 only under the following circumstances: (1) during any fiscal quarter commencing after December 31, 2009, if the last reported sale price of the Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day; (2) during the five business day period after any 10 consecutive trading day period (the "Measurement Period") in which the trading price (as defined below) per $1,000 principal amount of notes for each day of that Measurement Period was less than 98% of the product of the last reported sale price of Sonic's Class A common stock and the applicable conversion rate on each such day; (3) if Sonic calls any or all of the notes for redemption, at any time prior to the close of business on the third scheduled trading day prior to the redemption date; or (4) upon the occurrence of specified corporate events. On and after July 1, 2029, to (and including) the close of business on the third scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances. As of June 30, 2012, the conversion rate was 75.3017 shares of Class A common stock per $1,000 principal amount of notes, which is equivalent to a conversion price of approximately $13.28 per share of Class A common stock. The conversion rate may be adjusted in the future as a result of any future declaration of dividends on Sonic's Class A common stock. The 5% Convertible Notes were convertible at the option of the holder during the second quarter ended June 30, 2012, however, none of the 5% Convertible Notes were presented by the holder for conversion. As of the June 30, 2012 measurement date, the 5% Convertible Notes did not meet any of the criteria for conversion.

To recognize the equity component of a convertible borrowing instrument, upon issuance of the 5.0% Convertible Notes in September 2009, Sonic recorded a debt discount of approximately $31.0 million and a corresponding amount (net of taxes of approximately $12.8 million) to equity, based on an estimated non-convertible borrowing rate of 10.5%. The debt discount is being amortized to interest expense through October 2014, the earliest redemption date. The unamortized debt discount was approximately $13.0 million and $17.7 million at June 30, 2012 and December 31, 2011, respectively.

Sonic incurred interest expense related to the 5.0% Convertible Notes of approximately $1.7 million and $3.7 million for the second quarter and six-month periods ended June 30, 2012, respectively, and $2.1 million and $4.3 million for the second quarter and six-month periods ended June 30, 2011, respectively, recorded to interest expense, other, net, in the accompanying Unaudited Condensed Consolidated Statements of Income. In addition, Sonic recorded interest expense associated with the amortization of debt discount and deferred loan costs on the 5.0% Convertible Notes of approximately $1.4 million and $3.0 million for the second quarter and six-month periods ended June 30, 2012, respectively, and $1.7 million and $3.4 million for the second quarter and six-month periods ended June 30, 2011, respectively, recorded to interest expense, non-cash, convertible debt in the accompanying Unaudited Condensed Consolidated Statements of Income.

See Note 10, "Subsequent Events," for discussion of Sonic's pending offer to repurchase all of its 5.0% Convertible Notes.

Mortgage Notes

Sonic has mortgage financing totaling approximately $189.2 million in aggregate, related to 20 of its dealership properties. These mortgage notes require monthly payments of principal and interest through maturity and are secured by the underlying properties. Maturity dates range between June 2013 and March 2031. The weighted average interest rate was 4.67% at June 30, 2012.

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Derivative Instruments and Hedging Activities

Sonic has interest rate cash flow swap agreements to effectively convert a portion of its LIBOR-based variable rate debt to a fixed rate. The fair value of these swap positions at June 30, 2012 was a liability of approximately $37.5 million, with $25.0 million included in other accrued liabilities and $12.5 million included in other long-term liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets. Under the terms of these cash flow swaps, Sonic will receive and pay interest based on the following:

Notional Amount (In millions)	Pay Rate	Receive Rate (1)	Maturing Date
$ 3.3	7.100%	one-month LIBOR + 1.50%	July 10, 2017
$ 25.0 (2)	5.160%	one-month LIBOR	September 1, 2012
$ 15.0 (2)	4.965%	one-month LIBOR	September 1, 2012
$ 25.0 (2)	4.885%	one-month LIBOR	October 1, 2012
$ 10.3	4.655%	one-month LIBOR	December 10, 2017
$ 8.2 (2)	6.860%	one-month LIBOR + 1.25%	August 1, 2017
$ 6.3	4.330%	one-month LIBOR	July 1, 2013
$ 100.0 (3)	3.280%	one-month LIBOR	July 1, 2015
$ 100.0 (3)	3.300%	one-month LIBOR	July 1, 2015
$ 6.9 (2)	6.410%	one-month LIBOR + 1.25%	September 12, 2017
$ 50.0 (3)	2.767%	one-month LIBOR	July 1, 2014
$ 50.0 (3)	3.240%	one-month LIBOR	July 1, 2015
$ 50.0 (3)	2.610%	one-month LIBOR	July 1, 2014
$ 50.0 (3)	3.070%	one-month LIBOR	July 1, 2015
$ 100.0 (4)	2.065%	one-month LIBOR	June 30, 2017
$ 100.0 (4)	2.015%	one-month LIBOR	June 30, 2017

(1) The one-month LIBOR rate was 0.243% at June 30, 2012.
(2) Changes in fair value are recorded through earnings.
(3) The effective date of these forward-starting swaps is July 2, 2012.
(4) The effective date of these forward-starting swaps is July 1, 2015.

During the six-month period ended June 30, 2012, Sonic entered into two $100.0 million notional forward-starting interest rate cash flow swap agreements that become effective in July 2015 and terminate in June 2017. These interest rate swaps have been designated and qualify as cash flow hedges and, as a result, changes in the fair value of these swaps are recorded in other comprehensive income (loss), net of related income taxes, in the accompanying Unaudited Condensed Consolidated Statements of Comprehensive Income.

For the cash flow swaps not designated as hedges (changes in the fair value are recognized through earnings) and amortization of amounts in accumulated other comprehensive income (loss) related to terminated cash flow swaps, certain benefits and charges were included in interest income (expense/amortization), non-cash, cash flow swaps, in the accompanying Unaudited Condensed Consolidated Statements of Income.

For the cash flow swaps that qualify as cash flow hedges, the changes in the fair value of these swaps have been recorded in other comprehensive income (loss), net of related income taxes, in the accompanying Unaudited Condensed Consolidated Statements of Comprehensive Income. The incremental interest expense (the difference between interest paid and interest received) related to these cash flow swaps was approximately $2.5 million and $6.9 million for the second quarter and six-month periods ended June 30, 2012, respectively and $4.4 million and $8.8 million for the second quarter and six-month periods ended June 30, 2011, respectively, and is included in interest expense, other, net, in the accompanying Unaudited Condensed Consolidated Statements of Income. The estimated net expense expected to be reclassified out of accumulated other comprehensive income (loss) into results of operations during the next twelve months is approximately $7.7 million.

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7. Per Share Data and Stockholders' Equity

The calculation of diluted earnings per share considers the potential dilutive effect of options and shares under Sonic's stock compensation plans, Class A common stock purchase warrants and the 5.0% Convertible Notes. Sonic's non-vested restricted stock and restricted stock units contain rights to receive non-forfeitable dividends, and thus, are considered participating securities and are included in the two-class method of computing earnings per share. The following table illustrates the dilutive effect of such items on earnings per share for the second quarter and six-month periods ended June 30, 2012 and 2011:

	Second Quarter Ended June 30, 2012						
		Income (Loss) From Continuing Operations		Income (Loss) From Discontinued Operations		Net Income (Loss)	
	Weighted Average Shares	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
	(In thousands, except per share amounts)						
Earnings (loss) and shares	52,593	$ 27,533		$ 646		$ 28,179	
Effect of participating securities:							
Non-vested restricted stock and stock units		(429)		—		(429)	
Basic earnings (loss) and shares	52,593	$ 27,104	$ 0.52	$ 646	$ 0.01	$ 27,750	$ 0.53
Effect of dilutive securities:							
Contingently convertible debt (5.0% Convertible Notes)	10,535	1,889		—		1,889	
Stock compensation plans	378						
Diluted earnings (loss) and shares	63,506	$ 28,993	$ 0.46	$ 646	$ 0.01	$ 29,639	$ 0.47

	Second Quarter Ended June 30, 2011						
		Income (Loss) From Continuing Operations		Income (Loss) From Discontinued Operations		Net Income (Loss)	
	Weighted Average Shares	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
	(In thousands, except per share amounts)						
Earnings (loss) and shares	52,461	$ 22,994		$ (1,643)		$ 21,351	
Effect of participating securities:							
Non-vested restricted stock and stock units		(302)		—		(302)	
Basic earnings (loss) and shares	52,461	$ 22,692	$ 0.43	$ (1,643)	$ (0.03)	$ 21,049	$ 0.40
Effect of dilutive securities:							
Contingently convertible debt (5.0% Convertible Notes)	12,890	2,280		14		2,294	
Stock compensation plans	585						
Diluted earnings (loss) and shares	65,936	$ 24,972	$ 0.38	$ (1,629)	$ (0.03)	$ 23,343	$ 0.35

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	Six Months Ended June 30, 2012							
		Income (Loss) From Continuing Operations		Income (Loss) From Discontinued Operations		Net Income (Loss)		
	Weighted Average Shares	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount	
	(In thousands, except per share amounts)							
Earnings (loss) and shares	52,409	$ 47,001		$ 1,676		$ 48,677		
Effect of participating securities:								
Non-vested restricted stock and stock units		(729)		—		(729)		
Basic earnings (loss) and shares	52,409	$ 46,272	$ 0.88	$ 1,676	$ 0.03	$ 47,948	$ 0.91	
Effect of dilutive securities:								
Contingently convertible debt (5.0% Convertible Notes)	11,106	4,056		5		4,061		
Stock compensation plans	448							
Diluted earnings (loss) and shares	63,963	$ 50,328	$ 0.79	$ 1,681	$ 0.02	$ 52,009	$ 0.81	

	Six Months Ended June 30, 2011							
		Income (Loss) From Continuing Operations		Income (Loss) From Discontinued Operations		Net Income (Loss)		
	Weighted Average Shares	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount	
	(In thousands, except per share amounts)							
Earnings (loss) and shares	52,438	$ 38,679		$ (2,364)		$ 36,315		
Effect of participating securities:								
Non-vested restricted stock and stock units		(508)		—		(508)		
Basic earnings (loss) and shares	52,438	$ 38,171	$ 0.73	$ (2,364)	$ (0.05)	$ 35,807	$ 0.68	
Effect of dilutive securities:								
Contingently convertible debt (5.0% Convertible Notes)	12,890	4,576		28		4,604		
Stock compensation plans	615							
Diluted earnings (loss) and shares	65,943	$ 42,747	$ 0.65	$ (2,336)	$ (0.04)	$ 40,411	$ 0.61	

In addition to the stock options included in the table above, options to purchase approximately 1.6 million shares and 2.2 million shares of Class A common stock were outstanding at June 30, 2012 and June 30, 2011, respectively, but were not included in the computation of diluted earnings per share because the options were not dilutive.

8. Contingencies

Legal and Other Proceedings

Several private civil actions have been filed against Sonic Automotive, Inc. and several of its dealership subsidiaries that purport to represent classes of customers as potential plaintiffs and make allegations that certain products sold in the finance and insurance departments were done so in a deceptive or otherwise illegal manner. One of these private civil actions was filed on November 15, 2004 in South Carolina state court, York County Court of Common Pleas, against Sonic Automotive, Inc. and some of Sonic's South Carolina subsidiaries. The plaintiffs in that lawsuit were Misty J. Owens, James B. Wright, Vincent J. Astey and Joseph Lee Williams, on behalf of themselves and all other persons similarly situated, with plaintiffs seeking monetary damages and injunctive relief on behalf of the purported class. The group of plaintiffs' attorneys representing the plaintiffs in the South Carolina lawsuit also filed another private civil class action lawsuit against Sonic Automotive, Inc. and certain of its subsidiaries on February 14, 2005 in state court in North Carolina, Lincoln County Superior Court, which similarly sought certification of a multi-state class of plaintiffs and alleged that certain products sold in the finance and insurance departments were done so in a deceptive or otherwise illegal manner. The plaintiffs in this North Carolina lawsuit were Robert Price, Carolyn Price, Marcus Cappelletti and Kelly Cappelletti, on behalf of themselves and all

other persons similarly situated, with plaintiffs seeking monetary damages and injunctive relief on behalf of the purported class. The South Carolina state court action and the North Carolina state court action were subsequently consolidated into a single proceeding in private arbitration before the American Arbitration Association (the "Arbitrator"). On November 12, 2008, claimants in the consolidated arbitration filed a Motion for Class Certification as a national class action including all of the states in which Sonic operates dealerships except Florida. Claimants are seeking monetary damages and injunctive relief on behalf of this class of customers. The parties have briefed and argued the issue of class certification.

On July 19, 2010, the Arbitrator issued a Partial Final Award on Class Certification, certifying a class which includes all customers who, on or after November 15, 2000, purchased or leased from a Sonic dealership a vehicle with the Etch product as part of the transaction, but not including customers who purchased or leased such vehicles from a Sonic dealership in Florida. The Partial Final Award on Class Certification is not a final decision on the merits of the action. The merits of Claimants' assertions and potential damages would still have to be proven through the remainder of the arbitration. The Arbitrator stayed the Arbitration for thirty days to allow either party to petition a court of competent jurisdiction to confirm or vacate the award. On July 22, 2010, the plaintiffs in this consolidated arbitration filed a Motion to Confirm the Arbitrator's Partial Final Award on Class Certification in state court in North Carolina, Lincoln County Superior Court. On August 17, 2010, Sonic removed this North Carolina state court action to federal court, and simultaneously filed a Petition to Vacate the Arbitrator's Partial Final Award on Class Certification, with both filings made in the United Stated District Court for the Western District of North Carolina.

On August 12, 2011, the United States District Court for the Western District of North Carolina issued an Order granting Sonic's Petition to Vacate Arbitration Award on Class Certification and denied Claimant's Motion to Dismiss the same. Claimants filed a Notice of Appeal to the United States Fourth Circuit Court of Appeals on September 12, 2011. The federal court's stay of the arbitration proceeding remains in force. At a mediation held January 16, 2012, Sonic reached an agreement with the Claimants to settle this ongoing dispute in its entirety. Sonic and the Claimants subsequently entered into a definitive settlement agreement, the terms of which received preliminary approval by a North Carolina state court in May 2012. This settlement remains subject to final court approval. In the event that final court approval is received, this settlement would not have a material adverse effect on Sonic's future results of operations, financial condition and cash flows.

Sonic is involved, and expects to continue to be involved, in numerous legal and administrative proceedings arising out of the conduct of its business, including regulatory investigations and private civil actions brought by plaintiffs purporting to represent a potential class or for which a class has been certified. Although Sonic vigorously defends itself in all legal and administrative proceedings, the outcomes of pending and future proceedings arising out of the conduct of Sonic's business, including litigation with customers, employment related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities, cannot be predicted with certainty. An unfavorable resolution of one or more of these matters could have a material adverse effect on Sonic's business, financial condition, results of operations, cash flows or prospects. Included in other accrued liabilities at both June 30, 2012 and December 31, 2011 was approximately $7.3 million in reserves that Sonic has provided for pending proceedings. Except as reflected in such reserves, Sonic is currently unable to estimate a range of reasonably possible loss, or a range of reasonably possible loss in excess of the amount accrued, for pending proceedings.

Guarantees and Indemnification Obligations

In accordance with the terms of Sonic's operating lease agreements, Sonic's dealership subsidiaries, acting as lessees, generally agree to indemnify the lessor from certain exposure arising as a result of the use of the leased premises, including environmental exposure and repairs to leased property upon termination of the lease. In addition, Sonic has generally agreed to indemnify the lessor in the event of a breach of the lease by the lessee.

In connection with dealership dispositions, certain of Sonic's dealership subsidiaries have assigned or sublet to the buyer its interests in real property leases associated with such dealerships. In general, the subsidiaries retain responsibility for the performance of certain obligations under such leases, including rent payments, and repairs to leased property upon termination of the lease, to the extent that the assignee or sub-lessee does not perform. In the event the sub-lessees do not perform under their obligations Sonic remains liable for the lease payments. The total amount relating to this risk was approximately $106.0 million as of December 31, 2011.

In accordance with the terms of agreements entered into for the sale of Sonic's franchises, Sonic generally agrees to indemnify the buyer from certain exposure and costs arising subsequent to the date of sale, including environmental exposure and exposure resulting from the breach of representations or warranties made in accordance with the agreement. While Sonic's exposure with respect to environmental remediation and repairs is difficult to quantify, Sonic's maximum exposure

associated with these general indemnifications was approximately $9.8 million and $3.1 million at June 30, 2012 and December 31, 2011, respectively. These indemnifications expire within a period of 12 to 24 months following the date of sale. The estimated fair value of these indemnifications was not material and the amount recorded for this contingency was not significant at June 30, 2012. Sonic also guarantees the floor plan commitments of its 50% owned joint venture, the amount of which was $4.5 million at both June 30, 2012 and December 31, 2011.

9. Fair Value Measurements

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

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that Sonic has the ability to access. Assets utilizing Level 1 inputs include marketable securities that are actively traded.

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

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

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

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

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Assets or liabilities recorded at fair value in the accompanying Unaudited Condensed Consolidated Balance Sheets as of June 30, 2012 are as follows:

	Fair Value at June 30, 2012			
(In millions)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash flow swaps designated as hedges (1)	$33.8	$ —	$ 33.8	$ —
Cash flow swaps not designated as hedges (2)	3.7	—	3.7	—
Deferred compensation plan (3)	13.0	—	13.0	—
Total	$50.5	$ —	$ 50.5	$ —

(1) Approximately $22.4 million and $11.4 million were included in other accrued liabilities and other long-term liabilities, respectively, in the accompanying Unaudited Condensed Consolidated Balance Sheets.
(2) Approximately $2.6 million and $1.1 million are included in other accrued liabilities and other long-term liabilities, respectively, in the accompanying Unaudited Condensed Consolidated Balance Sheets.
(3) Included in other long-term liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets.

Assets or liabilities measured at fair value on a non-recurring basis in the accompanying Unaudited Condensed Consolidated Balance Sheets as of June 30, 2012 are as follows:

(In millions)	Balance as of June 30, 2012	Significant Unobservable Inputs (Level 3) as of June 30, 2012	Total Gains / (Losses) for the Six Months Ended June 30, 2012
Long-lived assets held and used	$ 561.4	$ 561.4	$ —
Goodwill	464.1	464.1	—
Franchise assets	64.8	64.8	—

As of June 30, 2012 and December 31, 2011, the fair values of Sonic's financial instruments including receivables, notes receivable from finance contracts, notes payable – floor plan, trade accounts payable, borrowings under the revolving credit facilities and certain mortgage notes approximate their carrying values due either to length of maturity or existence of variable interest rates that approximate prevailing market rates.

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The fair value and carrying value of Sonic's fixed rate long-term debt was as follows:

	June 30, 2012		December 31, 2011	
(In thousands)	Fair Value	Carrying Value	Fair Value	Carrying Value
9.0% Notes (1)	$226,800	$ 208,844	$221,025	$ 208,769
5.0% Convertible Notes (1)	$171,869	$ 121,906	$205,448	$ 137,333
Mortgage Notes (2)	$112,204	$ 125,228	$119,310	$ 116,584
Assumed Notes (2)	$ 11,960	$ 12,885	$ 13,260	$ 14,438
Other (2)	$ 5,063	$ 5,450	$ 5,150	$ 5,555

(1) As determined by market quotations as of June 30, 2012 and December 31, 2011, respectively (Level 1).
(2) As determined by discounted cash flows (Level 3).

10. Subsequent Events

Issuance of 7.0% Senior Subordinated Notes due 2022

On July 2, 2012, Sonic issued $200.0 million in aggregate principal amount of 7.0% Senior Subordinated Notes which mature on July 15, 2022 (the "7.0% Notes"). The 7.0% Notes were issued at a price of 99.11% of the principal amount thereof (the "Issue Price"), resulting in a yield to maturity of 7.125%. Sonic will use the net proceeds from the 7.0% Notes to repurchase some or all of its outstanding 5.0% Convertible Notes pursuant to an exchange offer (see the heading "Exchange Offer for 5.0% Convertible Notes" below for further discussion) for shares of its Class A common stock plus cash, including any associated tender premium, and to pay related fees and expenses. Any remaining amount will be used for general corporate purposes, including repurchases of shares of Sonic's Class A common stock. The 7.0% Notes are unsecured senior subordinated obligations of Sonic and are guaranteed by Sonic's domestic operating subsidiaries. Interest is payable semi-annually in arrears on January 15 and July 15 of each year, beginning on January 15, 2013.

The net proceeds from the issuance of the 7.0% Notes were deposited into an escrow account where they will remain until Sonic has accepted for exchange at least $80.0 million aggregate principal amount of the 5.0% Convertible Notes pursuant to the exchange offer for the 5.0% Convertible Notes or until the earlier of the termination of the exchange offer or October 23, 2012. In the event that at least $80.0 million aggregate principal amount of the 5.0% Convertible Notes are not accepted for exchange in the exchange offer by October 23, 2012, the 7.0% Notes will be subject to a special mandatory redemption. The terms of the special mandatory redemption require that Sonic redeem the 7.0% Notes in full at 100% of the Issue Price plus accrued but unpaid interest from the issue date up to, but excluding, the date of special mandatory redemption.

Sonic may redeem the 7.0% Notes in whole or in part at any time after July 15, 2017 at the following redemption prices, which are expressed as percentages of the principal amount:

	Redemption Price
Beginning on July 15, 2017	103.500%
Beginning on July 15, 2018	102.333%
Beginning on July 15, 2019	101.167%
Beginning on July 15, 2020 and thereafter	100.000%

In addition, on or before July 15, 2015, Sonic may redeem up to 35% of the aggregate principal amount of the 7.0% Notes at 107% of the par value of the 7.0% Notes plus accrued and unpaid interest with proceeds from certain equity offerings. The indenture also provides that holders of the 7.0% Notes may require Sonic to repurchase the 7.0% Notes at 101% of the par value of the 7.0% Notes, plus accrued and unpaid interest if Sonic undergoes a "change of control" as defined in the indenture.

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The indenture governing the 7.0% Notes contains certain specified restrictive covenants. Sonic has agreed not to pledge any assets to any third party lender of senior subordinated debt except under certain limited circumstances. Sonic also has agreed to certain other limitations or prohibitions concerning the incurrence of other indebtedness, guarantees, liens, certain types of investments, certain transactions with affiliates, mergers, consolidations, issuance of preferred stock, cash dividends to stockholders, distributions, redemptions and the sale, assignment, lease, conveyance or disposal of certain assets. Specifically, the indenture governing Sonic's 7.0% Notes limits Sonic's ability to pay quarterly cash dividends on Sonic's Class A and B common stock in excess of $0.10 per share. Sonic may only pay quarterly cash dividends on Sonic's Class A and B common stock if Sonic complies with the terms of the indenture governing the 7.0% Notes.

Balances outstanding under Sonic's 7.0% Notes are guaranteed by all of Sonic's operating domestic subsidiaries. These guarantees are full and unconditional and joint and several. The parent company has no independent assets or operations. The non-domestic and non-operating subsidiaries that are not guarantors are considered to be minor.

Sonic's obligations under the 7.0% Notes may be accelerated by the holders of 25% of the outstanding principal amount of the 7.0% Notes then outstanding if certain events of default occur, including: (1) defaults in the payment of principal or interest when due; (2) defaults in the performance, or breach, of Sonic's covenants under the 7.0% Notes; and (3) certain defaults under other agreements under which Sonic or its subsidiaries have outstanding indebtedness in excess of $35.0 million.

Exchange Offer for 5.0% Convertible Notes

On June 25, 2012, Sonic commenced an offer to exchange newly issued shares of Class A common stock and cash for all of its outstanding 5.0% Convertible Notes as described in Sonic's Registration Statement on Form S-4 (Reg. No. 333-182307). The offer consideration for the exchange of the 5.0% Convertible Notes will consist of a fixed cash payment of $1,000 per $1,000 principal amount of the 5.0% Convertible Notes accepted by Sonic for exchange in the exchange offer plus a number of shares of Sonic's Class A common stock to be determined based on a volume weighted average pricing ("VWAP") formula described in Sonic's Registration Statement on Form S-4 (Reg. No. 333-182307). Holders of the 5.0% Convertible Notes whose notes are accepted for exchange will be entitled to a cash payment for accrued and unpaid interest up to, but excluding, the settlement date. In no event will the total value of the offer consideration be less than $1,000 or more than $1,631 per $1,000 principal amount of the 5.0% Convertible Notes accepted for exchange in the exchange offer, plus accrued and unpaid interest. Cash will be paid in lieu of fractional shares based on the VWAP. The exchange offer expires at 12:00 midnight New York City time at the end of July 27, 2012, unless Sonic chooses to extend or terminate the exchange offer, subject to certain conditions.

Additional Stock Repurchase Authorization

Subsequent to June 30, 2012, Sonic's Board of Directors authorized an additional $100.0 million to be used in the repurchase program to acquire shares of Sonic's Class A common stock.

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

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

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with the Sonic Automotive, Inc. and Subsidiaries Unaudited Condensed Consolidated Financial Statements and the related notes thereto appearing elsewhere in this report, as well as the audited financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing in our Annual Report on Form 10-K for the year ended December 31, 2011 and updated in Sonic's Current Report on Form 8-K furnished to the SEC pursuant to Items 2.02 and 9.01 on June 25, 2012.

Overview

We are one of the largest automotive retailers in the United States. As of June 30, 2012, we operated 116 dealerships in 15 states (representing 25 different brands of cars and light trucks) and 24 collision repair centers. For management and operational reporting purposes, we group certain dealerships together that share management and inventory (principally used vehicles) into "stores." As of June 30, 2012, we operated 106 stores. Our dealerships provide comprehensive services including (1) sales of both new and used cars and light trucks; (2) sales of replacement parts, performance of vehicle maintenance, manufacturer warranty repairs, paint and collision repair services (collectively, "Fixed Operations"); and (3) arrangement of extended service contracts, financing, insurance and other aftermarket products (collectively, "F&I") for our customers.

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The following is a detail of our new vehicle revenues by brand for the second quarter and six-month periods ended June 30, 2012 and 2011:

	Percentage of New Vehicle Revenue			
	Second Quarter Ended June 30,		Six Months Ended June 30,	
Brand	2012	2011	2012	2011
Luxury				
BMW	17.0%	18.7%	16.7%	17.7%
Mercedes	8.2%	8.0%	8.2%	8.1%
Lexus	4.7%	3.4%	4.5%	4.3%
Cadillac	4.1%	4.5%	4.4%	5.0%
Audi	3.8%	3.4%	3.9%	3.3%
Mini	2.9%	3.6%	2.8%	3.4%
Land Rover	2.0%	2.1%	2.2%	2.1%
Porsche	1.8%	1.7%	1.7%	1.7%
Volvo	1.2%	1.3%	1.1%	1.3%
Infiniti	1.1%	1.1%	1.0%	1.2%
Acura	0.9%	0.9%	0.8%	0.9%
Jaguar	0.7%	0.9%	0.8%	0.9%
Other Luxury (2)	0.0%	0.1%	0.0%	0.0%
Total Luxury	48.4%	49.7%	48.1%	49.9%
Mid-line Import				
Honda	16.7%	14.3%	16.4%	14.5%
Toyota	11.5%	9.3%	11.2%	10.0%
Volkswagen	3.1%	3.2%	3.1%	2.9%
Hyundai	2.2%	2.7%	2.3%	2.4%
Other (3)	1.8%	1.7%	2.1%	1.5%
Nissan	0.8%	1.3%	0.8%	1.2%
Total Mid-line Import	36.1%	32.5%	35.9%	32.5%
Domestic				
General Motors (4)	7.8%	8.8%	8.0%	8.4%
Ford	7.4%	8.7%	7.6%	8.9%
Chrysler (5)	0.3%	0.3%	0.4%	0.3%
Total Domestic	15.5%	17.8%	16.0%	17.6%
Total	100.0%	100.0%	100.0%	100.0%

(1) In accordance with the provisions of "Presentation of Financial Statements" in the Accounting Standards Codification (the "ASC"), prior period income statement data reflects reclassifications to (i) exclude franchises sold, identified for sale, or terminated subsequent to June 30, 2011 that had not been previously included in discontinued operations or (ii) include franchises previously held for sale that subsequently were reclassified to held and used. See Note 1 and Note 2 to our accompanying Unaudited Condensed Consolidated Financial Statements for a discussion of these and other factors that affect the comparability of the information for the periods presented.
(2) Includes Smart and Saab.
(3) Includes Kia, Scion and Subaru.
(4) Includes Buick, Chevrolet and GMC.
(5) Includes Chrysler, Dodge and Jeep.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
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Results of Operations

The following discussions are based on reported figures. Same store amounts do not vary significantly from reported totals since we have not made any significant dealership acquisitions since March 31, 2008.

New Vehicles

The automobile retail industry uses the Seasonally Adjusted Annual Rate ("SAAR") to measure the amount of new vehicle unit sales activity within the United States market. The SAAR averages below reflect a blended average of all brands marketed or sold in the United States market. The SAAR includes brands we do not sell and markets in which we do not operate.

	Second Quarter Ended June 30,			Six Months Ended June 30,		
(in millions of vehicles)	2012	2011	% Change	2012	2011	% Change
SAAR	14.1	12.1	16.5%	14.3	12.5	14.4%

Source: Bloomberg Financial Markets, via Stephens Inc.

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

	Second Quarter Ended June 30,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands, except units and per unit data)			
Revenue	$1,221,297	$1,025,277	$196,020	19.1%
Gross profit	$ 71,351	$ 67,845	$ 3,506	5.2%
Unit sales	36,026	30,276	5,750	19.0%
Revenue per unit	$ 33,900	$ 33,864	$ 36	0.1%
Gross profit per unit	$ 1,981	$ 2,241	$ (260)	(11.6%)
Gross profit as a % of revenue	5.8%	6.6%	(80) bps	

	Six Months Ended June 30,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands, except units and per unit data)			
Revenue	$2,285,750	$1,997,770	$287,980	14.4%
Gross profit	$ 136,171	$ 127,342	$ 8,829	6.9%
Unit sales	67,416	59,467	7,949	13.4%
Revenue per unit	$ 33,905	$ 33,595	$ 310	0.9%
Gross profit per unit	$ 2,020	$ 2,141	$ (121)	(5.7%)
Gross profit as a % of revenue	6.0%	6.4%	(40) bps	

The increase in new vehicle revenues for the second quarter and six-month periods ended June 30, 2012 was primarily driven by an increase of 19.0% and 13.4%, respectively, in our new unit sales volume compared to the prior year periods. The industry new unit sales volume increased 16.5% and 14.4% during the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods. Excluding fleet volume, our retail new vehicle volume growth increased 22.3% and 16.9% for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods. Our new unit volume increase for the second quarter and six-month periods ended June 30, 2012 was led by our Honda, Toyota, Lexus and Mercedes dealerships, which combined accounted for 86.1% and 78.4%, respectively, of the year-over-year increase. For the second quarter ended June 30, 2012, the majority of our brands outperformed their local market peer group for their respective brand compared to the prior year period. Total gross profit dollars were up 5.2% and 6.9% for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods.

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Our luxury dealerships (which include Cadillac) experienced a 15.9% and 10.8% increase in new vehicle revenue for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods, primarily due to a 14.0% and 8.4% increase in our new unit volume for the second quarter and six-month periods ending June 30, 2012, respectively, and a 1.7% and 2.2% increase in average new vehicle selling price for the second quarter and six-month periods ended June 30, 2012, respectively. The increase in new unit sales volume was primarily driven by our Lexus and Mercedes dealerships. Total luxury gross profit dollars were up 8.5% and 7.7% for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods.

Our mid-line import dealerships experienced a 33.0% and 25.4% increase in new vehicle revenue for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods. Our mid-line import new unit volume increased 33.1% and 23.5% for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods. New vehicle inventory availability for our major Japanese brands (Honda, Toyota and Lexus) has recovered from the effects of inventory supply reductions caused by the impact of the earthquake, tsunami and severe flooding that occurred in Asia during 2011, which was a primary contributor to the sales volume increases in 2012 discussed above. Overall mid-line import new vehicle gross profit increased 2.9% and 11.3% for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods.

Our domestic dealerships experienced a 2.8% and 4.1% increase in new vehicle revenue for the second quarter and six-month periods ended June 30, 2012, respectively, primarily due to increases in average new vehicle selling price compared to the prior year periods. New unit sales volume at our General Motors (excluding Cadillac) dealerships increased 0.6% and 5.3% for the second quarter and six-month periods ended June 30, 2012, respectively, while our Ford dealerships experienced a 7.1% and 7.8% decline in new unit sales volume for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods. Overall domestic new vehicle gross profit increased 3.2% and 2.1% for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods.

Used Vehicles

Our reported used vehicle results are as follows:

	Second Quarter Ended June 30,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands, except units and per unit data)			
Revenue	$ 550,040	$ 529,107	$20,933	4.0%
Gross profit	$ 36,727	$ 39,035	$ (2,308)	(5.9%)
Unit sales	27,528	26,799	729	2.7%
Revenue per unit	$ 19,981	$ 19,744	$ 237	1.2%
Gross profit per unit	$ 1,334	$ 1,457	$ (123)	(8.4%)
Gross profit as a % of revenue	6.7%	7.4%	(70) bps	

	Six Months Ended June 30,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands, except units and per unit data)			
Revenue	$1,067,092	$1,003,662	$63,430	6.3%
Gross profit	$ 77,256	$ 76,608	$ 648	0.8%
Unit sales	54,075	51,694	2,381	4.6%
Revenue per unit	$ 19,734	$ 19,415	$ 319	1.6%
Gross profit per unit	$ 1,429	$ 1,482	$ (53)	(3.6%)
Gross profit as a % of revenue	7.2%	7.6%	(40) bps	

For the second quarter and six-month periods ended June 30, 2012, our used vehicle unit volume increased 2.7% and 4.6%, respectively, compared to the prior year periods, primarily due to the continued implementation of our standardized used vehicle merchandising process. We believe this process allows us to purchase and price our used vehicles more competitively and market them more effectively than our competition, resulting in higher unit sales volume, overall revenue

and overall gross profit levels. Although we experienced declines in our gross profit per unit in the second quarter and six-month periods ended June 30, 2012, the incremental unit sales volume contributed to higher gross profit experienced in our F&I and Fixed Operations areas.

Wholesale Vehicles

Our reported wholesale results are as follows:

	Second Quarter Ended June 30,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands, except units and per unit data)			
Revenue	$ 43,984	$ 41,136	$ 2,848	6.9%
Gross profit (loss)	$ (1,434)	$ (1,864)	$ 430	23.1%
Unit sales	7,939	6,310	1,629	25.8%
Revenue per unit	$ 5,540	$ 6,519	$ (979)	(15.0%)
Gross profit (loss) per unit	$ (181)	$ (295)	$ 114	38.6%
Gross profit (loss) as a % of revenue	(3.3%)	(4.5%)	120 bps	

	Six Months Ended June 30,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands, except units and per unit data)			
Revenue	$ 89,325	$ 76,182	$13,143	17.3%
Gross profit (loss)	$ (1,219)	$ (2,309)	$ 1,090	47.2%
Unit sales	15,465	11,893	3,572	30.0%
Revenue per unit	$ 5,776	$ 6,406	$ (630)	(9.8%)
Gross profit (loss) per unit	$ (79)	$ (194)	$ 115	59.3%
Gross profit (loss) as a % of revenue	(1.4%)	(3.0%)	160 bps	

During the second quarter and six-month periods ended June 30, 2012, we experienced increases in wholesale revenue and wholesale unit sales, compared to the prior year periods. Wholesale gross loss improved significantly as a result

of the increased unit sales and a decrease in gross loss per unit during the second quarter and six-month periods ended June 30, 2012. The improvements in gross profit and gross loss per unit occurred despite decreases in revenue per unit, primarily due to the mix of wholesale vehicles sold.

Parts, Service and Collision Repair ("Fixed Operations")

Our reported Fixed Operations results are as follows:

	Second Quarter Ended June 30,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands)			
Revenue				
Parts	$ 160,690	$ 154,982	$ 5,708	3.7%
Service	130,758	126,850	3,908	3.1%
Collision repair	13,122	13,262	(140)	(1.1%)
Total	$ 304,570	$ 295,094	$ 9,476	3.2%
Gross profit				
Parts	$ 51,665	$ 51,555	$ 110	0.2%
Service	89,897	87,063	2,834	3.3%
Collision repair	7,228	6,931	297	4.3%
Total	$ 148,790	$ 145,549	$ 3,241	2.2%
Gross profit as a % of revenue				
Parts	32.2%	33.3%	(110) bps	
Service	68.8%	68.6%	20 bps	
Collision repair	55.1%	52.3%	280 bps	
Total	48.9%	49.3%	(40) bps	

	Six Months Ended June 30,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands)			
Revenue				
Parts	$ 320,860	$ 307,175	$13,685	4.5%
Service	259,665	250,382	9,283	3.7%
Collision repair	25,793	24,638	1,155	4.7%
Total	$ 606,318	$ 582,195	$24,123	4.1%
Gross profit				
Parts	$ 102,521	$ 101,183	$ 1,338	1.3%
Service	179,083	172,592	6,491	3.8%
Collision repair	14,242	13,286	956	7.2%
Total	$ 295,846	$ 287,061	$ 8,785	3.1%
Gross profit as a % of revenue				
Parts	32.0%	32.9%	(90) bps	
Service	69.0%	68.9%	10 bps	
Collision repair	55.2%	53.9%	130 bps	
Total	48.8%	49.3%	(50) bps	

Overall Fixed Operations customer pay revenue increased 3.9% and 6.0% for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods. Wholesale parts revenue increased 8.1% and 10.4% for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods. Overall used vehicle reconditioning revenue increased 7.7% and 6.4% for the second quarter and six-month periods ended June 30, 2012, compared to the prior year periods. Warranty revenue decreased 7.9% and 10.3% for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods, primarily due to higher levels of recall activity in the prior year periods. Fixed Operations customer pay revenue at our domestic, mid-line import and luxury branded dealerships decreased 3.8%, increased 0.2% and increased 6.3%, respectively, for the second quarter ended June 30, 2012, compared to the prior year period. Fixed Operations customer pay revenue remained flat at our domestic branded dealerships and increased at our mid-line import and luxury branded dealerships 2.8% and 8.5%, respectively, for the six-month period ended June 30, 2012, compared to the prior year period.

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For the second quarter and six-month periods ended June 30, 2012, the increase in Fixed Operations revenue contributed approximately $4.6 million and $11.8 million, respectively, in gross profit increase. Higher gross profit as a result of higher revenue was partially offset by a $1.4 million and $3.0 million decrease in gross profit due to a 40 basis point and 50 basis point decline in the gross margin rate for the second quarter and six-month periods ended June 30, 2012, respectively, caused primarily by a shift in the sales mix compared to the prior year periods.

As of June 30, 2012, we operated 24 collision repair centers. Collision repair revenues decreased 1.1% and increased 4.7% for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods. Collision repair gross profit improved 4.3% and 7.2% for the second quarter and six-month periods ended June 30, 2012, respectively, due to improvements in the gross margin rate as a result of a mix shift away from lower margin sublet work.

Finance, Insurance and Other ("F&I")

Our reported F&I results are as follows:

	Second Quarter Ended June 30,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands, except per unit data)			
Revenue	$ 65,338	$ 55,369	$ 9,969	18.0%
Gross profit per retail unit (excludes fleet)	$ 1,055	$ 1,008	$ 47	4.7%

	Six Months Ended June 30,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands, except per unit data)			
Revenue	$ 124,587	$ 104,471	$20,116	19.3%
Gross profit per retail unit (excludes fleet)	$ 1,054	$ 981	$ 73	7.4%

F&I revenue increased during the second quarter and six-month periods ended June 30, 2012, compared to the prior year periods, primarily due to increases in total new and used retail (excluding fleet) unit volume of 7,000 units, or 12.7%, and 11,634 units, or 10.9%, respectively. F&I gross profit per retail unit improved 4.7% and 7.4% in the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods, primarily due to improved penetration and pricing. Finance contract gross revenue improved 14.6% and 16.8% for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods, primarily due to a 15.2% and a 14.1% increase in unit volume and an increase in the finance contract penetration rate of 150 and 190 basis points for the second quarter and six-month periods ending June 30, 2012, respectively. Compared to the second quarter and six-month periods ended June 30, 2011, combined service and aftermarket contract revenue increased 21.3% and 21.4% in the second quarter and six-month periods ended June 30, 2012, respectively, and total service and aftermarket contract volume increased 22.9% and 22.1% for the second quarter and six-month periods ended June 30, 2012, respectively.

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

SG&A expenses are comprised of four major groups: compensation expense, advertising expense, rent and rent related expense and other expense. Compensation expense primarily relates to dealership personnel who are paid a commission or a modest salary plus commission and support personnel who are paid a fixed salary. Due to the salary component for certain dealership and corporate personnel, gross profits and compensation expense do not change in direct proportion to one another. Advertising expense and other expenses vary based on the level of actual or anticipated business activity. Rent and rent related expense typically varies with the number of dealership properties owned by us, investments made for facility improvements and interest rates. Although not completely correlated, we believe the best way to measure SG&A expenses is as a percentage of gross profit.

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Following is information related to our SG&A expenses:

	Second Quarter Ended June 30,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands)			
Compensation	$ 148,569	$ 137,888	$(10,681)	(7.7%)
Advertising	13,684	13,425	(259)	(1.9%)
Rent and rent related	28,516	32,664	4,148	12.7%
Other	58,756	53,115	(5,641)	(10.6%)
Total	$ 249,525	$ 237,092	$(12,433)	(5.2%)
SG&A as a % of gross profit				
Compensation	46.3%	45.1%	(120) bps	
Advertising	4.3%	4.4%	10 bps	
Rent and rent related	8.9%	10.7%	180 bps	
Other	18.3%	17.3%	(100) bps	
Total	77.8%	77.5%	(30) bps	

	Six Months Ended June 30,		Better / (Worse)	
	2012	2011	Change	% Change
	(In thousands)			
Compensation	$ 296,102	$ 272,689	$(23,413)	(8.6%)
Advertising	26,727	26,865	138	0.5%
Rent and rent related	57,209	62,455	5,246	8.4%
Other	116,967	104,100	(12,867)	(12.4%)
Total	$ 497,005	$ 466,109	$(30,896)	(6.6%)
SG&A as a % of gross profit				
Compensation	46.8%	46.0%	(80) bps	
Advertising	4.2%	4.5%	30 bps	
Rent and rent related	9.0%	10.5%	150 bps	
Other	18.6%	17.6%	(100) bps	
Total	78.6%	78.6%	0 bps	

Overall SG&A expense dollars increased in the second quarter and six-month periods ended June 30, 2012, compared to the prior year periods, due to increases in revenue and gross profit driving higher compensation costs and other SG&A expenses. These increases also resulted in an increase of 30 basis points in overall SG&A expense as a percentage of gross profit during the second quarter ended June 30, 2012 compared to the prior year period. During the six-month period ended June 30, 2012, overall SG&A expense as a percentage of gross profit remained flat.

Compensation costs as a percentage of gross profit increased 120 and 80 basis points for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods, primarily due to increases in sales compensation expense and payroll taxes, driven by higher gross profit levels in the second quarter and six-month periods ended June 30, 2012.

Compared to the second quarter and six-month periods ended June 30, 2011, total advertising expense in the second quarter and six-month periods ended June 30, 2012 decreased as a percentage of gross profit as a result of changes in manufacturer advertising programs and higher gross profit levels in the second quarter and six-month periods ended June 30, 2012.

For the second quarter and six-month periods ended June 30, 2012, rent and rent related expenses decreased as a percentage of gross profit compared to the prior year periods, primarily due to the higher gross profit levels and the purchase of certain properties that were previously leased.

Other SG&A expenses increased in the second quarter and six-month periods ended June 30, 2012, compared to the prior year periods, primarily due to customer related costs as a result of the higher sales activity, IT spending, legal expenses and training costs.

Depreciation and Amortization

Depreciation and amortization expense increased approximately $1.7 million, or 17.4%, and $2.9 million, or 14.6%, for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods. These increases are primarily related to completed construction projects that were placed in service subsequent to June 30, 2011.

Interest Expense, Floor Plan

Total continuing operations interest expense, floor plan, for new and used vehicles increased approximately $0.1 million, or 2.8%, and decreased approximately $0.8 million, or 7.3%, for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods.

Interest expense, floor plan, for new vehicles incurred by continuing operations was flat for the second quarter ended June 30, 2012, and decreased approximately $0.9 million, or 9.7%, for the six-month period ended June 30, 2012, compared to the prior year periods. The average new vehicle floor plan interest rate incurred by these dealerships was 2.04% and 2.24% for the second quarter and six-month periods ended June 30, 2012, respectively, compared to 2.44% and 2.51% for the second quarter and six-month periods ended June 30, 2011, respectively.

Interest expense, floor plan, for used vehicles incurred by continuing operations increased approximately $0.1 million, or 21.3%, and $0.1 million, or 12.1%, for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the prior year periods. The average used vehicle floor plan interest rate incurred by these dealerships was 2.64% and 2.63% for the second quarter and six-month periods ended June 30, 2012, respectively, compared to 2.49% and 2.94% for the second quarter and six-month periods ended June 30, 2011, respectively.

Interest Expense, Other, Net

Interest expense, other, net, was approximately $12.7 million and $27.8 million in the second quarter and six-month periods ended June 30, 2012, respectively, compared to $15.3 million and $30.7 million in the second quarter and six-month periods ended June 30, 2011, respectively. Changes in interest expense, other, net, are summarized in the schedule below:

(In millions)	Increase (Decrease) in Interest Expense for the Second Quarter Ended June 30, 2012	Increase (Decrease) in Interest Expense for the Six Months Ended June 30, 2012
Debt balances		
Change in debt balances	$ (1.4)	$ (2.3)
Other factors		
Change in capitalized interest	0.7	1.3
Change in cash flow swap interest	(1.9)	(1.9)
Change in interest allocated to discontinued operations	0.1	0.2
Change in deferred loan cost amortization	(0.1)	(0.3)
Change in other interest expense, net	—	0.1
Total	$ (2.6)	$ (2.9)

We have entered into various cash flow swaps to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate in order to reduce our exposure to market risks from fluctuations in interest rates. The incremental interest expense (the difference between interest paid and interest received) related to these cash flow swaps was approximately $2.5 million and $6.9 million for the second quarter and six-month periods ended June 30, 2012, respectively and $4.4 million and $8.8 million for the second quarter and six-month periods ended June 30, 2011, respectively, and is included in interest expense, other, net, in the accompanying Unaudited Condensed Consolidated Statements of Income.

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

Other Income (Expense), Net

Other income (expense) net, increased approximately $2.6 million for each of the second quarter and six-month periods ended June 30, 2012 due to a loss on extinguishment of debt of approximately $2.6 million related to the retirement of approximately $20.2 million in aggregate principal amount of the 5.0% Convertible Notes in the second quarter ended June 30, 2012.

Income Taxes

The overall effective tax rate from continuing operations was 27.9% and 33.2% for the second quarter and six-month periods ended June 30, 2012, respectively, and 37.3% and 38.4% for the second quarter and six-month periods ended June 30, 2011, respectively. The effective rates for the second quarter and six-month periods ended June 30, 2012 were lower than the same prior year periods primarily due to a $3.6 million tax benefit for the second quarter ended June 30, 2012 related to the settlement of a state tax examination. We expect the effective tax rate for continuing operations in future periods to fall within a range of 38.0% to 40.0%.

Discontinued Operations

Significant components of results from discontinued operations were as follows:

(In thousands)	Second Quarter Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Income (loss) from operations	$ (189)	$ 260	$ (1,000)	$ 852
Gain (loss) on disposal	(367)	(180)	5,292	(222)
Lease exit accrual adjustments and charges	1,901	(1,077)	(1,243)	(2,722)
Pre-tax income (loss)	$ 1,345	$ (997)	$ 3,049	$ (2,092)
Total revenues	$ —	$ 22,227	$ 10,267	$ 43,287

Pre-tax income (loss) from discontinued operations improved for the second quarter and six-month periods ended June 30, 2012 compared to the prior year periods as a result of the disposition of five dealerships during the six-month period ended June 30, 2012, resulting in a gain on disposition of approximately $5.3 million. Lease exit charges recorded for the second quarters and six-month periods ended June 30, 2012 and 2011 relate to interest charges, the revision of estimates on previously established lease exit accruals and the reversal of a lease exit accrual related to a property which was returned to operating use. The lease exit accruals represent the present value of the lease payments, net of estimated or actual sublease proceeds, for the remaining life of the operating leases and other accruals necessary to satisfy the lease commitment to the landlord.

Liquidity and Capital Resources

We require cash to fund debt service, operating lease obligations, working capital requirements, facility improvements and other capital improvements, dividends on our common stock and to finance acquisitions and otherwise invest in our business. We rely on cash flows from operations, borrowings under our revolving credit and floor plan borrowing arrangements, real estate mortgage financing, asset sales and offerings of debt and equity securities to meet these requirements. We closely monitor our available liquidity and projected future operating results in order to remain in compliance with our restrictive covenants and other obligations. However, our liquidity could be negatively affected if we fail to comply with the financial covenants in our existing debt or lease arrangements. Cash flows provided by our dealerships are derived from various sources. The primary sources include individual consumers, automobile manufacturers, automobile manufacturers' captive finance subsidiaries and finance companies. Disruptions in these cash flows can have a material and adverse impact on our operations and overall liquidity.

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

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

Floor Plan Facilities

The weighted average interest rate for all of our new vehicle floor plan facilities (both continuing and discontinued operations) decreased to 2.03% and 2.23% for the second quarter and six-month periods ended June 30, 2012, respectively, compared to the second quarter and six-month periods ended June 30, 2011, which had a weighted average rate of 2.44% and 2.50%, respectively. The weighted average interest rate for all of our used vehicle floor plan facilities (both continuing and discontinued operations) was 2.64% and 2.61% for the second quarter and six-month periods ended June 30, 2012, respectively, compared to 2.48% and 2.94% for the second quarter and six-month periods ended June 30, 2011.

Interest payments under each of our floor plan facilities are due monthly and, unless an event of default occurs, we are not required to make principal repayments prior to the sale of the floor plan financed vehicles. We were in compliance with all restrictive covenants under our floor plan facilities as of June 30, 2012 and expect to be in compliance with the covenants for the foreseeable future.

Long-Term Debt and Credit Facilities

On July 2, 2012, we issued $200.0 million in aggregate principal amount of 7.0% Senior Subordinated Notes which mature on July 15, 2022 (the "7.0% Notes"). The 7.0% Notes were issued at a price of 99.11% of the principal amount thereof (the "Issue Price"), resulting in a yield to maturity of 7.125%. We will use the net proceeds from the 7.0% Notes to repurchase some or all of our outstanding 5.0% Convertible Notes pursuant to an exchange offer (see below for further discussion) for shares of our Class A common stock plus cash, including any associated tender premium, and to pay related fees and expenses. Any remaining amount will be used for general corporate purposes, including repurchases of shares of our Class A common stock. The 7.0% Notes are unsecured senior subordinated obligations of ours and are guaranteed by our domestic operating subsidiaries. Interest is payable semi-annually in arrears on January 15 and July 15 of each year, beginning on January 15, 2013.

The net proceeds from the issuance of the 7.0% Notes were deposited into an escrow account where they will remain until we have accepted for exchange at least $80.0 million aggregate principal amount of the 5.0% Convertible Notes pursuant to the exchange offer for the 5.0% Convertible Notes or until the earlier of the termination of the exchange offer or October 23, 2012. In the event that at least $80.0 million aggregate principal amount of the 5.0% Convertible Notes are not accepted for exchange in the exchange offer by October 23, 2012, the 7.0% Notes will be subject to a special mandatory redemption. The terms of the special mandatory redemption require that we redeem the 7.0% Notes in full at 100% of the Issue Price plus accrued but unpaid interest from the issue date up to, but excluding, the date of special mandatory redemption.

We may redeem the 7.0% Notes in whole or in part at any time after July 15, 2017 at the following redemption prices, which are expressed as percentages of the principal amount:

	Redemption Price
Beginning on July 15, 2017	103.500%
Beginning on July 15, 2018	102.333%
Beginning on July 15, 2019	101.167%
Beginning on July 15, 2020 and thereafter	100.000%

In addition, on or before July 15, 2015, we may redeem up to 35% of the aggregate principal amount of the 7.0% Notes at 107% of the par value of the 7.0% Notes plus accrued and unpaid interest with proceeds from certain equity offerings. The indenture also provides that holders of the 7.0% Notes may require us to repurchase the 7.0% Notes at 101% of the par value of the 7.0% Notes, plus accrued and unpaid interest if we undergo a "change of control" as defined in the indenture.

The indenture governing the 7.0% Notes contains certain specified restrictive covenants. We have agreed not to pledge any assets to any third party lender of senior subordinated debt except under certain limited circumstances. We also have agreed to certain other limitations or prohibitions concerning the incurrence of other indebtedness, guarantees, liens, certain types of investments, certain transactions with affiliates, mergers, consolidations, issuance of preferred stock, cash dividends to stockholders, distributions, redemptions and the sale, assignment, lease, conveyance or disposal of certain assets. Specifically, the indenture governing our 7.0% Notes limits our ability to pay quarterly cash dividends on our Class A and B common stock in excess of $0.10 per share. We may only pay quarterly cash dividends on our Class A and B common stock if we comply with the terms of the indenture governing the 7.0% Notes.

Balances outstanding under our 7.0% Notes are guaranteed by all of our operating domestic subsidiaries. These guarantees are full and unconditional and joint and several. The parent company has no independent assets or operations. The non-domestic and non-operating subsidiaries that are not guarantors are considered to be minor.

Our obligations under the 7.0% Notes may be accelerated by the holders of 25% of the outstanding principal amount of the 7.0% Notes then outstanding if certain events of default occur, including: (1) defaults in the payment of principal or interest when due; (2) defaults in the performance, or breach, of our covenants under the 7.0% Notes; and (3) certain defaults under other agreements under which we or our subsidiaries have outstanding indebtedness in excess of $35.0 million.

On June 25, 2012, we commenced an offer to exchange newly issued shares of Class A common stock and cash for all of our outstanding 5.0% Convertible Notes as described in our Registration Statement on Form S-4 (Reg. No. 333-182307). The offer consideration for the exchange of the 5.0% Convertible Notes will consist of a fixed cash payment of $1,000 per $1,000 principal amount of the 5.0% Convertible Notes we accept for exchange in the exchange offer plus a number of shares of our Class A common stock to be determined based on a volume weighted average pricing ("VWAP") formula described in our Registration Statement on Form S-4 (Reg. No. 333-182307). Holders of the 5.0% Convertible Notes whose notes are accepted for exchange will be entitled to a cash payment for accrued and unpaid interest up to, but excluding, the settlement date. In no event will the total value of the offer consideration be less than $1,000 or more than $1,631 per $1,000 principal amount of the 5.0% Convertible Notes accepted for exchange in the exchange offer, plus accrued and unpaid interest. Cash will be paid in lieu of fractional shares based on the VWAP. The exchange offer expires at 12:00 midnight New York City time at the end of July 27, 2012, unless we choose to extend or terminate the exchange offer, subject to certain conditions.

See Note 6, "Long-Term Debt," to the accompanying Unaudited Condensed Consolidated Financial Statements for further discussion of our long-term debt and credit facilities and compliance with debt covenants.

Dealership Dispositions

During the six-month period ended June 30, 2012, we disposed of five dealerships. These dispositions generated cash of approximately $23.6 million.

Capital Expenditures

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

Capital expenditures for the second quarter and six-month periods ended June 30, 2012 were approximately $22.5 million and $34.5 million ($23.8 million, net of mortgage funding of $10.7 million), respectively. As of June 30, 2012, contractual commitments to contractors for facility construction projects totaled approximately $39.1 million.

Stock Repurchase Program

Our Board of Directors has authorized us to repurchase shares of our Class A common stock. Historically, we have used our share repurchase authorization to offset dilution caused by the exercise of stock options or the vesting of restricted stock awards and to maintain our desired capital structure. During the second quarter and six-month periods ended June 30, 2012, we repurchased approximately 3,000 shares of our Class A common stock in connection with tax withholdings on the

vesting of restricted stock awards. As of June 30, 2012, our remaining repurchase authorization was approximately $30.7 million. Subsequent to June 30, 2012, our Board of Directors authorized an additional $100.0 million to repurchase shares of our Class A common stock for a total of $130.7 million currently available for this purpose. Under our 2011 Credit Facilities, share repurchases are permitted to the extent that no event of default exists and we have the pro forma liquidity amount required by the repurchase test (as defined in the 2011 Credit Facilities) and the result of such test has been accepted by the administrative agent.

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

Dividends

During the second quarter ended June 30, 2012, our Board of Directors approved a cash dividend of $0.025 per share on all outstanding shares of Class A and Class B common stock as of June 15, 2012 to be paid on July 15, 2012. Subsequent to June 30, 2012, our Board of Directors approved a cash dividend on all outstanding shares of common stock of $0.025 per share for stockholders of record on September 14, 2012 to be paid on October 15, 2012. Under our 2011 Credit Facilities, dividends are permitted to the extent that no event of default exists and we are in compliance with the financial covenants, including pro forma liquidity requirements, contained therein. The indentures governing our outstanding 9.0% Notes and 7.0% Notes contain restrictions on our ability to pay dividends. The payment of any future dividend is subject to the business judgment of our Board of Directors, taking into consideration our historic and projected results of operations, financial condition, cash flows, capital requirements, covenant compliance, share repurchases, current economic environment and other factors considered relevant. These factors are considered each quarter and will be scrutinized as our Board of Directors determines our future dividend policy. There is no guarantee that additional dividends will be declared and paid at any time in the future. See Note 6, "Long-Term Debt," to the accompanying Unaudited Condensed Consolidated Financial Statements for a description of restrictions on the payment of dividends.

Cash Flows

For the six-month period ended June 30, 2012, net cash used in operating activities was approximately $47.9 million. This use of cash was comprised primarily of purchases of inventories, partially offset by cash inflows related to operating profits, decreases in receivables and an increase in notes payable – floor plan – trade. Net cash used in investing activities for the six-month period ended June 30, 2012 was approximately $9.5 million. This use of cash was primarily comprised of purchases of land, property and equipment partially offset by proceeds from the sale of dealerships. Net cash provided by financing activities for the six-month period ended June 30, 2012 was approximately $61.4 million. This provision of cash was primarily related to an increase in notes payable – floor plan – non-trade and mortgage loan proceeds partially offset by repurchases of debt securities.

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

Due to the presentation differences for changes in trade floor plan and non-trade floor plan in the Unaudited Condensed Consolidated Statements of Cash Flows, decisions made by us to move dealership floor plan financing arrangements from one finance source to another may cause significant variations in operating and financing cash flows without affecting our overall liquidity, working capital or cash flow. Net cash provided by combined trade and non-trade floor plan financing was approximately $122.5 million for the six-month period ended June 30, 2012, and net cash used was approximately $115.3 million for the six-month period ended June 30, 2011. Accordingly, if all changes in floor plan notes payable were classified as an operating activity, the result would have been net cash provided by operating activities of approximately $40.4 million and $47.8 million for the six-month periods ended June 30, 2012 and 2011, respectively.

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

Guarantees and Indemnification Obligations

In connection with the operation and disposition of dealership franchises, we have entered into various guarantees and indemnification obligations. See Note 8, "Contingencies," to the accompanying Unaudited Condensed Consolidated Financial Statements. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 12, "Commitments and Contingencies," to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2011 and updated in our Current Report on Form 8-K furnished to the SEC pursuant to Items 2.02 and 9.01 on June 25, 2012.

Future Liquidity Outlook

We believe our best source of liquidity for operations and debt service remains cash flows generated from operations combined with our availability of borrowings under our floor plan facilities (or any replacements thereof), our 2011 Credit Facilities, real estate mortgage financing, selected dealership and other asset sales and our ability to raise funds in the capital markets through offerings of debt or equity securities. Because the majority of our consolidated assets are held by our dealership subsidiaries, the majority of our cash flows from operations are generated by these subsidiaries. As a result, our cash flows and ability to service debt depends to a substantial degree on the results of operations of these subsidiaries and their ability to provide us with cash.

Off-Balance Sheet Arrangements

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Off-Balance Sheet Arrangements" in our Annual Report on Form 10-K for the year ended December 31, 2011 and updated in our Current Report on Form 8-K furnished to the SEC pursuant to Items 2.02 and 9.01 on June 25, 2012.

Seasonality

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

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

Item 3: Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

Our variable rate floor plan facilities, 2011 Revolving Credit Facility borrowings and other variable rate notes expose us to risks caused by fluctuations in the applicable interest rates. The total outstanding balance of such variable instruments after considering the effect of our interest rate swaps (see below) was approximately $939.3 million at June 30, 2012. After considering the effect of our interest rate swaps, a change of 100 basis points in the underlying interest rate would have caused a total change in interest expense of approximately $0.8 million in the six-month period ended June 30, 2012. Of the total change in interest expense, approximately $0.7 million would have resulted from the floor plan facilities.

In addition to our variable rate debt, as of June 30, 2012, approximately 20% of our dealership lease facilities have monthly lease payments that fluctuate based on LIBOR interest rates. An increase in interest rates of 100 basis points would not have had a significant impact on rent expense in the second quarter and six-month periods ended June 30, 2012 due to the leases containing LIBOR floors that were above the applicable LIBOR rate during the second quarter and six-month periods ended June 30, 2012.

We also have various cash flow swaps to effectively convert a portion of our LIBOR-based variable rate debt to a fixed rate. Under the terms of these cash flow swaps, interest rates reset monthly. The fair value of these swap positions at June 30, 2012 was a liability of approximately $37.5 million, with $25.0 million included in other accrued liabilities and $12.5 million recorded to other long-term liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets. During the second quarter ended June 30, 2012, $300.0 million of notional amount of cash flow hedges reached maturity. See the previous discussion of our cash flow swaps in Note 6, “Long-Term Debt,” to the accompanying Unaudited Condensed Consolidated Financial Statements. We will receive and pay interest based on the following:

Notional Amount (In millions)	Pay Rate	Receive Rate (1)	Maturing Date
$ 3.3	7.100%	one-month LIBOR + 1.50%	July 10, 2017
$ 25.0 (2)	5.160%	one-month LIBOR	September 1, 2012
$ 15.0 (2)	4.965%	one-month LIBOR	September 1, 2012
$ 25.0 (2)	4.885%	one-month LIBOR	October 1, 2012
$ 10.3	4.655%	one-month LIBOR	December 10, 2017
$ 8.2 (2)	6.860%	one-month LIBOR + 1.25%	August 1, 2017
$ 6.3	4.330%	one-month LIBOR	July 1, 2013
$ 100.0 (3)	3.280%	one-month LIBOR	July 1, 2015
$ 100.0 (3)	3.300%	one-month LIBOR	July 1, 2015
$ 6.9 (2)	6.410%	one-month LIBOR + 1.25%	September 12, 2017
$ 50.0 (3)	2.767%	one-month LIBOR	July 1, 2014
$ 50.0 (3)	3.240%	one-month LIBOR	July 1, 2015
$ 50.0 (3)	2.610%	one-month LIBOR	July 1, 2014
$ 50.0 (3)	3.070%	one-month LIBOR	July 1, 2015
$ 100.0 (4)	2.065%	one-month LIBOR	June 30, 2017
$ 100.0 (4)	2.015%	one-month LIBOR	June 30, 2017

(1) The one-month LIBOR rate was 0.243% at June 30, 2012.
(2) Changes in fair value are recorded through earnings.
(3) The effective date of these forward-starting swaps is July 2, 2012.
(4) The effective date of these forward-starting swaps is July 1, 2015.

Foreign Currency Risk

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

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

Item 4: Controls and Procedures.

Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that the design and operation of our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q. During our last fiscal quarter, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
PART II – OTHER INFORMATION

Item 1: Legal Proceedings.

Several private civil actions have been filed against us and several of our dealership subsidiaries that purport to represent classes of customers as potential plaintiffs and make allegations that certain products sold in the finance and insurance departments were done so in a deceptive or otherwise illegal manner. One of these private civil actions was filed on November 15, 2004 in South Carolina state court, York County Court of Common Pleas, against us and some of our South Carolina subsidiaries. The plaintiffs in that lawsuit were Misty J. Owens, James B. Wright, Vincent J. Astey and Joseph Lee Williams, on behalf of themselves and all other persons similarly situated, with plaintiffs seeking monetary damages and injunctive relief on behalf of the purported class. The group of plaintiffs' attorneys representing the plaintiffs in the South Carolina lawsuit also filed another private civil class action lawsuit against us and certain of our subsidiaries on February 14, 2005 in state court in North Carolina, Lincoln County Superior Court, which similarly sought certification of a multi-state class of plaintiffs and alleged that certain products sold in the finance and insurance departments were done so in a deceptive or otherwise illegal manner. The plaintiffs in this North Carolina lawsuit were Robert Price, Carolyn Price, Marcus Cappelletti and Kelly Cappelletti, on behalf of themselves and all other persons similarly situated, with plaintiffs seeking monetary damages and injunctive relief on behalf of the purported class. The South Carolina state court action and the North Carolina state court action were subsequently consolidated into a single proceeding in private arbitration before the American Arbitration Association (the "Arbitrator"). On November 12, 2008, claimants in the consolidated arbitration filed a Motion for Class Certification as a national class action including all of the states in which we operate dealerships except Florida. Claimants are seeking monetary damages and injunctive relief on behalf of this class of customers. The parties have briefed and argued the issue of class certification.

On July 19, 2010, the Arbitrator issued a Partial Final Award on Class Certification, certifying a class which includes all customers who, on or after November 15, 2000, purchased or leased from one of our dealerships a vehicle with the Etch product as part of the transaction, but not including customers who purchased or leased such vehicles from one of our dealerships in Florida. The Partial Final Award on Class Certification is not a final decision on the merits of the action. The merits of Claimants' assertions and potential damages would still have to be proven through the remainder of the arbitration. The Arbitrator stayed the Arbitration for thirty days to allow either party to petition a court of competent jurisdiction to confirm or vacate the award. On July 22, 2010, the plaintiffs in this consolidated arbitration filed a Motion to Confirm the Arbitrator's Partial Final Award on Class Certification in state court in North Carolina, Lincoln County Superior Court. On August 17, 2010, we removed this North Carolina state court action to federal court, and simultaneously filed a Petition to Vacate the Arbitrator's Partial Final Award on Class Certification, with both filings made in the United Stated District Court for the Western District of North Carolina.

On August 12, 2011, the United States District Court for the Western District of North Carolina issued an Order granting our Petition to Vacate Arbitration Award on Class Certification and denied Claimant's Motion to Dismiss the same. Claimants filed a Notice of Appeal to the United States Fourth Circuit Court of Appeals on September 12, 2011. The federal court's stay of the arbitration proceeding remains in force. At a mediation held January 16, 2012, our company reached an agreement with the Claimants to settle this ongoing dispute in its entirety. Our company and the Claimants subsequently entered into a definitive settlement agreement, the terms of which received preliminary approval by a North Carolina state court in May 2012. This settlement remains subject to final court approval. In the event that final court approval is received, this settlement would not have a material adverse effect on our future results of operations, financial condition and cash flows.

We are involved, and expect to continue to be involved, in numerous legal and administrative proceedings arising out of the conduct of our business, including regulatory investigations and private civil actions brought by plaintiffs purporting to represent a potential class or for which a class has been certified. Although we vigorously defend ourself in all legal and administrative proceedings, the outcomes of pending and future proceedings arising out of the conduct of our business, including litigation with customers, employment related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities, cannot be predicted with certainty. Similarly, except as reflected in reserves we have provided for in other accrued liabilities in the accompanying Unaudited Condensed Consolidated Balance Sheets, we are currently unable to estimate a range of reasonably possible loss, or a range of reasonably possible loss in excess of the amount accrued, for pending proceedings. An unfavorable resolution of one or more of these matters could have a material adverse effect on our business, financial condition, results of operations, cash flows or prospects.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES
RISK FACTORS

Item 1A: Risk Factors

In addition to the information below and other information set forth in this Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future results.

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

As of June 30, 2012, our total outstanding indebtedness was approximately $1.5 billion, which includes floor plan notes payable, long-term debt and short-term debt.

We have $175.0 million of maximum borrowing availability under a syndicated revolving credit facility (the "2011 Revolving Credit Facility"), up to $500.0 million in maximum borrowing availability for new vehicle inventory floor plan financing and up to $80.0 million in maximum borrowing availability for used vehicle inventory floor plan financing (the "2011 Floor Plan Facility"). We refer to the 2011 Revolving Credit Facility and 2011 Floor Plan Facility collectively as our "2011 Credit Facilities." Based on balances as of June 30, 2012, we had approximately $135.8 million available for additional borrowings under the 2011 Revolving Credit Facility based on the borrowing base calculation, which is affected by numerous factors including eligible asset balances and the market value of certain additional collateral. We are able to borrow under our 2011 Revolving Credit Facility only if, at the time of the borrowing, we have met all representations and warranties and are in compliance with all financial and other covenants contained therein. We also have capacity to finance new and used vehicle inventory purchases under bilateral floor plan agreements with various manufacturer captive finance companies and other lending institutions (the "Silo Floor Plan Facilities") as well as our 2011 Floor Plan Facility. In addition, the indentures relating to our 9.0% Senior Subordinated Notes due 2018 (the "9.0% Notes"), 7.0% Senior Subordinated Notes due 2022 (the "7.0% Notes"), 5.0% Convertible Senior Notes due 2029 which are redeemable by us and which may be put to us by the holders after October 1, 2014 under certain circumstances (the "5.0% Convertible Notes") and our other debt instruments allow us to incur additional indebtedness, including secured indebtedness, as long as we comply with the terms thereunder.

In addition, the majority of our dealership properties are leased under long-term operating lease arrangements that commonly have initial terms of fifteen to twenty years with renewal options ranging from five to ten years. These operating leases require compliance with financial and operating covenants similar to those under our 2011 Credit Facilities, and monthly payments of rent that may fluctuate based on interest rates and local consumer price indices. The total future minimum lease payments related to these operating leases and certain equipment leases are significant and are disclosed in Note 12, "Commitments and Contingencies," to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2011 as updated by Sonic's Current Report on Form 8-K furnished to the SEC pursuant to Items 2.02 and 9.01 on June 25, 2012.

The outcome of legal and administrative proceedings we are or may become involved in could have a material adverse effect on our future business, results of operations, financial condition and cash flows.

We are involved, and expect to continue to be involved, in numerous legal and administrative proceedings arising out of the conduct of our business, including regulatory investigations and private civil actions brought by plaintiffs purporting to represent a potential class or for which a class has been certified.

Several private civil actions have been filed against us and several of our dealership subsidiaries that purport to represent classes of customers as potential plaintiffs and make allegations that certain products sold in the finance and insurance departments were done so in a deceptive or otherwise illegal manner. One of these private civil actions was filed on November 15, 2004 in South Carolina state court, York County Court of Common Pleas, against us and some of our South Carolina subsidiaries. The plaintiffs in that lawsuit were Misty J. Owens, James B. Wright, Vincent J. Astey and Joseph Lee Williams, on behalf of themselves and all other persons similarly situated, with plaintiffs seeking monetary damages and injunctive relief on behalf of the purported class. The group of plaintiffs' attorneys representing the plaintiffs in the South Carolina lawsuit also filed another private civil class action lawsuit against us and certain of our subsidiaries on February 14, 2005 in state court in North Carolina, Lincoln County Superior Court, which similarly sought certification of a multi-state class of plaintiffs and alleged that certain products sold in the finance and insurance departments were done so in a deceptive or otherwise illegal manner. The plaintiffs in this North Carolina lawsuit were Robert Price, Carolyn Price, Marcus Cappelletti and Kelly Cappelletti, on behalf of themselves and all other persons similarly situated, with plaintiffs seeking monetary damages and injunctive relief on behalf of the purported class. The South Carolina state court action and the North

Carolina state court action were subsequently consolidated into a single proceeding in private arbitration before the American Arbitration Association (the "Arbitrator"). On November 12, 2008, claimants in the consolidated arbitration filed a Motion for Class Certification as a national class action including all of the states in which we operate dealerships except Florida. Claimants are seeking monetary damages and injunctive relief on behalf of this class of customers. The parties have briefed and argued the issue of class certification.

On July 19, 2010, the Arbitrator issued a Partial Final Award on Class Certification, certifying a class which includes all customers who, on or after November 15, 2000, purchased or leased from one of our dealerships a vehicle with the Etch product as part of the transaction, but not including customers who purchased or leased such vehicles from one of our dealerships in Florida. The Partial Final Award on Class Certification is not a final decision on the merits of the action. The merits of Claimants' assertions and potential damages would still have to be proven through the remainder of the arbitration. The Arbitrator stayed the Arbitration for thirty days to allow either party to petition a court of competent jurisdiction to confirm or vacate the award. On July 22, 2010, the plaintiffs in this consolidated arbitration filed a Motion to Confirm the Arbitrator's Partial Final Award on Class Certification in state court in North Carolina, Lincoln County Superior Court. On August 17, 2010, we removed this North Carolina state court action to federal court, and simultaneously filed a Petition to Vacate the Arbitrator's Partial Final Award on Class Certification, with both filings made in the United Stated District Court for the Western District of North Carolina.

On August 12, 2011, the United States District Court for the Western District of North Carolina issued an Order granting our Petition to Vacate Arbitration Award on Class Certification and denied Claimant's Motion to Dismiss the same. Claimants filed a Notice of Appeal to the United States Fourth Circuit Court of Appeals on September 12, 2011. The federal court's stay of the arbitration proceeding remains in force. At a mediation held January 16, 2012, our company reached an agreement with the Claimants to settle this ongoing dispute in its entirety. Our company and the Claimants subsequently entered into a definitive settlement agreement, the terms of which received preliminary approval by a North Carolina state court in May 2012. This settlement remains subject to final court approval. In the event that final court approval is received, this settlement would not have a material adverse effect on our future results of operations, financial condition and cash flows.

Although we vigorously defend ourself in all legal and administrative proceedings, the outcomes of pending and future proceedings arising out of the conduct of our business, including litigation with customers, employment related lawsuits, contractual disputes, class actions, purported class actions and actions brought by governmental authorities, cannot be predicted with certainty. An unfavorable resolution of one or more of these matters could have a material adverse effect on our business, financial condition, results of operations, cash flows or prospects.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

	Total Number of Shares Purchased (1)	Average Price Paid per Share	(In thousands, except per share data) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
April 2012	—	$ —	—	$ 30,725
May 2012	3	16.47	3	30,694
June 2012	—	—	—	30,694
Total	3	$ 16.47	3	$ 30,694 (2)

(1) All shares repurchased were part of publicly announced share repurchase programs.

(2) Subsequent to June 30, 2012, our Board of Directors authorized an additional $100.0 million to repurchase shares of our Class A common stock for a total of $130.7 million currently available for this purpose.

(3) Our publicly announced Class A common stock repurchase authorization and current availability is as follows:

	(amounts in thousands)
November 1999	$ 25,000
February 2000	25,000
December 2000	25,000
May 2001	25,000
August 2002	25,000
February 2003	20,000
December 2003	20,000
July 2004	20,000
July 2007	30,000
October 2007	40,000
April 2008	40,000
July 2012	100,000
Total authorization	395,000
Total repurchases through June 30, 2012	(264,306)
Currently available	$ 130,694

See Note 6, “Long-term Debt,” to the accompanying Unaudited Condensed Consolidated Financial Statements and Item 2: “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional discussion of restrictions on share repurchases and payment of dividends.

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

Item 6: Exhibits.

(a) Exhibits:

Exhibit No.	Description
10.1*	Amendment No. 1, dated as of April 19, 2012, to Second Amended and Restated Credit Agreement dated July 8, 2011 with Bank of America, N.A., as administrative agent, swing line lender and a lender and Mercedes-Benz Financial Services USA LLC, BMW Financial Services NA, LLC, Toyota Motor Credit Corporation, JPMorgan Chase Bank, N.A., Wells Fargo Bank, National Association, Comerica Bank, US Bank, National Association, Capital One, N.A., VW Credit, Inc. and World Omni Financial Corp., as lenders and Bank of America, N.A., and Wells Fargo Bank, National Association, as letter of credit issuer (incorporated by reference to Exhibit 10.1 to Sonic's Current Report on Form 8-K filed April 23, 2012).
10.2*	Amendment No. 1, dated as of April 19, 2012, to Amended and Restated Syndicated New and Used Vehicle Floorplan Credit Agreement with Bank of America, N.A., as administrative agent, a lender, new vehicle swingline lender and used vehicle swingline lender, and JPMorgan Chase Bank, N.A., Wells Fargo Bank, National Association, US Bank, National Association, Capital One, N.A., Mercedes-Benz Financial Services USA LLC and Comerica Bank, as lenders, and Wells Fargo Bank, National Association as letter of credit issuer (incorporated by reference to Exhibit 10.2 to Sonic's Current Report on Form 8-K filed April 23, 2012).
10.3*	Sonic Automotive, Inc. 2012 Stock Incentive Plan (incorporated by reference to Exhibit 4.5 to Sonic's Registration Statement on Form S-8 (Reg. No. 333-180814)).(1)
10.4*	Sonic Automotive, Inc. 2012 Formula Restricted Stock Plan for Non-Employee Directors (incorporated by reference to Exhibit 4.5 to Sonic's Registration Statement on Form S-8 (Reg. No. 333-180815)).(1)
10.5*	Dealer Manager Agreement dated as of June 25, 2012 by and among Sonic Automotive, Inc. and J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Securities, LLC (incorporated by reference to Exhibit 1.1 to Sonic's Registration Statement on Form S-4 (Reg. No. 333-182307)).
10.6	Purchase Agreement dated as of June 25, 2012 by and among Sonic Automotive, Inc., the guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Representative of the Initial Purchasers.
31.1	Certification of Mr. David P. Cosper pursuant to rule 13a-14(a)
31.2	Certification of Mr. O. Bruton Smith pursuant to rule 13a-14(a)
32.1	Certification of Mr. David P. Cosper pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Mr. O. Bruton Smith pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed previously

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

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

SONIC AUTOMOTIVE, INC. AND SUBSIDIARIES

Forward Looking Statements

This Quarterly Report on Form 10-Q contains numerous "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address our future objectives, plans and goals, as well as our intent, beliefs and current expectations regarding future operating performance, and can generally be identified by words such as "may," "will," "should," "believe," "expect," "anticipate," "intend," "plan," "foresee" and other similar words or phrases. Specific events addressed by these forward-looking statements include, but are not limited to:

- vehicle sales rates and same store sales growth;
- future liquidity trends or needs;
- our business and growth strategies;
- future covenant compliance;
- our financing plans and our ability to repay or refinance existing debt when due, including our pending offer to repurchase all of our 5.0% Convertible Senior Notes due 2029;
- future acquisitions or dispositions;
- level of fuel prices;
- industry trends; and
- general economic trends, including employment rates and consumer confidence levels.

These forward-looking statements are based on our current estimates and assumptions and involve various risks and uncertainties. As a result, you are cautioned that these forward-looking statements are not guarantees of future performance and that actual results could differ materially from those projected in these forward-looking statements. Factors which may cause actual results to differ materially from our projections include those risks described in Item 1 and Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011, as updated by our Current Report on Form 8-K furnished to the SEC pursuant to Items 2.02 and 9.01 on June 25, 2012 and Item 1A of this Form 10-Q and elsewhere in this report, as well as:

- the number of new and used cars sold in the United States as compared to our expectations and the expectations of the market;
- our ability to generate sufficient cash flows or obtain additional financing to fund acquisitions, capital expenditures, our share repurchase program, dividends on our Common Stock and general operating activities;
- the reputation and financial condition of vehicle manufacturers whose brands we represent, the financial incentives vehicle manufacturers offer and their ability to design, manufacture, deliver and market their vehicles successfully;
- our relationships with manufacturers, which may affect our ability to obtain desirable new vehicle models in inventory or complete additional acquisitions;
- adverse resolutions of one or more significant legal proceedings against us or our dealerships;
- changes in laws and regulations governing the operation of automobile franchises, accounting standards, taxation requirements and environmental laws;
- general economic conditions in the markets in which we operate, including fluctuations in interest rates, employment levels, the level of consumer spending and consumer credit availability;
- the terms of any refinancing of our existing indebtedness;

- high competition in the automotive retailing industry, which not only creates pricing pressures on the products and services we offer, but also on businesses we may seek to acquire;
- our ability to successfully integrate potential future acquisitions; and
- the rate and timing of overall economic recovery or decline.

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: July 25, 2012

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

Date: July 25, 2012

By: /s/ DAVID P. COSPER
David P. Cosper
Vice Chairman and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

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

Exhibit 10.6

EXECUTION VERSION

PURCHASE AGREEMENT

June 25, 2012

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED
As Representative of the Initial Purchasers
One Bryant Park
New York, New York 10036

Ladies and Gentlemen:

Introductory. Sonic Automotive, Inc., a Delaware corporation (the "**Company**"), proposes to issue and sell to the several Initial Purchasers named in Schedule A (the "**Initial Purchasers**"), acting severally and not jointly, the respective amounts set forth in such Schedule A of an $200,000,000 aggregate principal amount of the Company's 7.00% Senior Subordinated Notes due 2022 (the "**Notes**"). Merrill Lynch, Pierce, Fenner & Smith Incorporated has agreed to act as the representative of the several Initial Purchasers (the "**Representative**") in connection with the offering and sale of the Notes.

The Securities (as defined below) will be issued pursuant to an indenture, to be dated as of July 2, 2012 (the "**Indenture**"), among the Company, the Guarantors (as defined below) and U.S. Bank National Association, as trustee (the "**Trustee**"). Notes will be issued only in book-entry form in the name of Cede & Co., as nominee of The Depository Trust Company (the "**Depositary**") pursuant to a blanket issuer letter of representations, dated November 19, 2003 (the "**DTC Agreement**"), between the Company and the Depositary.

The holders of the Notes will be entitled to the benefits of a registration rights agreement, to be dated as of the Closing Date (as defined below) (the "**Registration Rights Agreement**"), among the Company, the Guarantors and the Initial Purchasers, pursuant to which the Company and the Guarantors may be required to file with the Commission (as defined below), under the circumstances set forth therein, (i) a registration statement under the Securities Act (as defined below) relating to another series of debt securities of the Company with terms substantially identical to the Notes (the "**Exchange Notes**") to be offered in exchange for the Notes (the "**Exchange Offer**") and (ii) a shelf registration statement pursuant to Rule 415 of the Securities Act relating to the resale by certain holders of the Notes, and in each case, to use its commercially reasonable efforts to cause such registration statements to be declared effective. All references herein to the Exchange Notes and the Exchange Offer are only applicable if the Company and the Guarantors are in fact required to consummate the Exchange Offer pursuant to the terms of the Registration Rights Agreement.

The payment of principal of, premium, if any, and interest on the Notes will be fully and unconditionally guaranteed on a senior subordinated unsecured basis, jointly and severally by (i) the entities listed on the signature pages hereof as "Guarantors" and (ii) any subsidiary of the Company formed or acquired after the Closing Date that executes an additional guarantee in ac-

cordance with the terms of the Indenture, and their respective successors and assigns (collectively, the "**Guarantors**"), pursuant to their guarantees (the "**Guarantees**"). The Notes and the Guarantees attached thereto are herein collectively referred to as the "**Securities**"; and the Exchange Notes and the Guarantees attached thereto are herein collectively referred to as the "**Exchange Securities**."

Concurrently with the Closing Date, the Company will enter into an escrow agreement (the "**Escrow Agreement**") with the Trustee and Wilmington Trust, National Association, as escrow agent (the "**Escrow Agent**"), pursuant to which the net proceeds of the offering of the Securities will be deposited with the Escrow Agent on the Closing Date, and the Company shall deposit with the Escrow Agent on the Closing Date an additional amount of cash (collectively, the "**Escrow Proceeds**") sufficient to redeem the Securities in cash at a redemption price in the amount and manner and at the time set forth in the Indenture (the "**Escrow Redemption Amount**"). The Escrow Proceeds shall be held by the Escrow Agent in an escrow account (the "**Escrow Account**") in accordance with the terms and provisions set forth in the Escrow Agreement, and released in accordance with the conditions set forth therein, as described in the Pricing Disclosure Package and the Final Offering Memorandum (each term as defined below) (such date of release, the "**Release Date**"). If the Release Date does not occur by October 23, 2012 (120 days following the date hereof) or on such earlier date determined by the Company, the Securities will be redeemed at the Escrow Redemption Amount in accordance with the terms of the Indenture.

The Company understands that the Initial Purchasers propose to make an offering of the Securities on the terms and in the manner set forth herein and in the Pricing Disclosure Package (as defined below) and agrees that the Initial Purchasers may resell, subject to the conditions set forth herein, all or a portion of the Securities to purchasers (the "**Subsequent Purchasers**") on the terms set forth in the Pricing Disclosure Package (the first time when sales of the Securities are made is referred to as the "**Time of Sale**"). The Securities are to be offered and sold to or through the Initial Purchasers without being registered with the Securities and Exchange Commission (the "**Commission**") under the Securities Act of 1933 (as amended, the "**Securities Act**," which term, as used herein, includes the rules and regulations of the Commission promulgated thereunder), in reliance upon exemptions therefrom. Pursuant to the terms of the Securities and the Indenture, investors who acquire Securities shall be deemed to have agreed that Securities may only be resold or otherwise transferred, after the date hereof, if such Securities are registered for sale under the Securities Act or if an exemption from the registration requirements of the Securities Act is available (including the exemptions afforded by Rule 144A under the Securities Act ("**Rule 144A**") or Regulation S under the Securities Act ("**Regulation S**")).

The Company has prepared and delivered to each Initial Purchaser copies of a Preliminary Offering Memorandum, dated June 25, 2012 (the "**Preliminary Offering Memorandum**"), and has prepared and delivered to each Initial Purchaser copies of a Pricing Supplement, dated June 25, 2012 (the "**Pricing Supplement**"), describing the terms of the Securities, each for use by such Initial Purchaser in connection with its solicitation of offers to purchase the Securities. The Preliminary Offering Memorandum and the Pricing Supplement are herein referred to as the "**Pricing Disclosure Package**." Promptly after this Agreement is executed and delivered, the

Company will prepare and deliver to each Initial Purchaser a final offering memorandum dated the date hereof (the "**Final Offering Memorandum**").

All references herein to the terms "**Pricing Disclosure Package**" and "**Final Offering Memorandum**" shall be deemed to mean and include all information filed under the Securities Exchange Act of 1934 (as amended, the "**Exchange Act**," which term, as used herein, includes the rules and regulations of the Commission promulgated thereunder) prior to the Time of Sale and incorporated by reference in the Pricing Disclosure Package (including the Preliminary Offering Memorandum) or the Final Offering Memorandum (as the case may be), and all references herein to the terms "**amend**," "**amendment**" or "**supplement**" with respect to the Final Offering Memorandum shall be deemed to mean and include all information filed under the Exchange Act after the Time of Sale and incorporated by reference in the Final Offering Memorandum.

The Company hereby confirms its agreements with the Initial Purchasers as follows:

SECTION 1. **Representations and Warranties.** Each of the Company and the Guarantors, jointly and severally, hereby represents, warrants and covenants to each Initial Purchaser that, as of the date hereof and as of the Closing Date (references in this Section 1 to the "**Offering Memorandum**" are to (x) the Pricing Disclosure Package in the case of representations and warranties made as of the date hereof and (y) the Pricing Disclosure Package and the Final Offering Memorandum in the case of representations and warranties made as of the Closing Date):

(a) **No Registration Required.** Subject to compliance by the Initial Purchasers with the representations and warranties set forth in Section 2 hereof and with the procedures set forth in Section 7 hereof, it is not necessary in connection with the offer, sale and delivery of the Securities to the Initial Purchasers and to each Subsequent Purchaser in the manner contemplated by this Agreement and the Offering Memorandum to register the Securities under the Securities Act or, until such time as the Exchange Securities are issued pursuant to an effective registration statement, to qualify the Indenture under the Trust Indenture Act of 1939 (as amended, the "**Trust Indenture Act**," which term, as used herein, includes the rules and regulations of the Commission promulgated thereunder).

(b) **No Integration of Offerings or General Solicitation.** None of the Company, its directors, officers or any entities controlled by or under common control with or that control the Company (each, an "**Affiliate**"), or any person acting on its or any of their behalf (other than the Initial Purchasers and their Affiliates, as to whom the Company and the Guarantors make no representation or warranty) has, directly or indirectly, solicited any offer to buy or offered to sell, or will, directly or indirectly, solicit any offer to buy or offer to sell, in the United States or to any United States citizen or resident, any security which is or would be integrated with the sale of the Securities in a manner that would require the Securities to be registered under the Securities Act. None of the Company, its Affiliates, or any person acting on its or any of their behalf (other than the Initial Purchasers and their Affiliates, as to whom the Company and the Guarantors make no representation or warranty) has engaged or will engage, in connection with the offering of the Securities, in any form of general solicitation or general advertising within the mean-

ing of Rule 502 under the Securities Act. With respect to those Securities sold in reliance upon Regulation S, (i) none of the Company, its Affiliates or any person acting on its or their behalf (other than the Initial Purchasers and their Affiliates, as to whom the Company and the Guarantors make no representation or warranty) has engaged or will engage in any directed selling efforts within the meaning of Regulation S and (ii) each of the Company and its Affiliates and any person acting on its or their behalf (other than the Initial Purchasers and their Affiliates, as to whom the Company and the Guarantors make no representation or warranty) has complied and will comply with the offering restrictions set forth in Regulation S.

(c) **Eligibility for Resale under Rule 144A.** The Securities are eligible for resale pursuant to Rule 144A and will not be, at the Closing Date, of the same class as securities listed on a national securities exchange registered under Section 6 of the Exchange Act or quoted in a U.S. automated interdealer quotation system.

(d) **The Pricing Disclosure Package and Offering Memorandum.** Neither the Pricing Disclosure Package, as of the Time of Sale, nor the Final Offering Memorandum, as of its date or (as amended or supplemented in accordance with Section 3(a), as applicable) as of the Closing Date, contains an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that this representation, warranty and agreement shall not apply to statements in or omissions from the Pricing Disclosure Package, the Final Offering Memorandum or any amendment or supplement thereto made in reliance upon and in conformity with information furnished to the Company in writing by or on behalf of any Initial Purchaser through the Representative expressly for use in the Pricing Disclosure Package, the Final Offering Memorandum or amendment or supplement thereto, as the case may be. The Pricing Disclosure Package contains, and the Final Offering Memorandum will contain as of its date and as of the Closing Date, all the information specified in, and meeting the requirements of, Rule 144A. The Company has not distributed and will not distribute, prior to the later of the Closing Date and the completion of the Initial Purchasers' distribution of the Securities, any offering material in connection with the offering and sale of the Securities other than the Pricing Disclosure Package and the Final Offering Memorandum.

(e) **Company Additional Written Communications.** The Company has not prepared, made, used, authorized, approved or distributed and will not prepare, make, use, authorize, approve or distribute any written communication that constitutes an offer to sell or solicitation of an offer to buy the Securities other than (i) the Pricing Disclosure Package, (ii) the Final Offering Memorandum and (iii) any electronic road show or other written communications, in each case used in accordance with Section 3(a). Each such communication by the Company or its agents and representatives pursuant to clause (iii) of the preceding sentence (each, a "**Company Additional Written Communication**"), when taken together with the Pricing Disclosure Package, did not as of the Time of Sale, and at the Closing Date will not, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that this represen-

tation, warranty and agreement shall not apply to statements in or omissions from each such Company Additional Written Communication made in reliance upon and in conformity with information furnished to the Company in writing by or on behalf of any Initial Purchaser through the Representative expressly for use in any Company Additional Written Communication.

(f) **Incorporated Documents.** The documents incorporated by reference in the Offering Memorandum, when they were filed with the Commission, complied in all material respects with the requirements of the Exchange Act, and, when taken together with the Offering Memorandum, did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and any further documents so filed and incorporated by reference in the Offering Memorandum, when such documents are filed with the Commission, will comply in all material respects to the requirements of the Exchange Act and, when taken together with the Offering Memorandum, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that the Company makes no representation and warranty with respect to any statements or omissions made in reliance upon and in conformity with information relating to any Initial Purchaser furnished to the Company in writing by or on behalf of such Initial Purchaser through the Representative expressly for use in the Offering Memorandum, it being understood and agreed that the only such information furnished by any Initial Purchaser consists of the information described as such in Section 8(b) hereof.

(g) **Financial Statements.** The financial statements (including the related notes thereto) of the Company and its consolidated subsidiaries included or incorporated by reference in the Offering Memorandum comply in all material respects with the applicable requirements of the Securities Act and the Exchange Act, as applicable, and present fairly in all material respects the financial position of the Company and its consolidated subsidiaries as of the dates indicated and the results of their operations and the changes in their cash flows for the periods specified; such financial statements have been prepared in conformity with generally accepted accounting principles in the United States applied on a consistent basis throughout the periods covered thereby except as otherwise noted therein, and any supporting schedules included or incorporated by reference in the Offering Memorandum present fairly in all material respects the information required to be stated therein; and the other financial information of the Company and its consolidated subsidiaries included or incorporated by reference in the Offering Memorandum has been derived from the accounting records of the Company and its consolidated subsidiaries and presents fairly in all material respects the information shown thereby. The interactive data in eXtensible Business Reporting Language included or incorporated by reference in the Offering Memorandum and the Pricing Disclosure Package fairly present the information called for in all material respects and have been prepared in accordance with the Commission's rules and guidelines applicable thereto.

(h) **No Material Adverse Change.** Since the date of the most recent financial statements of the Company included or incorporated by reference in the Offering Memorandum, (i) there has not been any change in the capital stock (other than the issuance of shares of Common Stock upon exercise of stock options and warrants described as outstanding in, and the grant or vesting of options and awards under existing equity incentive plans described in, the Offering Memorandum and documents incorporated by reference therein), material change in the short-term or long-term debt of the Company or any of its subsidiaries, or any dividend or distribution of any kind declared, set aside for payment, paid or made by the Company on any class of capital stock; (ii) there has not been any material adverse change, or any development involving a prospective material adverse change, in or affecting, individually or in the aggregate, the business, properties, management, financial position, stockholders' equity, results of operations or prospects of the Company and its subsidiaries taken as a whole (any such change or development is called a "**Material Adverse Change**"); (iii) neither the Company nor any of its subsidiaries has entered into any transaction or agreement (other than those in the ordinary course of business) that is material to the Company and its subsidiaries taken as a whole or incurred any liability or obligation, direct or contingent, that is material to the Company and its subsidiaries taken as a whole (other than those in the ordinary course of business); and (iv) neither the Company nor any of its subsidiaries has sustained any loss or interference with its business that is material to the Company and its subsidiaries taken as a whole and that is either from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor disturbance or dispute or any action, order or decree of any court or governmental or regulatory authority, except in the case of clauses (i) through (iv) as otherwise disclosed in or incorporated by reference into the Offering Memorandum.

(i) **Organization and Good Standing.** The Company and each of its subsidiaries have been duly organized and are validly existing and, if applicable, in good standing under the laws of their respective jurisdictions of organization, are duly qualified to do business and are in good standing in each jurisdiction in which their respective ownership or lease of property or the conduct of their respective businesses requires such qualification, and have all power and authority necessary to own or hold their respective properties and to conduct the businesses in which they are engaged, except where the failure to be so qualified or in good standing or have such power or authority would not, individually or in the aggregate, have a material adverse effect on the business, properties, management, financial position, stockholders' equity, results of operations or prospects of the Company and its subsidiaries taken as a whole or on the performance by the Company of its obligations under this Agreement (a "**Material Adverse Effect**"). The Company does not own or control, directly or indirectly, any Significant Subsidiary other than the subsidiaries listed in Exhibit 21.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (the "**Form 10-K**"). As used herein, "**Significant Subsidiary**" shall mean a consolidated dealership subsidiary of the Company that produced more than 2% of the Company's total revenues for the year ended December 31, 2011.

(j) **Capitalization.** The Company has an authorized capital stock as set forth in the Offering Memorandum under the heading "Capitalization"; all the outstanding shares of capital stock of the Company have been duly authorized and validly issued and are fully paid and non-assessable and are not subject to any pre-emptive or similar rights; and all the outstanding shares of capital stock or other equity interests of each Guarantor have been duly and validly authorized and issued, are fully paid and non-assessable and are owned directly or indirectly by the Company, free and clear of any lien, charge, encumbrance, security interest, restriction on voting or transfer or any other claim of any third party, except as disclosed in the Offering Memorandum.

(k) **Due Authorization.** The Company and the Guarantors have full right, power and authority to execute and deliver this Agreement, the Indenture, the Registration Rights Agreement, the Escrow Agreement, the Notes, the Guarantees and the Exchange Notes, as applicable, and to perform their respective obligations hereunder and thereunder; and all action required to be taken for the due and proper authorization, execution and delivery by each of the Company and the Guarantors of this Agreement and the consummation by it of the sale of the Securities contemplated hereby has been duly and validly taken.

(l) **The Indenture.** The Indenture has been duly authorized by the Company and the Guarantors and, when duly executed and delivered in accordance with its terms by each of the parties thereto, will constitute a valid and legally binding agreement of the Company and the Guarantors enforceable against the Company and the Guarantors in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting creditors' rights generally or by equitable principles relating to enforceability (collectively, the "**Enforceability Exceptions**"). On the Closing Date, the Indenture will conform in all material respects to the requirements of the Trust Indenture Act and the rules and regulations of the Commission applicable to an indenture which is qualified thereunder.

(m) **The Purchase Agreement.** This Agreement has been duly authorized, executed and delivered by the Company and the Guarantors.

(n) **The Registration Rights Agreement.** The Registration Rights Agreement has been duly authorized by the Company and the Guarantors and, when duly executed and delivered in accordance with its terms by each of the parties thereto, will constitute a valid and legally binding agreement of the Company and the Guarantors, enforceable against the Company and the Guarantors in accordance with its terms, subject to the Enforceability Exceptions and except as rights to indemnification may be limited by applicable law.

(o) **The Escrow Agreement.** The Escrow Agreement has been duly authorized by the Company and, when duly executed and delivered in accordance with its terms by each of the parties thereto, will constitute a valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms, subject to the Enforceability Exceptions and except as rights to indemnification may be limited by applicable law.

(p) **Authorization of the Notes, the Guarantees and the Exchange Notes.** The Notes to be issued and sold by the Company hereunder have been duly authorized by the Company for issuance and sale pursuant to this Agreement and the Indenture and, when duly executed, authenticated, issued and delivered as provided for in the Indenture and the Securities have been paid for as provided herein, will be duly and validly issued and outstanding, will constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their terms, subject to the Enforceability Exceptions, and will be entitled to the benefits of the Indenture. The Exchange Notes have been duly authorized by the Company for issuance, and when duly executed, authenticated, issued and delivered in accordance with the terms of the Indenture, the Registration Rights Agreement and the Exchange Offer, will be duly and validly issued and outstanding, will constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their terms, subject to the Enforceability Exceptions, and will be entitled to the benefits of the Indenture. The Guarantees of the Notes and the Guarantees of the Exchange Notes have been duly authorized by the Guarantors for issuance pursuant to this Agreement and the Indenture; the Guarantees of the Notes, when duly executed, authenticated, issued and delivered as provided for in the Indenture and the Securities have been paid for as provided herein, will be duly and validly issued and outstanding, will constitute valid and legally binding obligations of the Guarantors enforceable against the Guarantors in accordance with their terms, subject to the Enforceability Exceptions, and will be entitled to the benefits of the Indenture; and, when the Exchange Notes have been duly executed, authenticated, issued and delivered in accordance with the terms of the Indenture, the Registration Rights Agreement and the Exchange Offer, the Guarantees of the Exchange Notes will be duly and validly issued and outstanding, will constitute valid and legally binding obligations of the Guarantors enforceable against the Guarantors in accordance with their terms, subject to the Enforceability Exceptions, and will be entitled to the benefits of the Indenture.

(q) **Description of the Securities and the Indenture.** The Securities, the Exchange Securities, the Indenture, the Registration Rights Agreement and the Escrow Agreement will conform in all material respects to the description thereof in the Offering Memorandum.

(r) **No Violation or Default.** Neither the Company nor any of its subsidiaries is (i) in violation of its charter or by-laws or similar organizational documents; (ii) in default, and no event has occurred that, with notice or lapse of time or both, would constitute such a default, in the performance or observance of any term, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject; or (iii) in violation of any applicable law or statute or any applicable judgment, order, rule or regulation of any court or governmental or regulatory authority, except, in the case of clauses (ii) and (iii) above, for any such default or violation that would not, individually or in the aggregate, have a Material Adverse Effect.

(s) **No Conflicts.** The execution and delivery by the Company and the Guarantors of this Agreement, the Registration Rights Agreement, the Escrow Agreement and the Indenture, and the issuance and delivery of the Securities and the Exchange Securities by the Company and the Guarantors, and performance by the Company and the Guarantors of their obligations hereunder and thereunder and consummation by the Company and the Guarantors of the transactions contemplated hereby and thereby and by the Offering Memorandum will not (i) conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default or a Debt Repayment Triggering Event (as defined below) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of its subsidiaries pursuant to, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, (ii) result in any violation of the provisions of the charter or by-laws or similar organizational documents of the Company or any of its subsidiaries or (iii) result in the violation of any applicable law or statute or any applicable judgment, order, rule or regulation of any court or governmental or regulatory authority, except, in the case of clauses (i) and (iii) above, for any such conflict, breach, violation, default, Debt Repayment Triggering Event, lien, charge or encumbrance that would not, individually or in the aggregate, have a Material Adverse Effect. As used herein, a "**Debt Repayment Triggering Event**" means any event or condition which gives, or with the giving of notice or lapse of time would give, the holder of any note, debenture or other evidence of indebtedness (or any person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Company or any of its subsidiaries.

(t) **No Consents Required.** No consent, approval, authorization, order, license, registration or qualification of or with any court or governmental or regulatory authority is required for the execution, delivery and performance by the Company and the Guarantors of this Agreement, the Registration Rights Agreement, the Escrow Agreement or the Indenture, or the issuance and delivery of the Securities or the Exchange Securities, or consummation of the transactions contemplated hereby and thereby and by the Offering Memorandum, except for those which have been obtained, for the registration of the Securities or the Exchange Securities under the Securities Act and the qualification of the Indenture under the Trust Indenture Act in connection with the transactions contemplated by the Registration Rights Agreement and such consents, approvals, authorizations, orders and registrations or qualifications as may be required by the Financial Industry Regulatory Authority, Inc. (**"FINRA"**) and under applicable securities laws in connection with the purchase and distribution of the Securities by the Initial Purchasers.

(u) **Legal Proceedings.** Except as described in the Offering Memorandum, there are no legal, governmental or regulatory investigations (as to which the Company has been given notice), actions, suits or proceedings pending to which the Company or any of its subsidiaries is a party or to which any property of the Company or any of its subsidiaries is subject that, individually or in the aggregate, if determined adversely to the Company or any of its subsidiaries, would reasonably be expected to have a Material Ad-

verse Effect; no such investigations (without giving effect to the notice qualifier set forth above), actions, suits or proceedings are, to the knowledge of the Company, threatened or contemplated; and (i) there are no current or pending legal, governmental or regulatory actions, suits or proceedings that are required under the Securities Act or Exchange Act, as applicable, to be described in a registration statement on Form S-1 that are not so described in or incorporated by reference in the Offering Memorandum and (ii) there are no statutes, regulations or contracts or other documents that are required under the Securities Act to be filed as exhibits to the Form 10-K or described in the Form 10-K or in a registration statement on Form S-1 that are not so filed as exhibits to the Form 10-K or described in the Form 10-K or the Offering Memorandum.

(v) **Independent Accountants.** Ernst and Young LLP, who has audited certain financial statements of the Company and its subsidiaries, is an independent registered public accounting firm with respect to the Company and its subsidiaries within the applicable rules and regulations adopted by the Commission and the Public Company Accounting Oversight Board (United States) and as required by the Securities Act.

(w) **Title to Real and Personal Property.** The Company and its subsidiaries have good and marketable title in fee simple (in the case of owned real property) to, or have valid and marketable rights to lease or otherwise use, all items of real and personal property and assets that are material to the business of the Company and its subsidiaries, taken as a whole, in each case free and clear of all liens, encumbrances, claims and defects and imperfections of title except those that (i) do not materially interfere with the use made and proposed to be made of such property by the Company and its subsidiaries, (ii) would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect or (iii) are described in the Offering Memorandum.

(x) **Title to Intellectual Property.** The Company and its subsidiaries own, possess or license adequate rights to use all patents, patent applications, trademarks, service marks, trade names, trademark registrations, service mark registrations, copyrights, licenses and know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures) necessary for the conduct of their respective businesses as currently conducted and as currently proposed to be conducted except as would not reasonably be expected to have a Material Adverse Effect. To the knowledge of the Company, the conduct of the respective businesses of the Company and its subsidiaries will not conflict with any of the foregoing valid rights of others except as would not, individually or in the aggregate, have a Material Adverse Effect. The Company and its subsidiaries have not received any written notice of any claim of infringement, misappropriation or conflict with any such valid rights of others in connection with its patents, patent rights, licenses, inventions, trademarks, service marks, trade names, copyrights and know-how, which would reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect.

(y) **No Undisclosed Relationships.** No relationship, direct or indirect, exists between or among the Company or any of its subsidiaries, on the one hand, and the directors, officers, stockholders, customers or suppliers of the Company or any of its subsidiaries, on the other, that is required by the Securities Act to be described in a registration

statement on Form S-1 and that is not so described in or incorporated by reference in the Offering Memorandum.

(z) **Investment Company Act.** Neither the Company nor any Guarantor is and, after giving effect to the offering and sale of the Securities and the application of the proceeds thereof as described in the Offering Memorandum, will be required to register as an "investment company" or an entity "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations of the Commission thereunder (collectively, the "**Investment Company Act**").

(aa) **Taxes.** The Company and its subsidiaries have paid all federal, state, local and foreign taxes and filed (taking into account applicable extensions) all tax returns required to be paid or filed through the date hereof (except those being disputed in good faith and for which adequate reserve has been established and maintained and those which the failure to pay or file would not reasonably be expected to have a Material Adverse Effect); and except as otherwise disclosed in the Offering Memorandum, there is no tax deficiency that has been, or would reasonably be expected to be, asserted against the Company or any of its subsidiaries or any of their respective properties or assets, except for such tax deficiencies that would not reasonably be expected to have a Material Adverse Effect.

(bb) **Licenses and Permits.** The Company and its subsidiaries possess all licenses, certificates, permits and other authorizations issued by, and have made all declarations and filings with, the appropriate federal, state, local or foreign governmental or regulatory authorities that are necessary for the ownership or lease of their respective properties or the conduct of their respective businesses as described in the Offering Memorandum, except where the failure to possess or make the same would not, individually or in the aggregate, have a Material Adverse Effect; and except as described in the Offering Memorandum, neither the Company nor any of its subsidiaries has received notice of any revocation or modification of any such license, certificate, permit or authorization or has any reason to believe that any such license, certificate, permit or authorization will not be renewed in the ordinary course except where any such revocation, modification or non-renewal would not, individually or in the aggregate, have a Material Adverse Effect.

(cc) **No Labor Disputes.** No labor disturbance by or dispute with employees of the Company or any of its subsidiaries exists or, to the knowledge of the Company, is contemplated or threatened, and the Company is not aware of any existing or imminent labor disturbance by, or dispute with, the employees of any of its or its subsidiaries' principal suppliers or contractors, except in each case as would not, individually or in the aggregate, have a Material Adverse Effect.

(dd) **Environmental Matters.** Except as described in the Offering Memorandum and except for matters that would not, individually or in the aggregate, have a Material Adverse Effect, (i) the Company and its subsidiaries (a) are in compliance with any and all applicable federal, state, local and foreign laws, rules, regulations, requirements,

decisions, judgments, decrees, orders and the common law relating to pollution or the protection of the environment, natural resources or human health or safety, including those relating to the generation, storage, treatment, use, handling, transportation, Release or threat of Release of Hazardous Materials (collectively, "**Environmental Laws**"), (b) have received and are in compliance with all permits, licenses, certificates or other authorizations or approvals required of them under applicable Environmental Laws to conduct their respective businesses, (c) have not received notice of any actual or potential liability under or relating to, or actual or potential violation of, any Environmental Laws, including for the investigation or remediation of any Release or threat of Release of Hazardous Materials, and have no knowledge of any event or condition that would reasonably be expected to result in any such notice and (d) are not a party to any order, decree or agreement that imposes any obligation or liability under any Environmental Law; (ii) there are no costs or liabilities associated with Environmental Laws of or relating to the Company or its subsidiaries; (iii) there are no proceedings that are pending, or that are known to be contemplated, against the Company or any of its subsidiaries under any Environmental Laws in which a governmental entity is also a party; (iv) the Company and its subsidiaries are not aware of any facts or issues regarding compliance with Environmental Laws, or liabilities or other obligations under Environmental Laws, including the Release or threat of Release of Hazardous Materials; and (v) none of the Company and its subsidiaries anticipates capital expenditures relating to any Environmental Laws; and (vi) there has been no storage, generation, transportation, use, handling, treatment, Release or threat of Release of Hazardous Materials by, relating to or caused by the Company or any of its subsidiaries (or, to the knowledge of the Company and its subsidiaries, any other entity (including any predecessor) for whose acts or omissions the Company or any of its subsidiaries is or would reasonably be expected to be liable) at, on, under or from (A) any property or facility now or previously owned, operated or leased by the Company or any of its subsidiaries or (B) any other property or facility, in each case in violation of any Environmental Laws or in a manner or amount or to a location that would reasonably be expected, individually or in the aggregate, to result in liability under any Environmental Law. "**Hazardous Materials**" means any material, chemical, substance, waste, pollutant, contaminant, compound, mixture, or constituent thereof, in any form or amount, including petroleum (including crude oil or any fraction thereof) and petroleum products, natural gas liquids, asbestos and asbestos containing materials, naturally occurring radioactive materials, brine, and drilling mud, regulated or which can give rise to liability under any Environmental Law. "**Release**" means any spilling, leaking, seepage, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing, depositing, dispersing, or migrating in, into or through the environment, or in, into from or through any building or structure.

(ee) **Compliance with ERISA.** (i) Each employee benefit plan, within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), for which the Company or any member of its "Controlled Group" (defined as any organization which is a member of the Company's controlled group of corporations or is under common control with the Company within the meaning of Sections 414(b) or (c) of the Internal Revenue Code of 1986, as amended (the "**Code**")) would have any liability (each, a "**Plan**") has been maintained in compliance with its

terms and the requirements of any applicable statutes, orders, rules and regulations, including but not limited to ERISA and the Code, except for noncompliance that would not reasonably be expected to result in material liability to the Company or its subsidiaries; (ii) no prohibited transaction, within the meaning of Section 406 of ERISA or Section 4975 of the Code, has occurred with respect to any Plan excluding transactions effected pursuant to a statutory or administrative exemption that would reasonably be expected to result in a material liability to the Company or its subsidiaries; (iii) for each Plan that is subject to the funding rules of Section 412 of the Code or Section 302 of ERISA, the minimum funding standard of Section 412 of the Code or Section 302 of ERISA, as applicable, has been satisfied (without taking into account any waiver thereof or extension of any amortization period) and is reasonably expected to be satisfied in the future (without taking into account any waiver thereof or extension of any amortization period); (iv) the fair market value of the assets of each Plan that is subject to the funding rules of Section 412 of the Code or Section 302 of ERISA exceeds the present value of all benefits accrued under such Plan (determined based on those assumptions used to fund such Plan); (v) no "reportable event" (within the meaning of Section 4043(c) of ERISA) has occurred or is reasonably expected to occur that either has resulted, or would reasonably be expected to result, in material liability to the Company or its subsidiaries; (vi) neither the Company nor any member of its Controlled Group has incurred, nor reasonably expects to incur, any liability under Title IV of ERISA (other than contributions or premiums to the PBGC, in the ordinary course and without default) in respect of a Plan (including a "multiemployer plan", within the meaning of Section 4001(a)(3) of ERISA); and (vii) there is no pending audit or investigation by the Internal Revenue Service, the U.S. Department of Labor, the Pension Benefit Guaranty Corporation or any other governmental agency or any foreign regulatory agency with respect to any Plan that would reasonably be expected to result in material liability to the Company or its subsidiaries. None of the following events has occurred or is reasonably likely to occur: (x) a material increase in the aggregate amount of contributions required to be made to all Plans by the Company or its subsidiaries in the current fiscal year of the Company and its subsidiaries compared to the amount of such contributions made by the Company and its subsidiaries' most recently completed fiscal year; or (y) a material increase in the "accumulated post-retirement benefit obligations" of the Company and its subsidiaries (within the meaning of Statement of Financial Accounting Standards No. 106, as amended) compared to the amount of such obligations as of the Company's most recently completed fiscal year.

(ff) **Disclosure Controls.** The Company maintains an effective system of "disclosure controls and procedures" (as defined in Rule 13a-15(e) of the Exchange Act) that relates to the Company and its subsidiaries and complies with the requirements of the Exchange Act and that has been designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, including controls and procedures designed to ensure that such information is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. The evaluations of the effectiveness of the Company's disclosure controls and procedures have been carried out as of and on the dates required by Rule 13a-15 of the Exchange Act.

(gg) **Accounting Controls.** The Company maintains a system of "internal control over financial reporting" (as defined in Rule 13a-15(f) of the Exchange Act) that relates to the Company and its subsidiaries and complies with the requirements of the Exchange Act and has been designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, including, but not limited to, internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and (v) the interactive data in eXtensible Business Reporting Language included or incorporated by reference in the Offering Memorandum and the Pricing Disclosure Package fairly present the information called for in all material respects and are prepared in accordance with the Commission's rules and guidelines applicable thereto. Based on the Company's most recent evaluation of internal control over financial reporting, there are no "material weaknesses" (as defined in Rule 12b-2 of the Exchange Act) in the Company's internal control over financial reporting and the Company has corrected the material weakness which is disclosed in the Offering Memorandum. None of the "significant deficiencies" (as defined in Rule 12b-2 of the Exchange Act) identified in connection with the Company's prior audit should be deemed to be material weaknesses. As of and when required by Section 302 of the Sarbanes Oxley Act, the Company's auditors and the Audit Committee of the Board of Directors of the Company have been advised of: (i) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which have adversely affected or are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

(hh) **Insurance.** The Company and its subsidiaries are insured by insurers of nationally recognized financial responsibility against such losses and risks and in such amounts as are prudent in the businesses in which they are engaged; and neither the Company nor any of its subsidiaries has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage at a cost that would not, individually or in the aggregate, have a Material Adverse Effect. Neither of the Company nor any subsidiary has been denied any insurance coverage which it has sought or for which it has applied except, if such a denial has occurred, for insurance coverage which the Company or the subsidiary, as applicable, was able to obtain from other insurers at a cost that did not and is not reasonably expected to have a Material Adverse Effect on the Company and its subsidiaries, taken as a whole.

(ii) **No Unlawful Payments.** Neither the Company nor any of its subsidiaries nor, to the knowledge of the Company, any director, officer, agent, employee or other person associated with or acting on behalf of the Company or any of its subsidiaries has (i) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; (ii) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; (iii) violated or is in violation of any provision of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the "**FCPA**"), including, without limitation, making use of the mails or any means or instrumentality of interstate commerce corruptly in furtherance of an offer, payment, promise to pay or authorization of the payment of any money, or other property, gift, promise to give, or authorization of the giving of anything of value to any "foreign official" (as such term is defined in the FCPA) or any foreign political party or official thereof or any candidate for foreign political office, in contravention of the FCPA and the Company and its subsidiaries have conducted their businesses in compliance with the FCPA and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance therewith; or (iv) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment.

(jj) **Compliance with Money Laundering Laws.** The operations of the Company and its subsidiaries are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all applicable jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency in such jurisdictions (collectively, the "**Money Laundering Laws**") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries with respect to the Money Laundering Laws is pending or, to the knowledge of the Company, threatened.

(kk) **Compliance with Sanctions Laws.** None of the Company, any of its subsidiaries or, to the knowledge of the Company, any director, officer, agent, employee or affiliate (other than an affiliate solely by reason that it is under common control with the Company) of the Company or any of its subsidiaries is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury ("**OFAC**"), the U.S. Department of Commerce or the U.S. Department of State (collectively, "**Sanctions**"), nor is the Company or any of its subsidiaries located, organized or resident in a country or territory that is the subject of Sanctions; and the Company will not, directly or indirectly, use the proceeds of the offering of the Securities hereunder, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity, (i) to fund any activities of or business with any person that, at the time of such funding, is the subject of Sanctions, or is in Burma/Myanmar, Cuba, Iran, Libya, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of Sanctions, or (ii) in any other

manner that will result in a violation by any person (including any person participating in the offering, whether as underwriter, advisor, investor or otherwise) of Sanctions.

(ll) **No Restrictions on Subsidiaries.** No Guarantor is currently prohibited, directly or indirectly, under any agreement or other instrument to which it is a party or is subject, from paying any dividends to the Company, from making any other distribution on such subsidiary's capital stock, from repaying to the Company any loans or advances to such subsidiary from the Company or from transferring any of such subsidiary's properties or assets to the Company or any other subsidiary of the Company, in each case in any manner that would materially impair the Company and its subsidiaries' ability to conduct its operations and pay its obligations as they become due.

(mm) **No Broker's Fees.** Other than as disclosed in the Offering Memorandum, neither the Company nor any of its subsidiaries is a party to any contract, agreement or understanding with any person (other than this Agreement) that would give rise to a valid claim against the Company or any of its subsidiaries or any Initial Purchaser for a brokerage commission, finder's fee or like payment in connection with the offering and sale of the Securities.

(nn) **No Registration Rights.** No person has the right (other than under the Registration Rights Agreement) to require the Company or any of its subsidiaries to register any securities for sale under the Securities Act by reason of (i) the filing of a registration statement under the Securities Act relating to the Exchange Notes, (ii) the filing of a shelf registration statement pursuant to Rule 415 of the Securities Act relating to the resale by certain holders of the Notes or (iii) the issuance and sale of the Securities.

(oo) **No Stabilization.** None of the Company or any of the Guarantors has taken or will take, directly or indirectly, any action designed to or that would reasonably be expected to cause or result in any stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities.

(pp) **Margin Rules.** The application of the proceeds received by the Company from the issuance, sale and delivery of the Securities as described in the Offering Memorandum will not violate Regulation T, U or X of the Board of Governors of the Federal Reserve System or any other regulation of such Board of Governors.

(qq) **Statistical and Market Data.** Nothing has come to the attention of the Company that has caused the Company to believe that the statistical and market-related data included or incorporated by reference in the Offering Memorandum is not based on or derived from sources that are reliable and accurate in all material respects.

(rr) **Sarbanes-Oxley Act.** The Company is in material compliance with the applicable provisions of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder (the "**Sarbanes-Oxley Act**").

(ss) **Solvency.** Assuming the enforceability of any savings or similar clause with respect to guarantees contained in any indenture, loan agreement or other agreement

or instrument evidencing indebtedness of the Company or any Guarantor or by which the Company or any Guarantor is bound, each of the Company and the Guarantors is, and immediately after the Closing will be, Solvent. As used herein, the term "Solvent" means, with respect to any person, on a particular date, that on such date (A) the fair market value of the assets of such person is greater than the total amount of liabilities (including contingent liabilities) of such person, (B) the present fair salable value of the assets of such person is greater than the amount that will be required to pay the probable liabilities of such person on its debts as they become absolute and mature, (C) such person is able to realize upon its assets and pay its debts and other liabilities, including contingent obligations, as they mature, and (D) such person does not have an unreasonably small amount of capital and surplus.

(tt) **Suppliers.** Except as disclosed in the Offering Memorandum, no supplier of merchandise to the Company or any of the Subsidiaries has ceased shipments of merchandise to the Company or any of the subsidiaries, other than in the normal and ordinary course of business consistent with past practices, which cessation would result in a Material Adverse Effect.

(uu) **Franchise Agreements.** Except as disclosed in the Offering Memorandum, each franchise agreement, in each case between a subsidiary and the applicable manufacturer has been duly authorized by the Company and such subsidiaries, and, as of the Closing Date, the Company shall have obtained all consents, authorizations and approvals from the manufacturers required to consummate the transactions contemplated hereby or by the Offering Memorandum.

(vv) **Regulation S.** In connection with the offering of the Securities outside the United States, the Offering Memorandum will contain the disclosure required by Rule 902. The Company is a "reporting issuer", as defined in Rule 902 under the Securities Act.

(ww) **No Default in Senior Indebtedness.** No event of default exists under any contract, indenture, mortgage, loan agreement, note, lease or other agreement or instrument constituting Senior Indebtedness (as defined in the Indenture).

Any certificate signed by an officer of the Company or any Guarantor and delivered to the Initial Purchasers or to counsel for the Initial Purchasers shall be deemed to be a representation and warranty by the Company or such Guarantor to each Initial Purchaser as to the matters set forth therein.

SECTION 2. **Purchase, Sale and Delivery of the Securities.**

(a) **The Securities.** Each of the Company and the Guarantors agrees to issue and sell to the Initial Purchasers, severally and not jointly, all of the Securities, and the Initial Purchasers agree, severally and not jointly, to purchase from the Company and the Guarantors the aggregate principal amount of Securities set forth opposite their names on Schedule A, at a purchase price of 97.36% of the principal amount thereof. On the Closing Date the Initial Purchasers shall pay to the Escrow Agent the purchase price of the Securities set forth in the preceding sentence plus

an amount equal to 50% of the Discount (as defined below). The "**Discount**" shall mean 1.75% of the aggregate principal amount of the Securities. The portion of the Discount paid to the Escrow Agent shall be released to the Representative for the benefit of the several Initial Purchasers from the Escrow Account on the Release Date at the same time when the Escrow Proceeds are released to the Company upon satisfaction of the conditions precedent to such release as set forth in the Escrow Agreement.

(b) **The Closing Date.** Delivery of one or more global notes ("**Global Notes**") in definitive form to be purchased by the Initial Purchasers and payment therefor shall be made at the offices of Fried, Frank, Harris, Shriver & Jacobson LLP, One New York Plaza, New York, New York (or such other place as may be agreed to by the Company and the Representative) at 9:00 a.m. New York City time, on July 2, 2012, or such other time and date as may be agreed by the Company and the Representative (the time and date of such closing are called the "**Closing Date**"). The Company hereby acknowledges that circumstances under which the Representative may provide notice to postpone the Closing Date as originally scheduled include, but are in no way limited to, any determination by the Company or the Initial Purchasers to recirculate to investors copies of an amended or supplemented Offering Memorandum or a delay as contemplated by the provisions of Section 17 hereof.

(c) **Delivery of the Securities.** The Company shall deliver, or cause to be delivered, to the Representative for the accounts of the several Initial Purchasers Global Notes at the Closing Date against the irrevocable release of a wire transfer of immediately available funds to the Escrow Account for the amount of the purchase price therefor (it being understood that such payment shall include an amount equal to 50% of the Discount). Pursuant to the terms of the Escrow Agreement, such 50% of the Discount shall be released to the Representative from the Escrow Account on the Release Date at the same time when the Escrow Proceeds are released to the Company upon satisfaction of the conditions precedent to such release as set forth in the Escrow Agreement. The Global Notes shall be in such denominations and registered in the name of Cede & Co., as nominee of the Depositary, pursuant to the DTC Agreement, and shall be made available for inspection on the business day preceding the Closing Date at a location in New York City, as the Representative may designate. Time shall be of the essence, and delivery at the time and place specified in this Agreement is a further condition to the obligations of the Initial Purchasers.

(d) **Initial Purchasers as Qualified Institutional Buyers.** Each Initial Purchaser severally and not jointly represents and warrants to, and agrees with, the Company that:

(i) it is a "qualified institutional buyer" within the meaning of Rule 144A ("**Qualified Institutional Buyer**") and will offer and sell Securities only to persons who it reasonably believes are Qualified Institutional Buyers (a) in transactions meeting the requirements of Rule 144A or (b) upon the terms and conditions set forth in Annex I to this Agreement and, in the case of either (a) or (b) only to persons who in purchasing the Securities are deemed to have represented and agreed to the representations set forth in the Offering Memorandum under the caption "Notice to Investors"; and

(ii) it will not offer or sell Securities by, any form of general solicitation or general advertising, including but not limited to the methods described in Rule 502(c) under the Securities Act.

SECTION 3. **Additional Covenants.** Each of the Company and the Guarantors further covenants and agrees with each Initial Purchaser as follows:

(a) **Preparation of Final Offering Memorandum; Initial Purchasers' Review of Proposed Amendments and Supplements and Company Additional Written Communications.** As promptly as practicable following the Time of Sale and in any event not later than the second business day following the date hereof, the Company will prepare and deliver to the Initial Purchasers the Final Offering Memorandum, which shall consist of the Preliminary Offering Memorandum as modified only by the information contained in the Pricing Supplement except as permitted by Section 3(b). The Company will not amend or supplement the Preliminary Offering Memorandum or the Pricing Supplement except as permitted by Section 3(b). The Company will not amend or supplement the Final Offering Memorandum prior to the Closing Date unless the Representative shall previously have been furnished a copy of the proposed amendment or supplement a reasonable time prior to the proposed use or filing, and shall not have reasonably objected to such amendment or supplement. Before making, preparing, using, authorizing, approving or distributing any Company Additional Written Communication, the Company will furnish to the Representative a copy of such written communication for review and will not make, prepare, use, authorize, approve or distribute any such written communication to which the Representative reasonably objects.

(b) **Amendments and Supplements to the Final Offering Memorandum and Other Securities Act Matters.**If at any time prior to the Closing Date (i) any event shall occur or condition shall exist as a result of which any of the Pricing Disclosure Package as then amended or supplemented would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading or (ii) it is necessary to amend or supplement any of the Pricing Disclosure Package to comply with law, the Company and the Guarantors will promptly notify the Initial Purchasers thereof and promptly prepare and in accordance with Section 3(a) hereof furnish to the Initial Purchasers such amendments or supplements to any of the Pricing Disclosure Package as may be necessary so that the statements in any of the Pricing Disclosure Package as so amended or supplemented will not, in the light of the circumstances under which they were made, be misleading or so that any of the Pricing Disclosure Package will comply with all applicable law. If, prior to the completion of the placement of the Securities by the Initial Purchasers with the Subsequent Purchasers, any event shall occur or condition exist as a result of which it is necessary to amend or supplement the Final Offering Memorandum, as then amended or supplemented, in order to make the statements therein, in the light of the circumstances when the Final Offering Memorandum is delivered to a Subsequent Purchaser, not misleading, or if in the judgment of the Representative or counsel for the Initial Purchasers it is otherwise necessary to amend or supplement the Final Offering Memorandum to comply with law, the Company and the

Guarantors agree to promptly prepare (subject to Section 3 hereof), file with the Commission (with respect to documents incorporated by reference) and furnish at its own expense to the Initial Purchasers, amendments or supplements to the Final Offering Memorandum so that the statements in the Final Offering Memorandum as so amended or supplemented will not, in the light of the circumstances at the Closing Date and at the time of sale of Securities, be misleading or so that the Final Offering Memorandum, as amended or supplemented, will comply with all applicable law.

The Company hereby expressly acknowledges that the indemnification and contribution provisions of Sections 8 and 9 hereof are specifically applicable and relate to each offering memorandum, amendment or supplement referred to in this Section 3.

(c) **Copies of the Offering Memorandum.** The Company agrees to furnish the Initial Purchasers, without charge, as many copies of the Pricing Disclosure Package and the Final Offering Memorandum and any amendments and supplements thereto as they shall reasonably request.

(d) **Blue Sky Compliance.** Each of the Company and the Guarantors shall cooperate with the Representative and counsel for the Initial Purchasers to qualify or register (or to obtain exemptions from qualifying or registering) all or any part of the Securities for offer and sale under the securities laws of the several states of the United States, the provinces of Canada or any other jurisdictions designated by the Representative, shall comply with such laws and shall continue such qualifications, registrations and exemptions in effect for so long as required for the distribution of the Securities. None of the Company or any of the Guarantors shall be required to qualify as a foreign corporation or to take any action that would subject it to general service of process in any such jurisdiction where it is not presently qualified or where it would be subject to taxation as a foreign corporation. The Company will advise the Representative promptly of the suspension of the qualification or registration of (or any such exemption relating to) the Securities for offering, sale or trading in any jurisdiction or any initiation or threat of any proceeding for any such purpose, and in the event of the issuance of any order suspending such qualification, registration or exemption, each of the Company and the Guarantors shall use its commercially reasonable efforts to obtain the withdrawal thereof at the earliest possible moment.

(e) **Use of Proceeds.** The Company shall apply the net proceeds from the sale of the Securities sold by it in the manner described under the caption "Use of Proceeds" in the Pricing Disclosure Package.

(f) **The Depositary.** The Company will cooperate with the Initial Purchasers and use its commercially reasonable efforts to permit the Securities to be eligible for clearance and settlement through the facilities of the Depositary.

(g) **Additional Issuer Information.** Prior to the completion of the placement of the Securities by the Initial Purchasers with the Subsequent Purchasers, the Company shall file, on a timely basis, with the Commission and the New York Stock Exchange (the "**NYSE**") all reports and documents required to be filed under Section 13 or 15 of the

Exchange Act. Additionally, while any of the Securities are "restricted securities" within the meaning of Rule 144 under the Securities Act, at any time when the Company is not subject to Section 13 or 15 of the Exchange Act, for the benefit of holders and beneficial owners from time to time of the Securities, the Company shall furnish, at its expense, upon request, to holders and beneficial owners of Securities and prospective purchasers of Securities information ("**Additional Issuer Information**") satisfying the requirements of Rule 144A(d)(4).

(h) **Agreement Not To Offer or Sell Additional Securities.**During the period of 90 days following the date hereof, the Company will not, without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated (which consent may be withheld at the sole discretion of Merrill Lynch, Pierce, Fenner & Smith Incorporated), directly or indirectly, sell, offer, contract or grant any option to sell, pledge, transfer or establish an open "put equivalent position" within the meaning of Rule 16a-1 under the Exchange Act, or otherwise dispose of or transfer, or announce the offering of, or file any registration statement under the Securities Act in respect of, any debt securities of the Company or securities exchangeable for or convertible into debt securities of the Company (other than as contemplated by this Agreement and to register the Exchange Securities).

(i) **Future Reports to the Initial Purchasers.** At any time when the Company is not subject to Section 13 or 15 of the Exchange Act and while any of the Notes are "restricted securities" within the meaning of Rule 144 under the Securities Act, the Company will furnish at its expense upon request by the Initial Purchasers information satisfying the requirements of Rule 144A(d)(4) under the Securities Act.

(j) **No Integration.** The Company agrees that it will not and will cause its Affiliates not to make any offer or sale of securities of the Company of any class if, as a result of the doctrine of "integration" referred to in Rule 502 under the Securities Act, such offer or sale would render invalid (for the purpose of (i) the sale of the Securities by the Company to the Initial Purchasers, (ii) the resale of the Securities by the Initial Purchasers to Subsequent Purchasers or (iii) the resale of the Securities by such Subsequent Purchasers to others) the exemption from the registration requirements of the Securities Act provided by Section 4(2) thereof or by Rule 144A or by Regulation S thereunder or otherwise.

(k) **No General Solicitation or Directed Selling Efforts.** The Company agrees that it will not and will not permit any of its Affiliates or any other person acting on its or their behalf (other than the Initial Purchasers and their Affiliates, as to which no covenant is given) to (i) solicit offers for, or offer or sell, the Securities by means of any form of general solicitation or general advertising within the meaning of Rule 502(c) of Regulation D or in any manner involving a public offering within the meaning of Section 4(2) of the Securities Act or (ii) engage in any directed selling efforts with respect to the Securities within the meaning of Regulation S, and the Company will and will cause any of its Affiliates or any other person acting on its or their behalf (other than the Initial Purchasers and their Affiliates, as to which no covenant is given) to comply with the offering restrictions requirement of Regulation S with respect to the Securities.

(l) **No Restricted Resales.** For a period of one year after the Closing Date, the Company will not, and will not permit, to the extent it has an ability to do so, any of its "affiliates" (as defined in Rule 144 under the Securities Act) to resell any of the Notes, which constitute "restricted securities" under Rule 144, that have been reacquired by any of them.

(m) **Legended Securities.** Each certificate for a Note will bear the legend substantially in the form contained in "Notice to Investors" in the Preliminary Offering Memorandum for the time period and upon the other terms stated in the Preliminary Offering Memorandum.

The Representative on behalf of the several Initial Purchasers, may, in its sole discretion, waive in writing the performance by the Company or any Guarantor of any one or more of the foregoing covenants or extend the time for their performance.

SECTION 4. **Payment of Expenses.** Each of the Company and the Guarantors agrees to pay or cause to be paid all costs, fees and expenses incurred in connection with the performance of its obligations hereunder and in connection with the transactions contemplated hereby, including, without limitation, (i) all expenses incident to the issuance and delivery of the Securities to the Initial Purchasers (including all printing and engraving costs), (ii) all necessary issue, transfer and other stamp taxes in connection with the issuance and sale of the Securities to the Initial Purchasers, (iii) all fees and expenses of the Company's and the Guarantors' counsel, independent public or certified public accountants and other advisors, (iv) all costs and expenses incurred in connection with the preparation, printing, filing, shipping and distribution of the Pricing Disclosure Package and the Final Offering Memorandum (including financial statements and exhibits), and all amendments and supplements thereto, and the Notes and Guarantees, (v) all filing fees, reasonable attorneys' fees and expenses incurred by the Company, the Guarantors or the Initial Purchasers in connection with qualifying or registering (or obtaining exemptions from the qualification or registration of) all or any part of the Securities for offer and sale under the securities laws of the several states of the United States, the provinces of Canada or other jurisdictions designated by the Initial Purchasers (including, without limitation, the cost of preparing, printing and mailing preliminary and final blue sky or legal investment memoranda and any related supplements to the Pricing Disclosure Package or the Final Offering Memorandum, (vi) the fees and expenses of the Trustee, including the reasonable fees and disbursements of counsel for the Trustee in connection with the Indenture, the Securities and the Exchange Securities, (vii) any fees payable in connection with the rating of the Securities or the Exchange Securities with the ratings agencies, (viii) any filing fees incident to, and any reasonable fees and disbursements of counsel to the Initial Purchasers in connection with the review by FINRA, if any, of the terms of the sale of the Securities or the Exchange Securities, (ix) all fees and expenses incurred with respect to the negotiating and disclosing the interests contemplated by the Escrow Agreement (including the fees and expenses of counsel to the Initial Purchasers with respect thereto), (x) all fees and expenses (including reasonable fees and expenses of counsel) of the Company and the Guarantors in connection with approval of the Securities by the Depositary for "book-entry" transfer, and the performance by the Company and the Guarantors of their respective other obligations under this Agreement and (xi) all expenses incident to the "road show" for the offering of the Securities by the Company. Except as provided in this Section 4 and Sections 6, 8 and 9

hereof, the Initial Purchasers shall pay their own expenses, including the fees and disbursements of their counsel and transfer taxes payable on resales of any of the Securities by them.

SECTION 5. **Conditions of the Obligations of the Initial Purchasers.** The obligations of the several Initial Purchasers to purchase and pay for the Securities as provided herein on the Closing Date shall be subject to the accuracy of the representations and warranties on the part of the Company and the Guarantors set forth in Section 1 hereof as of the date hereof and as of the Closing Date as though then made and to the timely performance by the Company of its covenants and other obligations hereunder, and to each of the following additional conditions:

(a) **Accountants' Comfort Letter.** On the date hereof, the Initial Purchasers shall have received from Ernst and Young LLP a "comfort letter" dated the date hereof addressed to the Initial Purchasers, in form and substance satisfactory to the Representative, covering the financial information included or incorporated by reference in the Pricing Disclosure Package and other customary matters. In addition, on the Closing Date, the Initial Purchasers shall have received from such accountant, a "bring-down comfort letter" dated the Closing Date addressed to the Initial Purchasers, in form and substance satisfactory to the Representative, in the form of the "comfort letter" delivered on the date hereof, except that (i) it shall cover the financial information in the Final Offering Memorandum and any amendment or supplement thereto and (ii) procedures shall be brought down to a date no more than 5 days prior to the Closing Date.

(b) **No Material Adverse Change or Ratings Agency Change.** For the period from and after the date of this Agreement and prior to the Closing Date:

(i) no event or condition of a type described in Section 1(h) hereof shall have occurred or shall exist, which event or condition is not described in or incorporated by reference in the Offering Memorandum (excluding any amendment or supplement thereto) and the effect of which in the judgment of the Representative makes it impracticable or inadvisable to proceed with the offering, sale or delivery of the Securities on the Closing Date on the terms and in the manner contemplated by this Agreement and the Offering Memorandum; and

(ii) there shall not have occurred any downgrading, nor shall any notice have been given of any intended or potential downgrading or of any review for a possible change that does not indicate the direction of the possible change, in the rating accorded the Company or any of its subsidiaries or any of their securities or indebtedness by any "nationally recognized statistical rating organization" as such term is defined for purposes of Section 3(a)(62) under the Exchange Act.

(c) **Opinion of Counsel for the Company and the Guarantors.** On the Closing Date the Initial Purchasers shall have received the favorable opinion of Dykema Gossett PLLC, counsel for the Company and the Guarantors, dated as of such Closing Date, the form of which is attached as Exhibit A.

(d) **Opinion of Counsel for the Initial Purchasers.** On the Closing Date the Initial Purchasers shall have received the favorable opinion of Fried, Frank, Harris,

Shriver & Jacobson LLP, counsel for the Initial Purchasers, dated as of such Closing Date, with respect to such matters as may be reasonably requested by the Initial Purchasers.

(e) **Officers' Certificate.** On the Closing Date, the Initial Purchasers shall have received a written certificate executed by the Vice Chairman and Chief Financial Officer of the Company and the President, General Counsel or Vice President - Finance of the Company and an authorized officer of each Guarantor, dated as of the Closing Date, to the effect set forth in Section 5(b)(ii) hereof, and further to the effect that:

(i) for the period from and after the date of this Agreement and prior to the Closing Date there has not occurred any Material Adverse Change;

(ii) the representations, warranties and covenants of the Company and the Guarantors set forth in Section 1 hereof were true and correct as of the date hereof and are true and correct as of the Closing Date with the same force and effect as though expressly made on and as of the Closing Date; and

(iii) each of the Company and the Guarantors has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date.

(f) **Chief Financial Officer's Certificate.** On the Closing Date the Initial Purchasers shall have received a written certificate executed by the the Vice Chairman and Chief Financial Officer of the Company, dated as of the Closing Date, with respect to certain financial matters as may be reasonably requested by the Initial Purchasers.

(g) **Indenture; Registration Rights Agreement.** The Company and the Guarantors shall have executed and delivered the Indenture, in form and substance reasonably satisfactory to the Initial Purchasers, and the Initial Purchasers shall have received executed copies thereof. The Company and the Guarantors shall have executed and delivered the Registration Rights Agreement, in form and substance reasonably satisfactory to the Initial Purchasers, and the Initial Purchasers shall have received such executed counterparts.

(h) **Escrow Agreement.** On the Closing Date, (i) the Company, the Trustee and the Escrow Agent shall have executed and delivered the Escrow Agreement, in form and substance reasonably satisfactory to the Initial Purchasers, and the Initial Purchasers shall have received executed copies thereof and (ii) the Escrow Proceeds equal to the Escrow Redemption Amount shall have been deposited with the Escrow Agent in accordance with the Escrow Agreement.

(i) **Additional Documents.** On or before the Closing Date, the Initial Purchasers and counsel for the Initial Purchasers shall have received such information, documents and opinions as they may reasonably require for the purposes of enabling them to pass upon the issuance and sale of the Securities as contemplated herein, or in

order to evidence the accuracy of any of the representations and warranties, or the satisfaction of any of the conditions or agreements, herein contained.

If any condition specified in this Section 5 is not satisfied when and as required to be satisfied, this Agreement may be terminated by the Representative by written notice to the Company at any time on or prior to the Closing Date, which termination shall be without liability on the part of any party to any other party, except that Sections 4, 6, 8 and 9 hereof shall at all times be effective and shall survive such termination.

SECTION 6. **Reimbursement of Initial Purchasers' Expenses.** If this Agreement is terminated by the Representative pursuant to Section 5 or 10(i)(a) or 10(iv) hereof, including if the sale to the Initial Purchasers of the Securities on the Closing Date is not consummated because of any refusal, inability or failure on the part of the Company to perform any agreement herein or to comply with any provision hereof, the Company agrees to reimburse the Initial Purchasers, severally, upon demand for all out-of-pocket expenses that shall have been reasonably incurred by the Initial Purchasers in connection with the proposed purchase and the offering and sale of the Securities, including, without limitation, reasonable fees and disbursements of counsel, printing expenses, travel expenses, postage, facsimile and telephone charges.

SECTION 7. **Offer, Sale and Resale Procedures.** Each of the Initial Purchasers, on the one hand, and the Company and each of the Guarantors, on the other hand, hereby agree to observe the following procedures in connection with the offer and sale of the Securities:

(a) Offers and sales of the Securities will be made only by the Initial Purchasers or Affiliates thereof qualified to do so in the jurisdictions in which such offers or sales are made. Each such offer or sale shall only be made to persons whom the offeror or seller reasonably believes to be Qualified Institutional Buyers and in accordance with Rule 144A under the Securities Act or non-U.S. persons outside the United States to whom the offeror or seller reasonably believes offers and sales of the Securities may be made in reliance upon Regulation S and in accordance with applicable laws upon the terms and conditions set forth in Annex I hereto, which Annex I is hereby expressly made a part hereof.

(b) The Securities will be offered by approaching prospective Subsequent Purchasers on an individual basis. No general solicitation or general advertising (within the meaning of Rule 502 under the Securities Act) will be used in the United States in connection with the offering of the Securities.

(c) Upon original issuance by the Company, and until such time as the same is no longer required under the applicable requirements of the Securities Act, the Notes (and all securities issued in exchange therefor or in substitution thereof, other than the Exchange Notes) shall bear a legend substantially in the form contained in "Notice to Investors" in the Preliminary Offering Memorandum for the time period and upon the other terms stated in the Preliminary Offering Memorandum.

Following the sale of the Securities by the Initial Purchasers to Subsequent Purchasers pursuant to the terms hereof, the Initial Purchasers shall not be liable or responsible to the Com-

pany for any losses, damages or liabilities suffered or incurred by the Company, including any losses, damages or liabilities under the Securities Act, arising from or relating to any resale or transfer of any Security by such Subsequent Purchaser.

SECTION 8. **Indemnification.**

(a) **Indemnification of the Initial Purchasers.** Each of the Company and the Guarantors, jointly and severally, agrees to indemnify and hold harmless each Initial Purchaser, its affiliates, directors, officers and employees, and each person, if any, who controls any Initial Purchaser within the meaning of the Securities Act and the Exchange Act against any loss, claim, damage, liability or expense, as incurred, to which such Initial Purchaser, affiliate, director, officer, employee or controlling person may become subject, under the Securities Act, the Exchange Act or other federal or state statutory law or regulation, or at common law or otherwise (including in settlement of any litigation, if such settlement is effected with the written consent of the Company or does not require the consent of the Company as contemplated in Section 8(d)), insofar as such loss, claim, damage, liability or expense (or actions in respect thereof as contemplated below) arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Offering Memorandum, the Pricing Supplement, any Company Additional Written Communication or the Final Offering Memorandum (or any amendment or supplement thereto), or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and to reimburse each Initial Purchaser and each such director, officer, employee or controlling person for any and all expenses (including the reasonable fees and disbursements of counsel chosen by Merrill Lynch, Pierce, Fenner & Smith Incorporated) as such expenses are reasonably incurred by such Initial Purchaser or such director, officer, employee or controlling person in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action; provided, however, that the foregoing indemnity agreement shall not apply, with respect to an Initial Purchaser, to any loss, claim, damage, liability or expense to the extent, but only to the extent, arising out of or based upon any untrue statement or alleged untrue statement or omission or alleged omission made in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Initial Purchaser through the Representative expressly for use in the Preliminary Offering Memorandum, the Pricing Supplement, any Company Additional Written Communication or the Final Offering Memorandum (or any amendment or supplement thereto). The indemnity agreement set forth in this Section 8(a) shall be in addition to any liabilities that the Company may otherwise have.

(b) **Indemnification of the Company and the Guarantors.** Each Initial Purchaser agrees, severally and not jointly, to indemnify and hold harmless the Company, each Guarantor, each of their respective Affiliates, directors, officers and employees and each person, if any, who controls the Company or any Guarantor within the meaning of the Securities Act or the Exchange Act, against any loss, claim, damage, liability or expense, as incurred, to which the Company, any Guarantor or any such Affiliate, director, officer or employee or controlling person may become subject, under the Securities Act, the Exchange Act, or other federal or state statutory law or regulation, or at common law or otherwise (including in settlement of any litigation, if such settlement is effected with the written consent of such Initial Purchaser or does not re-

quire the consent of such Initial Purchaser as contemplated in Section 8(d)), insofar as such loss, claim, damage, liability or expense (or actions in respect thereof as contemplated below) arises out of or is based upon any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Offering Memorandum, the Pricing Supplement, any Company Additional Written Communication or the Final Offering Memorandum (or any amendment or supplement thereto), or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Preliminary Offering Memorandum, the Pricing Supplement, any Company Additional Written Communication or the Final Offering Memorandum (or any amendment or supplement thereto), in reliance upon and in conformity with written information furnished to the Company by or on behalf of any Initial Purchaser through the Representative expressly for use therein; and to reimburse the Company, any Guarantor and each such director, officer or employee or controlling person for any and all expenses (including the reasonable fees and disbursements of counsel) as such expenses are reasonably incurred by the Company, any Guarantor or such director, officer or employee or controlling person in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action. Each of the Company and the Guarantors hereby acknowledges that the only information that the Initial Purchasers through the Representative have furnished to the Company expressly for use in the Preliminary Offering Memorandum, the Pricing Supplement, any Company Additional Written Communication or the Final Offering Memorandum (or any amendment or supplement thereto) are the statements set forth in the sixth paragraph and the third sentence in the seventh paragraph under the caption “Plan of Distribution” in the Preliminary Offering Memorandum and the Final Offering Memorandum. The indemnity agreement set forth in this Section 8(b) shall be in addition to any liabilities that each Initial Purchaser may otherwise have.

(c) **Notifications and Other Indemnification Procedures.** Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party under this Section 8, notify the indemnifying party in writing of the commencement thereof, but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party hereunder for contribution or otherwise under the indemnity agreement contained in this Section 8 or to the extent it is not materially prejudiced (through the forfeiture of substantive rights and defenses) as a result of such failure and shall not relieve the indemnifying party from any liability that the indemnifying party may have to an indemnified party otherwise than under the provisions of this Section 8 and Section 9. In case any such action is brought against any indemnified party and such indemnified party seeks or intends to seek indemnity from an indemnifying party, the indemnifying party will be entitled to participate in and, to the extent that it shall elect, jointly with all other indemnifying parties similarly notified, by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof with counsel reasonably satisfactory to such indemnified party; provided, however, if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that a conflict may arise between the positions of the indemnifying party and the indemnified party in conducting the defense of any such action or that there may be legal de-

fenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to assume such legal defenses and to otherwise participate in the defense of such action on behalf of such indemnified party or parties. Upon receipt of notice from the indemnifying party to such indemnified party of such indemnifying party's election so to assume the defense of such action and approval by the indemnified party of counsel, the indemnifying party will not be liable to such indemnified party under this Section 8 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof unless (i) the indemnified party shall have employed separate counsel in accordance with the proviso to the immediately preceding sentence (it being understood, however, that the indemnifying party shall not be liable for the expenses of more than one separate counsel (in addition to any local counsel (in each jurisdiction)), approved by the indemnifying party (Merrill Lynch, Pierce, Fenner & Smith Incorporated in the case of Sections 8(b) and 9 hereof), representing the indemnified parties who are parties to such action) or (ii) the indemnifying party shall not have employed counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of commencement of the action, in each of which cases the fees and expenses of counsel shall be at the expense of the indemnifying party.

(d) **Settlements.** The indemnifying party under this Section 8 shall not be liable for any settlement of any proceeding effected without its written consent, which will not be unreasonably withheld, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party against any loss, claim, damage, liability or expense by reason of such settlement or judgment. Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel as contemplated by this Section 8, the indemnifying party agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 30 days after receipt by such indemnifying party of the aforesaid request and (ii) such indemnifying party shall not have reimbursed the indemnified party in accordance with such request prior to the date of such settlement. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement, compromise or consent to the entry of judgment in any pending or threatened action, suit or proceeding in respect of which any indemnified party is or could have been a party and indemnity was or could have been sought hereunder by such indemnified party, unless such settlement, compromise or consent (i) includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such action, suit or proceeding and (ii) does not include any statements as to or any findings of fault, culpability or failure to act by or on behalf of any indemnified party.

SECTION 9. **Contribution.** If the indemnification provided for in Section 8 hereof is for any reason held to be unavailable to or otherwise insufficient to hold harmless an indemnified party in respect of any losses, claims, damages, liabilities or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount paid or payable by such indemnified party, as incurred, as a result of any losses, claims, damages, liabilities or expenses referred to therein (i) in such proportion as is appropriate to reflect the relative benefits received by the Company and the Guarantors, on the one hand, and the Initial Purchasers, on the other hand, from the offering of the Securities pursuant to this Agreement or (ii) if the allocation pro-

vided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company and the Guarantors, on the one hand, and the Initial Purchasers, on the other hand, in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company and the Guarantors, on the one hand, and the Initial Purchasers, on the other hand, in connection with the offering of the Securities pursuant to this Agreement shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Securities pursuant to this Agreement (before deducting expenses but after deducting discounts and commissions) received by the Company, and the total discounts and commissions received by the Initial Purchasers bear to the aggregate initial offering price of the Securities. The relative fault of the Company and the Guarantors, on the one hand, and the Initial Purchasers, on the other hand, shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company and the Guarantors, on the one hand, or the Initial Purchasers, on the other hand, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include, subject to the limitations set forth in Section 8 hereof, any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any action or claim. The provisions set forth in Section 8 hereof with respect to notice of commencement of any action shall apply if a claim for contribution is to be made under this Section 9; provided, however, that no additional notice shall be required with respect to any action for which notice has been given under Section 8 hereof for purposes of indemnification.

The Company, the Guarantors and the Initial Purchasers agree that it would not be just and equitable if contribution pursuant to this Section 9 were determined by pro rata allocation (even if the Initial Purchasers were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in this Section 9.

Notwithstanding the provisions of this Section 9, no Initial Purchaser shall be required to contribute any amount in excess of the discount and commission received by such Initial Purchaser in connection with the Securities distributed by it. No person guilty of fraudulent misrepresentation (within the meaning of Section 11 of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Initial Purchasers' obligations to contribute pursuant to this Section 9 are several, and not joint, in proportion to their respective commitments as set forth opposite their names in Schedule A. For purposes of this Section 9, each director, officer and employee of an Initial Purchaser and each person, if any, who controls an Initial Purchaser within the meaning of the Securities Act and the Exchange Act shall have the same rights to contribution as such Initial Purchaser, and each director, officer and employee of the Company or any Guarantor, and each person, if any, who controls the Company or any Guarantor with the meaning of the Securities Act and the Exchange Act shall have the same rights to contribution as the Company and the Guarantors.

SECTION 10. **Termination of this Agreement.** From and after the date hereof and prior to the Closing Date, this Agreement may be terminated by the Representative by notice given to the Company if at any time: (i) (a) trading or quotation in any of the Company's securities shall have been suspended or materially limited by the Commission or by the NYSE, or (b) trading in securities generally on either the Nasdaq Stock Market or the NYSE shall have been suspended or materially limited, or minimum or maximum prices shall have been generally established on any of such quotation system or stock exchange by the Commission or FINRA; (ii) a general banking moratorium shall have been declared by any federal or New York authorities; (iii) there shall have occurred any outbreak or escalation of national or international hostilities or any crisis or calamity, or any change in the United States or international financial markets, or any substantial change or development involving a prospective substantial change in United States' or international political, financial or economic conditions, as in the judgment of the Representative is material and adverse and makes it impracticable or inadvisable to proceed with the offering, sale or delivery of the Securities on the Closing Date in the manner and on the terms described in the Pricing Disclosure Package or (iv) in the judgment of the Representative there shall have occurred any Material Adverse Change. Any termination pursuant to this Section 10 shall be without liability on the part of (i) the Company or any Guarantor to any Initial Purchaser, except that the Company and the Guarantors shall be obligated to reimburse the expenses of the Initial Purchasers pursuant to Sections 4 and 6 hereof, (ii) any Initial Purchaser to the Company, or (iii) any party hereto to any other party except that the provisions of Sections 8 and 9 hereof shall at all times be effective and shall survive such termination.

SECTION 11. **Representations and Indemnities to Survive Delivery.** The respective indemnities, agreements, representations, warranties and other statements of the Company, the Guarantors, their respective officers (set forth in a certificate delivered pursuant hereto) and the several Initial Purchasers set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of any Initial Purchaser, the Company, any Guarantor or any of their respective partners, officers or directors or any controlling person, or any Affiliate of an Initial Purchaser, the Company or any Guarantor, as the case may be, and will survive delivery of and payment for the Securities sold hereunder and any termination of this Agreement.

SECTION 12. **Notices.** All communications hereunder shall be in writing and shall be mailed, hand delivered, couriered or facsimiled and confirmed to the parties hereto as follows:

If to the Initial Purchasers:

Merrill Lynch, Pierce, Fenner & Smith Incorporated
50 Rockefeller Plaza
New York, New York 10020
Facsimile: (212) 901-7897
Attention: HY Legal Department

with a copy to:

Fried, Frank, Harris, Shriver & Jacobson LLP
One New York Plaza

New York, New York 10004
Facsimile: (212) 859-4000
Attention: Stuart Gelfond

If to the Company or the Guarantors:

Sonic Automotive, Inc.
4401 Colwick Road
Charlotte, North Carolina 28211
Facsimile: (704) 536-4665
Attention: Stephen K. Coss, Esq. Senior Vice President and General Counsel

Any party hereto may change the address or facsimile number for receipt of communications by giving written notice to the others.

SECTION 13. **Successors.** This Agreement will inure to the benefit of and be binding upon the parties hereto, and to the benefit of the indemnified parties referred to in Sections 8 and 9 hereof, and in each case their respective successors, and no other person will have any right or obligation hereunder. The term "successors" shall not include any Subsequent Purchaser or other purchaser of the Securities as such from any of the Initial Purchasers merely by reason of such purchase.

SECTION 14. **Authority of the Representative.** Any action by the Initial Purchasers hereunder may be taken by Merrill Lynch, Pierce, Fenner & Smith Incorporated on behalf of the Initial Purchasers, and any such action taken by Merrill Lynch, Pierce, Fenner & Smith Incorporated shall be binding upon the Initial Purchasers.

SECTION 15. **Partial Unenforceability.** The invalidity or unenforceability of any section, paragraph or provision of this Agreement shall not affect the validity or enforceability of any other section, paragraph or provision hereof. If any section, paragraph or provision of this Agreement is for any reason determined to be invalid or unenforceable, there shall be deemed to be made such minor changes (and only such minor changes) as are necessary to make it valid and enforceable.

SECTION 16. **Governing Law Provisions.** THIS AGREEMENT AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATED TO THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED IN SUCH STATE WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES THEREOF.

(a) **Consent to Jurisdiction.** Any legal suit, action or proceeding arising out of or based upon this Agreement or the transactions contemplated hereby ("**Related Proceedings**") may be instituted in the federal courts of the United States of America located in the City and County of New York or the courts of the State of New York in each case located in the City and County of New York (collectively, the "**Specified Courts**"), and each party irrevocably submits to the exclusive jurisdiction (except for suits, actions, or proceedings instituted in regard to the

enforcement of a judgment of any Specified Court in a Related Proceeding, as to which such jurisdiction is non-exclusive) of the Specified Courts in any Related Proceeding. Service of any process, summons, notice or document by mail to such party's address set forth above shall be effective service of process for any Related Proceeding brought in any Specified Court. The parties irrevocably and unconditionally waive any objection to the laying of venue of any Specified Proceeding in the Specified Courts and irrevocably and unconditionally waive and agree not to plead or claim in any Specified Court that any Related Proceeding brought in any Specified Court has been brought in an inconvenient forum.

SECTION 17. **Default of One or More of the Several Initial Purchasers.**If any one or more of the several Initial Purchasers shall fail or refuse to purchase Securities that it or they have agreed to purchase hereunder on the Closing Date, and the aggregate principal amount of Securities which such defaulting Initial Purchaser or Initial Purchasers agreed but failed or refused to purchase does not exceed 10% of the aggregate principal amount of the Securities to be purchased on such date, the other Initial Purchasers shall be obligated, severally, in the proportions that the aggregate principal amount of Securities set forth opposite their respective names on Schedule A bears to the aggregate principal amount of Securities set forth opposite the names of all such non-defaulting Initial Purchasers, or in such other proportions as may be specified by the Initial Purchasers with the consent of the non-defaulting Initial Purchasers, to purchase the Securities which such defaulting Initial Purchaser or Initial Purchasers agreed but failed or refused to purchase on the Closing Date. If any one or more of the Initial Purchasers shall fail or refuse to purchase Securities and the aggregate principal amount of Securities with respect to which such default occurs exceeds 10% of the aggregate principal amount of Securities to be purchased on the Closing Date, and arrangements satisfactory to the Initial Purchasers and the Company for the purchase of such Securities are not made within 48 hours after such default, this Agreement shall terminate without liability of any party (other than any such defaulting Initial Purchaser) to any other party except that the provisions of Sections 4, 6, 8 and 9 hereof shall at all times be effective and shall survive such termination. In any such case either the Initial Purchasers or the Company shall have the right to postpone the Closing Date, as the case may be, but in no event for longer than seven days in order that the required changes, if any, to the Final Offering Memorandum or any other documents or arrangements may be effected.

As used in this Agreement, the term "**Initial Purchaser**" shall be deemed to include any person substituted for a defaulting Initial Purchaser under this Section 17. Any action taken under this Section 17 shall not relieve any defaulting Initial Purchaser from liability in respect of any default of such Initial Purchaser under this Agreement.

SECTION 18. **No Advisory or Fiduciary Responsibility.** Each of the Company and the Guarantors acknowledges and agrees that: (i) the purchase and sale of the Securities pursuant to this Agreement, including the determination of the offering price of the Securities and any related discounts and commissions, is an arm's-length commercial transaction between the Company and the Guarantors, on the one hand, and the several Initial Purchasers, on the other hand, and the Company and the Guarantors are capable of evaluating and understanding and understand and accept the terms, risks and conditions of the transactions contemplated by this Agreement; (ii) in connection with each transaction contemplated hereby and the process leading to such transaction each Initial Purchaser is and has been acting solely as a principal and is not the

agent or fiduciary of the Company, and the Guarantors or their respective affiliates, stockholders, creditors or employees or any other party; (iii) no Initial Purchaser has assumed or will assume an advisory or fiduciary responsibility in favor of the Company and the Guarantors with respect to any of the transactions contemplated hereby or the process leading thereto (irrespective of whether such Initial Purchaser has advised or is currently advising the Company and the Guarantors on other matters) or any other obligation to the Company and the Guarantors except the obligations expressly set forth in this Agreement; (iv) the several Initial Purchasers and their respective affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Company and the Guarantors and that the several Initial Purchasers have no obligation to disclose any of such interests by virtue of any fiduciary or advisory relationship; and (v) the Initial Purchasers have not provided any legal, accounting, regulatory or tax advice with respect to the offering contemplated hereby and the Company and the Guarantors have consulted their own legal, accounting, regulatory and tax advisors to the extent they deemed appropriate.

This Agreement supersedes all prior agreements and understandings (whether written or oral) between the Company, the Guarantors and the several Initial Purchasers, or any of them, with respect to the subject matter hereof. The Company and the Guarantors hereby waive and release, to the fullest extent permitted by law, any claims that the Company and the Guarantors may have against the several Initial Purchasers with respect to any breach or alleged breach of fiduciary duty with respect to the subject matter hereof.

SECTION 19. **General Provisions.** This Agreement constitutes the entire agreement of the parties to this Agreement and supersedes all prior written or oral and all contemporaneous oral agreements, understandings and negotiations with respect to the subject matter hereof. This Agreement may be executed in two or more counterparts, each one of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by telecopier, facsimile or other electronic transmission (i.e., a “pdf” or “tif”) shall be effective as delivery of a manually executed counterpart thereof. This Agreement may not be amended or modified unless in writing by all of the parties hereto, and no condition herein (express or implied) may be waived unless waived in writing by each party whom the condition is meant to benefit. The section headings herein are for the convenience of the parties only and shall not affect the construction or interpretation of this Agreement.

If the foregoing is in accordance with your understanding of our agreement, kindly sign and return to the Company the enclosed copies hereof, whereupon this instrument, along with all counterparts hereof, shall become a binding agreement in accordance with its terms.

Very truly yours,

SONIC AUTOMOTIVE, INC.

By: /s/ David P. Cosper
Name: David P. Cosper
Title: Vice Chairman and CFO

The Guarantors:

ADI OF THE SOUTHEAST LLC (a South Carolina limited liability company)
ANTREV, LLC (a North Carolina limited liability company)
ARNGAR, INC. (a North Carolina corporation)
AUTOBAHN, INC. (a California corporation)
AVALON FORD, INC. (a Delaware corporation)
CASA FORD OF HOUSTON, INC. (a Texas corporation)
CORNERSTONE ACCEPTANCE CORPORATION (a Florida corporation)
FAA AUTO FACTORY, INC. (a California corporation)
FAA BEVERLY HILLS, INC. (a California corporation)
FAA CAPITOL F, INC. (a California corporation)
FAA CAPITOL N, INC. (a California corporation)
FAA CONCORD H, INC. (a California corporation)
FAA CONCORD N, INC. (a California corporation)
FAA CONCORD T, INC. (a California corporation)
FAA DUBLIN N, INC. (a California corporation)
FAA DUBLIN VWD, INC. (a California corporation)
FAA HOLDING CORP. (a California corporation)
FAA LAS VEGAS H, INC. (a Nevada corporation)
FAA MARIN F, INC. (a California corporation)
FAA MARIN LR, INC. (a California corporation)

FAA POWAY G, INC. (a California corporation)
FAA POWAY H, INC. (a California corporation)
FAA POWAY T, INC. (a California corporation)
FAA SAN BRUNO, INC. (a California corporation)
FAA SANTA MONICA V, INC. (a California corporation)
FAA SERRAMONTE, INC. (a California corporation)
FAA SERRAMONTE H, INC. (a California corporation)
FAA SERRAMONTE L, INC. (a California corporation)
FAA STEVENS CREEK, INC. (a California corporation)
FAA TORRANCE CPJ, INC. (a California corporation)
FIRSTAMERICA AUTOMOTIVE, INC. (a Delaware corporation)

FORT MILL FORD, INC. (a South Carolina corporation)
FORT MYERS COLLISION CENTER, LLC (a Florida limited liability company)
FRANCISCAN MOTORS, INC. (a California corporation)
FRANK PARRA AUTOPLEX, INC. (a Texas corporation)
FRONTIER OLDSMOBILE – CADILLAC, INC. (a North Carolina corporation)
HMC FINANCE ALABAMA, INC. (an Alabama corporation)
KRAMER MOTORS INCORPORATED (a California corporation)
L DEALERSHIP GROUP, INC. (a Texas corporation)
MARCUS DAVID CORPORATION (a North Carolina corporation)
MASSEY CADILLAC, INC. (a Tennessee corporation)
MASSEY CADILLAC, INC. (a Texas corporation)
MOUNTAIN STATES MOTORS CO., INC. (a Colorado corporation)
ROYAL MOTOR COMPANY, INC. (an Alabama corporation)
SAI AL HC1, INC. (an Alabama corporation)
SAI AL HC2, INC. (an Alabama corporation), on behalf of itself and as sole member of:
SAI IRONDALE L, LLC (an Alabama limited liability company)
SAI ANN ARBOR IMPORTS, LLC (a Michigan limited liability company)
SAI ATLANTA B, LLC (a Georgia limited liability company)
SAI BEVERLY HILLS INFINITI, INC. (a California corporation)
SAI BROKEN ARROW C, LLC (an Oklahoma limited liability company)
SAI CHARLOTTE M, LLC (a North Carolina limited liability company)
SAI COLUMBUS MOTORS, LLC (an Ohio limited liability company)
SAI COLUMBUS VWK, LLC (an Ohio limited liability company)
SAI FL HC1, INC. (a Florida corporation)
SAI FL HC2, INC. (a Florida corporation), on behalf of itself and as sole member of:
SAI CLEARWATER T, LLC (a Florida limited liability company)
SAI FL HC3, INC. (a Florida corporation)
SAI FL HC4, INC. (a Florida corporation)
SAI FL HC5, INC. (a Florida corporation)
SAI FL HC6, INC. (a Florida corporation)
SAI FL HC7, INC. (a Florida corporation)
SAI FORT MYERS B, LLC (a Florida limited liability company)
SAI FORT MYERS H, LLC (a Florida limited liability company)

SAI FORT MYERS M, LLC (a Florida limited liability company)
SAI FORT MYERS VW, LLC (a Florida limited liability company)
SAI IRONDALE IMPORTS, LLC (an Alabama limited liability company)
SAI LANSING CH, LLC (a Michigan limited liability company)
SAI LONG BEACH B, INC. (a California corporation)
SAI MD HC1, INC. (a Maryland corporation), on behalf of itself and as sole member of:
SAI ROCKVILLE L, LLC (a Maryland limited liability company)
SAI MONROVIA B, INC. (a California corporation)
SAI MONTGOMERY B, LLC (an Alabama limited liability company)
SAI MONTGOMERY BCH, LLC (an Alabama limited liability company)
SAI MONTGOMERY CH, LLC (an Alabama limited liability company)
SAI NASHVILLE CSH, LLC (a Tennessee limited liability company)
SAI NASHVILLE H, LLC (a Tennessee limited liability company)
SAI NASHVILLE M, LLC (a Tennessee limited liability company)
SAI NASHVILLE MOTORS, LLC (a Tennessee limited liability company)
SAI NC HC2, INC. (a North Carolina corporation)
SAI OH HC1, INC. (an Ohio corporation)
SAI OK HC1, INC. (an Oklahoma corporation), on behalf of itself and as sole member of the following entities:
SAI OKLAHOMA CITY C, LLC (an Oklahoma limited liability company)
SAI OKLAHOMA CITY T, LLC (an Oklahoma limited liability company)
SAI TULSA T, LLC (an Oklahoma limited liability company)
SAI OKLAHOMA CITY H, LLC (an Oklahoma limited liability company)
SAI ORLANDO CS, LLC (a Florida limited liability company)
SAI PEACHTREE, LLC (a Georgia limited liability company)
SAI PLYMOUTH C, LLC (a Michigan limited liability company)
SAI RIVERSIDE C, LLC (an Oklahoma limited liability company)
SAI ROCKVILLE IMPORTS, LLC (a Maryland limited liability company)
SAI SANTA CLARA K, INC. (a California corporation)
SAI TN HC1, LLC (a Tennessee limited liability company)

SAI TN HC2, LLC (a Tennessee limited liability company)
SAI TN HC3, LLC (a Tennessee limited liability company)
SAI TULSA N, LLC (an Oklahoma limited liability company)
SAI VA HC1, INC. (a Virginia corporation)
SANTA CLARA IMPORTED CARS, INC. (a California corporation)
SONIC AGENCY, INC. (a Michigan corporation)
SONIC AUTOMOTIVE F&I, LLC (a Nevada limited liability company)
SONIC AUTOMOTIVE OF CHATTANOOGA, LLC (a Tennessee limited liability company)
SONIC AUTOMOTIVE OF NASHVILLE, LLC (a Tennessee limited liability company)
SONIC AUTOMOTIVE OF NEVADA, INC. (a Nevada corporation), on behalf of itself and as sole member of:
SAI GEORGIA, LLC (a Georgia limited liability company), on behalf of itself and as general partner of the following entities:
SAI GA HC1, LP (a Georgia limited partnership), on behalf of itself and as sole member of:
SAI STONE MOUNTAIN T, LLC (a Georgia limited liability company)
SONIC PEACHTREE INDUSTRIAL BLVD., L.P. (a Georgia limited partnership)
SONIC – STONE MOUNTAIN T, L.P. (a Georgia limited partnership)
SRE GEORGIA – 1, L.P. (a Georgia limited partnership)
SRE GEORGIA – 2, L.P. (a Georgia limited partnership)
SRE GEORGIA – 3, L.P. (a Georgia limited partnership)
SONIC AUTOMOTIVE SUPPORT, LLC (a Nevada limited liability company)
SONIC AUTOMOTIVE WEST, LLC (a Nevada limited liability company)
SONIC AUTOMOTIVE – 1495 AUTOMALL DRIVE, COLUMBUS, INC. (an Ohio corporation)
SONIC AUTOMOTIVE – 1720 MASON AVE., DB, INC. (a Florida corporation)
SONIC AUTOMOTIVE – 1720 MASON AVE., DB, LLC (a Florida limited liability company)
SONIC AUTOMOTIVE 2424 LAURENS RD., GREENVILLE, INC. (a South Carolina corporation)
SONIC AUTOMOTIVE – 2490 SOUTH LEE HIGHWAY, LLC (a Tennessee limited liability company)
SONIC AUTOMOTIVE 2752 LAURENS RD., GREENVILLE, INC. (a South Carolina corporation)
SONIC AUTOMOTIVE – 3700 WEST BROAD STREET, COLUMBUS, INC. (an Ohio corporation)

SONIC AUTOMOTIVE – 4000 WEST BROAD STREET, COLUMBUS, INC. (an Ohio corporation)
SONIC AUTOMOTIVE 5260 PEACHTREE INDUSTRIAL BLVD., LLC (a Georgia limited liability company)
SONIC AUTOMOTIVE – 6008 N. DALE MABRY, FL, INC. (a Florida corporation)
SONIC AUTOMOTIVE – 9103 E. INDEPENDENCE, NC, LLC (a North Carolina limited liability company)
SONIC 2185 CHAPMAN RD., CHATTANOOGA, LLC (a Tennessee limited liability company)
SONIC – BUENA PARK H, INC. (a California corporation)
SONIC – CALABASAS A, INC. (a California corporation)
SONIC CALABASAS M, INC. (a California corporation)
SONIC – CALABASAS V, INC. (a California corporation)
SONIC – CAPITOL CADILLAC, INC. (a Michigan corporation)
SONIC – CAPITOL IMPORTS, INC. (a South Carolina corporation)
SONIC – CARSON F, INC. (a California corporation)
SONIC – CARSON LM, INC. (a California corporation)
SONIC – CHATTANOOGA D EAST, LLC (a Tennessee limited liability company)
SONIC COAST CADILLAC, INC. (a California corporation)
SONIC – DENVER T, INC. (a Colorado corporation)
SONIC – DENVER VOLKSWAGEN, INC. (a Colorado corporation)
SONIC DEVELOPMENT, LLC (a North Carolina limited liability company)
SONIC DIVISIONAL OPERATIONS, LLC (a Nevada limited liability company)
SONIC – DOWNEY CADILLAC, INC. (a California corporation)
SONIC – ENGLEWOOD M, INC. (a Colorado corporation)
SONIC ESTORE, INC. (a North Carolina corporation)
SONIC – FORT MILL CHRYSLER JEEP, INC. (a South Carolina corporation)
SONIC – FORT MILL DODGE, INC. (a South Carolina corporation)
SONIC FREMONT, INC. (a California corporation)
SONIC – HARBOR CITY H, INC. (a California corporation)
SONIC – INTEGRITY DODGE LV, LLC (a Nevada limited liability company)
SONIC – LS, LLC (a Delaware limited liability company), on behalf of itself and as general partner of:
SONIC – LS CHEVROLET, L.P. (a Texas limited partnership)
SONIC – LAKE NORMAN CHRYSLER JEEP, LLC (a North Carolina limited liability company)
SONIC – LAS VEGAS C EAST, LLC (a Nevada limited liability company)

SONIC – LAS VEGAS C WEST, LLC (a Nevada limited liability company)
SONIC – LLOYD NISSAN, INC. (a Florida corporation)
SONIC – LLOYD PONTIAC – CADILLAC, INC. (a Florida corporation)
SONIC – LONE TREE CADILLAC, INC. (a Colorado corporation)
SONIC – MANHATTAN FAIRFAX, INC. (a Virginia corporation)
SONIC – MASSEY CHEVROLET, INC. (a California corporation)
SONIC – MASSEY PONTIAC BUICK GMC, INC. (a Colorado corporation)
SONIC – NEWSOME CHEVROLET WORLD, INC. (a South Carolina corporation)
SONIC – NEWSOME OF FLORENCE, INC. (a South Carolina corporation)
SONIC – NORTH CHARLESTON, INC. (a South Carolina corporation)
SONIC – NORTH CHARLESTON DODGE, INC. (a South Carolina corporation)
SONIC OF TEXAS, INC. (a Texas corporation), on behalf of itself and as general partner of the following entities:
- PHILPOTT MOTORS, LTD. (a Texas limited partnership)
- SONIC ADVANTAGE PA, LP (a Texas limited partnership)
- SONIC AUTOMOTIVE OF TEXAS, L.P. (a Texas limited partnership)
- SONIC AUTOMOTIVE – 3401 N. MAIN, TX, L.P. (a Texas limited partnership)
- SONIC AUTOMOTIVE – 4701 I-10 EAST, TX, L.P. (a Texas limited partnership)
- SONIC AUTOMOTIVE – 5221 I-10 EAST, TX, L.P. (a Texas limited partnership)
- SONIC – CADILLAC D, L.P. (a Texas limited partnership)
- SONIC – CAMP FORD, L.P. (a Texas limited partnership)
- SONIC – CARROLLTON V, L.P. (a Texas limited partnership)
- SONIC – CLEAR LAKE N, L.P. (a Texas limited partnership)
- SONIC – CLEAR LAKE VOLKSWAGEN, L.P. (a Texas limited partnership)
- SONIC – FORT WORTH T, L.P. (a Texas limited partnership)
- SONIC – FRANK PARRA AUTOPLEX, L.P. (a Texas limited partnership)
- SONIC HOUSTON JLR, LP (a Texas limited partnership)

SONIC HOUSTON LR, LP (a Texas limited partnership)
SONIC – HOUSTON V, L.P. (a Texas limited partnership)
SONIC – JERSEY VILLAGE VOLKSWAGEN, L.P. (a Texas limited partnership)
SONIC – LUTE RILEY, L. P. (a Texas limited partnership)
SONIC – MASSEY CADILLAC, L.P. (a Texas limited partnership)
SONIC – MESQUITE HYUNDAI, L.P. (a Texas limited partnership)
SONIC MOMENTUM B, L.P. (a Texas limited partnership)
SONIC MOMENTUM JVP, L.P. (a Texas limited partnership)
SONIC MOMENTUM VWA, L.P. (a Texas limited partnership)
SONIC – READING, L.P. (a Texas limited partnership)
SONIC – RICHARDSON F, L.P. (a Texas limited partnership)
SONIC – SAM WHITE NISSAN, L.P. (a Texas limited partnership)
SONIC – UNIVERSITY PARK A, L.P. (a Texas limited partnership)
SRE TEXAS – 1, L.P. (a Texas limited partnership)
SRE TEXAS – 2, L.P. (a Texas limited partnership)
SRE TEXAS – 3, L.P. (a Texas limited partnership)
SRE TEXAS – 4, L.P. (a Texas limited partnership)
SRE TEXAS – 5, L.P. (a Texas limited partnership)
SRE TEXAS – 6, L.P. (a Texas limited partnership)
SRE TEXAS – 7, L.P. (a Texas limited partnership)
SRE TEXAS – 8, L.P. (a Texas limited partnership)
SONIC OKEMOS IMPORTS, INC. (a Michigan corporation)
SONIC – PLYMOUTH CADILLAC, INC. (a Michigan corporation)
SONIC RESOURCES, INC. (a Nevada corporation)
SONIC – RIVERSIDE AUTO FACTORY, INC. (an Oklahoma corporation)
SONIC – SANFORD CADILLAC, INC. (a Florida corporation)
SONIC SANTA MONICA M, INC. (a California corporation)
SONIC SANTA MONICA S, INC. (a California corporation)
SONIC – SATURN OF SILICON VALLEY, INC. (a California corporation)
SONIC SERRAMONTE I, INC. (a California corporation)
SONIC – SHOTTENKIRK, INC. (a Florida corporation)
SONIC – SOUTH CADILLAC, INC. (a Florida corporation)
SONIC – STEVENS CREEK B, INC. (a California corporation)
SONIC TYSONS CORNER H, INC. (a Virginia corporation)

SONIC TYSONS CORNER INFINITI, INC. (a Virginia corporation)
SONIC – VOLVO LV, LLC (a Nevada limited liability company)
SONIC WALNUT CREEK M, INC. (a California corporation)
SONIC – WEST COVINA T, INC. (a California corporation)
SONIC – WILLIAMS CADILLAC, INC. (an Alabama corporation)
SONIC WILSHIRE CADILLAC, INC. (a California corporation)
SRE ALABAMA – 2, LLC (an Alabama limited liability company)
SRE ALABAMA – 3, LLC (an Alabama limited liability company)
SRE ALABAMA – 4, LLC (an Alabama limited liability company)
SRE ALABAMA – 5, LLC (an Alabama limited liability company)
SREALESTATE ARIZONA – 1, LLC (an Arizona limited liability company)
SREALESTATE ARIZONA – 2, LLC (an Arizona limited liability company)
SREALESTATE ARIZONA – 3, LLC (an Arizona limited liability company)
SREALESTATE ARIZONA – 4, LLC (an Arizona limited liability company)
SREALESTATE ARIZONA – 5, LLC (an Arizona limited liability company)
SREALESTATE ARIZONA – 6, LLC (an Arizona limited liability company)
SREALESTATE ARIZONA – 7, LLC (an Arizona limited liability company)
SRE CALIFORNIA – 1, LLC (a California limited liability company)
SRE CALIFORNIA – 2, LLC (a California limited liability company)
SRE CALIFORNIA – 3, LLC (a California limited liability company)
SRE CALIFORNIA – 4, LLC (a California limited liability company)
SRE CALIFORNIA – 5, LLC (a California limited liability company)
SRE CALIFORNIA – 6, LLC (a California limited liability company)
SRE CALIFORNIA – 7 SCB, LLC (a California limited liability company)
SRE CALIFORNIA – 8 SCH, LLC (a California limited liability company)
SRE CALIFORNIA – 9 BHB, LLC (a California limited liability company)

SRE COLORADO – 1, LLC (a Colorado limited liability company)
SRE COLORADO – 2, LLC (a Colorado limited liability company)
SRE COLORADO – 3, LLC (a Colorado limited liability company)
SRE FLORIDA – 1, LLC (a Florida limited liability company)
SRE FLORIDA – 2, LLC (a Florida limited liability company)
SRE FLORIDA – 3, LLC (a Florida limited liability company)
SRE GEORGIA 4, LLC (a Georgia limited liability company)
SRE HOLDING, LLC (a North Carolina limited liability company)
SRE MARYLAND – 1, LLC (a Maryland limited liability company)
SRE MARYLAND – 2, LLC (a Maryland limited liability company)
SRE MICHIGAN – 3, LLC (a Michigan limited liability company)
SRE NEVADA – 1, LLC (a Nevada limited liability company)
SRE NEVADA – 2, LLC (a Nevada limited liability company)
SRE NEVADA – 3, LLC (a Nevada limited liability company)
SRE NEVADA – 4, LLC (a Nevada limited liability company)
SRE NEVADA – 5, LLC (a Nevada limited liability company)
SRE NORTH CAROLINA – 1, LLC (a North Carolina limited liability company)
SRE NORTH CAROLINA – 2, LLC (a North Carolina limited liability company)
SRE NORTH CAROLINA – 3, LLC (a North Carolina limited liability company)
SRE OKLAHOMA – 1, LLC (an Oklahoma limited liability company)
SRE OKLAHOMA – 2, LLC (an Oklahoma limited liability company)
SRE OKLAHOMA – 3, LLC (an Oklahoma limited liability company)
SRE OKLAHOMA – 4, LLC (an Oklahoma limited liability company)
SRE OKLAHOMA – 5, LLC (an Oklahoma limited liability company)
SRE SOUTH CAROLINA – 2, LLC (a South Carolina limited liability company)
SRE SOUTH CAROLINA – 3, LLC (a South Carolina limited liability company)
SRE SOUTH CAROLINA – 4, LLC (a South Carolina limited liability company)
SRE TENNESSEE – 1, LLC (a Tennessee limited liability company)
SRE TENNESSEE – 2, LLC (a Tennessee limited liability company)
SRE TENNESSEE – 3, LLC (a Tennessee limited liability company)

SRE TENNESSEE – 4, LLC (a Tennessee limited liability company)
SRE TENNESSEE – 5, LLC (a Tennessee limited liability company)
SRE TENNESSEE – 6, LLC (a Tennessee limited liability company)
SRE TENNESSEE – 7, LLC (a Tennessee limited liability company)
SRE TENNESSEE – 8, LLC (a Tennessee limited liability company)
SRE TENNESSEE – 9, LLC (a Tennessee limited liability company)
SRE TEXAS 9, LLC (a Texas limited liability company)
SRE VIRGINIA – 1, LLC (a Virginia limited liability company)
SRE VIRGINIA – 2, LLC (a Virginia limited liability company)
STEVENS CREEK CADILLAC, INC. (a California corporation)
TOWN AND COUNTRY FORD, INCORPORATED (a North Carolina corporation)
VILLAGE IMPORTED CARS, INC. (a Maryland corporation)
WINDWARD, INC. (a Hawaii corporation)
Z MANAGEMENT, INC. (a Colorado corporation)

By: /s/ David P. Cosper
Name: David P. Cosper
Title: Vice President

Sonic Automotive, Inc., as sole member of the following entities:
ONTARIO L, LLC (a California limited liability company)
SAI COLUMBUS T, LLC (an Ohio limited liability company)

By: /s/ David P. Cosper
Name: David P. Cosper
Title: Vice Chairman and Chief Financial Officer

The foregoing Purchase Agreement is hereby confirmed and accepted by the Initial Purchasers as of the date first above written.

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED
Acting on behalf of itself
and as the Representative of
the several Initial Purchasers

By: Merrill Lynch, Pierce, Fenner & Smith Incorporated

By: /s/ Matt Holbrook
Authorized Signatory

[*Signature Page to Purchase Agreement*]

SCHEDULE A

Initial Purchasers	Aggregate Principal Amount of Securities to be Purchased
Merrill Lynch, Pierce, Fenner & Smith Incorporated	$ 80,000,000
J.P. Morgan Securities LLC.	62,000,000
Wells Fargo Securities, LLC.	46,000,000
U.S. Bancorp Investments, Inc.	6,000,000
Comerica Securities, Inc.	6,000,000
Total	$ 200,000,000

EXHIBIT A

Opinion of counsel for the Company to be delivered pursuant to Section 5 of the Purchase Agreement.

(i) The Company is a corporation validly existing and in good standing under the laws of the State of Delaware.

(ii) The Company has the corporate power to own, lease and operate its properties and conduct its business as described in the Pricing Disclosure Package and the Final Offering Memorandum and to enter into and perform its obligations under the Purchase Agreement, the Registration Rights Agreement, the Escrow Agreement, the Indenture and the Notes.

(iii) The Company is qualified as a foreign corporation to transact business in the State of North Carolina.

(iv) Each Significant Subsidiary is a corporation, limited liability company or limited partnership validly existing and, if applicable, in good standing under the laws of the jurisdiction of its formation, has the corporate, limited liability company or limited partnership power to own, lease and operate its properties and to conduct its business as described in the Pricing Disclosure Package and the Final Offering Memorandum and to enter into and perform its obligations under the Purchase Agreement, the Registration Rights Agreement, the Escrow Agreement, the Indenture and the Guarantees.

(v) The Purchase Agreement has been duly authorized, executed and delivered by the Company and each Guarantor and constitutes a valid and binding agreement of the Company and each of the Guarantors, enforceable against the Company and each of the Guarantors in accordance with its terms.

(vi) The Registration Rights Agreement has been duly authorized, executed and delivered by the Company and each of the Guarantors and constitutes a valid and binding agreement of the Company and each of the Guarantors, enforceable against the Company and each of the Guarantors in accordance with its terms.

(vii) The Escrow Agreement has been duly authorized, executed and delivered by the Company and constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms.

(viii) The Indenture has been duly authorized, executed and delivered by the Company and each of the Guarantors and constitutes a valid and binding agreement of the Company and each of the Guarantors, enforceable against the Company and each of the Guarantors in accordance with its terms.

(ix) The Notes are in the form contemplated by the Indenture, have been duly authorized by the Company for issuance and sale pursuant to the Purchase Agreement and the Indenture and, when executed by the Company, authenticated by the Trustee in the manner provided in

the Indenture and delivered against payment of the purchase price therefor, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms and will be entitled to the benefits of the Indenture.

(x) Issuance of the Exchange Securities has been duly authorized by the Company and each of the Guarantors, respectively.

(xi) The Guarantees of the Notes are in the form contemplated by the Indenture, have been duly authorized for issuance pursuant to the Purchase Agreement and the Indenture and, when the Notes and the Guarantees have been executed by the Company and each of the Guarantors, as applicable, authenticated in the manner provided for in the Indenture and delivered against payment of the purchase price therefor, will constitute valid and binding agreements of each of the Guarantors, enforceable against each of the Guarantors in accordance with their terms and will be entitled to the benefits of the Indenture.

(xii) The Securities, the Indenture, the Registration Rights Agreement and the Escrow Agreement conform in all material respects to the descriptions thereof contained in the Pricing Disclosure Package and the Final Offering Memorandum.

(xiii) The documents incorporated by reference in the Pricing Disclosure Package and the Final Offering Memorandum (other than the financial statements and the notes and schedules thereto and other financial or accounting data or information included therein or omitted therefrom, as to which we express no opinion), when they were filed with the Commission, complied as to form in all material respects with the requirements of the Exchange Act and the rules and regulations of the Commission.

(xiv) The descriptions in the Pricing Disclosure Package or the Final Offering Memorandum (including the documents incorporated by reference therein) of statutes, legal, governmental and regulatory proceedings and contracts and other documents to which the Company is a party or subject to are accurate in all material respects; the statements in the Pricing Disclosure Package and the Final Offering Memorandum under the captions “Description of Other Indebtedness,” “Description of the Notes,” “Material United States Federal Tax Considerations” and “Notice to Investors,” insofar as such statements constitute matters of law or regulation, summaries of legal matters, the Company’s charter or by-law provisions, documents or legal proceedings, or legal conclusions, fairly present and summarize, in all material respects, the matters described therein.

(xv) No consent, approval, authorization or other order of, or registration or filing with, any court or other governmental or regulatory authority or agency, other than such as may be required under applicable securities laws of the various jurisdictions in which the Securities will be offered or sold, as to which we express no opinion, is required for the execution, delivery or performance of the Purchase Agreement, the Registration Rights Agreement, the Escrow Agreement or the Indenture by the Company and each of the Guarantors, or the issuance and delivery of the Securities to the Initial Purchasers or the resale of the Securities by the Initial Purchasers in accordance with the Purchase Agreement.

(xvi) Except as disclosed in the Pricing Disclosure Package or the Final Offering Memorandum, the execution and delivery of the Purchase Agreement, the Registration Rights Agreement, the Escrow Agreement, the Securities and the Indenture by the Company and the Guarantors and the performance by the Company and the Guarantors of their obligations thereunder: (a) will not result in any violation of the provisions of the articles or certificate of incorporation, articles of organization, certificate of limited partnership, bylaws, operating or limited liability company agreement or limited partnership agreement, as applicable, of the Company or any Significant Subsidiary; (b) will not constitute a breach of, or Default or a Debt Repayment Triggering Event under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any Guarantor pursuant to, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument identified on Schedule A to this opinion (the "Existing Instruments") (except with respect to matters which require the performance of a mathematical calculation or the making of a financial or accounting determination, as to which we express no opinion); or (c) will not result in any violation of any judgment, order or regulation of any court or arbitrator or governmental or regulatory authority identified to us in the officer's certificate attached as Exhibit A hereto (the "Officer's Certificate") or any law or statute, except, in the case of clauses (b) and (c) above, for such breach, violation or default that would not, individually or in the aggregate, have a Material Adverse Effect

(xvii) Based as to factual matters on the factual certifications in the Officer's Certificate, neither the Company nor any Guarantor is, or after receipt of payment for the Securities and after giving effect to the application of the proceeds received by the Company from the offer and sale of the Securities (as described in the Pricing Disclosure Package or Final Offering Memorandum), will be, required to register as an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(xviii) Assuming (i) that the Company and each of the Guarantors has complied, and will comply fully with each of its respective covenants contained in Sections 2 and 3 of the Purchase Agreement, (ii) that each of the Initial Purchasers has complied with the following: (A) none of the Initial Purchasers or any person acting on their behalf has engaged or will engage, in connection with the offering of the Securities, in any form of general solicitation or general advertising within the meaning of Rule 502 under the 1933 Act, (B) with respect to those Securities sold in reliance upon Regulation S, none of the Initial Purchasers or any person acting on their behalf has engaged or will engage in any directed selling efforts within the meaning of Regulation S, and (C) the Initial Purchasers and any person acting on their behalf has complied and will comply with the offering restrictions set forth in Regulation S, and (iii) compliance with the offering provisions described in the Offering Memorandum, the Company is not required to register the Securities under the 1933 Act or to qualify the Indenture under the Trust Indenture Act of 1939, as amended, in connection with the sale and initial resale of the Securities in the manner and under the circumstances contemplated by the Purchase Agreement.

We do not represent the Company or any Guarantor in any action, suit or proceeding before any court, governmental agency or arbitrator, pending or overtly threatened in writing against the Company or any Guarantor which, individually or in the aggregate, if determined ad-

versely to the Company or such Guarantor, could reasonably be expected to have a Material Adverse Effect.

In rendering such opinion, such counsel may rely as to matters involving the application of laws of any jurisdiction other than the General Corporation Law of the State of Delaware, the laws of the State of New York or the federal law of the United States, to the extent they deem proper and specified in such opinion, upon the opinion (which shall be dated the Closing Date shall be satisfactory in form and substance to the Initial Purchasers, shall expressly state that the Initial Purchasers may rely on such opinion as if it were addressed to them and shall be furnished to the Initial Purchasers) of other counsel of good standing whom they believe to be reliable and who are satisfactory to counsel for the Initial Purchasers; provided, however, that such counsel shall further state that they believe that they and the Initial Purchasers are justified in relying upon such opinion of other counsel, and as to matters of fact, to the extent they deem proper, on certificates of responsible officers of the Company and public officials.

In addition, such counsel shall state that they have participated in conferences with officers and other representatives of the Company, representatives of the independent public or certified public accountants for the Company and with representatives of the Initial Purchasers at which the contents of the Pricing Disclosure Package and the Final Offering Memorandum and related matters were discussed and, although such counsel is not passing upon and does not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Pricing Disclosure Package or the Final Offering Memorandum (other than as specified above), on the basis of the foregoing, nothing has come to their attention which would lead them to believe that the Pricing Disclosure Package, as of the Time of Sale, or that the Final Offering Memorandum, as of its date or at the Closing Date, contained or contains an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading (it being understood that such counsel need express no belief as to the financial statements or other financial data derived therefrom, included in the Pricing Disclosure Package or the Final Offering Memorandum or any amendments or supplements thereto).

Resale Pursuant to Regulation S or Rule 144A. Each Initial Purchaser understands that:

Such Initial Purchaser agrees that it has not offered or sold and will not offer or sell the Securities in the United States or to, or for the benefit or account of, a U.S. Person (other than a distributor), in each case, as defined in Rule 902 of Regulation S (i) as part of its distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering of the Securities pursuant hereto and the Closing Date, other than in accordance with Regulation S or another exemption from the registration requirements of the Securities Act. Such Initial Purchaser agrees that, during such 40-day restricted period, it will not cause any advertisement with respect to the Securities (including any "tombstone" advertisement) to be published in any newspaper or periodical or posted in any public place and will not issue any circular relating to the Securities, except such advertisements as are permitted by and include the statements required by Regulation S.

Such Initial Purchaser agrees that, at or prior to confirmation of a sale of Securities by it to any distributor, dealer or person receiving a selling concession, fee or other remuneration during the 40-day restricted period referred to in Rule 903 of Regulation S, it will send to such distributor, dealer or person receiving a selling concession, fee or other remuneration a confirmation or notice to substantially the following effect:

> "The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of your distribution at any time or (ii) otherwise until 40 days after the later of the date the Securities were first offered to persons other than distributors in reliance upon Regulation S and the Closing Date, except in either case in accordance with Regulation S under the Securities Act (or in accordance with Rule 144A under the Securities Act or to accredited investors in transactions that are exempt from the registration requirements of the Securities Act), and in connection with any subsequent sale by you of the Securities covered hereby in reliance on Regulation S under the Securities Act during the period referred to above to any distributor, dealer or person receiving a selling concession, fee or other remuneration, you must deliver a notice to substantially the foregoing effect. Terms used above have the meanings assigned to them in Regulation S under the Securities Act."

Exhibit 31.1

CERTIFICATION

I, David P. Cosper, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sonic Automotive, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 25, 2012

By: /s/ DAVID P. COSPER
David P. Cosper
Vice Chairman and Chief Financial Officer

Exhibit 31.2

CERTIFICATION

I, O. Bruton Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sonic Automotive, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 25, 2012

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

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sonic Automotive, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Cosper, Vice Chairman and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DAVID P. COSPER
David P. Cosper
Vice Chairman and Chief Financial Officer

July 25, 2012

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sonic Automotive, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, O. Bruton Smith, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ O. BRUTON SMITH
O. Bruton Smith
Chairman and Chief Executive Officer

July 25, 2012